



BANK OF CANADA  
BANQUE DU CANADA

# Quarterly Financial Report

## Third Quarter 2011

For the period ended 30 September 2011

22 November 2011

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This Quarterly Financial Report is to be read in conjunction with:

- (i) the unaudited condensed interim financial statements of the Bank of Canada (the Bank) and related notes for the period ended 30 September 2011; and
- (ii) the disclosures and information in the Bank's 2010 *Annual Report*, which may be found on the Bank of Canada's [website](#).

This discussion has been prepared in accordance with section 131.1 of the Financial Administration Act and follows the guidance outlined in the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board Secretariat. This Quarterly Financial Report was reviewed by the Bank's Board of Directors on the recommendation of its Audit and Finance Committee.

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## Medium-Term Plan (2010–12)

The results presented in the Bank's financial statements stem from activities that the Bank undertakes to support its mandate to promote Canada's economic well-being. The Bank's revenues and net income are not driven by profit-maximization objectives. With respect to expenses, the Bank continues to focus on being accountable for its use of public funds and on allocating resources to its medium-term plan priorities. Further information about the Bank's balance sheet is available on the Bank's [website](#).

The Bank's medium-term plan (MTP) is developed every three years. The current plan guides the Bank's activities for 2010–12. The plan sets out the priorities for each of the Bank's four main functions: monetary policy, the financial system, currency and funds management. At the corporate level, the plan focuses on leading research and policy analysis; business resilience and infrastructure; and attracting, retaining and engaging staff. Information on the plan can be found on the Bank's [website](#).

### The Financial Plan

The Bank's financial plan for 2011 is set at a level of \$342 million, consistent with federal government guidelines to maintain spending at 2010 levels. These plan expenses are a subset of the total operating expenses reported in the financial statements. The expense profile in the Bank's medium-term plan differs from total expenses, since the plan excludes expenses associated with both non-current deferred employee benefits and the production of bank notes. These expenses are excluded because of changes in discount rates and the volatility of expenses related to bank note volumes. The financial plan also excludes costs associated with two significant projects: (i) the Enhanced Business-Continuity Program and (ii) the renewal of the Bank's head office complex in Ottawa.

The financial plan is based on full-year expenses, whereas quarterly financial results may not trend evenly with the full-year plan. The Bank monitors its expenses from a full-year perspective and is forecasting 2011 expenses to be lower than planned as a result of savings achieved through the Corporate Effectiveness Program.

Overall, the Bank is on track to deliver on the objectives outlined in the medium-term plan.

## Operational Highlights and Changes

The following significant changes in operations, personnel and programs have occurred since 30 June 2011.

### Operations and Programs

No significant changes to operations or programs occurred during the third quarter.

Shortly after the quarter ended, the Bank and the Department of Finance signed a Memorandum of Understanding in relation to a deposit to be established at the Bank by the Government of Canada in connection with its prudential liquidity management. The maximum deposit amount will be \$20 billion. The Bank, in consultation with the Department of Finance, will determine the pace of the initial build-up of balances. The deposit will earn interest at rates that are equivalent to those paid on other Receiver General balances. On 19 October, the Bank announced an increase in its minimum purchase of nominal bonds at auction to 20 per cent, effective immediately, in order to accommodate the projected increase in the Bank's liabilities.

### Board of Directors and Personnel

There were no changes to the Board of Directors or key management personnel<sup>1</sup> during the quarter that ended 30 September 2011.

## Financial Discussion

### Adoption of IFRS

As a government business entity and in accordance with public sector accounting standards, the Bank of Canada transitioned to reporting under International Financial Reporting Standards (IFRS) on 1 January 2011. The Bank's first annual IFRS financial statements will be for the year ending 31 December 2011 and, for comparison purposes, will include restated figures for fiscal 2010, as well as an opening IFRS statement of financial position as at 1 January 2010. Details on the financial impact of the transition to IFRS on the Bank's opening statement of financial position as at

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<sup>1</sup> The Bank's key management personnel responsible for planning, directing and controlling the Bank, as defined by International Accounting Standard 24, include the members of the Governing Council, the Management Council and the Board of Directors.

1 January 2010 were included in the Bank's 2010 *Annual Report* and are also available in note 15 to the condensed interim financial statements.

## Third Quarter—Significant Accounting Estimates

At the end of the third quarter, the Bank recorded an actuarial loss of \$93.8 million in *Other comprehensive income* on its deferred employee benefit plans. Actuarial losses are affected by the actual return on plan assets and the discount rate used to determine defined-benefit obligations. Losses are the result of a lower return on plan assets combined with a reduction in the discount rate used to value the defined-benefit obligation.

The net impact of the loss is summarized as follows:

### Statement of Financial Position

|  |        |
|--|--------|
| Decrease in Pension asset included in <i>Other assets</i>                                    | (83.3) |
| Increase in Post-employment defined-benefit obligations included in <i>Other liabilities</i> | (10.5) |
| Decrease in Accrued transfer payment included in <i>Other liabilities</i>                    | 79.7   |
| Decrease in Actuarial gains reserve included in <i>Equity</i>                                | 14.1   |

### Statement of Comprehensive Income

|  |        |
|--|--------|
| Actuarial loss recorded in <i>Other comprehensive income</i> | (93.8) |
|--|--------|

## Highlights of the Statement of Financial Position (unaudited)

(Millions of dollars)

|                               | 30 September<br>2011 | 31 December<br>2010* | \$ change | % change |
|-------------------------------|----------------------|----------------------|-----------|----------|
| <b>Assets</b>                 |                      |                      |           |          |
| Loans and receivables         | 3                    | 2,087                | (2,084)   | -100%    |
| Investments                   | 60,917               | 58,767               | 2,150     | 4%       |
| Other assets                  | 339                  | 362                  | (23)      | -6%      |
|                               | <b>61,259</b>        | 61,216               | 43        | 0%       |
| <b>Liabilities and Equity</b> |                      |                      |           |          |
| Bank notes in circulation     | 57,571               | 57,874               | (303)     | -1%      |
| Deposits                      | 2,783                | 2,557                | 226       | 9%       |
| Other liabilities             | 455                  | 368                  | 87        | 24%      |
| Equity                        | 450                  | 417                  | 33        | 8%       |
|                               | <b>61,259</b>        | 61,216               | 43        | 0%       |

\* Comparative figures have been restated in accordance with International Financial Reporting Standards (IFRS).

The Bank closed the third quarter with assets of \$61,259 million in the form of *Loans and receivables*, *Investments*, and *Other assets*, virtually on par overall with the assets at year-end 2010.

*Loans and receivables* have decreased by \$2,084 million since 31 December 2010 as term purchase and resale agreement (PRA) operations outstanding at year-end matured in January 2011. These operations had been undertaken to offset the seasonal demand for bank notes, and were no longer required once the demand for bank notes returned to pre-holiday levels.

*Investments* increased by \$2,150 million, owing primarily to net purchases of Government of Canada bonds in excess of maturities. Government of Canada bonds increased by \$5,617 million and were offset by a decline of \$3,495 million in Government of Canada treasury bills, with the balance of the increase resulting from fair-value changes in the Bank's investment in the Bank for International Settlements (BIS).

*Other assets* comprise the Bank's *Cash and foreign deposits*, *Property and equipment*, *Intangible assets*, and the accrued pension benefit asset. This value has decreased by \$23 million since 31 December 2010. Capital spending this year amounts to \$27.5 million. The share related to the Enhanced Business-Continuity Program and the Head Office Renewal Program totalled \$11.4 million. In addition, \$14.9 million was spent on strategic business investments to support the Bank's achievement of its priorities under the medium-term plan. The largest component of these investments is the Auctions and Markets Applications Program, which aims to support end-to-end post-trade processing, and to strengthen business-continuity capacity. Offsetting the increase in *Property and equipment* and *Intangible assets* was a decrease in the accrued pension benefit asset of \$53.5 million, mainly as a result of the actuarial loss recorded at the end of the third quarter, described in the section *Third Quarter – Significant Accounting Estimates*.

Liabilities from *Bank notes in circulation* decreased by 1 per cent, reflecting the seasonal reduction in demand following the end of the winter holiday period.

The main element of the *Deposits* liability is the deposit held for the Government of Canada, the balance of which fluctuates based on the government's cash-management needs. Deposits as at 30 September 2011 were \$226 million higher than the level at the end of 2010.

Other liabilities increased by \$87 million compared with the prior year-end, mainly as a result of a higher balance owing to the Receiver General for Canada. Net income earned on the Bank's assets, after deduction for operating expenses and allocations to reserves, is paid each year to the Receiver General. At 30 September 2011, the unremitted balance was \$246 million (\$168 million at 31 December 2010).

Since 31 December 2010, the Bank's equity has been affected by the non-cash elements of *Other comprehensive Income*. An increase of \$49.2 million in fair-value changes was reported in *Other comprehensive income* and accumulated in the available-for-sale reserve within *Equity*. These gains were offset by the reduction of the Actuarial gains reserve as a result of the actuarial loss on deferred employee benefits plans, described in the section *Third Quarter – Significant Accounting Estimates*.

## Highlights of the Statement of Comprehensive Income (unaudited)

The Bank's revenues and net income are not driven by profit-maximization objectives, but from activities in support of its mandate to promote Canada's economic well-being.

### Results for the Three Months Ended 30 September 2011

(Millions of dollars)

|                            | Three months<br>ended 30 September |         |           |          |
|----------------------------|------------------------------------|---------|-----------|----------|
|                            | 2011                               | 2010*   | \$ change | % change |
| Income                     | <b>398.2</b>                       | 381.0   | 17.2      | 5%       |
| Expenses                   | <b>76.7</b>                        | 98.3    | 21.6      | 22%      |
| Net income                 | <b>321.5</b>                       | 282.7   | 38.8      | 14%      |
| Other comprehensive income | <b>(65.7)</b>                      | (167.1) | 101.4     | **       |
| Comprehensive income       | <b>255.8</b>                       | 115.6   | 140.2     | 121%     |

\* Comparative figures have been restated in accordance with International Financial Reporting Standards (IFRS).

\*\* Comparison is not meaningful.

### Income

Third-quarter income represents an increase of \$17.2 million, or 5 per cent, compared with the same period in the previous year.

The Bank's investment income consists of interest revenue from treasury bills and bonds. Higher yields on short-term investments increased revenues by \$19.6 million or 5 per cent. Decreases in other sources of revenue offset the growth in investment revenue. The Bank reported lower interest earned on purchase and resale agreements of \$2.3 million since no PRAs were issued during the quarter. Revenue in 2010 from PRAs was significantly higher as a result of the PRA agreements issued during the financial crisis, which matured in the first half of 2010.

The Bank did not record any dividend revenue during the quarter, and the Bank's revenues from its remaining sources were consistent with 2010 levels.

### **Expenses**

Operating expenses in the third quarter were 22 per cent lower than for the same period in the previous year, primarily as a result of lower costs for bank note production.

Costs associated with bank note production were \$17.1 million lower than 2010 levels. Fewer bank notes were received from the printers since the Bank has been focusing on the production of the new polymer notes and is preparing for an increased production of polymer notes in the fourth quarter. During the quarter ended 30 September 2011, 8 million polymer notes were received, compared with 183 million cotton notes received during the same period in 2010.

