



BANK OF CANADA
BANQUE DU CANADA



Registered Pension Plan Annual Report 2008

The Bank's Pension Plan is registered with the Office of the Superintendent of Financial Institutions for the purposes of the federal Pension Benefits Standards Act, which regulates its design, funding, investment policy, and operations. It is also registered with the Canada Revenue Agency for purposes of the Income Tax Act, which regulates the maximum contributions payable to, and the maximum permissible benefits payable from, a tax-sheltered pension arrangement.

For pension or post-retirement questions and requests, contact the Bank of Canada Benefits and Pension Administration Centre:

08:00 to 18:00 (Eastern Time)
Monday to Friday

active employees: 1 888 903-3308
retirees: 1 888 588-6111

bank-banque-canada@mercer.com

The Bank of Canada Benefits and Pension
Administration Centre
Mercer (Canada) Limited
1981 McGill College Avenue
Suite 800
Montréal, Quebec
H3A 3T5

For payroll questions, customer service concerns, or to request pension-related information, contact the HR Centre:

10:00 to 16:00 (Eastern Time)
Monday to Friday

7766 (internal), 613 782-7766 (Ottawa)
or 1 866 404-7766

hrcentre@bankofcanada.ca

HR Centre
Bank of Canada
12th Floor, West Tower
234 Wellington Street
Ottawa, Ontario
K1A 0G9

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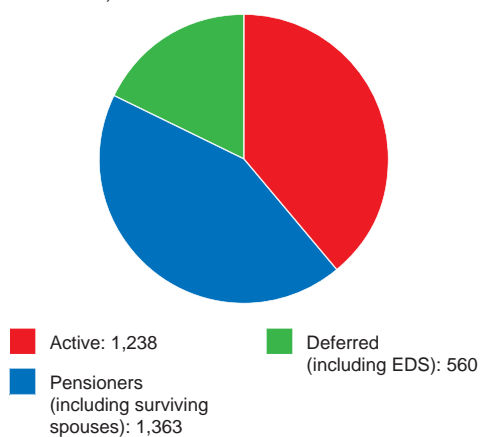
Plan Highlights

YOUR PLAN AT A GLANCE

- The Bank of Canada Pension Plan (“the Plan”) had 3,161 members at the end of 2008 (Figure 1).
- Payments from the Pension Trust Fund (“the Pension Fund” or “the Fund”) over the past three years have increased slightly (Figure 2).
- Because of the market turmoil in 2008 the value of the Fund’s net assets declined from \$960 million in 2007 to \$752 million at the end of 2008 (Figure 3).
- The Fund’s rate of return was -18.87 per cent in 2008, compared with a rate of return on the policy benchmark of -19.02 per cent¹ (Figure 6, page 6).
- On a going-concern basis, which assesses the Plan over the long-term assuming that it would operate indefinitely, the funding status of the Plan was an actuarial surplus of \$7 million as at 31 December 2008 (Figure 4).
- On a solvency basis, which assesses the Plan assuming that the Plan would be wound up immediately, the funding status of the Plan was an actuarial deficit of \$129 million as at 31 December 2008 (Figure 4).
- The Bank will contribute \$47 million to the Fund in 2009.

Figure 1: Membership

(as at 31 December 2008)



¹ The Fund’s benchmark is a combination of equity and fixed-income market indices weighted in accordance with the Fund’s Statement of Investment Policies and Procedures.

Figure 2: Payments from the Fund in 2008

(\$ millions)

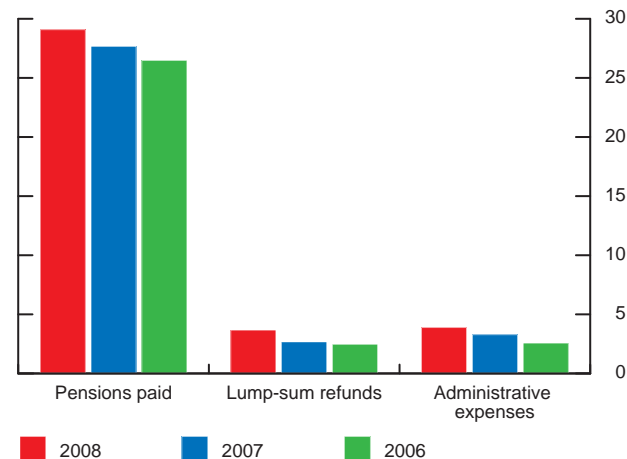


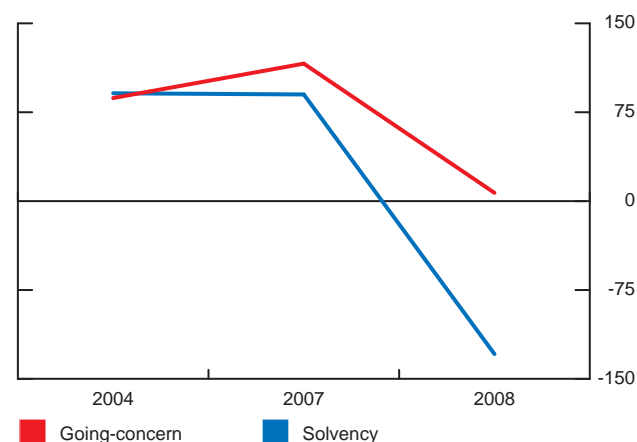
Figure 3: Net Assets of the Fund 2004-2008

(\$ millions)



Figure 4: Actuarial Surplus Position

(\$ millions)



Message from the Chair



ABOUT THIS REPORT

2008 was a difficult year in financial markets around the world, and those challenges are reflected in this report. As you review the information that follows, it is important to remember that the Bank's commitment is to meet its pension obligations.

THE PLAN'S POSITION

The significant movements in financial markets in the fourth quarter of 2008 affected the estimated funding and solvency positions of the Plan. The Pension Committee therefore decided at its February 2009 meeting to request an actuarial valuation of the Plan as of 31 December 2008.

The results of this valuation showed that while the Plan remains in surplus on a funding basis, the solvency ratio is 85 per cent, or in a deficit position. The Bank will thus be required to contribute about \$47 million to the Fund in 2009. On a funding or going-concern basis, the Plan remains fully funded, with a surplus of \$7 million, or a funding ratio of 101 per cent.

LITIGATION UPDATE

As reported in previous *Registered Pension Plan Annual Reports*, a group of pensioners commenced a class action against the Bank in 2004 with respect to the payment of pension administration expenses out of the Bank's Pension Fund. As the plaintiffs took no further steps in 2008 to move the action forward, the status of the litigation remains unchanged.

GOVERNANCE

Governance of the Plan is an important priority for the Bank, and we are committed to keeping up to date on pension management trends. This year, our annual training session dealt with pension risks and asset/liability modelling.

Also, as part of its regular annual review of external managers, the Pension Committee decided to change our bond portfolio fund manager, in line with our performance objectives for the Fund as set out in our investment policy statement.

OTHER NEWS

New members have joined our pension-related committees as a result of appointments to the Board of Directors and changes to the roles and responsibilities of Bank employees.

