BANK OF CANADA
BANQUE DU CANADA

Quarterly Financial Report

30 September 2013

Unaudited

Contents

Context of the Quarterly Financial Report

The Bank of Canada (the Bank) is the nation's central bank. It is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of Finance. The Bank develops and implements policy within its mandate, specifically in relation to its four core functions: monetary policy, the financial system, currency and funds management.

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 of Canada Secretariat. Management is responsible for the preparation of this report, which was approved on 5 November 2013 by the Audit and Finance Committee of the Board of Directors.

The *Quarterly Financial Report* should be read in conjunction with the financial statements included in this report and with the Bank's 2012 *Annual Report*. The activities and operations of the Bank are not undertaken with the objective of generating revenue or profits and cannot be fully captured in a discussion of the financial statements. While the Bank provides full disclosure of its activities in its financial statements, those statements alone do not permit a full understanding of the Bank's activities.

The *Annual Report* includes a Management's Discussion and Analysis (MD&A) for the year ended 31 December 2012. The MD&A provides a detailed analysis of the Bank's operations and how they affect its financial results, its capability to deliver results and key areas of risk. Disclosures and information in the 2012 *Annual Report* and the MD&A are assumed to apply to the current quarter unless otherwise updated in this quarterly report.

Financial Outlook and the Medium-Term Plan (2013−15)

The three-year medium-term plan (MTP) is the main planning tool that the Bank uses to establish its strategic priorities. In late 2012, the Bank launched a new medium-term plan, *Building on Excellence: Strength, Stability and Confidence*. The strategic priorities for the new plan include providing superior policy analytics, building a resilient financial system and delivering excellent services.

Achieving these priorities takes an engaged and motivated workforce, equipped with the right skills, tools and work environment. This will require strategic investments, carefully managed in the context of fiscal restraint and consistent with the Bank's responsibility as a careful steward of public funds. The plan includes investments in the Bank's technology infrastructure to provide staff with the tools to work effectively and efficiently, and to maintain our security business requirements.

The plan also includes investments related to the launch of the Polymer series of bank notes. Although the initial cost of producing the polymer notes is higher, they are expected to last 2.5 times longer than the previous cotton-based paper notes. The Bank will launch the last of the

Polymer series, the $5 and $10 denominations, in the last quarter of 2013. Another important investment of this plan, one that will involve all staff who work in downtown Ottawa, is the program to overhaul and modernize the Bank's headquarters.

Operating expenses in the first year of the plan are higher than in 2012 as a result of new non-discretionary operating costs to enhance the Bank's business resilience and investments to refocus and reconfigure some of its business models and operations. In 2014, as the Bank begins to realize the benefits of these investments, operating expenses are anticipated to decline from their 2013 levels.

Financial Outlook

The Bank's Financial Plan

(Millions of Canadian dollars)

	2013 plan	2012 actual[1]
MTP operating expenses[2]	**359.0**	333.1
Bank note production	**166.0**	115.6
Non-current deferred employee benefits[2]	**20.0**	12.9
MTP programs including Head Office Renewal	**60.7**	29.8
Total expenses	**605.7**	491.4

[1] The Bank restated its 2012 results in line with the retrospective adoption of changes in accounting standards that became effective on 1 January 2013. See note 3 of the interim financial statements for further information on the impact of the changes.

[2] *MTP operating expenses* and *Non-current deferred employee benefits* are non-IFRS measures that do not have a standardized meaning.

At the end of the third quarter, expenses for 2013 are expected to be under plan for the year. Some of the planned bank note production volume for 2013 is expected to shift into next year. The Bank expects to receive approximately 713 million polymer notes in 2013, which is lower than the original 2013 plan volumes but still higher than the 580 million notes received in 2012.

As well, $6 million of costs related to the Head Office Renewal are expected to shift into 2014 as a result of refinements to the project plan.

Capital expenditures of $92 million were planned for 2013, consisting of $64 million associated with Head Office Renewal, with the remainder targeted for other strategic priorities and ongoing capital expenditures. Total capital spending to 30 September 2013 was $53.5 million. At the end of the third quarter, capital expenditures are forecasted to be approximately $80 million in 2013 because of changes in timing related to multi-year projects.

Operational Highlights and Changes

The following significant changes in operations, personnel and programs have occurred since 30 June 2013.

Board of Directors and Personnel

A number of changes impacting the Board of Directors were announced subsequent to the end of the quarter.

On 9 October 2013, the Minister of Finance announced the appointment of Colin Dodds, Monique Jerome-Forget and Hassan Khosrowshahi to the Board of Directors of the Bank. The new members replace David Laidley (formerly Lead Director), Jock Finlayson and William Black whose terms of appointment had recently ended. Effective 26 September, Philip Deck was named Lead Director.

On 21 October 2013 with three months remaining on his term of appointment, Daniel Johnson resigned from the Board of Directors for personal reasons.

Operations and Programs

Consistent with its routine monetary policy implementation framework, the Bank may adjust, upwards or downwards, the target level of settlement balances, depending on conditions in the overnight market. The target is published daily on the Bank's website. At 30 September 2013, this target was $150 million.

Following the quarter end, the Bank of Canada, in conjunction with the Bank of England, the Bank of Japan, the European Central Bank, the US Federal Reserve and the Swiss National Bank, announced that existing bilateral liquidity swap facilities are being converted to standing arrangements. The existing arrangements were expiring on 1 February 2014 and will be replaced with new arrangements. The Bank and the US Federal Reserve have also agreed to remove the US$30 billion limit on their reciprocal facility.