Staff costs in the quarter decreased by \$3.6 million, 9 per cent lower than the same period in 2010 owing to a change in the discount rate from last year that affected deferred employee benefit costs and a revised cost estimate for 2011 based on the most recent actuarial valuation.

Other operating expenses, including premises, and depreciation and amortization, decreased by \$1 million, compared with the quarter ended 30 September 2010 primarily as a result of lower costs for premises maintenance.

### **Net income**

*Net income* earned on the Bank's assets, after deductions for operating expenses and allocations to reserves, is paid each year to the Receiver General for Canada. During the quarter ended 30 September 2011, the Bank transferred \$325 million to the Receiver General.

### **Other comprehensive income**

*Other comprehensive income* of -\$65.7 million for the third quarter consists of an increase of \$28.1 million in the fair values of available-for-sale assets and the actuarial loss of \$93.8 million on the Bank's deferred employee benefit plans which was described in the section *Third Quarter – Significant Accounting Estimates*.

Available-for-sale assets comprise Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for available-for-sale assets within the Bank's *Equity*. As at 30 September 2011, this reserve totalled \$320.2 million and consists primarily of the fair-value change in the Bank's investment in the BIS.

**Results for the Nine Months Ended 30 September 2011**

(Millions of dollars)

|                            | Nine months<br>ended 30 September |         |           |          |
|----------------------------|-----------------------------------|---------|-----------|----------|
|                            | 2011                              | 2010*   | \$ change | % change |
| Income                     | <b>1,208.7</b>                    | 1,145.6 | 63.1      | 6%       |
| Expenses                   | <b>250.8</b>                      | 256.9   | 6.1       | 2%       |
| Net income                 | <b>957.9</b>                      | 888.7   | 69.2      | 8%       |
| Other comprehensive income | <b>(44.6)</b>                     | (186.3) | 141.7     | **       |
| Comprehensive income       | <b>913.3</b>                      | 702.4   | 210.9     | 30%      |

\* Comparative figures have been restated in accordance with International Financial Reporting Standards (IFRS).

\*\* Comparison is not meaningful.

Year-to-date results are predominantly consistent with the trends and impacts discussed earlier in the report for the quarter ended 30 September 2011.

**Income**

Total income for the first nine months of 2011 increased by \$63.1 million, or 6 per cent, compared with the previous year. Increased revenue from treasury bills and bonds of \$86.7 million was primarily the result of higher yields on short-term investments. Decreases in other sources of revenue offset the growth in investment revenue. The Bank reported lower interest earned on purchase and resale agreements, since there has been only one term PRA issued thus far in 2011, resulting in a decrease of \$36.2 million in interest earned on securities purchased under resale agreements. Dividend revenue decreased by \$5.8 million, since 2010 revenue had included a special dividend paid by the Bank for International Settlements that was not repeated in 2011. Revenues are reported net of interest paid on Government of Canada deposits. Therefore, owing to a lower average level of Government of Canada deposits, a reduced interest expense of \$20 million compared with 2010 is also contributing to the growth of revenue.

**Expenses**

On a year-to-date basis, operating expenses were \$6.1 million lower than for the same period of the previous year, primarily as a result of lower costs for bank note production. Costs associated with bank note production were \$8.1 million lower than 2010 levels. To date in 2011, 211 million notes have been received from the printers, compared with 315 million notes received in 2010. Production of the new \$100 polymer bank notes will occur mostly in the fourth quarter with receipt of the notes scheduled for the November launch of the \$100 notes.

Staffing costs for the first nine months of 2011 were \$1 million lower than for the comparable period in 2010. Annual compensation increases and additional term resources related to strategic investment projects are offset by lower costs associated with the Bank's deferred employee benefit plans.

Other operating expenses, including premises, and depreciation and amortization, for the nine months ended 30 September 2011, increased by \$3.1 million compared with 2010. During the fiscal year, expenses related to the Bank's investments in business and infrastructure have grown. These investments are consistent with the objectives under the medium-term plan to enhance the technology systems supporting economic analysis and financial market operations, develop and release the new series of polymer bank notes, and invest in the analysis of a renewal of the head office complex and the Enhanced Business-Continuity Program. The harmonized sales tax in Ontario and British Columbia, which came into effect on 1 July 2010, also contributed to increased expenses during the first six months of 2011 compared with the same period in the previous year.

### **Net income**

*Net income* earned on the Bank's assets, after deductions for operating expenses and allocations to reserves, is paid each year to the Receiver General for Canada. Since the beginning of the year, the Bank has transferred \$801.1 million to the Receiver General (\$126.1 million related to 2010 net income and \$675 million related to 2011 net income).

### **Other comprehensive income**

*Other comprehensive income* of -\$44.6 million consists of an increase of \$49.2 million in the fair values of available-for-sale assets and actuarial losses of \$93.8 million on the Bank's deferred employee benefit plans which were described earlier in the report.

*Other comprehensive income* decreased compared with the same period in the previous year by \$141.7 million, mainly owing to a lower actuarial loss in 2011 described in the section *Third Quarter – Significant Accounting Estimates*.

Changes in the fair values of available-for-sale assets consist of an unrealized gain on treasury bills of \$21.7 million, and a fair-value change in the Bank's investment in the BIS of \$27.5 million.

## **Financial Outlook Compared with the Plan**

### **Medium-Term Plan**

The Bank is on track to deliver on the objectives outlined in the medium-term plan. Operating expenses for 2011 relative to the MTP are projected to come in under plan,

primarily as a result of savings achieved through the Corporate Effectiveness Program which identified reductions in the areas of building alterations, staff levels and lower costs associated with the Bank's fiscal agent role for the Government of Canada Debt Program.

### **Expenses excluded from MTP**

Spending on bank note production is projected to be significantly lower than in 2010, since printing of the existing cotton notes has decreased in advance of the launch of the polymer notes. Greater volumes of note production will occur in 2012.

Costs associated with the Bank's deferred employee benefit plans are also expected to be lower than in 2010 mainly as a result of the change in the discount rate from the previous year.

## **Risk Analysis**

In the Risk Management section of the Bank's *2010 Annual Report*, four key areas of risk – financial risk, business risk, people risk, and operational risk - are discussed. The financial risks are further discussed in the notes to the 31 December 2010 financial statements which are included in the *2010 Annual report*.

The risks identified in the 2010 Annual Report remain the key risks for the Bank. During the third quarter, the Bank did not identify any material changes in any of the risk categories that it monitors.



BANK OF CANADA  
BANQUE DU CANADA

**Condensed Interim Financial Statements of**

**THE BANK OF CANADA**

**(Unaudited)**

**as at 30 September 2011  
and for the three- and nine-month periods then ended**

## Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the requirements of International Accounting Standard 34, *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

A handwritten signature in blue ink, appearing to read 'M. Carney', with a large, sweeping flourish extending to the right.

M. Carney, Governor

22 November 2011  
Ottawa, Canada

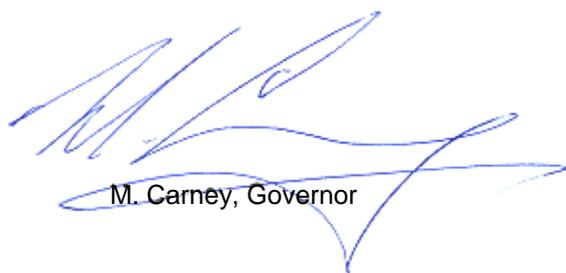
A handwritten signature in blue ink, appearing to read 'S. Vokey', with a stylized, cursive script.

S. Vokey, CA, Chief Accountant

**CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

(Millions of dollars)

|  | 30 September<br>2011 | As at<br>31 December<br>2010 | 1 January<br>2010 |
|--|----------------------|------------------------------|-------------------|
| <b>ASSETS</b>  |                      |                              |                   |
| <b>Cash and foreign deposits</b>                         | <b>3.9</b>           | 4.7                          | 20.4              |
| <b>Loans and receivables</b>                             |                      |                              |                   |
| Securities purchased under resale agreements             | -                    | 2,062.4                      | 25,374.8          |
| Advances to members of the Canadian Payments Association | <b>0.9</b>           | 22.5                         | -                 |
| Other receivables  | <b>1.7</b>           | 2.1                          | 2.2               |
|  | <b>2.6</b>           | 2,087.0                      | 25,377.0          |
| <b>Investments</b>                                       |                      |                              |                   |
| Government of Canada treasury bills                      | <b>21,410.8</b>      | 24,906.1                     | 13,684.0          |
| Government of Canada bonds                               | <b>39,168.0</b>      | 33,550.6                     | 31,986.2          |
| Other investments  | <b>338.3</b>         | 310.7                        | 318.7             |
|  | <b>60,917.1</b>      | 58,767.4                     | 45,988.9          |
| <b>Property and equipment</b> (note 5)                   | <b>157.6</b>         | 153.0                        | 155.2             |
| <b>Intangible assets</b> (note 6)                        | <b>36.0</b>          | 25.9                         | 23.7              |
| <b>Other assets</b> (note 7)                             | <b>141.7</b>         | 178.1                        | 211.6             |
| <b>Total assets</b>                                      | <b>61,258.9</b>      | 61,216.1                     | 71,776.8          |
| <b>LIABILITIES AND EQUITY</b>                            |                      |                              |                   |
| <b>Bank notes in circulation</b>                         | <b>57,571.0</b>      | 57,874.2                     | 55,467.9          |
| <b>Deposits</b>  |                      |                              |                   |
| Government of Canada                                     | <b>1,587.9</b>       | 1,869.4                      | 11,847.6          |
| Members of the Canadian Payments Association             | <b>425.5</b>         | 47.5                         | 2,999.6           |
| Other deposits   | <b>769.0</b>         | 639.9                        | 703.0             |
|  | <b>2,782.4</b>       | 2,556.8                      | 15,550.2          |
| <b>Other liabilities</b> (note 8)                        | <b>455.3</b>         | 368.3                        | 189.8             |
|  | <b>60,808.7</b>      | 60,799.3                     | 71,207.9          |
| <b>Equity</b> (note 10)                                  | <b>450.2</b>         | 416.8                        | 568.9             |
| <b>Total liabilities and equity</b>                      | <b>61,258.9</b>      | 61,216.1                     | 71,776.8          |



M. Carney, Governor



S. Vokey, CA, Chief Accountant

(See accompanying notes to the Condensed Interim Financial Statements.)