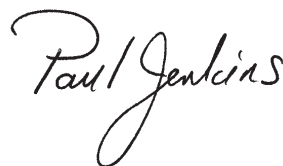
This year Deputy Governor Sheryl Kennedy and Mark Jewett, General Counsel and Corporate Secretary, left the Bank and resigned from the Pension Committee. We wish to thank both Sheryl and Mark for their respective contributions to the Pension Committee.

In February 2009, Deputy Governor Timothy Lane and John Jussup, our new General Counsel and Corporate Secretary, were appointed to the Committee.

As well, Ron Morrow, Deputy Chief, Funds Management and Banking Department, has joined the Pension Fund Investment Committee.

A list of the members of the pension-related committees is below.

I would like to thank the members of the Pension Committee, the Pension Fund Investment Committee, and the Pension Administration Committee for their contributions, particularly in this challenging year.



Paul Jenkins
Senior Deputy Governor and Chair, Pension Committee

Members of the Bank's pension-related committees

Pension Committee

- Paul Jenkins, Senior Deputy Governor (Chair)
- Brian Henley, Bank Director
- Richard McGaw, Bank Director
- Michael O'Brien, Bank Director
- Timothy Lane, Deputy Governor
- John Jussup, General Counsel and Corporate Secretary
- Sheila Vokey, Chief, Financial Services
- Robert Turnbull, Assistant General Counsel (Secretary)

Pension Fund Investment Committee

- George Pickering, Chief, Funds Management and Banking (Chair)
- Ron Morrow, Funds Management and Banking
- Miville Tremblay, Financial Markets
- Meyer Aaron, Funds Management and Banking
- Grahame Johnson, Funds Management and Banking
- Claude Gagné, Pension Plan Director (non-voting member)

Pension Administration Committee

- Sheila Niven, Adviser (Chair)
- Frances Boire-Carrière, Corporate Services
- Thérèse Couture, Financial Services
- Jeanne Meredith-Pallascio, Corporate Services
- Ken Ross, Communications
- Claude Gagné, Pension Plan Director (non-voting member)

Pension Administration

The Bank's Pension Plan is administered by the Pension Committee of the Bank's Board of Directors ("Board"). It is supported by the two reporting committees—the Pension Administration Committee (PAC) and the Pension Fund Investment Committee (PFIC). These three committees make decisions related to the Plan and regularly monitor investments and the performance of service providers, including investment managers. The Pension Committee reports semi-annually to the Board of Directors of the Bank.

ADMINISTRATIVE EXPENSES

Administrative expenses (Table 1) comprise: administrative and consultant services provided by external suppliers, the salaries of five full-time Bank staff, fees paid to external managers, and fees paid to the Plan's custodian to direct the investment of the Fund and to hold Fund assets. Expenses are charged in accordance with the Pension Trust Fund Expense Policy set out by the Pension Committee.

The three pension committees take considerable care to ensure that only reasonable costs directly attributable to services that benefit Plan members are charged to the Fund. Given market developments in the past year, our ongoing scrutiny of expenses is all the more important.

As shown in Table 1, total expenses paid from the Fund increased by 19 per cent in 2008 and amounted to 0.524 per cent of total Fund assets. This increase in expenses as a percentage of assets is partially due to a diminished asset base, and partially due to an increase in the overall level of expenses.

The largest component of the year-over-year increase relates to *Other administration fees*, which have risen as a result of the allocation of one additional resource to the management of the Pension Fund, additional expenses related to the restructuring of the Bank's Information Technology Services department, and the triennial actuarial valuation performed in 2008. *Investment management and custodian fees* have increased as a result of a more active management investment approach which, over the long run, is expected to yield returns in excess of the related increase in costs.

PENSION AUDIT

Follow-up continues on the 2007 Pension Audit. This audit was conducted by sending a survey to all pensioners in order to verify current pension payments. The survey's response rate has reached 99 per cent, and the Bank is attempting to contact the last few pensioners or surviving spouses who have not yet responded.

COMMUNICATIONS

Communication with Plan members remains important, especially in these times of market turmoil. Information related to the Plan is communicated via this *Registered Pension Plan Annual Report*, the member newsletter, *Pension News*, and personal data and pension statements mailed annually to employees.

Questions can always be addressed to the Bank of Canada Benefits and Pension Administration Centre (Mercer), and information is also available to employees on the Bank's internal website.

Table 1: Pension Fund Administration Expenses

(\$ thousands)

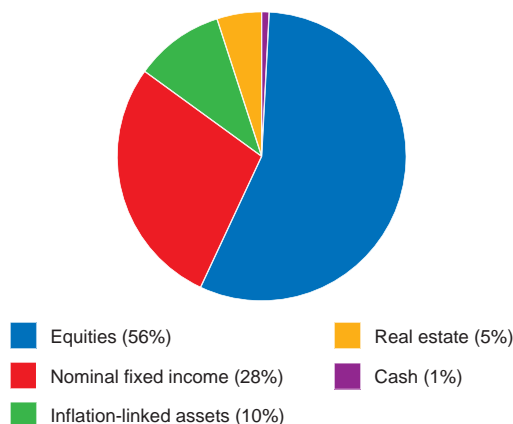
	2006	2007	2008
Investment management and custodian fees	1,663	2,214	2,484
Pension administration fees	449	574	619
Other administration fees	520	518	835
Total expenses	2,632	3,306	3,938
Net assets	952,422	960,082	751,852
Expenses as a percentage of total fund assets	0.276%	0.344%	0.524%

Pension Assets and Investments

The Bank's Pension Fund is invested in a diversified portfolio of five main asset categories: equities, nominal fixed income, inflation-linked assets, real estate, and cash (Figure 5). Most of these assets are invested through external managers. Investments are allocated to achieve the Fund's long-term investment objectives while managing investment risks in a prudent manner. Risk is reduced by investing in a mix of assets, because different asset classes generally perform differently from year to year.

Figure 5: The Five Main Asset Categories in the Fund's Portfolio, 2008*

(as at 31 December 2008)



* Allocation midpoints

The Fund's investment activities are evaluated within an asset/liability management framework, which is outlined in the "Investment Approach". The Fund's financial position is assessed based on the projected values of its assets (investments) and liabilities (its obligation to pay pension benefits). The actuarial value of the liabilities is based on regular updates provided by the Plan's actuary.

INVESTMENT APPROACH

The Fund's day-to-day investment activity is overseen by the Pension Fund Investment Committee (PFIC), which reports to the Pension Committee on a quarterly basis. The PFIC's actions are guided by the Plan's *Statement of Investment Policy and Procedures* and by the Pension Committee, which establishes ranges for permissible asset allocations.

Over the long term, the Fund's investment performance is assessed on an asset/liability basis—that is, on the ability of the Plan to meet its obligations. Over short-term horizons, performance is also measured as a comparison against that of a benchmark portfolio. This benchmark portfolio is based on a relevant market index for each of the asset categories in the Fund, held at neutral weights (which are the midpoints of the permissible allocations for the five asset classes in the Fund).

The Pension Committee believes that holding a diversified portfolio of assets over a long horizon continues to be the most prudent way to manage the Bank's Pension Fund.