Risk Analysis

The Risk section of the Management's Discussion and Analysis (MD&A) for the year ended 31 December 2012 outlines the Bank's risk-management framework and risk profile and reviews the key areas of risk—financial risk, business risk and enterprise risk. The financial risks are discussed further in the notes to the 31 December 2012 financial statements, which are included in the Bank's 2012 *Annual Report*.

Risks identified in the MD&A remain the key risks for the Bank. Implementation risks associated with the release of the new *Polymer* series of bank notes were determined to be at a cautionary level at year-end. As reported in the second quarter, this risk was reassessed to the acceptable level as a result of the successful introduction of the *Polymer* series to date, including the most frequently used denomination—the $20 note.

Financial Discussion

Changes in Financial Position and Comprehensive Income

The Bank's balance sheet increased by 12.8 per cent in the first nine months of 2013 compared with year-end 2012. This expansion was mainly the result of the federal government's decision, announced in 2011, to build up a prudential liquidity-management deposit of up to $20 billion at the Bank of Canada. This deposit grew by $10 billion and reached its intended maximum amount in June 2013, driving the increase in the Bank's balance sheet.

Highlights of the Statement of Financial Position
(Millions of Canadian dollars)

	30 September 2013	As at 31 December 2012
ASSETS		
Cash and foreign deposits	**5.4**	6.8
Loans and receivables	**7.3**	1,905.6
Investments	**87,257.4**	75,607.3
Capital assets (includes *Property and equipment* and *Intangible assets*)	**273.2**	246.0
Other assets	**202.4**	41.6
Total assets	**87,745.7**	77,807.3
LIABILITIES AND EQUITY		
Bank notes in circulation	**63,335.1**	63,700.0
Deposits	**23,410.7**	13,291.3
Other liabilities	**573.9**	377.5
Equity	**426.0**	438.5
Total liabilities and equity	**87,745.7**	77,807.3

Loans and receivables decreased by $1,898.3 million since 31 December 2012. The PRA operations that were outstanding at year-end 2012 matured in January 2013. These operations were undertaken to offset the seasonal increase in demand for bank notes each December and are no longer required once the demand for bank notes returns to pre-holiday levels. *Loans and receivables* of $7.3 million outstanding at quarter-end consisted primarily of other receivables; there were no purchase and resale agreements (PRAs) outstanding at 30 September 2013.

Investments increased by $11,650.1 million, owing primarily to purchases of Government of Canada treasury bills and bonds to match a higher level of deposits held for the government's prudential liquidity-management plan. Government of Canada treasury bills increased by $3,458.9 million and Government of Canada bonds increased by $8,204.1 million, offset by a slight decrease in the fair value of the Bank's investment in the Bank for International Settlements (BIS).

The increases in *Capital assets* resulted from capital spending of $53.5 million, which was offset by depreciation and amortization of $26.3 million. Capital spending during the first three quarters of 2013 included $43.7 million related to the Enhanced Business-Continuity Program and the Head Office Renewal Program. In addition, $9.8 million was mainly spent to upgrade aging systems. The largest initiative was the Auctions and Markets Applications Program (AMAP), which is designed to support end-to-end post-trade processing and to strengthen business-continuity capacity. The Bank completed the AMAP initiative and elements of the Enhanced Business-Continuity Program during the second quarter of 2013.

Other assets increased by $160.8 million since 31 December 2012, owing mainly to a higher net defined-benefit asset. The increase in the net defined-benefit asset is the result of a rise in the discount rate[1] (as described in the discussion of Other Comprehensive Income).

Liabilities from *Bank notes in circulation* decreased by $364.9 million (0.6 per cent) since 31 December 2012, reflecting the seasonal reduction in demand over the period.

Deposits at 30 September 2013 rose by $10,119.4 million compared with year-end 2012, predominantly as a result of the increase in the deposit for the Government of Canada's prudential liquidity-management plan. The main components of the *Deposits* liability are $2,055.2 million held for the Government of Canada for operational balances[2] and $20,000.0 million held for the government's prudential liquidity-management plan. *Other liabilities* rose by $196.4 million in the first nine months of 2013, compared with year-end 2012, largely as a result of a higher balance owing to the Receiver General for Canada. 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. At 30 September 2013, the unremitted balance was $294.3 million[3] ($82.2 million at 31 December 2012).

Since 31 December 2012, the Bank's *Equity* has been affected by a decrease of $12.5 million. Fair-value changes related to the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills are reported in *Other Comprehensive Income* and accumulated in the

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[1] The net defined-benefit asset is based on the discount rate as at the period-end. The rate in effect at 30 September 2013 was 4.8 per cent (4.0 per cent at 31 December 2012).

[2] The operating portion of the deposit is dependent on the cash needs of the Government of Canada, and fluctuations that occur are a result of decisions related to cash-flow management.

[3] For the nine months ended 30 September 2013, the Bank transferred cash payments of $82.2 million related to 2012 net income and $675.0 million related to 2013 net income to the Receiver General ($78.4 million related to 2011 net income and $525.0 million related to 2012 net income were transferred during the nine months ended 30 September 2012).

available-for-sale reserve within *Equity* (see note 11 of the interim financial statements). As at 30 September 2013, this reserve totalled $296.0 million and consisted primarily of the fair-value change in the Bank's investment in the BIS.

Highlights of the Statement of Comprehensive Income

The Bank's assets and liabilities support its functional mandates. As a result, its activities and operations are not undertaken to maximize net income. The Bank's primary source of income is interest revenue derived from investments in Government of Canada securities. This income will fluctuate based on market conditions.