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

(Millions of dollars)

|  | For the three-month period<br>ended 30 September |                | For the nine-month period<br>ended 30 September |                |
|--|--|----------------|---|----------------|
|  | 2011   | 2010           | 2011  | 2010           |
| <b>INCOME</b>  |  |                |   |                |
| <b>Net interest income</b>   |  |                |   |                |
| <b>Interest revenue</b>  |  |                |   |                |
| Interest earned on investments                                     | 401.5  | 381.9          | 1,212.8   | 1,126.1        |
| Dividend revenue   | -  | -              | 4.3   | 10.1           |
| Interest earned on securities purchased under<br>resale agreements | 0.1  | 2.4            | 1.1   | 37.3           |
| Other interest revenue   | 0.1  | -              | 0.2   | 0.1            |
|  | <u>401.7</u>                                     | <u>384.3</u>   | <u>1,218.4</u>                                  | <u>1,173.6</u> |
| <b>Interest expense</b>  |  |                |   |                |
| Interest expense on deposits                                       | 5.8  | 6.3            | 16.6  | 36.6           |
|  | <u>395.9</u>                                     | <u>378.0</u>   | <u>1,201.8</u>                                  | <u>1,137.0</u> |
| <b>Other revenue</b>   | <b>2.3</b>                                       | <b>3.0</b>     | <b>6.9</b>                                      | <b>8.6</b>     |
| <b>Total income</b>  | <b>398.2</b>                                     | <b>381.0</b>   | <b>1,208.7</b>                                  | <b>1,145.6</b> |
| <b>EXPENSES</b>  |  |                |   |                |
| Staff costs  | 34.8   | 38.4           | 117.0   | 118.0          |
| Bank note research, production and processing                      | 4.3  | 21.4           | 28.0  | 36.2           |
| Premises maintenance   | 6.6  | 7.7            | 18.1  | 19.5           |
| Depreciation and amortization                                      | 4.3  | 4.2            | 12.9  | 11.5           |
| Other operating expenses   | 26.7   | 26.6           | 74.8  | 71.7           |
| <b>Total expenses</b>  | <b>76.7</b>                                      | <b>98.3</b>    | <b>250.8</b>                                    | <b>256.9</b>   |
| <b>NET INCOME</b>  | <b>321.5</b>                                     | <b>282.7</b>   | <b>957.9</b>                                    | <b>888.7</b>   |
| <b>OTHER COMPREHENSIVE INCOME</b>                                  |  |                |   |                |
| Change in Available-for-sale reserve                               | 28.1   | 4.3            | 49.2  | (14.9)         |
| Actuarial losses   | (93.8)   | (171.4)        | (93.8)  | (171.4)        |
| <b>Other comprehensive income</b>                                  | <b>(65.7)</b>                                    | <b>(167.1)</b> | <b>(44.6)</b>                                   | <b>(186.3)</b> |
| <b>COMPREHENSIVE INCOME</b>  | <b>255.8</b>                                     | <b>115.6</b>   | <b>913.3</b>                                    | <b>702.4</b>   |

(See accompanying notes to the Condensed Interim Financial Statements.)

**CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

(Millions of dollars)

|   | For the three- and nine-month periods ended 30 September 2011 |                   |                 |                            |                         |                   |              |
|---|---|-------------------|-----------------|----------------------------|-------------------------|-------------------|--------------|
|   | Share capital   | Statutory reserve | Special reserve | Available-for-sale reserve | Actuarial gains reserve | Retained earnings | Total        |
| <b>Balance, 1 July 2011</b>                                 | 5.0   | 25.0              | 100.0           | 292.1                      | 14.1                    | -                 | 436.2        |
| <b>Comprehensive income for the period</b>                  |   |                   |                 |                            |                         |                   |              |
| Net income  | -   | -                 | -               | -                          | -                       | 321.5             | 321.5        |
| Change in fair value of available-for-sale financial assets | -   | -                 | -               | 28.1                       | -                       | -                 | 28.1         |
| Actuarial losses  | -   | -                 | -               | -                          | (14.1)                  | (79.7)            | (93.8)       |
|   | -   | -                 | -               | 28.1                       | (14.1)                  | 241.8             | 255.8        |
| <b>Transfer to Receiver General for Canada</b>              | -   | -                 | -               | -                          | -                       | (241.8)           | (241.8)      |
| <b>Balance, 30 September 2011</b>                           | <u>5.0</u>  | <u>25.0</u>       | <u>100.0</u>    | <u>320.2</u>               | <u>-</u>                | <u>-</u>          | <u>450.2</u> |
| <b>Balance, 1 January 2011</b>                              | 5.0   | 25.0              | 100.0           | 271.0                      | 14.1                    | 1.7               | 416.8        |
| <b>Comprehensive income for the period</b>                  |   |                   |                 |                            |                         |                   |              |
| Net income  | -   | -                 | -               | -                          | -                       | 957.9             | 957.9        |
| Change in fair value of available-for-sale financial assets | -   | -                 | -               | 49.2                       | -                       | -                 | 49.2         |
| Actuarial losses  | -   | -                 | -               | -                          | (14.1)                  | (79.7)            | (93.8)       |
|   | -   | -                 | -               | 49.2                       | (14.1)                  | 878.2             | 913.3        |
| <b>Transfer to Receiver General for Canada</b>              | -   | -                 | -               | -                          | -                       | (879.9)           | (879.9)      |
| <b>Balance, 30 September 2011</b>                           | <u>5.0</u>  | <u>25.0</u>       | <u>100.0</u>    | <u>320.2</u>               | <u>-</u>                | <u>-</u>          | <u>450.2</u> |

(See accompanying notes to the Condensed Interim Financial Statements.)

**CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

(Millions of dollars)

|   | For the three- and nine-month periods ended 30 September 2010 |                   |                 |                            |                         |                   |              |
|---|---|-------------------|-----------------|----------------------------|-------------------------|-------------------|--------------|
|   | Share capital   | Statutory reserve | Special reserve | Available-for-sale reserve | Actuarial gains reserve | Retained earnings | Total        |
| <b>Balance, 1 July 2010</b>                                 | 5.0   | 25.0              | 100.0           | 268.3                      | 119.7                   | -                 | 518.0        |
| <b>Comprehensive income for the period</b>                  |   |                   |                 |                            |                         |                   |              |
| Net income  | -   | -                 | -               | -                          | -                       | 282.7             | 282.7        |
| Change in fair value of available-for-sale financial assets | -   | -                 | -               | 4.3                        | -                       | -                 | 4.3          |
| Actuarial losses  | -   | -                 | -               | -                          | (119.7)                 | (51.7)            | (171.4)      |
|   | -   | -                 | -               | 4.3                        | (119.7)                 | 231.0             | 115.6        |
| <b>Transfer to Receiver General for Canada</b>              | -   | -                 | -               | -                          | -                       | (226.8)           | (226.8)      |
| <b>Balance, 30 September 2010</b>                           | <u>5.0</u>  | <u>25.0</u>       | <u>100.0</u>    | <u>272.6</u>               | <u>-</u>                | <u>4.2</u>        | <u>406.8</u> |
| <b>Balance, 1 January 2010</b>                              | 5.0   | 25.0              | 100.0           | 287.5                      | 119.7                   | 31.7              | 568.9        |
| <b>Comprehensive income for the period</b>                  |   |                   |                 |                            |                         |                   |              |
| Net income  | -   | -                 | -               | -                          | -                       | 888.7             | 888.7        |
| Change in fair value of available-for-sale financial assets | -   | -                 | -               | (14.9)                     | -                       | -                 | (14.9)       |
| Actuarial losses  | -   | -                 | -               | -                          | (119.7)                 | (51.7)            | (171.4)      |
|   | -   | -                 | -               | (14.9)                     | (119.7)                 | 837.0             | 702.4        |
| <b>Transfer to Receiver General for Canada</b>              | -   | -                 | -               | -                          | -                       | (864.5)           | (864.5)      |
| <b>Balance, 30 September 2010</b>                           | <u>5.0</u>  | <u>25.0</u>       | <u>100.0</u>    | <u>272.6</u>               | <u>-</u>                | <u>4.2</u>        | <u>406.8</u> |

(See accompanying notes to the Condensed Interim Financial Statements.)

**CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**

(Millions of dollars)

|   | For the three-month<br>period ended<br>30 September |           | For the nine-month<br>period ended<br>30 September |            |
|---|---|-----------|--|------------|
|   | 2011  | 2010      | 2011   | 2010       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |   |           |  |            |
| Interest received   | 207.3   | 110.3     | 1,000.5  | 983.2      |
| Dividends received  | 4.3   | 10.1      | 4.3  | 10.1       |
| Other revenue received  | 2.8   | 3.3       | 7.4  | 9.5        |
| Interest paid   | (5.8)   | (6.3)     | (16.6)   | (36.6)     |
| Payments to or on behalf of employees and to suppliers                      | (80.4)  | (96.8)    | (287.3)  | (293.4)    |
| Net decrease in advances to members of the<br>Canadian Payments Association | 257.8   | 14.9      | 21.6   | -          |
| Net decrease (increase) in deposits   | 551.5   | (1,379.2) | 225.2  | (13,307.9) |
| Proceeds from maturity of securities purchased<br>under resale agreements   | 3,774.1   | 10,626.8  | 6,759.5  | 58,288.5   |
| Acquisition of securities purchased<br>under resale agreements              | (3,774.1)   | (4,691.8) | (4,698.1)  | (32,948.9) |
| Repayments of securities sold<br>under repurchase agreements                | -   | -         | (764.8)  | (470.0)    |
| Proceeds from securities sold<br>under repurchase agreements                | -   | -         | 764.8  | 470.0      |
| Net cash provided by operating activities                                   | 937.5   | 4,591.3   | 3,016.5  | 12,704.5   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |   |           |  |            |
| Net (increase) decrease in Government<br>of Canada treasury bills           | 562.2   | (4,397.8) | 3,514.0  | (11,457.9) |
| Purchases of Government of Canada bonds                                     | (2,960.6)   | (1,024.0) | (10,330.2)   | (3,486.9)  |
| Proceeds from maturity of Government<br>of Canada bonds                     | 1,673.7   | 1,219.5   | 4,930.3  | 3,185.3    |
| Additions of property and equipment   | (8.6)   | (1.4)     | (13.9)   | (5.7)      |
| Additions of intangible assets  | (3.9)   | (0.3)     | (13.6)   | (1.8)      |
| Net cash used in investing activities                                       | (737.2)   | (4,204.0) | (1,913.4)  | (11,767.0) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |   |           |  |            |
| Net increase (decrease) in bank notes in circulation                        | 124.7   | (133.0)   | (303.2)  | (327.3)    |
| Remittance of ascertained surplus to the<br>Receiver General for Canada     | (325.0)   | (250.0)   | (801.1)  | (623.6)    |
| Net cash provided by (used in) financing activities                         | (200.3)   | (383.0)   | (1,104.3)  | (950.9)    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON<br/>FOREIGN CURRENCY</b>              | 0.4   | -         | 0.4  | (0.2)      |
| <b>INCREASE (DECREASE) IN CASH AND<br/>FOREIGN DEPOSITS</b>                 | 0.4   | 4.3       | (0.8)  | (13.6)     |
| <b>CASH AND FOREIGN DEPOSITS,<br/>BEGINNING OF PERIOD</b>                   | 3.5   | 2.5       | 4.7  | 20.4       |
| <b>CASH AND FOREIGN DEPOSITS, END OF PERIOD</b>                             | 3.9   | 6.8       | 3.9  | 6.8        |

(See accompanying notes to the Condensed Interim Financial Statements.)

## **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS OF THE BANK OF CANADA**

For the period ended 30 September 2011

(Amounts in the notes to the Condensed Interim Financial Statements of the Bank of Canada are in millions of Canadian dollars, unless otherwise stated.)

### **1. The business of the Bank of Canada**

The Bank of Canada (the Bank) is the central bank of Canada. The Bank is a corporation under the Bank of Canada Act and is wholly owned by the Government of Canada. The Bank is a Government Business Enterprise, as defined by the Public Sector Accounting Board Handbook, and as such adheres to the standards applicable to publicly accountable enterprises as outlined by the Canadian Institute of Chartered Accountants (CICA).

The responsibilities of the Bank focus on the goals of low and stable inflation, financial system stability, a safe and secure currency, and the efficient management of government funds and public debt. These responsibilities are carried out as part of the broad functions described below.