Because the value of individual assets varies over time, the actual percentage of the Fund's assets in each category may vary from the benchmark weighting. The PFIC meets each month to review these movements and to rebalance the portfolio, if necessary, to maintain the asset holdings within the permissible bands.

Equities

All of the equity investments are managed externally by portfolio managers whose performance is regularly monitored and who undergo a formal annual review by the PFIC.

Since 2006, the investment strategy for Canadian and U.S. equity investments has included additional modest levels of risk in exchange for higher expected returns in relation to their respective benchmarks. This is referred to as an active management approach to a portfolio. Prior to 2006, the Fund invested mostly in a passive manner linked to general market (or index) performance.

Nominal fixed income

Most of the bond portfolio is managed externally against an index mandate, benchmarked by the DEX long-bond index. A small portion of the bond portfolio is managed internally to meet short-term liquidity needs and to manage the duration of the Fund's fixed-income investments.

Inflation-linked assets

The majority of the holdings in this asset class are in the form of inflation-linked bonds (primarily Government of Canada Real Return Bonds). Other holdings include inflation-linked mortgages guaranteed by the Canada Mortgage and Housing Corporation.

Real estate

The Fund's real estate holdings consist of investments in closed-end pooled funds. External managers of these funds have the discretion to create and manage a diversified portfolio of commercial, industrial, and office real estate across different regions of Canada.

Cash

The Fund also maintains a prudent level of liquidity in the form of cash deposits and Government of Canada treasury bills sufficient to meet anticipated payments and investment commitments.

Supplementary Trust Fund

The Supplementary Pension Arrangement (SPA) was introduced in 1992 to supplement the pensions of those employees whose pension contributions are above the maximum prescribed by the Income Tax Act. The SPA is fully indexed and a separate trust fund has been established to support it: the Supplementary Trust Fund (STF). STF investments are directed by the Pension Committee and the PFIC.

PERFORMANCE OF THE FUND

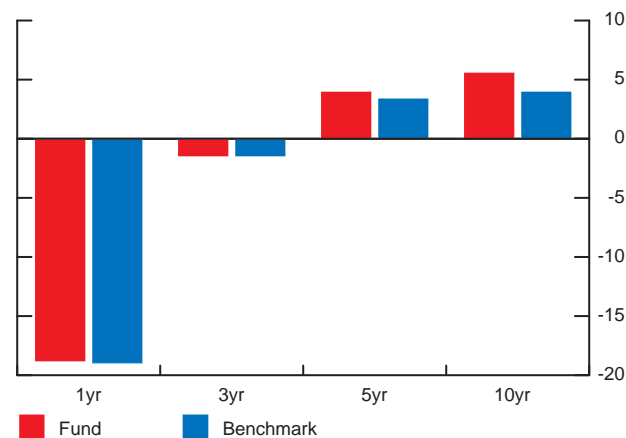
The Fund's one-year return, ending on 31 December 2008, was -18.87 per cent, which is slightly better than the benchmark return of -19.02 per cent. The long-term investment objective is to achieve the actuarial target rate of return. In the latest actuarial valuation, this rate remained at inflation plus 3.5 per cent net of expenses. Benefits payable under the Plan are indexed to keep pace with inflation each year, so the target rate is measured after the effects of inflation and net of expenses.

Returns in 2008 for most pension funds were down sharply, reflecting the fact that returns in the major asset classes were markedly lower as a result of the global financial crisis. While the Fund's return was lower than the median return of defined-benefit pension plans over the past year, over periods of both five and ten years the Fund's return continues to exceed the median among comparable funds.

The benchmark has seen its composition change over time and is currently a mix of indices such as the TSX Composite Index and the S&P 500 Index, weighted in accordance with the target asset mix of the Fund.

Figure 6: Total Fund Rate of Return

(per cent, as at 31 December 2008)



Market declines caused by the global financial crisis have left the solvency of Canadian defined-benefit pension plans at historical lows. Managers of diversified pooled funds posted a median return of -16.5 per cent in 2008. This is by far the worst performance in thirty years.

Source: Morneau Sobeco

Actuarial Valuation

As reported in last year's *Registered Pension Plan Annual Report*, the Bank conducted a triennial actuarial valuation, as required by the Income Tax Act, on 31 December 2007. With the change in market conditions at the end of 2008, and the resulting changes in the funding and solvency positions of the Plan, the Pension Committee decided in February 2009 to request a new actuarial valuation of the Plan as at 31 December 2008.

An actuarial valuation estimates at a point in time the total value of the benefits expected to be paid to members, as compared with assets available to meet this obligation, and is meant to measure the funding status of the Plan.

The valuation monitors the actual experience of the Plan (e.g., contributions, asset returns, benefits paid or accrued, terminations, and retirements) against economic and demographic assumptions. If the Plan's cumulative experience is more favourable than the assumptions, the Plan will be in an actuarial surplus. If the cumulative experience is less favourable, the Plan will be in an actuarial deficit.

The Bank must respond differently to actuarial deficits and surpluses: any actuarial deficit must be eliminated over a predetermined number of years, whereas actuarial surpluses of more than 10 per cent generally prevent the Bank from making contributions to the Plan. If the Plan's assets are 110 per cent or more of the current value of the Plan's expected future benefits on a going-concern basis, the Income Tax Act prohibits the Bank from making contributions to the Plan. This is called a contribution holiday. The Bank has been prohibited from making contributions to its Plan since 1999.

FREQUENCY AND BASES FOR ACTUARIAL VALUATIONS

Actuarial valuations are usually performed once every three years. This is a requirement of the federal Pension Benefits Standards Act (PBSA), to protect Plan members by prescribing minimum funding requirements. The PBSA, which governs the Bank's Pension Plan, and which is administered by the Office of the Superintendent of Financial Institutions (OSFI), requires the use of two different bases when performing an actuarial valuation: funding (or going-concern) and solvency.

The going-concern valuation is prepared assuming the long-term viability of the Plan. The solvency valuation is prepared assuming that the Plan is terminated as at the

valuation date. When a solvency deficit is reported to OSFI, regardless of the funding ratio, actuarial valuations are then required annually, not triennially, as long as a solvency deficit exists.

Funding or going-concern basis

The funding or going-concern basis (Table 2) assumes that the Plan will continue to operate indefinitely. Therefore, the actuary must estimate the going-concern actuarial liabilities and determine whether there are sufficient assets to meet those liabilities. The Bank's actuary (Mercer) uses a five-year actuarially smoothed value of the assets.

One key assumption is the interest rate that is used to discount the expected cash flows to determine the present value of future benefits. The rate is based on the expected long-term return of the Fund less an allowance for investment and administrative expenses and a margin for adverse deviations. If, on a going-concern basis, the Plan is in a deficit position—which means that the actuarial liabilities are greater than the smoothed value of assets—the Bank must make up the difference over 15 years. The ratio of the smoothed value of assets over the going-concern actuarial liabilities is called the funding ratio (the higher the number over 100 per cent, the greater the surplus).