Year-to-date results are predominantly consistent with the trends and impacts for the quarter ended 30 September 2013.

Income highlights as per the Statement of Comprehensive Income
(Millions of Canadian dollars)

	Three-month period ended 30 September		**Nine-month period ended 30 September**	
	2013	2012	**2013**	2012
Interest revenue	**445.3**	422.7	**1,321.4**	1,227.3
Interest expense	**(61.2)**	(24.6)	**(154.2)**	(57.0)
Other revenue	**3.0**	2.3	**9.2**	7.2
Total income	**387.1**	400.4	**1,176.4**	1,177.5

Total income for the third quarter of 2013 was $387.1 million, a decrease of $13.3 million (3.3 per cent) compared with the same period in the previous year. The small decrease in total income is attributed to a slight reduction in net yields in the investment portfolio. A higher level of government securities held in 2013 results in higher interest revenue but this is offset by higher interest expense due to a greater level of Government of Canada deposit held with the Bank.

The Bank's *Interest revenue* consists mainly of interest revenue from treasury bills and bonds, which increased by $92.3 million for the first nine months of 2013 compared with the same period in 2012. The growth in interest revenue is mainly due to the higher levels of investments, partially offset by lower yields on newly acquired bonds, compared with yields on investments that have matured. Interest earned on purchase and resale agreements increased by $1.5 million during the third quarter of 2013, compared with the same period in 2012, owing mainly to a higher level of overnight PRA operations to maintain the overnight interest rate close to the target rate.

Income is reported net of interest paid on Government of Canada deposits. The higher level of Government of Canada deposits increased the interest expense on deposits by $36.6 million in the third quarter, and by $97.2 million year-to-date, compared with the same periods in 2012. Interest rates paid on deposits are based on market-related rates and have not changed significantly over the comparable periods in 2012.

The Bank's revenues from its remaining sources rose slightly from 2012 levels.

Expense highlights as per the Statement of Comprehensive Income
(Millions of Canadian dollars)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2013	2012	**2013**	2012
Bank note research, production and processing	**39.7**	30.8	**109.8**	68.1
Staff costs (includes salaries and employee benefits)	**51.0**	45.4	**158.8**	142.4
Other expenses	**46.1**	37.9	**129.7**	111.2
Total expenses	**136.8**	114.1	**398.3**	321.7

Operating expenses are in line with expectations for 2013 and have increased compared with the previous year, mainly as a result of costs associated with the production of the polymer bank note series. Total expenses in the third quarter were $22.7 million higher than for the same period in the previous year. On a year-to-date basis, expenses increased by $76.6 million relative to 2012.

Costs associated with bank note production were $8.9 million higher in the quarter, and $41.7 million higher year-to-date, compared with the same periods in 2012. The increase in costs was due to the higher volume of polymer notes received from the printers. During the first nine months of 2013, 496 million polymer notes were received, compared with 316 million notes received over the same period in 2012.

Excluding the impact of the new bank notes, the year-to-date increase in expenses is $34.9 million and is broadly distributed among staff costs, technology costs, premises costs and depreciation.

Staff costs increased by $5.6 million in the third quarter and by $16.4 million for the first nine months of 2013, compared with the same periods in 2012. Higher benefit costs associated with the Bank's defined-benefit plans resulted from the negative impact of changes in discount rates.[4] For the first nine months of 2013, benefit costs rose by $6.4 million, compared with the same period in 2012. The remainder of the increase in staff costs reflects resourcing in support of plan initiatives, restructuring costs incurred as a result of changing business requirements and salary adjustments to maintain market-competitiveness.

[4] Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2013 are based on a discount rate of 4.0 per cent (4.6 per cent in 2012).

Within *Other expenses*, higher technology costs of $1.0 million for the quarter and $6.6 million year-to-date are the result of investments made to improve the Bank's IT business systems.

Depreciation and amortization costs increased by $4.8 million for the quarter, and $10.1 million year-to-date, compared with the same periods in 2012. Following the approval of the Head Office Renewal Program in 2012, depreciation of the existing head office facility was aligned to coincide with the expected start of construction in 2014. The rental of temporary space for Bank staff during the Head Office Renewal construction period increased premises costs by $7.0 million for the first nine months of 2013, compared with the same period of 2012. The remaining areas of expenses decreased compared with the previous year.

Highlights of the Statement of Comprehensive Income
(Millions of Canadian dollars)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2013	2012	**2013**	2012
Net income	**250.3**	286.3	**778.1**	855.8
Other comprehensive income	**45.8**	(48.2)	**178.7**	(77.3)
Comprehensive income	**296.1**	238.1	**956.8**	778.5

Net income was $250.3 million for the quarter and $778.1 million year-to-date. Increased expenses resulted in decreases in net income of $36.0 million and $77.7 million, respectively, relative to the same periods in 2012.

Other comprehensive income of $45.8 million for the quarter consists of a remeasurement gain of the net defined-benefit liability/asset of $44.1 million on the Bank's defined-benefit plans and an increase of $1.7 million in the fair values of available-for-sale (AFS) assets. On a year-to-date basis, *Other comprehensive income* includes remeasurement gains of $191.2 million and AFS fair-value changes of -$12.5 million.