#### **Monetary policy**

Contributes to solid economic performance and rising living standards for Canadians by keeping inflation low, stable and predictable.

#### **Financial system**

Promotes a safe, sound and efficient financial system, both within Canada and internationally.

#### **Currency**

Designs, produces and distributes Canada's bank notes, focusing on deterrence of counterfeiting through research on security features, public education and partnership with law enforcement; replaces and destroys worn notes.

#### **Funds management**

Provides high-quality, effective and efficient funds-management services: for the Government of Canada, as its fiscal agent; for the Bank; and for other clients.

### **2. Basis of preparation**

#### **Compliance with International Financial Reporting Standards (IFRS)**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) and using the IFRS accounting policies the Bank expects to adopt in its financial statements as at and for the year ending 31 December 2011. These condensed interim financial statements do not include all of the information required for full annual financial statements. The comparative reporting periods have not been reviewed by the Bank's external auditors.

These are the Bank's third IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements. The Bank has elected 1 January 2010 as the date of transition to IFRS (the "transition date"). IFRS 1 *First-time Adoption of IFRS* (IFRS 1), has been applied. An explanation of how the transition to IFRS has affected the financial statements is included in note 15.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of 22 November 2011. Any subsequent changes to IFRS that are given effect in the Bank's annual financial statements for the year ending 31 December 2011 could result in restatement of these condensed interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These condensed interim financial statements should be read in conjunction with the Bank's 2010 annual financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) and in consideration of the IFRS transition disclosures included in

note 15 to the condensed interim financial statements. Annual disclosures for the year ended December 31, 2010 that are significantly impacted as a result of the transition to IFRS and are considered material to an understanding of the Bank's condensed interim financial statements were disclosed in notes 16 and 17 of the Bank's condensed interim financial statements for three- and six-month periods ended 30 June 2011.

#### **Measurement base**

The condensed interim financial statements have been prepared on the historical cost basis, except for the available-for-sale financial assets, which are measured at fair value, and the defined-benefit assets and obligations, which are recognized as the net of the plan assets, plus unrecognized past service costs, and the present value of the defined-benefit obligation.

#### **Significant accounting estimates and judgments in applying accounting policies**

The preparation of the condensed interim financial statements requires management to make judgments, estimates and assumptions based on information available at the statement date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. These estimates are primarily in the area of employee benefit plans and the fair values of certain financial instruments and collateral taken.

#### **Functional and presentation currency**

The Bank's functional and presentation currency is the Canadian dollar.

### **3. Significant accounting policies**

The significant accounting policies of the Bank are summarized below. These policies have been consistently applied to all years and periods presented, unless otherwise stated.

#### **a) Translation of foreign currencies**

Investment income and expenses denominated in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Fair value items denominated in foreign currencies are translated at the exchange rate in effect at the date of the fair value measurement. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the end of the reporting periods. The resulting gains and losses are included in *Other revenue*. Gains or losses on equity investments classified as available-for-sale (AFS), along with any exchange-related gains or losses, are recognized in *Other Comprehensive Income*.

#### **b) Financial instruments**

The Bank accounts for all financial instruments using settlement date accounting. Financial instruments are measured at fair value on initial recognition, plus transaction costs, if any, for all financial assets not carried at fair value through net income. Subsequent to initial recognition, they are accounted for based on their classification.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value using quoted market prices, with the exception of the Bank for International Settlements (BIS) shares, which are measured using significant non-observable inputs. Unrealized changes in values of AFS financial assets measured at fair value are recognized in *Other Comprehensive Income* and accumulated in the available-for-sale reserve in equity until the financial asset is derecognized or becomes impaired. At that time, the cumulative unrealized gain or loss previously recognized in *Other Comprehensive Income* is reclassified from equity to net income. The Bank's financial assets designated as AFS consist of Government of Canada treasury bills and other investments, which are comprised of BIS shares.

Subsequent to initial recognition, financial assets classified as held-to-maturity (HTM) are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method uses the rate inherent in a financial instrument that discounts the estimated future cash flows over the expected life of the financial instrument in order to recognize

interest on a constant yield basis. Government of Canada bonds are classified as HTM.

The Bank has not classified any of its financial assets as fair value through net income, other than cash and foreign deposits.

All other financial assets are classified as loans and receivables. Subsequent to initial recognition, these are measured at amortized cost less any impairment losses using the effective interest method of amortization.

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in net income.

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value. The Bank has not classified any of its financial liabilities as fair value through net income.

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in net income.

**c) Securities purchased under resale agreements**

Securities purchased under resale agreements are reverse repo-type transactions in which the Bank purchases securities from designated counterparties with an agreement to sell them back at a predetermined price on an agreed transaction date. For accounting purposes, these agreements are treated as collateralized lending transactions and are recorded on the *Statement of financial position* at the amounts at which the securities were originally acquired plus accrued interest.

**d) Securities sold under repurchase agreements**

Securities sold under repurchase agreements are repo-type transactions in which the Bank sells Government of Canada securities to designated counterparties with an agreement to buy them back at a predetermined price on an agreed transaction date. For accounting purposes, these agreements are treated as collateralized borrowing transactions and are recorded on the *Statement of financial position* at the amounts at which the securities were originally sold plus accrued interest.

**e) Securities Lending Program**

The Bank operates a Securities Lending Program to support the liquidity of Government of Canada securities by providing a secondary and temporary source of these securities to the market. These securities-lending transactions are fully collateralized by securities and are generally one business day in duration. The securities loaned continue to be accounted for as investment assets. Lending fees charged by the Bank on these transactions are included in *Other revenue* at the maturity date of the transaction.

**f) Property and equipment**

Property and equipment consists of land, buildings, computer hardware, other equipment and related projects in progress. Property and equipment is recorded at cost less accumulated depreciation, except for land which is not depreciated, and is net of any related impairment loss. Projects in progress are recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Upon replacing a significant part of an item of property and equipment, the carrying amount of the replaced part is derecognized.

Depreciation is calculated using the straight-line method and is applied over the estimated useful

lives of the assets, as shown below. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

|                   |                |
|-------------------|----------------|
| Buildings         | 25 to 65 years |
| Computer hardware | 3 to 7 years   |
| Other equipment   | 5 to 15 years  |

#### g) Intangible assets

Intangible assets are identified non-monetary assets without physical substance. The Bank's intangible assets consist of computer software internally developed or externally acquired.

Costs that are directly associated with the internal development of identifiable software are recognized as intangible assets if, in management's best estimate, the asset can technically be completed and will provide a future economic benefit to the Bank. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software assets that are acquired by the Bank and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, which may vary from 3 to 15 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### h) Leases

##### Where the Bank is a lessee

Leases of equipment where the Bank has assumed substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in *Other liabilities*. Each lease payment is allocated between the liability and finance charges to achieve a constant rate of return on the finance lease obligation outstanding. Equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Other leases are classified as operating leases. Payments made under operating leases are charged to the *Statement of comprehensive income* on a straight-line basis over the period of the lease.

##### Where the Bank is a lessor

Leases granted on the Bank's property were assessed and classified as operating leases because the risks and rewards of ownership are not transferred to the lessees. Operating lease income is recognized on a straight-line basis over the period of the lease.

#### i) Impairment

##### Impairment of financial assets

For financial assets that are not classified as fair value through net income, the Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of assets is impaired. Once impaired, financial assets carried at amortized cost are re-measured at net recoverable amount with the amount of impairment recognized in net income. Unrealized losses on impaired AFS financial assets are recognized in net income at the time of impairment. Financial assets carried at amortized cost are measured at the net recoverable amount.

##### Impairment of non-financial assets

Non-financial assets, including property and equipment, intangible assets and inventories, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount.

**j) Employee benefits**

**Short-term employee benefits**

Short-term employee benefits are measured on an undiscounted basis.

**Long-term employee benefits**

The Bank sponsors a long-term disability program.

The liability recognized in respect of this plan amounts to the present value of the defined-benefit obligation. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates of high quality corporate bonds with terms to maturity approximating the duration of the obligation. The expense recognized for the fiscal year consists of current service cost, interest cost, actuarial gains and losses, and past service costs.

The current service costs and the benefit obligations of the plan are actuarially determined on an event-driven accounting basis. Actuarial gains or losses are recognized immediately at the point of measurement in net income. Past service costs arising from plan amendments are recognized immediately in *Staff costs* in the period in which they occur.

**Post-employment defined-benefit plans**

The Bank sponsors two funded defined-benefit pension plans, the Bank of Canada Registered Pension Plan and the Bank of Canada Supplementary Pension Arrangement, designed to provide retirement income benefits to eligible employees. Benefits provided under these plans are calculated based on years of service and average full-time salary for the best five consecutive years and are indexed to reflect changes in the consumer price index on the date payments begin and each 1 January thereafter.

The Bank also sponsors other unfunded post-employment defined-benefit plans, which include life insurance and eligible health and dental benefits, as well as a long-service benefit program for employees hired before 1 January 2003.

The asset or liability recognized at fiscal year-end in respect of these plans is composed of the present value of the defined-benefit obligation less the fair value of plan assets, where applicable. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates of high-quality corporate bonds with terms to maturity approximating the duration of the obligation. The expense recognized for the fiscal year consists of current service cost, interest cost, expected return on plan assets and past service costs.

The current service costs and the benefit obligations of the plans are actuarially determined using the projected unit credit method. Actuarial gains or losses are recognized immediately at the point of measurement in *Other Comprehensive Income*. Past service costs arising from plan amendments that have vested are immediately recognized as an expense. Non-vested past service costs are amortized over the period until the related benefits become vested. Plan assets of funded obligations are determined according to their fair value at the end of the fiscal year.

**k) Provisions**

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the statement of financial position date, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**l) Revenue recognition**

Interest revenue earned on Government of Canada treasury bills and bonds is recorded using the effective interest method. Dividend revenue on the BIS shares is recorded as dividends are declared.

Realized gains (losses) on the sale of Government of Canada treasury bills are recorded at the time of sale as a reclassification from *Other Comprehensive Income* and are calculated as the excess of proceeds over the amortized cost at the transaction date.

Interest earned on securities purchased under resale agreements is recorded using the effective interest method.

Other revenue is composed mostly of interest earned on advances to members of the Canadian Payments Association and is recorded using the effective interest method.

**m) Bank notes expenses**

The cost to produce finished bank notes is expensed as incurred.

**n) Future changes in accounting policies**

**IFRS 9**

IFRS 9 *Financial Instruments* (IFRS 9) as issued in November 2009 and revised in October 2010, and the related consequential amendments, will replace International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 relates to the recognition and derecognition and measurement of financial assets and financial liabilities.

IFRS 9 eliminates the existing financial asset categories and requires all financial assets to be classified on initial recognition either at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Gains and losses on financial assets measured at fair value will be recognized through net income, with the exception of equity investments not held for trading, for which gains or losses will be recognized directly in equity.

The new standard also requires the use of a single impairment method for financial assets based on expected losses and incurred losses, replacing the multiple impairment methods in IAS 39.

IFRS 9 requires all financial liabilities not designated at fair value through net income to be subsequently measured at amortized cost using the effective interest method.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, although early adoption is permitted. The Bank is currently evaluating the impact of IFRS 9 on its financial statements, and will continue to do so as the remaining stages of this project, relating to hedge accounting and financial asset and liability offsetting, are finalized.