Employee contribution rates and benefit levels are set in Bank Bylaw 15, which only the Board of Directors can amend. The Bank is responsible for any deficiencies in the Fund.

Solvency basis

The solvency basis (Table 3) assumes that the Plan will be wound up immediately, that is on the valuation date. This means that there is no need to assume future salary increases or termination rates, and the interest rate used to discount liabilities is prescribed by the PBSA. A pure market value of assets, net of termination expenses, is normally used for this purpose. If, on a solvency basis, the Plan is in a deficit position—which means that the solvency liabilities are greater than the market value of assets—the Bank must make up the difference over five years. The ratio of the market value of assets over the solvency liabilities is called the solvency ratio (a ratio below 100 per cent indicates a deficit).

OSFI allows pension plans to actuarially smooth assets for solvency purposes in the same way as funding purposes. Although many comparable pension plans use smoothing for solvency purposes, the Bank has chosen to use the pure market value approach, which is consistent with past Bank practice. This will result in greater contributions from the Bank in 2009.

THE 2008 FINANCIAL STATUS OF THE PLAN

Last year, the results of the triennial actuarial valuation (as at 31 December 2007) indicated that the Plan remained in an actuarial surplus position on the two bases prescribed by the PBSA. The funding excess stood at \$116 million, resulting in a funding ratio of 115 per cent. The solvency excess remained at \$90 million, for a solvency ratio of 110 per cent.

At the end of 2008, following the investment losses experienced by the Pension Fund, it became clear that the Plan was in a solvency deficit position which could likely continue to the end of 2010, the date of the next triennial actuarial valuation. The Pension Committee therefore decided to have a new actuarial valuation prepared as at the end of 2008, to confirm the extent of any deficit and to be in a position to resume employer contributions by filing an actuarial valuation report with OSFI, although under no obligation to do so for another two years.

The pension solvency ratio of the typical pension plan in Canada declined 27 percentage points in 2008, dropping from 96 per cent at the beginning of the year to 69 per cent at year-end.

Source: Watson Wyatt

The results of the actuarial valuation as at 31 December 2008 showed:

- a funding surplus of \$7 million, for a funding ratio of 101 per cent, and
- a solvency deficit of \$129 million, for a solvency ratio of 85 per cent.

With a solvency deficit, the Bank will contribute approximately \$47 million to the Fund in 2009: the sum of \$18 million in regular contributions no longer prohibited (since there is a solvency deficit), plus \$29 million to amortize the solvency deficit over five years.

There were no changes in actual economic and demographic assumptions (other than the ones prescribed for solvency by the PBSA) relative to what had been assumed at the time of the last valuation at 31 December 2007. For the funding valuation, the PBSA prescribes a maximum difference of 10 per cent in the smoothed value of assets as compared with their market value. This item creates a cap on the amount of 2008 investment losses that can be fully smoothed. This change alone reduced the funding surplus by \$88 million and accounts for the majority of the change in funding status as at 31 December 2008.

Table 2: Funding Basis

(\$ millions as at 31 December)

	1998	2001*	2004	2007	2008**
Actuarially smoothed value of assets	539	677	740	907	827
Liabilities	438	513	653	791	820
Surplus	101	164	87	116	7
Funding ratio (assets as a percentage of liabilities)	123%	132%	113%	115%	101%

* 2001 results updated to reflect 2002 pension improvement

** Triennial valuations up to 2007, annual thereafter

Table 3: Solvency Basis

(\$ millions as at 31 December)

	1998	2001*	2004	2007	2008**
Assets	582	679	776	959	751
Liabilities	415	482	685	869	880
Surplus (deficit)	167	197	91	90	(129)
Solvency ratio (assets as a percentage of liabilities)	140%	141%	113%	110%	85%

* 2001 results updated to reflect 2002 pension improvement

** Triennial valuations up to 2007, annual thereafter

The large movement in the solvency ratio, as compared with that in the funding ratio, is attributable to the current market value measure for solvency purposes, as opposed to the smoothing of investment gains and losses over five years that is used for funding purposes.



Financial Statements

As at 31 December 2008



FINANCIAL REPORTING RESPONSIBILITY

The accompanying Financial Statements of the Bank of Canada Registered Pension Plan (the Plan) have been prepared by the Bank's management in accordance with Canadian generally accepted accounting principles and contain certain items that reflect estimates and judgment of management. The integrity and reliability of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the annual report is consistent with the financial statements.

In support of its responsibility for the integrity and reliability of these financial statements and for the accounting system from which they are derived, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively. Internal controls are reviewed and evaluated by internal audit programs, including financial controls and their application.

The Pension Committee is responsible for overseeing management and has overall responsibility for approving the financial statements. The Pension Committee meets with management and with the external auditors to review the scope of the audit, to review their findings, and to satisfy themselves that their responsibilities have been properly discharged. In addition, Mercer (Canada) Limited, a firm of consulting actuaries, conducts a formal actuarial valuation of the Plan at least every three years, as required under the Pension Benefits Standards Act.

Deloitte & Touche LLP, the Plan's external auditor, appointed by the Pension Committee, has conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and procedures as they consider necessary to express an opinion in their report to the Pension Committee. The external auditors have full, unrestricted access to the Pension Committee to discuss their audit and related findings.



W.P. Jenkins
Senior Deputy Governor and Chair,
Pension Committee



S. Vokey, CA
Chief Accountant and Member,
Pension Committee

6 May 2009

ACTUARY'S OPINION

Mercer (Canada) Limited was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and accrued pension benefits of the Bank of Canada Registered Pension Plan as of 31 December 2008 for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of 31 December 2008 on a going-concern basis. While the actuarial assumptions used to estimate accrued pension benefits for the Plan's financial statements represent the Bank of Canada's best estimate of future events, and while in our opinion these assumptions are reasonable for the purposes of these statements, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan's recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided the Bank of Canada with statistical survey and other information used to develop their long-term assumptions.

Our assessment of the Plan's going-concern assets and accrued pension benefits was based on:

- the results of our 1 January 2009 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by the Bank of Canada as of 31 December 2008,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by the Bank of Canada and Mercer (Canada) Limited.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe them to be sufficient and reliable for the purposes of the valuation. Our valuations have also been performed in accordance with the requirements of the Canadian Institute of Actuaries. Our opinions have been given and our valuations performed in accordance with accepted actuarial practice.