The Bank recognizes all remeasurements of the net defined-benefit liability/asset on post-employment defined-benefit plans immediately in *Other comprehensive income* at each reporting period. Remeasurements are affected by the actual return, compared with the expected return, on plan assets, and the discount rate used to determine defined-benefit obligations. The remeasurements recorded in 2013 are the result of a 80-basis-point increase in the discount rate used to value the net defined-benefit liability/asset[5] and strong returns on plan assets.

[5] The net defined-benefit liability/asset is based on the discount rate as at the period-end. The rate in effect at 30 September 2013 was 4.8 per cent (4.0 per cent at 31 December 2012).

Available-for-sale assets are composed of Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for AFS assets within the Bank's *Equity* (see note 11 of the interim financial statements). At 30 September 2013, the fair value of the Bank's investment in the BIS was $329.8 million, representing a decrease of $12.9 million since year-end 2012. Increases in the fair-value of the Bank's portfolio of treasury bills partially offset the decrease in fair-value of the investment in the BIS.

BANK OF CANADA
BANQUE DU CANADA

Financial Statements

30 September 2013

MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim 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 condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in the quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim 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 condensed interim financial statements.

Stephen S. Poloz,
Governor

S. Vokey, CPA, CA,
Chief Accountant and Chief Financial Officer

Ottawa, Canada
5 November 2013

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Millions of Canadian dollars)

	30 September 2013	As at 31 December 2012
ASSETS		
Cash and foreign deposits	**5.4**	6.8
Loans and receivables		
Securities purchased under resale agreements	**-**	1,838.3
Advances to members of the Canadian Payments Association	**-**	61.8
Other receivables	**7.3**	5.5
	7.3	1,905.6
Investments (note 4)		
Government of Canada treasury bills	**22,446.2**	18,987.3
Government of Canada bonds	**64,481.4**	56,277.3
Other investments	**329.8**	342.7
	87,257.4	75,607.3
Property and equipment (note 5)	**218.0**	190.4
Intangible assets (note 6)	**55.2**	55.6
Other assets (note 7)	**202.4**	41.6
Total assets	**87,745.7**	77,807.3
LIABILITIES AND EQUITY		
Bank notes in circulation	**63,335.1**	63,700.0
Deposits (note 8)		
Government of Canada	**22,055.2**	11,701.5
Members of the Canadian Payments Association	**167.3**	186.4
Other deposits	**1,188.2**	1,403.4
	23,410.7	13,291.3
Other liabilities (note 9)	**573.9**	377.5
	87,319.7	77,368.8
Equity (note 11)	**426.0**	438.5
Total liabilities and equity	**87,745.7**	77,807.3

Stephen S. Poloz,
Governor

S. Vokey, CPA, CA,
Chief Accountant and Chief Financial Officer

(See accompanying notes to the condensed interim financial statements.)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions of Canadian dollars)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2013	**2012** *(restated — note 3)*	**2013**	**2012** *(restated — note 3)*
INCOME				
Net interest income				
Interest revenue				
Interest earned on investments	**444.7**	422.4	**1,313.7**	1,221.4
Dividend revenue	**-**	-	**4.7**	4.4
Interest earned on securities purchased under resale agreements	**0.6**	0.2	**2.8**	1.3
Other interest revenue	**-**	0.1	**0.2**	0.2
	445.3	422.7	**1,321.4**	1,227.3
Interest expense				
Interest expense on deposits	**(61.2)**	(24.6)	**(154.2)**	(57.0)
	384.1	398.1	**1,167.2**	1,170.3
Other revenue	**3.0**	2.3	**9.2**	7.2
Total income	**387.1**	400.4	**1,176.4**	1,177.5
EXPENSES				
Staff costs	**51.0**	45.4	**158.8**	142.4
Bank note research, production and processing	**39.7**	30.8	**109.8**	68.1
Premises costs	**10.3**	6.6	**26.5**	19.0
Technology and telecommunications	**8.5**	7.5	**26.4**	19.8
Depreciation and amortization	**10.3**	5.5	**26.3**	16.2
Other operating expenses	**17.0**	18.3	**50.5**	56.2
Total expenses	**136.8**	114.1	**398.3**	321.7
NET INCOME	**250.3**	286.3	**778.1**	855.8
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to net income				
Remeasurements of the net defined-benefit liability/asset	**44.1**	(37.4)	**191.2**	(79.8)
Items that may subsequently be reclassified to net income				
Change in fair value of available-for-sale financial assets	**1.7**	(10.8)	**(12.5)**	2.5
Other comprehensive income (loss)	**45.8**	(48.2)	**178.7**	(77.3)
COMPREHENSIVE INCOME	**296.1**	238.1	**956.8**	778.5

(See accompanying notes to the condensed interim financial statements.)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of Canadian dollars)

	For the three- and nine-month periods ended 30 September 2013						
	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Remeasurements reserve	Retained earnings	Total
Balance, 1 July 2013	5.0	25.0	100.0	298.0	-	-	428.0
Comprehensive income for the period							
Net income	-	-	-	-	-	250.3	250.3
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	44.1	44.1
Change in fair value of available-for-sale financial assets	-	-	-	(2.0)	-	3.7	1.7
	-	-	-	(2.0)	-	298.1	296.1
Transfer to Receiver General for Canada	-	-	-	-	-	(298.1)	(298.1)
Balance, 30 September 2013	5.0	25.0	100.0	296.0	-	-	426.0
Balance, 1 January 2013	5.0	25.0	100.0	308.5	-	-	438.5
Comprehensive income for the period							
Net income	-	-	-	-	-	778.1	778.1
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	191.2	191.2
Change in fair value of available-for-sale financial assets	-	-	-	(12.5)	-	-	(12.5)
	-	-	-	(12.5)	-	969.3	956.8
Transfer to Receiver General for Canada	-	-	-	-	-	(969.3)	(969.3)
Balance, 30 September 2013	5.0	25.0	100.0	296.0	-	-	426.0