**IFRS 7**

IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) was amended in October 2010 to provide additional disclosure on the transfer of financial assets, including the possible effects of any residual risks that the transferring entity retains. These amendments are effective for annual periods beginning on or after 1 July 2011. The Bank is currently evaluating the impact of these amendments to IFRS 7 on its financial statements.

**IFRS 11**

On 12 May 2011, the IASB issued IFRS 11 *Joint Arrangements* (IFRS 11). IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently evaluating the impact, if any, of this new standard on its financial statements.

**IFRS 12**

On 12 May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of this standard will not have a material impact on the Bank's financial statements.

**IFRS 13**

On 12 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (IFRS 13). IFRS 13, which is

effective from 1 January 2013, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Bank is currently evaluating the impact, if any, of this new standard on its financial statements.

#### IAS 19

IAS 19 *Employee Benefits* (IAS 19) was amended on 16 June 2011 to eliminate the use of the "corridor" approach and mandates that all re-measurement impacts to be recognised immediately, and also affects aspects of measurement and disclosure. These amendments are effective as of 1 January 2013. The Bank will not be impacted by the elimination of the corridor approach as the policy to immediately recognize all actuarial gains and losses was adopted at the time of the Bank's transition to IFRS. The Bank is currently evaluating the impact of other amendments to IAS 19 on its financial statements.

## 4. Financial instruments

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the Canadian Payments Association, other receivables, investments (consisting of Government of Canada treasury bills, Government of Canada bonds and shares in the BIS), bank notes in circulation, deposits and other liabilities (net of post-employment and long-term employee benefit obligations).

Cash and foreign deposits, Government of Canada treasury bills and BIS shares are measured at fair value. All other financial instruments are measured at amortized cost using the effective interest method.

The carrying amount and fair values of financial assets and liabilities are presented in the following table:

|  | 30 September 2011 |                 | 31 December 2010 |                 | 1 January 2010  |                 |
|--|-------------------|-----------------|------------------|-----------------|-----------------|-----------------|
|  | Carrying amount   | Fair value      | Carrying amount  | Fair value      | Carrying amount | Fair value      |
| <b>Financial assets</b>                                  |                   |                 |                  |                 |                 |                 |
| Cash and foreign deposits                                | 3.9               | 3.9             | 4.7              | 4.7             | 20.4            | 20.4            |
| Securities purchased under resale agreements             | -                 | -               | 2,062.4          | 2,062.4         | 25,374.8        | 25,377.5        |
| Advances to members of the Canadian Payments Association | 0.9               | 0.9             | 22.5             | 22.5            | -               | -               |
| Other receivables  | 1.7               | 1.7             | 2.1              | 2.1             | 2.2             | 2.2             |
| Government of Canada treasury bills                      | 21,410.8          | 21,410.8        | 24,906.1         | 24,906.1        | 13,684.0        | 13,684.0        |
| Government of Canada bonds                               | 39,168.0          | 43,541.6        | 33,550.6         | 36,296.4        | 31,986.2        | 34,128.0        |
| Other investments  | 338.3             | 338.3           | 310.7            | 310.7           | 318.7           | 318.7           |
| <b>Total financial assets</b>                            | <b>60,923.6</b>   | <b>65,297.2</b> | <b>60,859.1</b>  | <b>63,604.9</b> | <b>71,386.3</b> | <b>73,530.8</b> |
| <b>Financial liabilities</b>                             |                   |                 |                  |                 |                 |                 |
| Bank notes in circulation                                | 57,571.0          | 57,571.0        | 57,874.2         | 57,874.2        | 55,467.9        | 55,467.9        |
| Deposits   | 2,782.4           | 2,782.4         | 2,556.8          | 2,556.8         | 15,550.2        | 15,550.2        |
| Other financial liabilities                              | 289.0             | 289.0           | 216.9            | 216.9           | 61.7            | 61.7            |
| <b>Total financial liabilities</b>                       | <b>60,642.4</b>   | <b>60,642.4</b> | <b>60,647.9</b>  | <b>60,647.9</b> | <b>71,079.8</b> | <b>71,079.8</b> |

**5. Property and equipment**

|                                     | <b>Land and<br/>Buildings</b> | <b>Computer<br/>Equipment</b> | <b>Other<br/>Equipment</b> | <b>Total</b> |
|-------------------------------------|-------------------------------|-------------------------------|----------------------------|--------------|
| <b>Balances, 1 January 2011</b>     |                               |                               |                            |              |
| Cost                                | 197.3                         | 25.8                          | 122.2                      | 345.3        |
| Accumulated depreciation            | (80.1)                        | (13.9)                        | (98.3)                     | (192.3)      |
| Net book value                      | <u>117.2</u>                  | <u>11.9</u>                   | <u>23.9</u>                | <u>153.0</u> |
| <b>Changes during the period</b>    |                               |                               |                            |              |
| Additions                           | 10.2                          | 1.4                           | 2.3                        | 13.9         |
| Depreciation expense                | (3.7)                         | (2.6)                         | (3.1)                      | (9.4)        |
| Net changes to Net book value       | <u>6.5</u>                    | <u>(1.2)</u>                  | <u>(0.8)</u>               | <u>4.5</u>   |
| <b>Balances, 30 September 2011</b>  |                               |                               |                            |              |
| Cost                                | 207.5                         | 22.1                          | 96.9                       | 326.5        |
| Accumulated depreciation            | (83.8)                        | (11.4)                        | (73.7)                     | (168.9)      |
| Net book value                      | <u>123.7</u>                  | <u>10.7</u>                   | <u>23.2</u>                | <u>157.6</u> |
| <b>Balances, 1 January 2010</b>     |                               |                               |                            |              |
| Cost                                | 185.8                         | 29.2                          | 130.0                      | 345.0        |
| Accumulated depreciation            | (74.1)                        | (16.1)                        | (99.6)                     | (189.8)      |
| Net book value                      | <u>111.7</u>                  | <u>13.1</u>                   | <u>30.4</u>                | <u>155.2</u> |
| <b>Changes during the period</b>    |                               |                               |                            |              |
| Additions                           | 5.6                           | 2.2                           | 2.9                        | 10.7         |
| Depreciation expense                | (5.2)                         | (3.6)                         | (3.8)                      | (12.6)       |
| Transfers to other asset categories | 5.1                           | 0.2                           | (5.1)                      | 0.2          |
| Disposals                           | -                             | -                             | (0.5)                      | (0.5)        |
| Net changes to Net book value       | <u>5.5</u>                    | <u>(1.2)</u>                  | <u>(6.5)</u>               | <u>(2.2)</u> |
| <b>Balances, 31 December 2010</b>   |                               |                               |                            |              |
| Cost                                | 197.3                         | 25.8                          | 122.2                      | 345.3        |
| Accumulated depreciation            | (80.1)                        | (13.9)                        | (98.3)                     | (192.3)      |
| Net book value                      | <u>117.2</u>                  | <u>11.9</u>                   | <u>23.9</u>                | <u>153.0</u> |

Assets that are fully depreciated and no longer in use were derecognized in the amount of \$32.9 million for the nine-month period ended 30 September 2011 (31 December 2010 - \$10.1 million).

There were no impairments for the nine-month period ended 30 September 2011 (31 December 2010 - \$Nil).

|                                  | <u>Land and<br/>Buildings</u> | <u>Computer<br/>Equipment</u> | <u>Other<br/>Equipment</u> | <u>Total</u> |
|----------------------------------|-------------------------------|-------------------------------|----------------------------|--------------|
| <b>Projects in progress 2011</b> |                               |                               |                            |              |
| Included in Net book value       | 14.8                          | 3.5                           | 2.1                        | 20.4         |
| Additions during 2011            | 10.2                          | 1.4                           | 1.9                        | 13.5         |
| Commitments at 30 September 2011 | 4.9                           | 3.0                           | 0.2                        | 8.1          |
| <b>Projects in progress 2010</b> |                               |                               |                            |              |
| Included in Net book value       | 5.9                           | 5.2                           | 1.1                        | 12.2         |
| Additions during 2010            | 5.3                           | 2.1                           | 1.1                        | 8.5          |
| Commitments at 31 December 2010  | 1.5                           | 0.1                           | 1.1                        | 2.7          |

Projects in progress consist primarily of \$10.4 million related to the Enhanced Business Continuity Program (31 December 2010 - \$3.0 million; 1 January 2010 - \$0.1 million), \$4.1 million related to the Head Office Renewal Program (31 December 2010 - \$1.6 million; 1 January 2010 - \$0.1 million), \$1.2 million related to the Currency Systems Evolution Program (31 December 2010 - \$1.2 million; 1 January 2010 - \$Nil) and \$1.2 million related to the adaptation of bank note processing equipment (31 December 2010 - \$Nil; 1 January 2010 - \$Nil). The completed streams of the Analytic Environment Program (31 December 2010 - \$3.1 million; 1 January 2010 - \$3.1 million) were put in service in 2011 and removed from Projects in progress.

## 6. Intangible assets

|                                    | <u>Internally<br/>generated<br/>software</u> | <u>Other<br/>software</u> | <u>Total</u> |
|------------------------------------|--|---------------------------|--------------|
| <b>Balances, 1 January 2011</b>    |  |                           |              |
| Cost                               | 42.8   | 16.8                      | 59.6         |
| Accumulated amortization           | (21.9)                                       | (11.8)                    | (33.7)       |
| Net book value                     | <u>20.9</u>                                  | <u>5.0</u>                | <u>25.9</u>  |
| <b>Changes during the period</b>   |  |                           |              |
| Additions                          | -  | 13.6                      | 13.6         |
| Amortization expense               | (2.9)  | (0.6)                     | (3.5)        |
| Net changes to Net book value      | <u>(2.9)</u>                                 | <u>13.0</u>               | <u>10.1</u>  |
| <b>Balances, 30 September 2011</b> |  |                           |              |
| Cost                               | 42.8   | 30.5                      | 73.3         |
| Accumulated amortization           | (24.8)                                       | (12.5)                    | (37.3)       |
| Net book value                     | <u>18.0</u>                                  | <u>18.0</u>               | <u>36.0</u>  |

|                                     | <b>Internally<br/>generated<br/>software</b> | <b>Other<br/>software</b> | <b>Total</b> |
|-------------------------------------|--|---------------------------|--------------|
| <b>Balances, 1 January 2010</b>     |  |                           |              |
| Cost                                | 48.0   | 13.0                      | 61.0         |
| Accumulated amortization            | (26.0)                                       | (11.3)                    | (37.3)       |
| Net book value                      | <u>22.0</u>                                  | <u>1.7</u>                | <u>23.7</u>  |
| <b>Changes during the period</b>    |  |                           |              |
| Additions                           | 2.2  | 2.2                       | 4.4          |
| Amortization expense                | (1.5)  | (0.5)                     | (2.0)        |
| Transfers to other asset categories | (1.8)  | 1.6                       | (0.2)        |
| Net changes to Net book value       | <u>(1.1)</u>                                 | <u>3.3</u>                | <u>2.2</u>   |
| <b>Balances, 31 December 2010</b>   |  |                           |              |
| Cost                                | 42.8   | 16.8                      | 59.6         |
| Accumulated amortization            | (21.9)                                       | (11.8)                    | (33.7)       |
| Net book value                      | <u>20.9</u>                                  | <u>5.0</u>                | <u>25.9</u>  |

Assets that are fully depreciated and no longer in use were \$nil for the nine-month period ended 30 September 2011 (\$5.6 million was derecognized for the year ended 31 December 2010).