J. Demers
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries



S. Crabtree
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer (Canada) Limited

Ottawa, Canada
6 May 2009

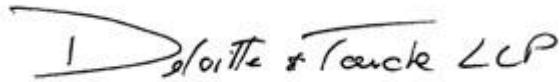
AUDITORS' REPORT

To the Bank of Canada Pension Committee

We have audited the statement of net assets available for benefits, accrued pension benefits, and funding excess of the Bank of Canada Registered Pension Plan as at 31 December 2008 and the statements of changes in net assets available for benefits and of changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and funding excess of the Bank of Canada Registered Pension Plan as at 31 December 2008 and the changes in net assets available for benefits and accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
6 May 2009

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS, AND FUNDING EXCESS

As at 31 December

	2008	2007
ASSETS		
Investments (note 3)	\$ 751,985,869	\$ 960,118,556
Accrued investment income	583,868	599,640
Accrued employees' contributions	-	138,800
	<u>752,569,737</u>	<u>960,856,996</u>
LIABILITIES		
Accounts payable and accrued liabilities	718,011	775,000
NET ASSETS AVAILABLE FOR BENEFITS		
	751,851,726	960,081,996
Actuarial Asset Value Adjustment (note 5)	75,185,173	(52,852,104)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
	827,036,899	907,229,892
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS (note 6)		
	819,799,514	791,084,308
FUNDING EXCESS (note 8)		
	<u>\$ 7,237,385</u>	<u>\$ 116,145,584</u>


On behalf of the the Pension Committee and the Board of Directors of the Bank of Canada



W.P. Jenkins
Senior Deputy Governor and Chair,
Pension Committee



S. Vokey, CA
Chief Accountant and Member,
Pension Committee



M.L. O'Brien, FCA
Member, Board of Directors of the Bank of Canada and Pension Committee

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December

	2008	2007
INCREASE IN ASSETS		
Investment income	\$ 35,529,803	\$ 32,637,976
Current-year change in fair value of investments (note 3)	(213,862,096)	1,261,067
	(178,332,293)	33,899,043
Employees' contributions—current services	5,431,915	5,233,234
Employees' contributions—past services	369,218	550,362
Transfers from other plans	1,026,467	1,698,045
	6,827,600	7,481,641
	(171,504,693)	41,380,684
DECREASE IN ASSETS		
Benefits paid	29,078,087	27,730,381
Refunds and transfers	3,709,405	2,684,193
Administrative expenses (note 7)	3,938,085	3,306,196
	36,725,577	33,720,770
NET (DECREASE) INCREASE IN NET ASSETS	(208,230,270)	7,659,914
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	960,081,996	952,422,082
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 751,851,726	\$ 960,081,996

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December

	2008	2007
INCREASE IN ACCRUED PENSION BENEFITS		
Benefits earned	\$ 24,319,796	\$ 21,695,701
Interest cost	43,276,775	39,018,636
Experience (gain) loss	(6,093,873)	15,631,824
Change in assumptions	-	38,470,573
	<u>61,502,698</u>	<u>114,816,734</u>
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	29,078,087	27,730,381
Refunds and transfers	3,709,405	2,684,193
	<u>32,787,492</u>	<u>30,414,574</u>
NET INCREASE IN ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS	28,715,206	84,402,160
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	791,084,308	706,682,148
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS, END OF YEAR	<u>\$ 819,799,514</u>	<u>\$ 791,084,308</u>

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

1. DESCRIPTION OF THE REGISTERED PENSION PLAN

The following description of the Bank of Canada Registered Pension Plan (the Plan) is a summary only. For more complete information, refer to the text of the Plan (Bank Bylaw 15) available on the Bank's website.

a) General

The Plan was established under the provisions of the Bank of Canada Act, 1934, and has remained in accordance with the Act as subsequently amended. Responsibility for administration and investment of the Plan resides with the Pension Committee, including adherence to the guidelines established in the Statement of Investment Policy and Procedures (SIPP) that is approved annually by the Bank's Board of Directors.

The Plan is a contributory defined-benefit pension plan covering substantially all employees of the Bank of Canada. The Plan provides for service pensions, survivors' pensions, and refunds occasioned by termination of employment or death. The Plan's registration number with the Office of the Superintendent of Financial Institutions is 55116.

The Plan is a Registered Pension Trust as defined in the Income Tax Act (ITA) and, consequently, is not subject to income taxes. The Plan's registration number for income tax purposes is 0349233.

In 1992, a Supplementary Pension Arrangement (SPA) was introduced to supplement the pensions of those employees who contribute above the maximum prescribed for registered pension plans by the ITA. A separate trust fund has been established to support the SPA and, therefore, the net assets available for benefits and the accrued pension benefits pertaining to the SPA are not included in these financial statements.

b) Benefits

A lifetime service pension is available to Plan members based on the number of years of credited service, the average salary of the five highest-paid continuous years of service, and the member's age at retirement.

Death benefits are available on the death of an active member or of a retired member. The benefits may take the form of a refund of the contributions plus interest or a survivor pension.

Upon termination of employment, a Plan member has the option of taking a deferred pension for service rendered or of taking the commuted value of the pension benefit.

c) Funding

Required contributions to the Plan are determined by actuarial valuations completed at least every three years. The most recent actuarial valuation of the Plan for funding purposes was performed as at 1 January 2009, and the results are reflected in these financial statements.

These valuations are performed in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Employees are required to contribute to the Plan each year, to a maximum of 35 years of credited service, a percentage of their pensionable salary, which is 5.7 per cent up to the year's maximum pensionable earnings (YMPE) (\$44,900 in 2008 and \$43,700 in 2007) and 7.5 per cent of salary in excess of the YMPE. Contributions above the maximum amount prescribed by the ITA are made to the SPA.

d) Indexation

Pension benefits are indexed to reflect the changes in the consumer price index on the date that payment begins and each 1 January thereafter.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Change in accounting policies

Effective 1 January 2008, and in accordance with standards issued by the Canadian Institute of Chartered Accountants (CICA), the Plan adopted the following new accounting standards:

Financial instruments—disclosure and presentation

CICA Handbook, Sections 3862, Financial Instruments—Disclosure, and 3863, Financial Instruments—Presentation, replace Section 3861, Financial Instruments—Disclosure and Presentation. These new sections place increased emphasis on disclosures about the nature and extent of the risks arising from financial instruments and how the Plan manages those risks (note 4).

Capital disclosures

CICA Handbook, Section 1535, Capital Disclosures, specifies the disclosure of: (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance (note 8).

b) Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles on the going-concern basis and present the financial position of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

c) Investments

Investments are recorded at fair value on the settlement date and are stated at fair value at the reporting date. Fair value is an estimate of the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) Accrual of income

Interest income, dividends, and contributions are recognized on an accrual basis.

e) Current-year change in fair value of investments

The current-year change in fair value of investments is the difference between the fair value and the cost of investments at the beginning and end of each year, adjusted for realized gains and losses during the year.

f) Foreign currency translation and foreign exchange forward contracts

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the reporting date. Foreign exchange forward contracts are measured at fair value as at the reporting date. Gains and losses from translation and foreign exchange forward contracts are included in the current-year change in the fair value of investments. Income and expenses are translated at the rate of exchange prevailing at the time of the transactions.

g) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The major estimates used by management in preparing the financial statements relate to valuation of certain real estate funds and assumptions used in the calculation of the pension obligation. Actual results could differ from those estimated.

h) Accrued pension benefits

Accrued pension benefits are based on an actuarial valuation prepared by a firm of independent actuaries. The accrued pension benefits in inter-valuation periods are determined by extrapolating the results of the previous formal valuation that had been performed using the projected-benefit method prorated on service and management's estimate of future events affecting the Plan (note 6).

i) Contributions

Employees' contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service are recorded in the year received.