(See accompanying notes to the condensed interim financial statements.)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of Canadian dollars)

	For the three- and nine-month periods ended 30 September 2012						
	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Remeasurements reserve	Retained earnings	Total
Balance, 1 July 2012	5.0	25.0	100.0	307.9	-	-	437.9
Comprehensive income for the period							
Net income *(restated—note 3)*	-	-	-	-	-	286.3	286.3
Remeasurements of the net defined-benefit liability/asset *(restated—note 3)*	-	-	-	-	-	(37.4)	(37.4)
Change in fair value of available-for-sale financial assets	-	-	-	(10.8)	-	-	(10.8)
	-	-	-	(10.8)	-	248.9	238.1
Transfer to Receiver General for Canada	-	-	-	-	-	(248.9)	(248.9)
Balance, 30 September 2012	5.0	25.0	100.0	297.1	-	-	427.1
Balance, 1 January 2012	5.0	25.0	100.0	294.6	-	-	424.6
Comprehensive income for the period							
Net income *(restated—note 3)*	-	-	-	-	-	855.8	855.8
Remeasurements of the net defined-benefit liability/asset *(restated—note 3)*	-	-	-	-	-	(79.8)	(79.8)
Change in fair value of available-for-sale financial assets	-	-	-	2.5	-	-	2.5
	-	-	-	2.5	-	776.0	778.5
Transfer to Receiver General for Canada	-	-	-	-	-	(776.0)	(776.0)
Balance, 30 September 2012	5.0	25.0	100.0	297.1	-	-	427.1

(See accompanying notes to the condensed interim financial statements.)

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

(Millions of Canadian dollars)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	**258.6**	203.7	**1,134.1**	1,071.9
Dividends received	**-**	-	**4.7**	4.4
Other revenue received	**5.1**	3.2	**7.5**	5.7
Interest paid	**(61.2)**	(24.6)	**(154.2)**	(57.0)
Payments to or on behalf of employees and to suppliers	**(106.4)**	(108.2)	**(357.2)**	(325.8)
Net (increase) decrease in advances to members of the Canadian Payments Association	**25.8**	(69.4)	**61.8**	(16.5)
Net increase (decrease) in deposits	**(248.4)**	2,522.1	**10,119.3**	9,461.4
Proceeds from maturity of securities purchased under resale agreements	**17,056.0**	5,020.4	**57,861.4**	26,300.7
Acquisition of securities purchased under resale agreements	**(16,455.8)**	(5,020.4)	**(56,023.2)**	(24,853.3)
Repayments of securities sold under repurchase agreements	**(3,094.0)**	-	**(3,094.0)**	-
Proceeds from securities sold under repurchase agreements	**3,094.0**	-	**3,094.0**	-
Net cash provided by operating activities	**473.7**	2,526.8	**12,654.2**	11,591.5
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (increase) decrease in Government of Canada treasury bills	**2,766.8**	1,297.8	**(3,450.5)**	(654.3)
Purchases of Government of Canada bonds	**(4,926.4)**	(4,133.1)	**(14,270.8)**	(13,723.9)
Proceeds from maturity of Government of Canada bonds	**2,045.9**	843.3	**6,241.2**	4,100.4
Additions of property and equipment	**(22.5)**	(6.8)	**(47.4)**	(18.4)
Additions of intangible assets	**(1.4)**	(3.6)	**(6.1)**	(12.6)
Net cash used in investing activities	**(137.6)**	(2,002.4)	**(11,533.6)**	(10,308.8)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in bank notes in circulation	**6.4**	(303.1)	**(364.9)**	(686.6)
Remittance of ascertained surplus to the Receiver General for Canada	**(350.0)**	(225.0)	**(757.2)**	(603.4)
Net cash used in financing activities	**(343.6)**	(528.1)	**(1,122.1)**	(1,290.0)
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY	**(0.2)**	(0.2)	**0.1**	-
DECREASE IN CASH AND FOREIGN DEPOSITS	**(7.7)**	(3.9)	**(1.4)**	(7.3)
CASH AND FOREIGN DEPOSITS, BEGINNING OF PERIOD	**13.1**	8.3	**6.8**	11.7
CASH AND FOREIGN DEPOSITS, END OF PERIOD	**5.4**	4.4	**5.4**	4.4

(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 2013

(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 nation's central bank. The Bank is a corporation under the Bank of Canada Act, is wholly owned by the Government of Canada and is exempt from income taxes. 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 the deterrence of counterfeiting through research on security features, public education and partnership with law enforcement; replaces and destroys worn and withdrawn 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

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). These condensed interim financial statements do not include all of the information and disclosures required for full annual financial statements and should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2012. When necessary, the condensed interim financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim period reported are not necessarily indicative of results expected for the year.

The Audit and Finance Committee of the Board of Directors approved the condensed interim financial statements on 5 November 2013.

Measurement base

The condensed interim financial statements have been prepared on the historical cost basis, except for the available-for-sale (AFS) financial assets, which are measured at fair value, and the net defined-benefit liability/asset of employee benefit plans, which is recognized as the net of the fair value of plan assets 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 affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, as well as related information. Actual results could differ from these estimates. In such cases, the impact will be recognized in the financial statements of a future fiscal period.