There were no impairments for the nine-month period ended 30 September 2011 (31 December 2010 - \$Nil).

|                                  | <b>Internally<br/>generated<br/>software</b> | <b>Other<br/>software</b> | <b>Total</b> |
|----------------------------------|--|---------------------------|--------------|
| <b>Projects in progress 2011</b> |  |                           |              |
| Included in Net book value       | -  | 15.8                      | 15.8         |
| Additions during 2011            | -  | 13.6                      | 13.6         |
| Commitments at 30 September 2011 | -  | -                         | -            |
| <b>Projects in progress 2010</b> |  |                           |              |
| Included in Net book value       | 11.7   | 4.0                       | 15.7         |
| Additions during 2010            | 2.2  | 2.2                       | 4.4          |
| Commitments at 31 December 2010  | -  | -                         | -            |

Projects in progress consist primarily of \$6.7 million related to the Auctions and Market Applications Program (31 December 2010 - \$1.0 million; 1 January 2010 - \$Nil), \$5.2 million related to the Currency Systems Evolution Program (31 December 2010 - \$0.6 million; 1 January 2010 - \$Nil) and \$3.3 million related to the fifth stream of the Analytic Environment Program. The completed streams of the Analytic Environment Program (31 December 2010 - \$13.4 million; 1 January 2010 - \$11.2 million) were put in service in 2011 and removed from Projects in progress.

**7. Other assets**

|                                | 30 September<br>2011 | 31 December<br>2010 | 1 January<br>2010 |
|--------------------------------|----------------------|---------------------|-------------------|
| Accrued pension benefit assets | 113.1                | 166.6               | 196.3             |
| All other assets               | 28.6                 | 11.5                | 15.3              |
| <b>Total other assets</b>      | <b>141.7</b>         | <b>178.1</b>        | <b>211.6</b>      |

**8. Other liabilities**

|  | 30 September<br>2011 | 31 December<br>2010 | 1 January<br>2010 |
|--|----------------------|---------------------|-------------------|
| Post-employment defined-benefit obligations                    | 166.3                | 151.4               | 128.1             |
| Accrued transfer payment to the Receiver General<br>for Canada | 246.3                | 167.5               | 23.6              |
| Accounts payable and accrued liabilities                       | 42.4                 | 49.1                | 37.9              |
| Payroll liabilities  | 0.3                  | 0.3                 | 0.2               |
| <b>Total other liabilities</b>                                 | <b>455.3</b>         | <b>368.3</b>        | <b>189.8</b>      |

The accrued transfer payment to the Receiver General for Canada is included in the \$879.9 million transfer to the Receiver General for the nine-month period presented in the *Statement of changes in equity* (31 December 2010 - \$1,152.8 million).

**9. Employee benefit plans**

Expenses for the three- and nine-month periods ended 30 September for the employee benefit plans are presented in the table below.

|                                     | For the three-month period<br>ended 30 September |            | For the nine-month period<br>ended 30 September |             |
|-------------------------------------|--|------------|---|-------------|
|                                     | 2011   | 2010       | 2011  | 2010        |
| Pension benefit plans               | (0.7)  | 1.4        | 2.6   | 4.2         |
| Other employee future benefit plans | 3.8  | 4.0        | 10.8  | 10.8        |
| <b>Total benefit plans</b>          | <b>3.1</b>                                       | <b>5.4</b> | <b>13.4</b>                                     | <b>15.0</b> |

Contributions for the three- and nine-month periods ended 30 September for the employee benefit plans are presented in the table below.

|  | Pension plans<br>(funded) |             | Other benefit plans<br>(unfunded) |          |
|--|---------------------------|-------------|-----------------------------------|----------|
|  | 2011                      | 2010        | 2011                              | 2010     |
| <b>For the three-month period ended 30 September</b> |                           |             |                                   |          |
| <b>Contributions</b>                                 |                           |             |                                   |          |
| Employer   | 4.2                       | 13.9        | -                                 | -        |
| Employee   | 2.4                       | 1.9         | -                                 | -        |
| <b>Total contributions</b>                           | <b>6.6</b>                | <b>15.8</b> | <b>-</b>                          | <b>-</b> |
| <b>For the nine-month period ended 30 September</b>  |                           |             |                                   |          |
| <b>Contributions</b>                                 |                           |             |                                   |          |
| Employer   | 32.6                      | 48.4        | -                                 | -        |
| Employee   | 7.2                       | 6.3         | -                                 | -        |
| <b>Total contributions</b>                           | <b>39.8</b>               | <b>54.7</b> | <b>-</b>                          | <b>-</b> |

The Bank re-measures its deferred employee benefit plan assets and liabilities at interim periods when there is a material change in these balances due to significant market fluctuations, significant curtailments, settlements, or other significant events. During the three- and nine-month periods ended 30 September 2011, the Bank recorded an actuarial loss of \$93.8 million (30 September 2010 - \$171.4 million).

## 10. Equity

The Bank's objectives in managing its capital are in compliance with the Bank of Canada Act. The Bank is not in violation of any externally imposed capital requirements at the end of the reporting period. The Bank's objectives in managing its capital have not changed from the previous year.

### Share capital

The authorized capital of the Bank is \$5.0 million divided into 100,000 shares with a par value of \$50 each. The shares are fully paid and have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

### Statutory reserve

The statutory reserve was accumulated out of net income until it reached the stipulated maximum amount of \$25.0 million in 1955.

### Special reserve

The special reserve was created in 2007 further to an amendment to the Bank of Canada Act to offset potential unrealized valuation losses due to changes in fair value of the Bank's available-for-sale portfolio. The amount held in the special reserve is reviewed regularly for appropriateness using value-at-risk analysis and scenario-based stress tests and may be amended, pursuant to a resolution passed by the Board of Directors. The value-at-risk analysis uses historical data to estimate the maximum possible extent of unrealized valuation losses of the Bank's treasury bill portfolio. The scenario-based stress tests assess the impact of a rapid increase in interest rates on the value of the Bank's treasury bill portfolio. This reserve is subject to a ceiling of \$400 million; an initial amount of \$100 million was established in September 2007.

**Available-for-sale reserve**

The available-for-sale reserve represents cumulative movements in the fair value of the Bank's available-for-sale portfolios, as shown below.

|                                   | 30 September<br>2011 | 31 December<br>2010 | 1 January<br>2010 |
|-----------------------------------|----------------------|---------------------|-------------------|
| Treasury bills                    | 20.0                 | (1.7)               | 6.8               |
| BIS shares                        | 300.2                | 272.7               | 280.7             |
| <b>Available-for-sale reserve</b> | <b>320.2</b>         | <b>271.0</b>        | <b>287.5</b>      |

**Actuarial gains reserve**

The actuarial gains reserve was established upon the Bank's transition to IFRS at an initial amount of \$119.7 million and accumulates the net actuarial gains and losses recognized on the Bank's post-employment defined-benefit plans subsequent to transition.

|   | 30 September<br>2011 | 31 December<br>2010 | 1 January<br>2010 |
|---|----------------------|---------------------|-------------------|
| Actuarial gains reserve created on transition to IFRS | 119.7                | 119.7               | 119.7             |
| Accumulated actuarial loss                            | (119.7)              | (105.6)             | -                 |
| <b>Actuarial gains reserve</b>                        | <b>-</b>             | <b>14.1</b>         | <b>119.7</b>      |

**Retained Earnings**

The net income of the Bank, less any allocation to reserves, is considered to be ascertained surplus and is transferred to the Receiver General for Canada, consistent with the requirement of Section 27 of the Bank of Canada Act. Prior to 2010, the Bank did not hold Retained earnings.

Effective 1 January 2011, based on an agreement signed with the Minister of Finance, the Bank will deduct from its remittances to the Receiver General and hold within Retained earnings an amount equal to unrealized losses on available-for-sale financial assets, unrealized actuarial losses on post-employment benefit plans and other unrealized or non-cash losses that would expose the Bank to the risk of negative capital arising as a result of changes in accounting standards or legislation.

For the nine months ended 30 September 2011, an amount of \$126.1 million related to 2010 net income and \$675 million related to 2011 net income was remitted to the Receiver General for Canada (\$23.6 million in 2010 related to 2009 net income). Unpaid net income of \$246.3 million (31 December 2010 - \$167.5 million) is included under *Other liabilities* on the *condensed statement of financial position*.

**11. Foreign currency contracts**

The US\$30 billion foreign currency swap facility was established in May 2010 with the Federal Reserve Bank of New York for an initial term expiring in August 2011. On 29 June 2011, the term of the facility was extended until August 2012. As at 30 September 2011, the facility had not been accessed by either party.

**12. Related parties**

The Bank is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. To achieve its monetary policy objectives, the Bank maintains a position of structural and functional independence from the Government of Canada through its ability to fund its own operations without external assistance and through its management and governance.

In the normal course of its operations, the Bank enters into transactions with related parties and

material transactions and balances are presented in these condensed interim financial statements. Not all transactions between the Bank and government related entities have been disclosed as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 Related Parties (IAS 24).

The Bank provide funds management, fiscal agent and banking services to the Government of Canada, which is mandatory under the Bank of Canada Act and does not recover the costs of these services.

### **13. Seasonality**

The total value of bank notes in circulation fluctuates throughout the year as a function of seasonal demand for bank notes. Bank notes in circulation are at their lowest level at the end of the first quarter, and experience peaks in the second and fourth quarters around holiday periods. During periods of seasonal demand, the Bank may issue term purchase and resale agreements to offset the increased bank note liability.

### **14. Date of approval**

The Board of Directors approved the condensed interim financial statements on 22 November 2011.

### **15. Explanation of transition to IFRS**

As stated in note 2, these are the Bank's third financial statements prepared in accordance with IAS 34. The accounting policies set out in note 3 have been applied in preparing the financial statements for the three- and nine-months ended 30 September 2011, the comparative information presented in these unaudited condensed interim financial statements for the three- and nine-months ended 30 September 2010, and in preparation of an opening IFRS *Statement of financial position* at 1 January 2010 (the Bank's date of transition to IFRS) and *Statements of financial position* at 30 September 2010 and 31 December 2010.

In preparing its opening IFRS *Statement of financial position*, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with former Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Bank's financial position and comprehensive income is set out in the following tables and the notes that accompany the tables.

#### **Reconciliation of cash flows**

There were no differences in reported cash flows under IFRS as compared to Canadian GAAP.