3. INVESTMENTS

a) General

The Plan invests in money market instruments, fixed-income securities, equities, index-linked assets, and real estate funds in accordance with its SIPP. To comply with its SIPP, the Fund's asset mix shall be maintained within the following ranges by asset type:

	% of total portfolio market value	
	Minimum	Maximum
Total equity, of which:	40	70
Canadian equities	20	60
Foreign equities	0	40
Real estate	0	10
Nominal bonds and mortgages	20	50
Price-index-linked assets	0	20
Cash and cash equivalents	0	10

The SIPP itself complies with the regulations of the Pension Benefits Standards Act (PBSA). The SIPP is updated by the Pension Committee and approved annually by the Bank's Board of Directors. Compliance with the SIPP is evaluated on a regular basis.

The following table shows the fair value and the cost of investments at the reporting date, as well as the current-year change in the fair value of investments and related income. Foreign equity funds include the fair value of foreign exchange forward contracts of \$1,361,969 (\$2,707,855 in 2007). Investment income includes interest and dividends earned during the year, as well as income from real estate.

2008 Investments					
	Fair value	Cost	Current-year change in fair value of investments ¹	Investment income	Total return
Money market instruments					
Cash and short-term investment	\$ 6,461,011	\$ 6,458,792	\$ (2,024)	\$ 252,304	\$ 250,280
Fixed-income securities					
Bonds	62,589,311	71,477,240	(5,789,764)	5,122,510	(667,254)
Fixed-income fund	158,216,232	151,549,931	(9,493,363)	10,223,797	730,434
	220,805,543	223,027,171	(15,283,127)	15,346,307	63,180
Equities					
Canadian equity funds	193,943,239	282,406,531	(76,304,659)	5,012,309	(71,292,350)
Foreign equity funds	210,400,062	286,184,369	(114,146,740)	5,720,477	(108,426,263)
	404,343,301	568,590,900	(190,451,399)	10,732,786	(179,718,613)
Index-linked assets					
Canadian marketable bonds	60,737,952	47,652,720	(1,822,242)	1,421,286	(400,956)
Corporate	2,908,332	1,910,975	(116,818)	129,597	12,779
Mortgages	12,913,547	12,519,102	(729,683)	896,013	166,330
	76,559,831	62,082,797	(2,668,743)	2,446,896	(221,847)
Real estate funds	43,816,183	37,276,673	(5,456,803)	6,751,510	1,294,707
Total	\$ 751,985,869	\$ 897,436,333	\$ (213,862,096)	\$ 35,529,803	\$ (178,332,293)

(1) The 2008 change in fair value of investments includes \$6,387,171 of unrealized gains on foreign exchange.

2007 Investments

	Fair value	Cost	Current-year change in fair value of investments ¹	Investment income	Total return
Money market instruments					
Cash and short-term investment	\$ 4,108,914	\$ 4,104,671	\$ 4,655	\$ 359,756	\$ 364,411
Fixed-income securities					
Bonds	50,446,960	53,637,624	(2,761,347)	4,797,348	2,036,001
Fixed-income fund	224,514,459	219,703,422	(3,486,523)	10,838,675	7,352,152
	274,961,419	273,341,046	(6,247,870)	15,636,023	9,388,153
Equities					
Canadian equity funds	260,235,590	267,347,482	19,207,260	6,048,911	25,256,171
Foreign equity funds	280,317,708	255,767,741	(15,094,765)	6,039,285	(9,055,480)
	540,553,298	523,115,223	4,112,495	12,088,196	16,200,691
Index-linked assets					
Canadian marketable bonds	75,412,300	58,119,912	(455,752)	1,426,698	970,946
Corporate	3,049,178	1,935,003	(145,284)	127,406	(17,878)
Mortgages	14,259,888	13,135,761	(799,189)	937,548	138,359
	92,721,366	73,190,676	(1,400,225)	2,491,652	1,091,427
Real estate funds	47,773,559	35,783,084	4,792,012	2,062,349	6,854,361
Total	\$ 960,118,556	\$ 909,534,700	\$ 1,261,067	\$ 32,637,976	\$ 33,899,043

(1) The 2007 change in fair value of investments includes \$961,206 of unrealized losses on foreign exchange.

b) Determination of fair values

Money market instruments

Money market instruments consist of cash and treasury bills, which are valued using published market quotations.

Fixed-income securities

Fixed-income securities consist of directly owned bonds and an investment in a bond fund. Directly owned bonds are valued using published market quotations. Valuations of the bond fund are received on a per unit basis from the asset manager. Valuations are derived from the sum of the fair value of bond fund assets determined using published market quotations less bond fund liabilities divided by the total number of units outstanding.

Equities

Equity investments consist of Canadian and foreign equity funds. Foreign equity funds also include the fair value of foreign exchange forward contracts. Investment valuations for the funds are received from the various issuers and are calculated in accordance with their published valuation methodologies. Valuations are derived from the sum of the fair value of equity fund assets determined using published market quotations less equity fund liabilities divided by the total number of units outstanding. The fair value of foreign exchange forward contracts is determined by reference to the forward exchange rate available on a similar contract at the reporting date.

Index-linked assets

Index-linked assets consist mainly of Government of Canada bonds, corporate bonds, and mortgages guaranteed by the Canada Mortgage and Housing Corporation. Bonds are valued using published market quotations. Mortgages are valued on an annual basis by reference to market yields on similar assets at the reporting date.

Real estate funds

Real estate funds consist mainly of diversified pooled funds of commercial, industrial, and office real estate in several major centres across Canada. They are valued at estimated fair value and are subject to real estate appraisals by independent and accredited appraisers on at least an annual basis. Valuations use one or more of three basic methodologies to arrive at an indication of value: the replacement cost approach, the income approach, and the direct comparison approach.

Investment valuations are reviewed on an ongoing basis by management. The carrying values of accrued investment income, accrued employee's contributions, and accounts payable and accrued liabilities approximate their fair values due to their short-term nature.

There are no past due or impaired amounts.

c) Securities lending

The Plan lends securities as a means of generating incremental income or of supporting the normal practice with regard to investment strategies. Securities are loaned only against collateral representing at least 105 per cent of the value of the securities. At 31 December 2008, the Plan's investments included loaned securities with a fair value of \$19,554,694 (\$26,187,826 in 2007). The fair value of collateral received in respect of these loans was \$21,005,653 (\$27,512,995 in 2007).

d) Foreign exchange forward contracts

The notional and fair values of foreign exchange forward contracts as at 31 December 2008 are summarized in the following table:

	Notional value	Fair value
U.S. dollars	\$ 56,875,400	\$ 1,984,173
Euros	11,350,500	(580,639)
Pound sterling	9,314,500	407,593
Japanese yen	8,812,723	82,326
Swiss francs	5,526,590	(508,733)
Australian dollars	830,000	(22,751)
	\$ 92,709,713	\$ 1,361,969

Notional values refer to the face amount of the forward contract to which an exchange rate is applied. The notional value does not represent the total gain or loss to which the Plan will be a party but is the basis upon which the fair value is determined. Accordingly, the notional values are not recorded as assets or liabilities in the financial statements.