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. Significant estimates are primarily in the area of employee benefit plans (note 10) and the fair values of certain financial instruments and collateral taken (note 4).

Seasonality

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

Functional and presentation currency

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

Fiscal-agent and custodial activities

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the Government) and the Department of Finance. In this fiscal-agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas. The assets, liabilities, expenditures and revenues to which this support relates are those of the Government of Canada and are not included in the condensed interim financial statements of the Bank.

Securities safekeeping and gold custodial services are provided to foreign central banks and international organizations. The assets, and income arising therefrom, are excluded from these condensed interim financial statements, since they are not assets or income of the Bank.

3. Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those disclosed in the Bank of Canada's financial statements for the year ended 31 December 2012, except for the adoption of new and amended standards effective 1 January 2013.

Changes in accounting policies

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretation Committee that are mandatory for accounting periods beginning on 1 January 2013.

While the following new and amended standards were determined to be relevant to the Bank, their adoption did not have a significant impact on the condensed interim financial statements:

IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

IAS 1 *Presentation of Financial Statements*

The amendments to IAS 19 *Employee Benefits* (IAS 19), adopted by the Bank effective 1 January 2013, affected previously reported financial information and require:

- immediate recognition of actuarial gains and losses, and the return on plan assets excluding amounts included in net interest on the net defined-benefit liability/asset, in *Other Comprehensive Income*;
- immediate full recognition of past service costs in profit or loss;
- recognition of the expected return on plan assets in profit or loss to be calculated based on

the rate used to discount the defined-benefit obligation;

- recognition of termination benefits at the earlier of: when the entity recognizes costs for a restructuring within the scope of IAS 37 *Provisions, contingent liabilities and contingent assets* or when the entity can no longer withdraw the offer of the termination benefits; and
- additional disclosures that explain the characteristics of the entity's defined-benefit plans and risks associated with the plans, as well as disclosures that describe how defined-benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any strategies for asset-liability matching used to manage risks.

The amendments to IAS 19 have been applied retrospectively. The net impact of the changes on previously reported financial information is summarized as follows:

	Three-month period ended 30 September 2012	**Nine-month period ended 30 September 2012**	**Year ended 31 December 2012**
Statement of Comprehensive Income			
Increase in staff costs—benefit plan expenses	(3.9)	(11.8)	(15.7)
Decrease in remeasurements of the net defined-benefit liability/asset	3.9	11.8	15.7

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 (CPA), other receivables, investments (consisting of Government of Canada treasury bills, Government of Canada bonds and shares in the Bank for International Settlements (BIS)), bank notes in circulation, deposits and other liabilities (excluding net defined benefit liability amounts for post-employment and long-term employee benefits).

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, with the exception of bank notes in circulation, which are measured at face value.

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. At 30 September 2013, the Bank's investments included loaned securities with an amortized cost of $125.0 million (Nil at 31 December 2012). Collateral held against investments loaned under securities lending at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $127.5 million, representing 102 per cent of the amortized cost.

a) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

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

	30 September 2013		31 December 2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and foreign deposits	**5.4**	**5.4**	6.8	6.8
Securities purchased under resale agreements	**-**	**-**	1,838.3	1,838.3
Advances to members of the Canadian Payments Association	**-**	**-**	61.8	61.8
Other receivables	**7.3**	**7.3**	5.5	5.5
Government of Canada treasury bills	**22,446.2**	**22,446.2**	18,987.3	18,987.3
Government of Canada bonds[1]	**64,481.4**	**66,761.0**	56,277.3	60,881.8
Other investments	**329.8**	**329.8**	342.7	342.7
Total financial assets	**87,270.1**	**89,549.7**	77,519.7	82,124.2
Financial liabilities				
Bank notes in circulation	**63,335.1**	**63,335.1**	63,700.0	63,700.0
Deposits	**23,410.7**	**23,410.7**	13,291.3	13,291.3
Other financial liabilities	**394.6**	**394.6**	174.6	174.6
Total financial liabilities	**87,140.4**	**87,140.4**	77,165.9	77,165.9

[1] Fair value of Government of Canada Bonds excludes accrued interest of $443.0 million (31 December 2012 - $238.9 million).

(ii) Financial instruments measured at fair value

Financial instruments measured at fair value are classified using a fair-value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2—inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3—inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. In measuring fair value, a financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value as at 30 September 2013				
Cash and foreign deposits	**5.4**	**-**	**-**	**5.4**
Government of Canada treasury bills	**22,446.2**	**-**	**-**	**22,446.2**
BIS shares	**-**	**-**	**329.8**	**329.8**
	22,451.6	**-**	**329.8**	**22,781.4**
Financial assets at fair value as at 31 December 2012				
Cash and foreign deposits	6.8	-	-	6.8
Government of Canada treasury bills	18,987.3	-	-	18,987.3
BIS shares	-	-	342.7	342.7
	18,994.1	-	342.7	19,336.8

There were no transfers of amounts between levels in the nine-month period ended 30 September 2013.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value (NAV) of the BIS at the reporting date. This formula is equivalent to the methodology applied by the BIS to determine the pricing of any new shares issued. While the Bank considers that the 30 per cent discount against the net asset value of the BIS continues to be the appropriate basis for valuation, the valuation inputs are not considered to be observable, and a 5 per cent change in discount to the NAV would not materially impact the fair value of the BIS shares. There were no changes to the valuation technique during the period.

