BANK OF CANADA
BANQUE DU CANADA

Quarterly Financial Report

30 June 2014

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, and governed by the Bank of Canada Act. 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. It is not a commercial bank and does not offer banking services to the public.

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 25 August 2014 by the Audit and Finance Committee of the Board of Directors.

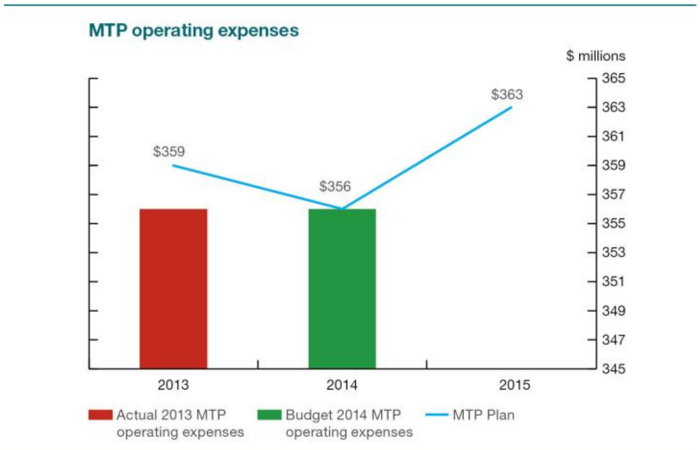
The *Quarterly Financial Report* should be read in conjunction with the financial statements included in this report and with the Bank's *Annual Report* for 2013. The *Annual Report* includes a Management's Discussion and Analysis (MD&A) for the year ended 31 December 2013. Disclosures and information in the 2013 *Annual Report* and the MD&A are assumed to apply to the current quarter unless otherwise updated in this quarterly report.

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. 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.

Performance Against Plan

On a triennial basis, the Bank establishes a strategic medium-term plan that provides a road map for the next three years. The 2013-15 medium-term plan (MTP), *Building on Excellence: Strength, Stability and Confidence*, focuses on three strategic priorities: performing superior policy analytics, building a resilient global and domestic financial system, and delivering excellent services to meet the evolving needs of Canadians, financial markets and the Government of Canada.

The plan also includes the Bank's strategic investments in people, infrastructure and resilience, together with its continued commitment to carefully manage public funds, especially in the current environment of fiscal restraint. The Financial Plan, the infrastructure and resilience plan, and the human resources plan support the Bank's day-to-day activities, as well as the achievement of its strategic and functional priorities.



The Financial Plan (the Plan) takes into account the Bank's responsibility, as a public institution, to always exercise prudent financial management and ensure that resources are allocated to priorities that add the most value. The Plan also reflects the Bank's commitment to adhere to the spirit and intent of the government's Deficit Reduction Action Plan by embedding reduced operating costs in the 2013-15 Financial Plan. Accordingly, the Plan incorporates growth of 2 per cent between 2012 and 2015, or zero real growth, consistent with inflation averaging 2 per cent—the Bank's target. Real increases necessary to ensure the delivery of the Bank's mandate are matched by equivalent reductions.

The Bank made significant progress in 2013 against the objectives set out in the medium-term plan, while managing operating expenses within the Plan estimates.

2014 Outlook

MTP operating expenses for 2014 are consistent with the MTP Financial Plan and are in line with 2013. The benefits of investments made in previous years will begin to be realized, and the savings achieved will enable the Bank to meet its commitment to adhere to the spirit of the federal government's Deficit Reduction Action Plan.

Costs related to the production of bank notes vary with volumes and are excluded from the MTP Financial Plan. These costs will be significantly lower in 2014 as the production of polymer notes decreases. Although the initial cost of producing the polymer notes is higher, they are expected to last at least 2.5 times longer than the previous cotton-based paper notes.

The Bank's 2014 Plan (Millions of Canadian dollars)	**2014 budget**	2013 actual
MTP operating expenses	**356.0**	356.0
Bank note production	**99.0**	152.0
Non-current deferred employee benefits	**1.0**	20.0
MTP programs including Head Office Renewal	**43.0**	46.0
Total expenses	**499.0**	574.0

At the end of the second quarter, the Bank is on track to deliver on its full-year Financial Plan. In regards to capital expenditures, the timing of some of the planned Head Office Renewal capital expenditures is expected to move into next year.

Operational Highlights and Changes

The following describes any significant changes in operations, personnel and programs that have occurred since 31 March.