The Plan's investments, securities lending activities and foreign exchange forward contracts are subject to various risks that can impact their fair value, recoverable amount, or future cash flows. These risks are discussed in note 4.

4. FINANCIAL INSTRUMENTS AND RISK

The Plan's financial instruments consist of its investments, accrued investment income, accrued employee's contributions, and accounts payable and accrued liabilities.

Financial risk

The Plan's investments, which are considered financial instruments, are subject to credit, liquidity, and market risks.

Asset diversification and investment eligibility requirements serve as basic risk-management tools for the investment portfolio as a whole. The Plan's SIPP requires its investments to be held in a diversified mix of asset types and also sets out investment eligibility requirements. The diversification of assets serves to lower the variations in the expected return performance of the portfolio. Eligibility requirements serve to ensure that Plan assets, to the extent possible, are not placed at undue levels of risk and can meet the obligations of the Plan as necessary.

While the above policies aid in risk management, the Plan's investments and performance remain subject to risks, the extent of which is discussed below.

a) Credit risk

Credit risk is the risk that a counterparty to a financial contract will fail to discharge its obligations in accordance with agreed-upon terms.

The Plan is exposed to credit risk through its investments in money market instruments (excluding cash), fixed-income securities, and index-linked assets and its foreign currency hedging activities (presented in foreign equity funds) and securities lending transactions.

The Plan's credit risk on money market instruments, fixed-income securities, and index-linked assets is managed by setting concentration limits on exposure to any single issuer, as well as by setting minimum credit-rating criteria for investment. The maximum exposure to any one issuer cannot exceed 10 per cent of the total fair value of bond holdings, other than securities issued by the federal or provincial governments. The minimum credit-rating requirement for any single security exposed to credit risk is "BBB (low)" as rated by Dominion Bond Rating Service.

Credit risk arising from foreign currency hedging activities and securities lending transactions is managed by entering into contracts with creditworthy counterparties subject to minimum credit-rating requirements and by setting limits on the allowable amount of exposure to each of these counterparties.

In addition to being fully collateralized with high-quality securities, securities lending transactions take place under strict adherence to OSFI guidelines and are indemnified through a custodial agreement in the event of default. Securities are loaned only against collateral representing at least 105 per cent of the value of the securities. As a result of the collateral on hand, the net credit exposure is considered insignificant.

Through implementation of minimum credit-rating requirements required under the SIPP, management believes that financial instruments exposed to credit risk are with counterparties of high credit quality.

The maximum exposure to credit risk in money market instruments, fixed-income securities, and index-linked assets is estimated to be the fair value of those instruments.

Concentrations of credit risk

Concentrations of credit risk exist when a significant proportion of the portfolio is invested in securities subject to credit risk with similar characteristics or subject to similar economic, political, or other conditions. The investment portfolio as a whole is subject to maximum exposure limits and asset allocation targets that are designed to manage exposure to concentrated credit risk.

The investment portfolio contains concentrated credit risk in the *Fixed-income securities* and *Index-linked asset* categories as follows:

	Fixed-income securities		Index-linked assets	
	\$	%	\$	%
Securities issued or guaranteed by the Government of Canada	56,200,305	25.5	63,952,087	83.5
Securities issued or guaranteed by Canadian provinces or municipalities	130,106,453	58.9	9,699,412	12.7
Securities issued by corporations	34,498,785	15.6	2,908,332	3.8
	220,805,543	100.0	76,559,831	100.0

	Fixed-income securities		Index-linked assets	
	\$	%	\$	%
AAA to AA	144,245,775	66.0	60,737,952	95.0
A	69,068,711	31.0	2,908,332	5.0
BBB	7,491,057	3.0	-	-
	220,805,543	100.0	63,646,284	100.0

Money-market instruments include \$6,088,158 of Government of Canada treasury bills.

The mortgages within the index-linked asset category are not directly rated by a credit-rating agency. These mortgages are guaranteed by the Canada Mortgage and Housing Corporation.

b) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with financial liabilities.

The Plan's financial liabilities consist of accounts payable and accrued liabilities. These amounts are short term in duration and are set to mature within one year.

Liquidity risk is managed through ensuring sufficient liquid assets are maintained to meet anticipated payments and investment commitments in general. With respect to the Plan's financial liabilities and the actuarial value of accrued pension benefits, management believes that the Plan is not subject to any significant liquidity risk.

The actuarial value of accrued pension benefits is not considered a financial liability; however, it is the most significant liability of the Plan in the *Statement of net assets available for benefits, accrued pension benefits, and funding excess*. The Bank of Canada, as Plan sponsor, is required to contribute all funds necessary to meet any funding shortfalls of the Plan as they may arise from time to time.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is composed of interest rate, currency, and other price risk. The extent of market risk exposure is dependent on the nature of the investment. The analysis of market risks is presented below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Plan is exposed to interest rate risk through its investment holdings in interest-bearing, or fixed-income, assets. These principally include money market instruments and fixed-income securities.

The Plan manages its exposure to interest rate risk through holding a diversified mix of assets, both interest and non-interest bearing. This approach lowers the impact of variations in overall portfolio performance due to factors arising from interest rate risk.

The fair value of the Plan's assets, specifically the fixed-income securities, is affected by changes in the nominal interest rate. At 31 December 2008, a 25 basis point increase/decrease in the nominal interest rate would have had the following impact on the fair value of investments and the net increase in assets:

	Increase	Decrease
Money market instruments	\$ (3,231)	\$ 3,231
Fixed-income securities	(8,456,852)	8,456,852
	<u>\$ (8,460,083)</u>	<u>\$ 8,460,083</u>

Investments subject to interest rate risk bear fixed rates of interest. Therefore, short-term fluctuations in prevailing interest rates would not normally subject the Plan to fluctuating cash flows. In the event of a sale or redemption prior to maturity, proceeds would be impacted by the impact of prevailing interest rates on the fair value of the investment.

The actuarial value of accrued pension benefits is not considered a financial instrument; however, it is the most significant liability to the Plan in the *Statement of net assets available for benefits, accrued pension benefits, and funding excess*. These benefits are sensitive to changes in long-term interest rates. The Plan is exposed to interest rate risk due to mismatches between the impacts of interest rates to the actuarial value of accrued pension benefits and their corresponding impact to the investment portfolio as a whole. Given the nature of pension benefits, such risks cannot be eliminated but are addressed through the funding of the Plan and through regular review of the characteristics of the Plan's investment portfolio relative to the accrued pension benefit liability.

At 31 December 2008, a 25 basis point increase/decrease in the interest rate assumption would have had the following impact on the value of accrued pension benefits:

	Increase	Decrease
Accrued pension benefits	\$ (30,532,555)	\$ 32,457,839

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Plan is exposed to currency risk arising from its holdings of investments denominated in foreign currencies as well as investments that, although not denominated in foreign currencies, have underlying foreign currency exposure. This exposure lies principally within foreign equity funds.