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair-value measurements:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2013	2012	2013	2012
Opening balance at beginning of period	**336.0**	339.7	**342.7**	325.3
Change in fair value recorded through *Other Comprehensive Income*	**(6.2)**	(6.4)	**(12.9)**	8.0
Closing balance at period-end	**329.8**	333.3	**329.8**	333.3

(iii) Financial instruments not measured at fair value

Fair values of securities purchased under resale agreements are determined using market yields to maturity for similar instruments available as at the date of the Statement of Financial Position.

Fair values of Government of Canada bonds are determined based on unadjusted quoted market prices in an active market.

The carrying amount of advances to members of the CPA, other receivables, deposits, and other financial liabilities (which are composed of other liabilities, excluding the portion representing post-employment defined-benefit obligations) approximates fair value, given the short-term nature of these financial instruments. The face value of bank notes in circulation is equal to their fair value.

5. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2013				
Cost				
Balances, 31 December 2012	**240.7**	**27.2**	**95.7**	**363.6**
Additions	**12.7**	**3.8**	**30.9**	**47.4**
Disposals	**(1.0)**	**(0.7)**	**(6.3)**	**(8.0)**
Transfers to other asset categories	**(2.3)**	**2.3**	**-**	**-**
Balances, 30 September 2013	**250.1**	**32.6**	**120.3**	**403.0**
Depreciation				
Balances, 31 December 2012	**(89.4)**	**(7.1)**	**(76.7)**	**(173.2)**
Depreciation expense	**(10.7)**	**(3.3)**	**(5.1)**	**(19.1)**
Disposals	**1.0**	**0.3**	**6.0**	**7.3**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 September 2013	**(99.1)**	**(10.1)**	**(75.8)**	**(185.0)**
Carrying amounts				
At 31 December 2012	**151.3**	**20.1**	**19.0**	**190.4**
At 30 September 2013	**151.0**	**22.5**	**44.5**	**218.0**
Projects in progress 2013				
Included in Carrying amounts at 30 September 2013	**14.3**	**8.5**	**27.9**	**50.7**
Additions during 2013	**12.3**	**3.7**	**27.9**	**43.9**
Commitments at 30 September 2013	**42.4**	**0.8**	**19.7**	**62.9**

Projects in progress consist primarily of $41.6 million related to the Head Office Renewal Program (31 December 2012—$8.2 million) and $6.3 million related to the Enhanced Business-Continuity Program (31 December 2012—$42.3 million). The Currency equipment adaptation (31 December 2012—$2.3 million) and the completed elements of the Enhanced Business-Continuity Program were put in service in 2013 and removed from *Projects in progress*.

On 1 October 2012, as a result of the program to overhaul and modernize the head office building, the estimated useful lives of the components related to the existing facility were adjusted to reflect the planned start of the construction on 31 December 2013. The impact of this change was an increase to depreciation expenses of $8.7 million for the nine-month period ended 30 September 2013 and an estimated increase of $17.9 million for the year ending 31 December 2013.

Commitments consist primarily of $56.9 million related to the program to renew the head office building (31 December 2012—$17.7 million).

The Bank does not normally insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. However, in connection with the program to overhaul and modernize the head office building, the Bank has obtained insurance coverage for the period of construction to cover direct risks to the Bank's property.

	Land and buildings	Computer equipment	Other equipment	Total
2012				
Cost				
Balances, 31 December 2011	218.2	30.8	99.5	348.5
Additions	23.6	5.6	2.0	31.2
Disposals	(4.2)	(9.2)	(2.7)	(16.1)
Transfers to other asset categories	3.1	-	(3.1)	-
Balances, 31 December 2012	240.7	27.2	95.7	363.6
Depreciation				
Balances, 31 December 2011	(85.1)	(12.1)	(74.7)	(171.9)
Depreciation expense	(8.5)	(4.0)	(4.7)	(17.2)
Disposals	4.2	9.0	2.7	15.9
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2012	(89.4)	(7.1)	(76.7)	(173.2)
Carrying amounts				
At 31 December 2011	133.1	18.7	24.8	176.6
At 31 December 2012	151.3	20.1	19.0	190.4
Projects in progress 2012				
Included in Carrying amounts at 31 December 2012	48.2	6.9	2.1	57.2
Additions during 2012	23.6	4.2	1.7	29.5
Commitments at 31 December 2012	22.2	3.4	3.0	28.6

6. Intangible assets

	Internally generated software	Other software	Total
2013			
Cost			
Balances, 31 December 2012	**42.8**	**55.8**	**98.6**
Additions	**0.4**	**5.7**	**6.1**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 30 September 2013	**43.2**	**61.5**	**104.7**
Amortization			
Balances, 31 December 2012	**(29.7)**	**(13.3)**	**(43.0)**
Amortization expense	**(3.0)**	**(3.5)**	**(6.5)**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 30 September 2013	**(32.7)**	**(16.8)**	**(49.5)**
Carrying amounts			
At 31 December 2012	**13.1**	**42.5**	**55.6**
At 30 September 2013	**10.5**	**44.7**	**55.2**

Projects in progress 2013			
Included in Carrying amounts at 30 September 2013	**0.4**	**4.6**	**5.0**
Additions during 2013	**0.4**	**2.9**	**3.3**
Commitments at 30 September 2013	**-**	**0.1**	**0.1**

Projects in progress consist primarily of $3.5 million related to the Tri-Agency Database System Renewal (31 December 2012—$1.4 million). The Auctions and Markets Applications Program (31 December 2012—$21.7 million) and the data-management stream of the Analytic Environment Program (31 December 2012—$7.7 million) were put in service in 2013 and removed from *Projects in progress*.