**Reconciliation of Financial Position and Equity as at 1 January 2010**

(Millions of dollars)

|  | Note        | Canadian<br>GAAP       | Effect of<br>transition<br>to IFRS | Opening<br>IFRS        |
|--|-------------|------------------------|------------------------------------|------------------------|
| <b>ASSETS</b>                                |             |                        |                                    |                        |
| <b>Cash and foreign deposits</b>             |             | 20.4                   | -                                  | 20.4                   |
| <b>Loans and receivables</b>                 |             |                        |                                    |                        |
| Securities purchased under resale agreements |             | 25,374.8               | -                                  | 25,374.8               |
| Other receivables                            |             | 2.2                    | -                                  | 2.2                    |
|  |             | <u>25,377.0</u>        | <u>-</u>                           | <u>25,377.0</u>        |
| <b>Investments</b>                           |             |                        |                                    |                        |
| Government of Canada treasury bills          |             | 13,684.0               | -                                  | 13,684.0               |
| Government of Canada bonds                   |             | 31,986.2               | -                                  | 31,986.2               |
| Other investments                            | (a)         | 38.0                   | 280.7                              | 318.7                  |
|  |             | <u>45,708.2</u>        | <u>280.7</u>                       | <u>45,988.9</u>        |
| <b>Property and equipment</b>                | (b,g)       | 126.8                  | 28.4                               | 155.2                  |
| <b>Intangible assets</b>                     | (g)         | 23.7                   | -                                  | 23.7                   |
| <b>Other assets</b>                          | (c)         | 98.6                   | 113.0                              | 211.6                  |
| <b>Total assets</b>                          |             | <u><u>71,354.7</u></u> | <u><u>422.1</u></u>                | <u><u>71,776.8</u></u> |
| <b>LIABILITIES AND EQUITY</b>                |             |                        |                                    |                        |
| <b>Bank notes in circulation</b>             |             | 55,467.9               | -                                  | 55,467.9               |
| <b>Deposits</b>                              |             |                        |                                    |                        |
| Government of Canada                         |             | 11,847.6               | -                                  | 11,847.6               |
| Members of the Canadian Payments Association |             | 2,999.6                | -                                  | 2,999.6                |
| Other deposits                               |             | 703.0                  | -                                  | 703.0                  |
|  |             | <u>15,550.2</u>        | <u>-</u>                           | <u>15,550.2</u>        |
| <b>Other liabilities</b>                     | (c,d,e)     | 199.8                  | (10.0)                             | 189.8                  |
|  |             | <u>71,217.9</u>        | <u>(10.0)</u>                      | <u>71,207.9</u>        |
| <b>Equity</b>                                | (a,b,c,d,e) | 136.8                  | 432.1                              | 568.9                  |
| <b>Total liabilities and equity</b>          |             | <u><u>71,354.7</u></u> | <u><u>422.1</u></u>                | <u><u>71,776.8</u></u> |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

**Reconciliation of Financial Position and Equity as at 31 December 2010**

(Millions of dollars)

|   | Note        | Canadian<br>GAAP | Effect of<br>transition<br>to IFRS | IFRS            |
|---|-------------|------------------|------------------------------------|-----------------|
| <b>ASSETS</b>   |             |                  |                                    |                 |
| <b>Cash and foreign deposits</b>                            |             | 4.7              | -                                  | 4.7             |
| <b>Loans and receivables</b>                                |             |                  |                                    |                 |
| Securities purchased under resale agreements                |             | 2,062.4          | -                                  | 2,062.4         |
| Advances to members of the Canadian<br>Payments Association |             | 22.5             | -                                  | 22.5            |
| Other receivables   |             | 2.1              | -                                  | 2.1             |
|   |             | <u>2,087.0</u>   | <u>-</u>                           | <u>2,087.0</u>  |
| <b>Investments</b>  |             |                  |                                    |                 |
| Government of Canada treasury bills                         |             | 24,906.1         | -                                  | 24,906.1        |
| Government of Canada bonds                                  |             | 33,550.6         | -                                  | 33,550.6        |
| Other investments   | (a)         | 38.0             | 272.7                              | 310.7           |
|   |             | <u>58,494.7</u>  | <u>272.7</u>                       | <u>58,767.4</u> |
| <b>Property and equipment</b>                               | (b,g)       | 123.4            | 29.6                               | 153.0           |
| <b>Intangible assets</b>                                    | (g)         | 25.9             | -                                  | 25.9            |
| <b>Other assets</b>   | (c)         | 149.1            | 29.0                               | 178.1           |
| <b>Total assets</b>   |             | <u>60,884.8</u>  | <u>331.3</u>                       | <u>61,216.1</u> |
| <b>LIABILITIES AND EQUITY</b>                               |             |                  |                                    |                 |
| <b>Bank notes in circulation</b>                            |             | 57,874.2         | -                                  | 57,874.2        |
| <b>Deposits</b>   |             |                  |                                    |                 |
| Government of Canada  |             | 1,869.4          | -                                  | 1,869.4         |
| Members of the Canadian Payments<br>Association             |             | 47.5             | -                                  | 47.5            |
| Other deposits  |             | 639.9            | -                                  | 639.9           |
|   |             | <u>2,556.8</u>   | <u>-</u>                           | <u>2,556.8</u>  |
| <b>Other liabilities</b>                                    | (c,d,e)     | 323.8            | 44.5                               | 368.3           |
|   |             | <u>60,754.8</u>  | <u>44.5</u>                        | <u>60,799.3</u> |
| <b>Equity</b>   | (a,b,c,d,e) | 130.0            | 286.8                              | 416.8           |
| <b>Total liabilities and equity</b>                         |             | <u>60,884.8</u>  | <u>331.3</u>                       | <u>61,216.1</u> |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

## Reconciliation of Comprehensive Income for the year ended 31 December 2010

(Millions of dollars)

|  | Note  | Canadian<br>GAAP | Effect of<br>transition<br>to IFRS | IFRS           |
|--|-------|------------------|------------------------------------|----------------|
| <b>INCOME</b>  |       |                  |                                    |                |
| <b>Net interest income</b>   |       |                  |                                    |                |
| <b>Interest revenue</b>  |       |                  |                                    |                |
| Interest earned on investments                                     |       | 1,525.3          | -                                  | 1,525.3        |
| Interest earned on securities purchased<br>under resale agreements |       | 38.4             | -                                  | 38.4           |
| Other interest revenue   | (g)   | 0.1              | -                                  | 0.1            |
|  |       | <u>1,563.8</u>   | <u>-</u>                           | <u>1,563.8</u> |
| <b>Interest expense</b>  |       |                  |                                    |                |
| Interest expense on deposits                                       |       | (42.0)           | -                                  | (42.0)         |
|  |       | <u>1,521.8</u>   | <u>-</u>                           | <u>1,521.8</u> |
| <b>Dividend revenue</b>  |       | 10.1             | -                                  | 10.1           |
| <b>Other revenue</b>   | (g)   | 11.4             | -                                  | 11.4           |
| <b>Total income</b>  |       | <u>1,543.3</u>   | <u>-</u>                           | <u>1,543.3</u> |
| <b>EXPENSES</b>  |       |                  |                                    |                |
| Staff costs  | (c,d) | 179.3            | (8.5)                              | 170.8          |
| Bank note research, production and processing                      |       | 53.7             | -                                  | 53.7           |
| Premises maintenance   |       | 28.7             | -                                  | 28.7           |
| Depreciation and amortization                                      | (b)   | 16.4             | (1.2)                              | 15.2           |
| Other operating expenses   |       | 112.4            | -                                  | 112.4          |
| <b>Total expenses</b>  |       | <u>390.5</u>     | <u>(9.7)</u>                       | <u>380.8</u>   |
| <b>NET INCOME</b>  |       | <u>1,152.8</u>   | <u>9.7</u>                         | <u>1,162.5</u> |
| <b>OTHER COMPREHENSIVE INCOME</b>                                  |       |                  |                                    |                |
| Change in Available-for-sale reserve                               | (a)   | (8.5)            | (8.0)                              | (16.5)         |
| Actuarial losses taken to Actuarial gains reserve                  | (c)   | -                | (105.6)                            | (105.6)        |
| <b>Other comprehensive income</b>                                  |       | <u>(8.5)</u>     | <u>(113.6)</u>                     | <u>(122.1)</u> |
| <b>COMPREHENSIVE INCOME</b>  |       | <u>1,144.3</u>   | <u>(103.9)</u>                     | <u>1,040.4</u> |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

**Reconciliation of Financial Position and Equity as at 30 September 2010**

(Millions of dollars)

|   | Note        | Canadian<br>GAAP | Effect of<br>transition<br>to IFRS | IFRS            |
|---|-------------|------------------|------------------------------------|-----------------|
| <b>ASSETS</b>                                   |             |                  |                                    |                 |
| <b>Cash and foreign deposits</b>                |             | 6.8              | -                                  | 6.8             |
| <b>Loans and receivables</b>                    |             |                  |                                    |                 |
| Other receivables                               |             | 2.3              | -                                  | 2.3             |
|   |             | <u>2.3</u>       | <u>-</u>                           | <u>2.3</u>      |
| <b>Investments</b>                              |             |                  |                                    |                 |
| Government of Canada treasury bills             |             | 25,153.6         | -                                  | 25,153.6        |
| Government of Canada bonds                      |             | 32,480.7         | -                                  | 32,480.7        |
| Other investments                               | (a)         | 38.0             | 276.9                              | 314.9           |
|   |             | <u>57,672.3</u>  | <u>276.9</u>                       | <u>57,949.2</u> |
| <b>Property and equipment</b>                   | (b,g)       | 120.5            | 28.9                               | 149.4           |
| <b>Intangible assets</b>                        | (g)         | 25.5             | -                                  | 25.5            |
| <b>Other assets</b>                             | (c)         | 139.2            | (27.1)                             | 112.1           |
| <b>Total assets</b>                             |             | <u>57,966.6</u>  | <u>278.7</u>                       | <u>58,245.3</u> |
| <b>LIABILITIES AND EQUITY</b>                   |             |                  |                                    |                 |
| <b>Bank notes in circulation</b>                |             | 55,140.6         | -                                  | 55,140.6        |
| <b>Deposits</b>                                 |             |                  |                                    |                 |
| Government of Canada                            |             | 1,551.5          | -                                  | 1,551.5         |
| Members of the Canadian Payments<br>Association |             | 25.3             | -                                  | 25.3            |
| Other deposits                                  |             | 666.0            | -                                  | 666.0           |
|   |             | <u>2,242.8</u>   | <u>-</u>                           | <u>2,242.8</u>  |
| <b>Other liabilities</b>                        | (c,d,e)     | 453.2            | 1.9                                | 455.1           |
|   |             | <u>57,836.6</u>  | <u>1.9</u>                         | <u>57,838.5</u> |
| <b>Equity</b>                                   | (a,b,c,d,e) | 130.0            | 276.8                              | 406.8           |
| <b>Total liabilities and equity</b>             |             | <u>57,966.6</u>  | <u>278.7</u>                       | <u>58,245.3</u> |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