	Changes since 31 March 2014
Management	Earlier this year, the Bank announced the creation of a new Chief Operating Officer position responsible for managing all of the Bank's administrative functions–tasks that had previously been the responsibility of the Senior Deputy Governor. Separating these responsibilities into a COO role will enable the Senior Deputy Governor, as a member of the Governing Council, to focus more on the conduct of monetary policy and on fulfilling the Bank's responsibilities for promoting financial stability. On 2 May 2014, Carolyn Wilkins began a seven-year term as Senior Deputy Governor, and on 5 May 2014, Filipe Dinis joined the Bank as Chief Operating Officer and a member of Management Council. Also on 5 May 2014, the Bank appointed Lynn Patterson as Deputy Governor and a member of Governing Council, responsible for overseeing the Bank's financial system and financial markets activities. On 4 August 2014, Carmen Vierula became the Bank's Chief Financial Officer and Chief Accountant and a member of Management Council. Ms. Vierula replaces Sheila Vokey, who assumed the role of Chief Risk Officer on the same date.
Board of Directors	On 18 June 2014, Finance Minister Joe Oliver announced the appointment of Norman Betts and Alan Borger to the Board of Directors of the Bank of Canada.
Operations and Programs	There were no significant changes during the quarter.

Risk Analysis

The Risk section of the Management's Discussion and Analysis (MD&A) for the year ended 31 December 2013 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 2013 financial statements, which are included in the Bank's *Annual Report* for 2013.

The risks identified in the MD&A remain the key risks for the Bank.

Financial Discussion

The Bank's balance sheet is different from those of major Canadian financial institutions, since its assets and liabilities support one or more of its functions. Information on the tools used by the Bank to deliver on its core mandate, and how they affect its financial results, are included in the Bank's *Annual Report* for 2013.

Financial Position

The Bank's balance sheet increased in 2012 and 2013, owing to the federal government's decision to build a prudential liquidity-management deposit at the Bank of Canada. This deposit reached its intended maximum amount of $20.0 billion in the second quarter of 2013. Since that time, changes in the Bank's balance sheet have been mainly due to balance-sheet management and seasonal fluctuations in bank notes in circulation.

Highlights of the Statement of Financial Position (Millions of Canadian dollars)		As at
	30 June 2014	31 December 2013
ASSETS		
Cash and foreign deposits	**5.4**	5.0
Loans and receivables	**9.1**	2,214.9
Investments	**91,150.3**	88,577.1
Capital assets[1]	**288.5**	284.6
Other assets	**205.1**	224.1
Total assets	**91,658.4**	91,305.7
LIABILITIES AND EQUITY		
Bank notes in circulation	**66,926.7**	66,615.9
Deposits	**23,756.0**	23,823.5
Other liabilities	**537.4**	431.1
Equity	**438.3**	435.2
Total liabilities and equity	**91,658.4**	91,305.7

[1] includes *Property and equipment* and *Intangible assets*

Loans and receivables have decreased by $2,205.8 million since 31 December 2013. The purchase and resale agreements (PRAs) that were outstanding at year-end 2013 matured in January 2014. 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 $9.1 million outstanding at quarter-end consisted of other receivables; there were no PRAs outstanding at 30 June 2014.

Investments have increased by $2,573.2 million (2.9 per cent). Government of Canada treasury bills increased by $1,615.8 million and Government of Canada bonds increased by $948.1 million. The balance of the change in investments resulted from an increase in the fair value of the Bank's investment in the Bank for International Settlements (BIS).

The slight increase in *Capital assets* resulted from capital spending of $22.5 million, which was offset by depreciation and amortization of $18.6 million. Capital spending during the first half of 2014 was mainly related to the Bank's Head Office Renewal Program.

Other assets have decreased by $19.0 million since 31 December 2013, owing mainly to a lower net defined-benefit asset. The decrease in the net defined-benefit asset is the result of a drop in the discount rate[1] (as described in the discussion of *Other Comprehensive Income*). This change was partially offset by higher advances related to the Head Office Renewal Program and bank note inventory.

Liabilities from *Bank notes in circulation have* increased by $310.8 million (0.5 per cent) since 31 December 2013, reflecting seasonal variations and growth in demand over the period.

Deposits at 30 June 2014 decreased by $67.5 million compared with year-end 2013. The main components of the *Deposits* liability are $2,354.6 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 $106.3 million in the first six months of 2014, compared with year-end 2013, 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 June 2014, the unremitted balance was $249.7 million[3] ($153.7 million at 31 December 2013).

Since 31 December 2013, the Bank's *Equity* has increased by $3.1 million, mainly as a result of fair-value increases in the Bank's investment in the BIS. Fair-value changes related to the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills are

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[1] The net defined-benefit asset is based on the discount rate in effect as at the period-end. The rate as at 30 June 2014 was 4.2 per cent (4.9 per cent at 31 December 2013).