	Internally generated software	Other software	Total
2012			
Cost			
Balances, 31 December 2011	42.8	40.2	83.0
Additions	-	17.5	17.5
Disposals	-	(1.9)	(1.9)
Transfers to other asset categories	-	-	-
Balances, 31 December 2012	42.8	55.8	98.6
Amortization			
Balances, 31 December 2011	(25.8)	(12.6)	(38.4)
Amortization expense	(3.9)	(1.9)	(5.8)
Disposals	-	1.2	1.2
Transfers to other asset categories	-	-	-
Balances, 31 December 2012	(29.7)	(13.3)	(43.0)
Carrying amounts			
At 31 December 2011	17.0	27.6	44.6
At 31 December 2012	13.1	42.5	55.6
Projects in progress 2012			
Included in Carrying amounts at 31 December 2012	-	32.8	32.8
Additions during 2012	-	16.1	16.1
Commitments at 31 December 2012	-	0.1	0.1

7. Other assets

	30 September 2013	31 December 2012
Bank note inventory	**18.9**	32.1
Net defined-benefit asset	**168.7**	0.8
All other assets	**14.8**	8.7
Total other assets	**202.4**	41.6

8. Deposits

The liabilities within Deposits consist of $23,410.7 million in Canadian-dollar demand deposits ($13,291.3 million at 31 December 2012). The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at short-term market rates, and the interest expense on deposits is included in the Statement of Comprehensive Income.

Deposits from the Government of Canada consist of $2,055.2 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,701.5 million and $10,000.0 million, respectively, at 31 December 2012).

9. Other liabilities

	30 September 2013	31 December 2012
Accrued transfer payment to the Receiver General for Canada	**294.3**	82.2
Net defined-benefit liability		
Pension benefit plans	**14.4**	20.1
Other benefit plans	**164.9**	182.7
All other liabilities and provisions	**100.3**	92.5
Total other liabilities	**573.9**	377.5

The accrued transfer payment to the Receiver General for Canada of $294.3 million (31 December 2012—$82.2 million) is included in the $969.3 million *Transfer to the Receiver General* for the period presented in the Statement of Changes in Equity (31 December 2012—$1,022.2 million).

For the nine months ended 30 September 2013, an amount of $82.2 million related to 2012 net income and $675.0 million related to 2013 net income was paid to the Receiver General for Canada ($78.4 million related to 2011 net income and $525.0 million related to 2012 net income was paid during the nine-months ended 30 September 2012).

10. Employee benefit plans

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2013	2012	2013	2012
		(restated —note 3)		*(restated —note 3)*
Expenses				
Pension benefit plans	**8.9**	7.3	**27.5**	21.0
Other employee benefit plans	**3.8**	3.7	**11.1**	11.1
Total benefit plan expenses recognized	**12.7**	11.0	**38.6**	32.1

	Pension plans (funded)		Other benefit plans (unfunded)	
	2013	**2012**	**2013**	**2012**
Contributions for the three-month period ended 30 September				
Employer contributions	**10.2**	9.9	-	-
Employee contributions	**2.6**	2.2	-	-
Total contributions	**12.8**	12.1	-	-

	Pension plans (funded)		Other benefit plans (unfunded)	
	2013	**2012**	**2013**	**2012**
Contributions for the nine-month period ended 30 September				
Employer contributions	**31.3**	31.7	-	-
Employee contributions	**7.8**	8.5	-	-
Total contributions	**39.1**	40.2	-	-

The Bank remeasures its deferred employee benefit plan assets and liabilities at interim periods. During the three- and nine-month periods ended 30 September 2013, the Bank recorded remeasurement gains on the net defined-benefit liability/asset of $44.1 million and $191.2 million, respectively (30 September 2012 restated (note 3)—remeasurement losses of $37.4 million and $79.8 million).

11. Equity

The Bank's objectives in managing its capital are in compliance with the Bank of Canada Act and have not changed from the previous year. There are no other externally imposed capital requirements at the end of the reporting period.

The elements of equity are shown in the table below:

	30 September 2013	31 December 2012
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**296.0**	308.5
Remeasurements reserve	-	-
Retained earnings	**-**	-
Total equity	**426.0**	438.5

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 the 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 on 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 2013	31 December 2012
Government of Canada treasury bills	**4.2**	3.9
BIS shares	**291.8**	304.6
Available-for-sale reserve	**296.0**	308.5

Remeasurements reserve

The remeasurements reserve was established on 1 January 2010 upon the Bank's transition to IFRS at an initial amount of $119.7 million to cover future remeasurements of the net defined-benefit liability/asset and to accumulate the remeasurements of the net defined-benefit liability/asset related to the Bank's post-employment defined-benefit plans.

	30 September 2013	31 December 2012
Remeasurements reserve established on 1 January 2010	**119.7**	119.7
Accumulated remeasurements applied to the reserve	**(119.7)**	(119.7)
Remeasurements reserve	**-**	-

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.

The Bank's remittance agreement with the Minister of Finance was designed to eliminate the risk of exposing the Bank to negative capital. This agreement allows the Bank to 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 remeasurements of the net defined-benefit liability/asset on post-employment defined-benefit plans and other unrealized or non-cash losses arising as a result of changes in accounting standards or legislation.

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 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 Party Disclosures* (IAS 24).

The Bank provides funds-management, fiscal-agent and banking services to the Government of Canada, as mandated by the Bank of Canada Act, and does not recover the costs of these services.