The Plan manages these risks through its SIPP, which limits the proportion of foreign assets within the portfolio. To further limit currency risk, the Plan has entered into off-balance-sheet commitments in the form of foreign exchange forward contracts for the sale of various currencies (note 3). The purpose of these contracts is to partially preserve the fair value of Plan assets by offsetting the impact of increases in the Canadian dollar relative to the underlying foreign currency exposure. In the case of a decrease in the Canadian dollar relative to the underlying foreign currency exposure, foreign exchange forward contracts in place decrease in value while the relative value of the foreign currency funds increase.

The Plan's net foreign currency exposure in Canadian dollars, after giving effect to the notional value of foreign currency forward contracts at 31 December 2008, is shown in the following table.

	2008			2007
	Foreign currency exposure	Notional value of foreign exchange forward contracts	Net foreign currency exposure	Net foreign currency exposure
Foreign equity funds				
U.S. dollars	\$ 104,040,361	\$ 56,875,400	\$ 47,164,961	\$ 73,634,334
Euros	24,314,969	11,350,500	12,964,469	16,341,388
Pound sterling	18,105,578	9,314,500	8,791,078	14,765,219
Japanese yen	22,956,849	8,812,723	14,144,126	5,853,350
Swiss francs	11,954,860	5,526,590	6,428,270	5,321,339
Australian dollars	2,828,364	830,000	1,998,364	1,032,984
Other currencies	24,837,112	-	24,837,112	38,080,302
Total	\$ 209,038,093	\$ 92,709,713	\$ 116,328,380	\$ 155,028,916

The fair value of Plan assets, specifically those denominated in foreign currencies, is affected by changes in foreign exchange rates. The most significant concentrations of net foreign currency exposures at 31 December 2008 are on U.S. dollars, euros, and Japanese yen.

At 31 December 2008, a 1 per cent increase/decrease in the foreign exchange rate of a foreign currency in which investments are denominated relative to the Canadian dollar would have the following impact on the fair value of investments net of foreign currency hedges:

	Increase	Decrease
U.S. dollars	\$ 471,649	\$ (471,649)
Euros	129,644	(129,644)
Japanese yen	141,441	(141,441)
	\$ 742,734	\$ (742,734)

This calculation is based on the Plan's direct foreign currency holdings and does not contemplate the impact of any secondary impacts of exchange rate changes.

Future cash flows relating to the sale or maturity of a financial instrument will vary depending on the prevailing exchange rate at the time of the transaction.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Plan is exposed to other price risk through its holdings in equities.

The Plan manages these risks through maximum proportions of equities in its investment portfolio and through concentration limits on investments in any one issuer, as outlined in its SIPP. The maximum exposure to any single issuer cannot exceed 10 per cent of the total fair value of equity holdings other than pooled or index funds. Pooled or index funds are ineligible if any single security within that fund exceeds 10 per cent of the market value of that particular fund.

At 31 December 2008, a 1 per cent increase/decrease in the underlying market prices in the equities portfolio would have the following impact on the fair value of investments and the net increase in assets:

	Increase	Decrease
Canadian equity funds	\$ 1,939,432	\$ (1,939,432)
Foreign equity funds	2,090,381	(2,090,381)
	<u>\$ 4,029,813</u>	<u>\$ (4,029,813)</u>

Future cash flows relating to the sale of an investment exposed to other price risk will vary depending on market prices at the time of sale.

Concentrations of other price risk

Concentration of other price risk exists when a significant portion of the portfolio is invested in equities with similar characteristics or subject to similar economic, market, political, or other conditions.

The following table provides information on the industries in which the equity funds are invested, expressed as a percentage of total holdings, at 31 December 2008:

	Canadian		Foreign	
	\$	%	\$	%
Financials	49,143,364	25	21,971,036	10
Energy	50,532,956	26	23,214,066	11
Information technology	7,681,074	4	25,398,915	12
Materials	24,038,637	12	14,807,573	7
Industrials	19,446,332	10	26,294,114	13
Consumer discretionary	6,383,936	4	24,508,748	12
Telecommunication services	9,037,299	5	13,766,904	7
Consumer staples	15,801,425	8	18,708,011	9
Utilities	6,313,641	3	12,175,465	6
Health care	1,782,130	1	25,022,691	12
Other	3,782,445	2	3,170,570	1
	<u>193,943,239</u>	<u>100</u>	<u>209,038,093</u>	<u>100</u>

5. ACTUARIAL ASSET VALUE ADJUSTMENT

The actuarial asset value adjustment represents the cumulative total of unamortized excess (shortfalls) in earnings, and unrealized and realized capital gains over the target rate of return. These amounts are amortized over five years.

In accordance with OSFI's requirements, the *Actuarial value of net assets available for benefits* is limited to 110 per cent of the *Net assets available for benefits* at the reporting date. The *Actuarial asset value adjustment* presented in these financial statements is net of this adjustment of \$87,950,254 (\$nil in 2007).

6. ACCRUED PENSION BENEFITS

Under the PBSA, actuarial valuations are required at least every three years. An actuarial valuation was performed as of 1 January 2009 by Mercer (Canada) Limited, a firm of consulting actuaries. The economic assumptions used to determine the actuarial value of accrued pension benefits were developed by referencing expected long-term market conditions. Significant long-term economic actuarial assumptions used in the valuation are:

	2008	2007
Asset rate of return	5.50%	5.50%
Interest rate	5.50%	5.50%
Salary-escalation rate	3.50% + merit	3.50% + merit
Inflation rate	2.00%	2.00%

7. ADMINISTRATIVE EXPENSES

	2008	2007
Investment management fees	\$ 2,484,332	\$ 2,214,354
Pension administration fees	618,506	574,082
Audit and actuarial fees	97,772	33,957
Other administration fees	737,475	483,803
	<u>\$ 3,938,085</u>	<u>\$ 3,306,196</u>

8. FUNDING EXCESS AND CAPITAL REQUIREMENTS

The capital of the Plan consists of its funding excess. Excluding the impact of investment income, the Plan is funded through a combination of employee and employer contributions. The funding excess represents the difference between the going-concern asset values and the actuarially determined accrued pension benefits on a going-concern basis. Actuarial valuations, which aid in the determination of the extent of Plan capital, are performed, at a minimum, every three years, or as deemed necessary by management or external regulation.

Funding excesses or deficiencies, as they arise, as well as other relevant aspects of the Plan, are managed in order to comply with the externally imposed requirements of the ITA and the PBSA.

In the case of a funding excess, the ITA generally prohibits the Bank from making contributions while the surplus exceeds 110 per cent of the current value of the Plan's liabilities on a going-concern basis.

In the case of a funding deficiency, the Bank of Canada is responsible for contributing whatever amount is needed above the employees' contributions and the investment income earned by the Fund in order to meet its pension payment obligations to members and their beneficiaries. Funding deficiencies are managed in accordance with the PBSA in that minimum funding requirements to overcome the deficiency are adhered to as necessary.

Subsequent to 31 December 2008, management of the Plan engaged external actuaries to perform an actuarial valuation of the fund as at 1 January 2009. The results of this actuarial valuation have concluded that approximately \$47 million in Bank contributions are required in 2009. The Bank intends to make these contributions.

At 31 December 2008, the Plan and its sponsor are not in violation of any externally imposed legal or regulatory requirements.