[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 six months ended 30 June 2014, the Bank transferred cash payments of $153.7 million related to 2013 net income and $225.0 million related to 2014 net income to the Receiver General ($82.2 million related to 2012 net income and $325.0 million related to 2013 net income was paid during the six months ended 30 June 2013).

reported in *Other Comprehensive Income* and accumulated in the available-for-sale reserve within *Equity* (see note 11 of the interim financial statements). As at 30 June 2014, this reserve totalled $308.3 million and consisted primarily of the fair-value change in the Bank's investment in the BIS.

Highlights of the Statement of Comprehensive Income

Year-to-date results are largely consistent with the trends and impacts for the quarter ended 30 June 2014.

Income highlights (Millions of Canadian dollars)	**Three-month period ended 30 June**		**Six-month period ended 30 June**	
	2014	2013	**2014**	2013
Interest revenue	**451.1**	444.7	**903.9**	876.1
Interest expense	**(55.2)**	(54.5)	**(106.5)**	(93.0)
Other revenue	**1.3**	3.4	**3.7**	6.2
Total income	**397.2**	393.6	**801.1**	789.3

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. Total income for the second quarter of 2014 was $397.2 million, an increase of $3.6 million (1.0 per cent) compared with the same period in the previous year. On a year-to-date basis, income grew by $11.8 million (1.5 per cent).

The Bank's *Interest revenue*[4] consists mainly of interest revenue from treasury bills and bonds, which increased by $27.8 million in the first six months of 2014 compared with the same period in 2013. 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. Dividend revenue decreased by $1.4 million for the first six months of 2014, compared with the same period in 2013, as a result of a lower dividend issued by the BIS. Interest earned on PRAs decreased by $1.5 million during the first half of 2014 compared with the same period in 2013, owing mainly to a lower level of overnight PRA operations to maintain the overnight interest rate close to the target rate.

Income is reported net of the interest paid on Government of Canada deposits. The higher level of Government of Canada deposits[5] in the first half of 2014, compared with the same period in

[4] Interest revenue consists of *Interest earned on Investments, Dividend revenue, Interest earned on securities purchased under resale agreements and Other interest revenue.*

[5] The government's prudential liquidity-management plan reached its intended maximum amount of $20.0 billion in June 2013 and has remained at that amount since that time.

2013, resulted in a higher interest expense on deposits of $13.5 million. Interest rates paid on deposits are based on market-related rates and have not changed significantly over the comparable periods in 2013.

The Bank's revenues from its remaining sources decreased slightly from 2013 levels.

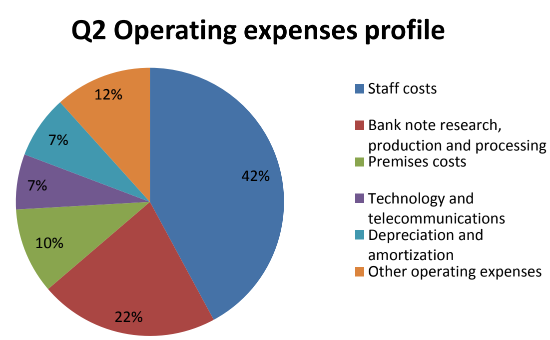
Expense highlights (Millions of Canadian dollars)	**Three-month period ended 30 June**		**Six-month period ended 30 June**	
	2014	2013	**2014**	2013
Staff costs (includes salaries and employee benefits)	**51.2**	54.9	**99.6**	107.8
Bank note research, production and processing	**26.3**	23.7	**52.5**	70.1
Other expenses	**44.1**	43.9	**91.1**	83.6
Total expenses	**121.6**	122.5	**243.2**	261.5

Total expenses in the second quarter were virtually flat with the same period in the previous year. On a year-to-date basis, expenses decreased by $18.3 million relative to 2013, owing to lower staff costs and lower production costs for bank notes.

Staff costs decreased by $3.7 million in the second quarter and by $8.2 million for the first six months of 2014 compared with the same periods in 2013. The decrease was mainly the result of lower benefit costs associated with the Bank's defined-benefit plans, which are driven by changes in discount rates.[6] For the first six months of 2014, benefit costs decreased by $9.3 million, compared with the same period in 2013.

Costs associated with bank note production were $2.6 million higher in the quarter, and $17.6 million lower year-to-date, compared with the same periods in 2013. Costs for bank note production are driven by note volumes delivered by the printers. During the first six months of 2014, 261 million polymer notes were received, compared with 314 million notes received over the same period in 2013.

The remaining expenses (representing 36 per cent of the Bank's total operating expenses in the quarter) were level during the second quarter and grew $7.5 million year-to-date compared with the same period in 2013.