## Reconciliation of Comprehensive Income for the three-month period ended 30 September 2010

(Millions of dollars)

|  | Note  | Canadian<br>GAAP | Effect of<br>transition<br>to IFRS | IFRS           |
|--|-------|------------------|------------------------------------|----------------|
| <b>INCOME</b>  |       |                  |                                    |                |
| <b>Net interest income</b>   |       |                  |                                    |                |
| <b>Interest revenue</b>  |       |                  |                                    |                |
| Interest earned on investments                                     |       | 381.9            | -                                  | 381.9          |
| Interest earned on securities purchased<br>under resale agreements |       | 2.4              | -                                  | 2.4            |
|  |       | <u>384.3</u>     | <u>-</u>                           | <u>384.3</u>   |
| <b>Interest expense</b>  |       |                  |                                    |                |
| Interest expense on deposits                                       |       | 6.3              | -                                  | 6.3            |
|  |       | <u>378.0</u>     | <u>-</u>                           | <u>378.0</u>   |
| <b>Other revenue</b>   | (g)   | 3.0              | -                                  | 3.0            |
| <b>Total income</b>  |       | <u>381.0</u>     | <u>-</u>                           | <u>381.0</u>   |
| <b>EXPENSES</b>  |       |                  |                                    |                |
| Staff costs  | (c,d) | 40.4             | (2.0)                              | 38.4           |
| Bank note research, production and processing                      |       | 21.4             | -                                  | 21.4           |
| Premises maintenance   |       | 7.7              | -                                  | 7.7            |
| Depreciation and amortization                                      | (b)   | 4.4              | (0.2)                              | 4.2            |
| Other operating expenses   |       | 26.6             | -                                  | 26.6           |
| <b>Total expenses</b>  |       | <u>100.5</u>     | <u>(2.2)</u>                       | <u>98.3</u>    |
| <b>NET INCOME</b>  |       | <u>280.5</u>     | <u>2.2</u>                         | <u>282.7</u>   |
| <b>OTHER COMPREHENSIVE INCOME</b>                                  |       |                  |                                    |                |
| Change in Available-for-sale reserve                               | (a)   | (7.4)            | 11.7                               | 4.3            |
| Actuarial losses   | (c)   | -                | (171.4)                            | (171.4)        |
| <b>Other comprehensive income</b>                                  |       | <u>(7.4)</u>     | <u>(159.7)</u>                     | <u>(167.1)</u> |
| <b>COMPREHENSIVE INCOME</b>  |       | <u>273.1</u>     | <u>(157.5)</u>                     | <u>115.6</u>   |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

## Reconciliation of Comprehensive Income for the nine-month period ended 30 September 2010

(Millions of dollars)

|  | Note  | Canadian<br>GAAP | Effect of<br>transition<br>to IFRS | IFRS           |
|--|-------|------------------|------------------------------------|----------------|
| <b>INCOME</b>  |       |                  |                                    |                |
| <b>Net interest income</b>   |       |                  |                                    |                |
| <b>Interest revenue</b>  |       |                  |                                    |                |
| Interest earned on investments                                     |       | 1,126.1          | -                                  | 1,126.1        |
| Dividend revenue   |       | 10.1             | -                                  | 10.1           |
| Interest earned on securities purchased<br>under resale agreements |       | 37.3             | -                                  | 37.3           |
| Other interest revenue   | (g)   | 0.1              | -                                  | 0.1            |
|  |       | <u>1,173.6</u>   | <u>-</u>                           | <u>1,173.6</u> |
| <b>Interest expense</b>  |       |                  |                                    |                |
| Interest expense on deposits                                       |       | 36.6             | -                                  | 36.6           |
|  |       | <u>1,137.0</u>   | <u>-</u>                           | <u>1,137.0</u> |
| <b>Other revenue</b>   | (g)   | 8.6              | -                                  | 8.6            |
| <b>Total income</b>  |       | <u>1,145.6</u>   | <u>-</u>                           | <u>1,145.6</u> |
| <b>EXPENSES</b>  |       |                  |                                    |                |
| Staff costs  | (c,d) | 124.5            | (6.5)                              | 118.0          |
| Bank note research, production and processing                      |       | 36.2             | -                                  | 36.2           |
| Premises maintenance   |       | 19.5             | -                                  | 19.5           |
| Depreciation and amortization                                      | (b)   | 12.0             | (0.5)                              | 11.5           |
| Other operating expenses   |       | 71.7             | -                                  | 71.7           |
| <b>Total expenses</b>  |       | <u>263.9</u>     | <u>(7.0)</u>                       | <u>256.9</u>   |
| <b>NET INCOME</b>  |       | <u>881.7</u>     | <u>7.0</u>                         | <u>888.7</u>   |
| <b>OTHER COMPREHENSIVE INCOME</b>                                  |       |                  |                                    |                |
| Change in Available-for-sale reserve                               | (a)   | (11.1)           | (3.8)                              | (14.9)         |
| Actuarial losses   | (c)   | -                | (171.4)                            | (171.4)        |
| <b>Other comprehensive income</b>                                  |       | <u>(11.1)</u>    | <u>(175.2)</u>                     | <u>(186.3)</u> |
| <b>COMPREHENSIVE INCOME</b>  |       | <u>870.6</u>     | <u>(168.2)</u>                     | <u>702.4</u>   |

(See the notes to the reconciliations of Financial Position and Equity, and Comprehensive Income.)

**Notes to the reconciliations of Financial Position and Equity, and Comprehensive Income****Measurement changes**

- a) In accordance with IAS 39, investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market but for which a market value can be reasonably estimated have been recognized at fair value. The Bank's investments in BIS shares are classified as available-for-sale and were carried at cost under previous Canadian GAAP.

The impact of the change is summarized as follows:

| <b>Statement of Comprehensive Income</b>             | <b>Three-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Nine-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Year ended<br/>31 December<br/>2010</b> |                           |
|--|---|--|--|---------------------------|
| Decrease (increase) in Other<br>Comprehensive Income | (11.7)  | 3.8  | 8.0  |                           |
|  |   | <b>30 September<br/>2010</b>                                 | <b>31 December<br/>2010</b>                | <b>1 January<br/>2010</b> |
| <b>Statement of Financial Position</b>               |   |  |  |                           |
| Increase in Other investments                        |   | 276.9  | 272.7                                      | 280.7                     |
| Change in Equity                                     |   |  |  |                           |
| Increase in Available-for-sale reserve               |   | (276.9)  | (272.7)                                    | (280.7)                   |

- b) In accordance with International Accounting Standard 16 (IAS 16), each component of an item of property and equipment with a cost that is significant in relation to the total cost of an item is depreciated separately. At the date of transition, the only items of *Property and equipment* impacted are the buildings owned by the Bank. The effect of the componentization resulted in changes to the useful lives over which these assets are depreciated.

The impact of the change is summarized as follows:

| <b>Statement of Comprehensive Income</b> | <b>Three-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Nine-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Year ended<br/>31 December<br/>2010</b> |                           |
|--|---|--|--|---------------------------|
| Decrease in Depreciation expense         | 0.2   | 0.5  | 1.2  |                           |
|  |   | <b>30 September<br/>2010</b>                                 | <b>31 December<br/>2010</b>                | <b>1 January<br/>2010</b> |
| <b>Statement of Financial Position</b>   |   |  |  |                           |
| Increase in Property and equipment       |   | 28.9   | 29.6                                       | 28.4                      |
| Change in Equity                         |   |  |  |                           |
| Increase in Retained earnings            |   | (28.9)   | (29.6)                                     | (28.4)                    |

- c) In accordance with International Accounting Standard 19 (IAS 19), the Bank has adopted the policy to recognize all actuarial gains and losses on post-employment defined-benefits immediately in *Other Comprehensive Income*. At the date of transition, all previously unamortized transitional obligations and assets, vested past service costs and credits, and net actuarial losses were recognized in Retained earnings.

Also recognized in Retained earnings were the changes relating to the adoption of IAS 19, which include using discount rates determined by reference to market yields of AA-corporate bonds.

Subsequent to the recording of IFRS transition adjustments, the net impact of the transition related to post-employment defined benefits was transferred to establish the actuarial gains reserve.

The net impact of the changes is summarized as follows:

| <b>Statement of Comprehensive Income</b>             | <b>Three-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Nine-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Year ended<br/>31 December<br/>2010</b> |                           |
|--|---|--|--|---------------------------|
| Decrease in benefit expenses                         | 2.7   | 7.2  | 9.3  |                           |
| Actuarial losses taken to<br>Actuarial gains reserve | (171.4)   | (171.4)  | (105.6)                                    |                           |
|  |   | <b>30 September<br/>2010</b>                                 | <b>31 December<br/>2010</b>                | <b>1 January<br/>2010</b> |
| <b>Statement of Financial Position</b>               |   |  |  |                           |
| Increase (decrease) in Other assets                  |   | (27.1)   | 29.0                                       | 113.0                     |
| Decrease (increase) in Other liabilities             |   | (17.4)   | (5.6)                                      | 6.7                       |
| Change in Equity                                     |   |  |  |                           |
| Increase in Actuarial gains reserve                  |   | -  | (14.1)                                     | (119.7)                   |
| Decrease (increase) in Retained earnings             |   | 44.5   | (9.3)                                      | -                         |

- d) In accordance with IAS 19, the Bank's IFRS accounting policy for other long-term employee benefits is to recognize all actuarial gains and losses immediately in net income. At the date of transition, all previously unamortized actuarial gains and losses, and changes relating to the adoption of IAS 19 were recognized in Retained earnings.

The net impact of the changes is summarized as follows:

| <b>Statement of Comprehensive Income</b> | <b>Three-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Nine-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Year ended<br/>31 December<br/>2010</b> |                           |
|--|---|--|--|---------------------------|
| Increase in benefit expenses             | 0.7   | 0.7  | 0.8  |                           |
|  |   | <b>30 September<br/>2010</b>                                 | <b>31 December<br/>2010</b>                | <b>1 January<br/>2010</b> |
| <b>Statement of Financial Position</b>   |   |  |  |                           |
| Decrease in Other liabilities            |   | 2.6  | 2.5  | 3.3                       |
| Change in Equity                         |   |  |  |                           |
| Increase in Retained earnings            |   | (2.6)  | (2.5)                                      | (3.3)                     |

- e) In accordance with the requirement of Section 27 of the Bank of Canada Act, the increase in Retained earnings from the transition to IFRS will be payable to the Receiver General for Canada. The amount that will be payable upon completion of the Bank's transition has been accrued in Other liabilities.

| <b>Statement of Financial Position</b>   | <b>30 September<br/>2010</b> | <b>31 December<br/>2010</b> | <b>1 January<br/>2010</b> |
|--|------------------------------|-----------------------------|---------------------------|
| Decrease (increase) in Other liabilities | 12.9                         | (41.4)                      | -                         |
| Change in Equity                         |                              |                             |                           |
| Decrease (increase) in Retained earnings | (12.9)                       | 41.4                        | -                         |

f) **Principal exemptions elected on transition to IFRS**

IFRS 1 sets out the requirements that the Bank must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Bank is required to establish its IFRS accounting policies for the year ended 31 December 2011, and apply these retrospectively to determine the IFRS opening *Statement of financial position* at the date of transition of 1 January 2010. To assist companies in the transition process, the standard permits a number of specified exemptions from the general principle of retrospective restatement. The Bank has not elected to use any of the optional exemptions from certain IFRS or any of the exemptions to retrospective application of certain IFRS that are available under IFRS 1 in the preparation of these condensed interim financial statements.

**g) Reclassification for IFRS presentation**

Certain balances have been reclassified to conform with the presentation adopted by the Bank in its transition to IFRS.

The net impact of the changes is summarized as follows:

| <b>Statement of Comprehensive Income</b> | <b>Three-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Nine-month<br/>period ended<br/>30 September<br/>2010</b> | <b>Year ended<br/>31 December<br/>2010</b> |                           |
|--|---|--|--|---------------------------|
| Decrease in Other revenue                | -   | (0.1)  | (0.1)                                      |                           |
| Increase in Other interest revenue       | -   | 0.1  | 0.1  |                           |
|  |   |  |  |                           |
| <b>Statement of Financial Position</b>   |   | <b>30 September<br/>2010</b>                                 | <b>31 December<br/>2010</b>                | <b>1 January<br/>2010</b> |
| Decrease in Property and equipment       |   | (25.5)   | (25.9)                                     | (23.7)                    |
| Increase in Intangible assets            |   | 25.5   | 25.9                                       | 23.7                      |