[6] Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2014 are based on a discount rate of 4.9 per cent (4.0 per cent in 2013).

This increase mainly resulted from demolition costs associated with the Bank's Head Office Renewal Program. Technology costs decreased by $3.4 million as a result of the completion of a number of the Bank's strategic investment projects in 2013. Depreciation and amortization costs increased by $2.6 million year-to-date compared with the same period of 2013, owing mainly to the depreciation of projects completed in late 2013.

Comprehensive Income (Millions of Canadian dollars)	**Three-month period ended 30 June**		**Six-month period ended 30 June**	
	2014	2013	**2014**	2013
Net income	**275.6**	271.1	**557.9**	527.8
Other comprehensive income (loss)	**(40.9)**	64.9	**(80.1)**	132.9
Comprehensive income	**234.7**	336.0	**477.8**	660.7

Net income was $275.6 million for the quarter and $557.9 million year-to-date. The increase in net income was driven mainly by lower costs in 2014.

Other comprehensive income (loss) of $(40.9) million for the quarter consists of a remeasurement loss on the net defined-benefit liability/asset of $28.5 million on the Bank's defined-benefit plans and a decrease of $12.4 million in the fair values of available-for-sale (AFS) assets. On a year-to-date basis, *Other Comprehensive Income* includes remeasurement losses of $83.2 million and increases of $3.1 million in the fair values of AFS assets.

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 2014 are the result of a 40-basis-point and 30-basis-point decrease in the discount rate used in the first and second quarters, respectively, to value the net defined-benefit liability/asset[7] offset by strong returns on plan assets.

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 June 2014, the fair value of the Bank's investment in the BIS was $346.4 million, representing an increase of $9.3 million since year-end 2013. The remainder of the change accounted for fair-value changes in the Bank's portfolio of treasury bills.

[7] The net defined-benefit liability/asset is based on the discount rate as at the period-end. The rate in effect at 30 June 2014 was 4.2 per cent (4.9 per cent at 31 December 2013).

BANK OF CANADA
BANQUE DU CANADA

Financial Statements

30 June 2014

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

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
25 August 2014

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Millions of Canadian dollars)

	30 June 2014	As at 31 December 2013
ASSETS		
Cash and foreign deposits	**5.4**	5.0
Loans and receivables		
Securities purchased under resale agreements	**-**	2,205.9
Advances to members of the Canadian Payments Association	**-**	-
Other receivables	**9.1**	9.0
	9.1	2,214.9
Investments (note 4)		
Government of Canada treasury bills	**23,202.2**	21,586.4
Government of Canada bonds	**67,601.7**	66,653.6
Other investments	**346.4**	337.1
	91,150.3	88,577.1
Property and equipment (note 5)	**241.3**	232.4
Intangible assets (note 6)	**47.2**	52.2
Other assets (note 7)	**205.1**	224.1
Total assets	**91,658.4**	91,305.7
LIABILITIES AND EQUITY		
Bank notes in circulation	**66,926.7**	66,615.9
Deposits (note 8)		
Government of Canada	**22,354.6**	22,329.9
Members of the Canadian Payments Association	**149.6**	186.7
Other deposits	**1,251.8**	1,306.9
	23,756.0	23,823.5
Other liabilities (note 9)	**537.4**	431.1
	91,220.1	90,870.5
Equity (note 11)	**438.3**	435.2
Total liabilities and equity	**91,658.4**	91,305.7

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

(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 June		For the six-month period ended 30 June	
	2014	**2013**	**2014**	**2013**
INCOME				
Net interest income				
Interest revenue				
Interest earned on investments	**447.8**	439.3	**899.8**	869.0
Dividend revenue	**3.3**	4.7	**3.3**	4.7
Interest earned on securities purchased under resale agreements	**-**	0.6	**0.7**	2.2
Other interest revenue	**-**	0.1	**0.1**	0.2
	451.1	444.7	**903.9**	876.1
Interest expense				
Interest expense on deposits	**(55.2)**	(54.5)	**(106.5)**	(93.0)
	395.9	390.2	**797.4**	783.1
Other revenue	**1.3**	3.4	**3.7**	6.2
Total income	**397.2**	393.6	**801.1**	789.3
EXPENSES				
Staff costs	**51.2**	54.9	**99.6**	107.8
Bank note research, production and processing	**26.3**	23.7	**52.5**	70.1
Premises costs	**12.6**	8.0	**26.5**	16.2
Technology and telecommunications	**8.1**	9.6	**14.5**	17.9
Depreciation and amortization	**9.2**	8.5	**18.6**	16.0
Other operating expenses	**14.2**	17.8	**31.5**	33.5
Total expenses	**121.6**	122.5	**243.2**	261.5
NET INCOME	**275.6**	271.1	**557.9**	527.8
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to net income				
Remeasurements of the net defined-benefit liability/asset	**(28.5)**	72.8	**(83.2)**	147.1
Items that may subsequently be reclassified to net income				
Change in fair value of available-for-sale financial assets	**(12.4)**	(7.9)	**3.1**	(14.2)
Other comprehensive income (loss)	**(40.9)**	64.9	**(80.1)**	132.9
COMPREHENSIVE INCOME	**234.7**	336.0	**477.8**	660.7

(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 six-month periods ended 30 June 2014						
	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Remeasurements reserve	Retained earnings	Total
Balance, 1 April 2014	**5.0**	**25.0**	**100.0**	**320.7**	**-**	**-**	**450.7**
Comprehensive income for the period							
Net income	-	-	-	-	-	275.6	275.6
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	(28.5)	(28.5)
Change in fair value of BIS shares	-	-	-	(9.0)	-	-	(9.0)
Change in fair value of Government of Canada treasury bills	-	-	-	(3.4)	-	-	(3.4)
	-	-	-	(12.4)	-	247.1	234.7
Transfer to Receiver General for Canada	-	-	-	-	-	(247.1)	(247.1)
Balance, 30 June 2014	**5.0**	**25.0**	**100.0**	**308.3**	**-**	**-**	**438.3**
Balance, 1 January 2014	**5.0**	**25.0**	**100.0**	**305.2**	**-**	**-**	**435.2**
Comprehensive income for the period							
Net income	-	-	-	-	-	557.9	557.9
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	(83.2)	(83.2)
Change in fair value of BIS shares	-	-	-	9.3	-	-	9.3
Change in fair value of Government of Canada treasury bills	-	-	-	(6.2)	-	-	(6.2)
	-	-	-	3.1	-	474.7	477.8
Transfer to Receiver General for Canada	-	-	-	-	-	(474.7)	(474.7)
Balance, 30 June 2014	**5.0**	**25.0**	**100.0**	**308.3**	**-**	**-**	**438.3**

(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 six-month periods ended 30 June 2013						
	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Remeas-urements reserve	Retained earnings	Total
Balance, 1 April 2013	5.0	25.0	100.0	302.2	-	-	432.2
Comprehensive income for the period							
Net income	-	-	-	-	-	271.1	271.1
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	72.8	72.8
Change in fair value of BIS shares	-	-	-	(3.2)	-	-	(3.2)
Change in fair value of Government of Canada treasury bills	-	-	-	(1.0)	-	(3.7)	(4.7)
	-	-	-	(4.2)	-	340.2	336.0
Transfer to Receiver General for Canada	-	-	-	-	-	(340.2)	(340.2)
Balance, 30 June 2013	5.0	25.0	100.0	298.0	-	-	428.0
Balance, 1 January 2013	5.0	25.0	100.0	308.5	-	-	438.5
Comprehensive income for the period							
Net income	-	-	-	-	-	527.8	527.8
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	-	147.1	147.1
Change in fair value of BIS shares	-	-	-	(6.7)	-	-	(6.7)
Change in fair value of Government of Canada treasury bills	-	-	-	(3.8)	-	(3.7)	(7.5)
	-	-	-	(10.5)	-	671.2	660.7
Transfer to Receiver General for Canada	-	-	-	-	-	(671.2)	(671.2)
Balance, 30 June 2013	5.0	25.0	100.0	298.0	-	-	428.0

(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 June		For the six-month period ended 30 June	
	2014	**2013**	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	**668.7**	664.7	**944.0**	900.8
Dividends received	**-**	4.7	**-**	4.7
Other revenue received	**(0.5)**	(0.4)	**6.7**	2.4
Interest paid	**(55.2)**	(54.5)	**(106.5)**	(93.0)
Payments to or on behalf of employees/suppliers and to members of the Canadian Payments Association	**(142.7)**	(117.4)	**(278.4)**	(250.7)
Net (increase) decrease in advances to members of the Canadian Payments Association	**-**	(25.8)	**-**	36.0
Net increase (decrease) in deposits	**355.3**	4,338.0	**(67.6)**	10,367.6
Proceeds from maturity of securities purchased under resale agreements	**1,235.8**	14,643.9	**5,457.4**	36,521.8
Acquisition of securities purchased under resale agreements	**(1,236.5)**	(13,956.7)	**(3,252.3)**	(35,283.8)
Repayments of securities sold under repurchase agreements	**-**	-	**(229.9)**	-
Proceeds from securities sold under repurchase agreements	**-**	-	**229.9**	-
Net cash provided by operating activities	**824.9**	5,496.5	**2,703.3**	12,205.8
CASH FLOWS FROM INVESTING ACTIVITIES				
Net increase in Government of Canada treasury bills	**(3,268.3)**	(5,324.8)	**(1,629.5)**	(6,217.3)
Purchases of Government of Canada bonds	**(5,140.1)**	(4,569.8)	**(9,217.0)**	(9,344.4)
Proceeds from maturity of Government of Canada bonds	**4,765.0**	2,340.0	**8,234.0**	4,170.0
Additions of property and equipment	**(12.1)**	(15.5)	**(21.5)**	(24.9)
Additions of intangible assets	**(1.0)**	(2.3)	**(1.0)**	(4.7)
Net cash used in investing activities	**(3,656.5)**	(7,572.4)	**(2,635.0)**	(11,421.3)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in bank notes in circulation	**3,056.4**	2,408.3	**310.8**	(371.3)
Remittance of ascertained surplus to the Receiver General for Canada	**(225.0)**	(325.0)	**(378.7)**	(407.2)
Net cash provided by (used in) financing activities	**2,831.4**	2,083.3	**(67.9)**	(778.5)
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY	**(0.2)**	0.3	**-**	0.3
INCREASE (DECREASE) IN CASH AND FOREIGN DEPOSITS	**(0.4)**	7.7	**0.4**	6.3
CASH AND FOREIGN DEPOSITS, BEGINNING OF PERIOD	**5.8**	5.4	**5.0**	6.8
CASH AND FOREIGN DEPOSITS, END OF PERIOD	**5.4**	13.1	**5.4**	13.1

(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 June 2014

(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 Chartered Professional Accountants of Canada (CPA Canada).

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 the stability and efficiency of Canada's financial system, both within Canada and globally.

Currency
Designs, produces and distributes Canada's bank notes and replaces worn notes. The Bank deters counterfeiting through leading-edge bank note design, public education and collaboration with law-enforcement agencies.

Funds management
Provides effective and efficient funds-management services for the Government of Canada, and administers and advises on the public debt and foreign exchange reserves. In addition, the Bank provides banking services to foreign central banks, as well as to critical payment clearing and settlement systems.

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 2013. When necessary, the condensed interim financial statements include amounts based on informed estimates and judgment 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 25 August 2014.

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 affect 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, expenses 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 2013.

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 the market with a secondary and temporary source of these securities. At 30 June 2014, the Bank's investments included no loaned securities ($129.7 million at 31 December 2013).

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 June 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and foreign deposits	**5.4**	**5.4**	5.0	5.0
Securities purchased under resale agreements	**-**	**-**	2,205.9	2,205.9
Other receivables	**9.1**	**9.1**	9.0	9.0
Government of Canada treasury bills	**23,202.2**	**23,202.2**	21,586.4	21,586.4
Government of Canada bonds[1]	**67,601.7**	**70,934.8**	66,653.6	68,622.2
Other investments	**346.4**	**346.4**	337.1	337.1
Total financial assets	**91,164.8**	**94,497.9**	90,797.0	92,765.6
Financial liabilities				
Bank notes in circulation	**66,926.7**	**66,926.7**	66,615.9	66,615.9
Deposits	**23,756.0**	**23,756.0**	23,823.5	23,823.5
Other financial liabilities	**332.8**	**332.8**	254.4	254.4
Total financial liabilities	**91,015.5**	**91,015.5**	90,693.8	90,693.8

[1] The carrying amounts and fair values of Government of Canada bonds include accrued interest.

(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 June 2014				
Cash and foreign deposits	**5.4**	**-**	**-**	**5.4**
Government of Canada treasury bills	**23,202.2**	**-**	**-**	**23,202.2**
BIS shares	**-**	**-**	**346.4**	**346.4**
	23,207.6	**-**	**346.4**	**23,554.0**
Financial assets at fair value as at 31 December 2013				
Cash and foreign deposits	5.0	-	-	5.0
Government of Canada treasury bills	21,586.4	-	-	21,586.4
BIS shares	-	-	337.1	337.1
	21,591.4	-	337.1	21,928.5

There were no transfers of amounts between levels in the six-month period ended 30 June 2014.

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 the discount to the NAV would not have a material impact on 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 June		For the six-month period ended 30 June	
	2014	**2013**	**2014**	**2013**
Opening balance at beginning of period	**355.4**	339.2	**337.1**	342.7
Change in fair value recorded through *Other Comprehensive Income*	**(9.0)**	(3.2)	**9.3**	(6.7)
Closing balance at period-end	**346.4**	336.0	**346.4**	336.0

(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 Condensed Interim Statement of Financial Position.

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

5. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2014				
Cost				
Balances, 31 December 2013	**221.4**	**35.8**	**80.5**	**337.7**
Additions	**19.5**	**0.7**	**1.3**	**21.5**
Disposals	**-**	**-**	**-**	**-**
Transfers to other asset categories	**-**	**0.1**	**(0.1)**	**-**
Balances, 30 June 2014	**240.9**	**36.6**	**81.7**	**359.2**
Depreciation				
Balances, 31 December 2013	**(72.4)**	**(11.4)**	**(21.5)**	**(105.3)**
Depreciation expense	**(3.0)**	**(2.7)**	**(6.9)**	**(12.6)**
Disposals	**-**	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 June 2014	**(75.4)**	**(14.1)**	**(28.4)**	**(117.9)**
Carrying amounts				
At 31 December 2013	**149.0**	**24.4**	**59.0**	**232.4**
At 30 June 2014	**165.5**	**22.5**	**53.3**	**241.3**
Projects in progress 2014				
Included in *Carrying amounts* at 30 June 2014	**39.3**	**2.6**	**0.1**	**42.0**
Additions during 2014	**19.5**	**0.6**	**-**	**20.1**
Commitments at 30 June 2014	**176.6**	**-**	**2.1**	**178.7**

Projects in progress consist primarily of $39.0 million related to the Head Office Renewal Program (31 December 2013—$19.7 million), $2.4 million related to the High Availability Renewal Program (31 December 2013—$1.8 million) and $0.3 million related to the Tri-Agency Database System Renewal (31 December 2013—$0.3 million).

Other equipment includes $12.5 million for bank note inspection equipment, which was obtained through a finance lease arrangement in 2013. The net carrying amount of the equipment at 30 June 2014 was $10.0 million ($11.3 million at 31 December 2013).

In December 2013, the Bank signed a memorandum of understanding with the construction manager that establishes a guaranteed maximum price for future construction at the head office facility. At 30 June 2014, the Bank had committed $175.2 million toward this construction agreement.

	Land and buildings	Computer equipment	Other equipment	Total
2013				
Cost				
Balances, 31 December 2012	240.7	27.2	95.7	363.6
Additions	20.8	7.4	50.6	78.8
Disposals	(37.8)	(1.1)	(65.8)	(104.7)
Transfers to other asset categories	(2.3)	2.3	-	-
Balances, 31 December 2013	221.4	35.8	80.5	337.7
Depreciation				
Balances, 31 December 2012	(89.4)	(7.1)	(76.7)	(173.2)
Depreciation expense	(13.8)	(4.9)	(9.8)	(28.5)
Disposals	30.8	0.6	65.0	96.4
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2013	(72.4)	(11.4)	(21.5)	(105.3)
Carrying amounts				
At 31 December 2012	151.3	20.1	19.0	190.4
At 31 December 2013	149.0	24.4	59.0	232.4
Projects in progress 2013				
Included in *Carrying amounts* at 31 December 2013	19.7	2.0	0.1	21.8
Additions during 2013	17.8	1.8	0.4	20.0
Commitments at 31 December 2013	41.4	0.1	5.7	47.2

6. Intangible assets

	Internally generated software	Other software	Total
2014			
Cost			
Balances, 31 December 2013	43.2	61.4	104.6
Additions	-	1.0	1.0
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances, 30 June 2014	43.2	62.4	105.6
Amortization			
Balances, 31 December 2013	(33.8)	(18.6)	(52.4)
Amortization expense	(2.3)	(3.7)	(6.0)
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances, 30 June 2014	(36.1)	(22.3)	(58.4)
Carrying amounts			
At 31 December 2013	9.4	42.8	52.2
At 30 June 2014	7.1	40.1	47.2
Projects in progress 2014			
Included in *Carrying amounts* at 30 June 2014	-	4.5	4.5
Additions during 2014	-	0.4	0.4
Commitments at 30 June 2014	-	-	-

Projects in progress consist primarily of $4.5 million related to the Tri-Agency Database System Renewal (31 December 2013—$4.1 million).

	Internally generated software	Other software	Total
2013			
Cost			
Balances, 31 December 2012	42.8	55.8	98.6
Additions	0.4	5.6	6.0
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances, 31 December 2013	43.2	61.4	104.6
Amortization			
Balances, 31 December 2012	(29.7)	(13.3)	(43.0)
Amortization expense	(4.1)	(5.3)	(9.4)
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances, 31 December 2013	(33.8)	(18.6)	(52.4)
Carrying amounts			
At 31 December 2012	13.1	42.5	55.6
At 31 December 2013	9.4	42.8	52.2
Projects in progress 2013			
Included in *Carrying amounts* at 31 December 2013	-	4.1	4.1
Additions during 2013	-	2.7	2.7
Commitments at 31 December 2013	-	-	-

7. Other assets

	30 June 2014	31 December 2013
Bank note inventory	**18.6**	11.9
Net defined-benefit asset	**152.7**	197.7
All other assets	**33.8**	14.5
Total other assets	**205.1**	224.1

Included in *All other assets* is a $15.0 million advance to CBRE Limited in connection with the Head Office Renewal Program, which is expected to remain in place through to the end of the construction period ($Nil at 31 December 2013). The advance is to facilitate the timely payment of subcontractor agreements.

8. Deposits

The liabilities within *Deposits* consist of $23,756.0 million in Canadian-dollar demand deposits ($23,823.5 million at 31 December 2013). The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at short-term market rates, and interest expense on deposits is included in the Condensed Interim Statement of Comprehensive Income.

Deposits from the Government of Canada consist of $2,354.6 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($2,329.9 million and $20,000.0 million, respectively, at 31 December 2013).

9. Other liabilities

	30 June 2014	31 December 2013
Accrued transfer payment to the Receiver General for Canada	**249.7**	153.7
Net defined-benefit liability		
Pension benefit plans	**24.8**	16.8
Other benefit plans	**179.8**	159.9
All other liabilities and provisions	**83.1**	100.7
Total other liabilities	**537.4**	431.1

The accrued transfer payment to the Receiver General for Canada of $249.7 million (31 December 2013—$153.7 million) is included in the $474.7 million *Transfer to the Receiver General for Canada* for the period presented in the Statement of Changes in Equity (31 December 2013—$1,230.7 million).

For the six months ended 30 June 2014, an amount of $153.7 million related to 2013 net income and $225.0 million related to the 2014 net income was paid to the Receiver General for Canada ($82.2 million related to 2012 net income and $325.0 million related to 2013 net income was paid during the six months ended 30 June 2013).

10. Employee benefit plans

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

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2014	**2013**	**2014**	**2013**
Expenses				
Pension benefit plans	**4.9**	9.3	**9.7**	18.6
Other employee benefit plans	**3.5**	3.6	**6.9**	7.3
Total benefit plan expenses recognized	**8.4**	12.9	**16.6**	25.9

	Pension plans (funded)		Other benefit plans (unfunded)	
	2014	**2013**	**2014**	**2013**
Contributions for the three-month period ended 30 June				
Employer contributions	**10.8**	10.4	-	-
Employee contributions	**2.9**	2.9	-	-
Total contributions	**13.7**	13.3	-	-

	Pension plans (funded)		Other benefit plans (unfunded)	
	2014	**2013**	**2014**	**2013**
Contributions for the six-month period ended 30 June				
Employer contributions	**21.2**	21.1	-	-
Employee contributions	**5.3**	5.2	-	-
Total contributions	**26.5**	26.3	-	-

The Bank remeasures its deferred employee benefit plan assets and liabilities at interim periods. During the three- and six-month periods ended 30 June 2014, the Bank recorded remeasurement losses on the net defined-benefit liability/asset of $28.5 million and $83.2 million, respectively (30 June 2013 remeasurement gains of $72.8 million and $147.1 million). In establishing the discount rate, the Bank follows guidance issued by the Canadian Institute of Actuaries.

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 June 2014	31 December 2013
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**308.3**	305.2
Remeasurements reserve	-	-
Retained earnings	**-**	-
Total equity	**438.3**	435.2

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 and may be amended, pursuant to a resolution passed by the Board of Directors. 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 June 2014	31 December 2013
Government of Canada treasury bills	**-**	6.2
BIS shares	**308.3**	299.0
Available-for-sale reserve	**308.3**	305.2

Remeasurements reserve

The remeasurements reserve was established on 1 January 2010 upon the Bank's transition to International Financial Reporting Standards, 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 defined-benefit plans.

	30 June 2014	31 December 2013
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 AFS financial assets, unrealized remeasurements of the net defined-benefit liability/asset on 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.

13. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year. For the comparative Condensed Interim Statement of Cash Flows, interest received from operating activities increased, and proceeds received from investing activities on maturity of Government of Canada bonds decreased by $24.0 million and $25.3 million respectively, for the three and six-month periods ended 30 June 2014. Additionally, amounts related to the acquisition and proceeds from maturity of securities purchased under resale agreements were reclassified with nil impact on operating cash flows.