



BANK OF CANADA
BANQUE DU CANADA

BANK OF CANADA
REGISTERED PENSION PLAN
FINANCIAL STATEMENTS

As at 31 December 2010

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 annually, as required under the Pension Benefits Standards Act.

Deloitte & Touche LLP, the Plan's external auditors, 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.



Tiff Macklem
Senior Deputy Governor and Chair, Pension Committee



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

Ottawa, Canada
31 May 2011

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 2010 for inclusion in the Plan's financial statements.

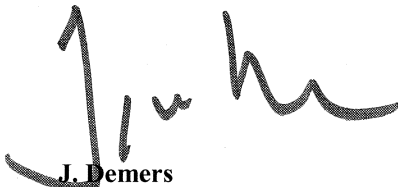
The objective of the financial statements is to fairly present the financial position of the Plan as of 31 December 2010 on a going-concern basis. While the actuarial assumptions used to estimate accrued pension benefits for the Plan's financial statements represent the Bank of Canada's best estimate 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 surveys 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 2011 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by the Bank of Canada as of 31 December 2010,
- 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
31 May 2011

INDEPENDENT AUDITOR'S REPORT

To the Bank of Canada Pension Committee

We have audited the accompanying financial statements of the Bank of Canada Registered Pension Plan, which comprise the statement of net assets available for benefits, accrued pension benefits, and funding excess as at 31 December 2010, and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

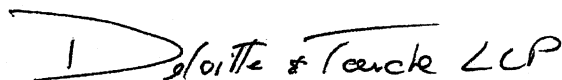
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the 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 2010 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
31 May 2011

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

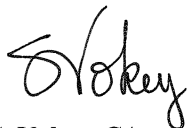
As at 31 December

	<u>2010</u>	<u>2009</u>
Assets		
Investments (note 3)	\$ 1,025,558,473	\$ 882,931,374
Accrued investment income	123,330	413,360
Accrued employer contributions	-	4,351,366
	<u>1,025,681,803</u>	<u>887,696,100</u>
Liabilities		
Accounts payable and accrued liabilities	<u>747,025</u>	<u>641,616</u>
Net assets available for benefits	<u>1,024,934,778</u>	887,054,484
Actuarial Asset Value Adjustment (note 5)	<u>3,407,484</u>	<u>79,043,937</u>
Actuarial value of net assets available for benefits	<u>1,028,342,262</u>	966,098,421
Actuarial value of accrued pension benefits (note 6)	<u>914,713,704</u>	<u>852,774,805</u>
Funding excess (note 9)	<u>\$ 113,628,558</u>	<u>\$ 113,323,616</u>

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



Tiff Macklem
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.)

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December

	<u>2010</u>	<u>2009</u>
Increase in assets		
Investment income (note 3)	\$ 35,568,823	\$ 29,615,441
Current-year change in fair value of investments (note 3)	<u>82,401,913</u>	<u>88,112,060</u>
	<u>117,970,736</u>	<u>117,727,501</u>
 Employer contributions		
Current service (note 9)	20,328,608	18,986,658
Special payment for funding deficiency (note 9)	33,041,811	28,877,932
Employee contributions		
Current service	6,229,796	5,762,940
Past service	616,154	935,655
Transfers from other plans	<u>1,669,123</u>	<u>649,262</u>
	<u>61,885,492</u>	<u>55,212,447</u>
	<u>179,856,228</u>	<u>172,939,948</u>
 Decrease in assets		
Benefits paid	32,549,407	30,944,823
Refunds and transfers	5,120,764	3,001,544
Administrative expenses (note 7)	<u>4,305,763</u>	<u>3,790,823</u>
	<u>41,975,934</u>	<u>37,737,190</u>
 Net increase in net assets	137,880,294	135,202,758
 Net assets available for benefits, beginning of year	<u>887,054,484</u>	<u>751,851,726</u>
 Net assets available for benefits, end of year	<u><u>\$ 1,024,934,778</u></u>	<u><u>\$ 887,054,484</u></u>

(See accompanying notes to the financial statements.)

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December

	<u>2010</u>	<u>2009</u>
Increase in accrued pension benefits		
Benefits earned	\$ 28,843,681	\$ 26,334,515
Interest cost	46,659,886	44,879,647
Experience loss (gain)	10,041,804	(4,292,504)
Change of method	8,667,861	-
Change of assumptions	5,395,838	-
	<u>99,609,070</u>	<u>66,921,658</u>
Decrease in accrued pension benefits		
Benefits paid	32,549,407	30,944,823
Refunds and transfers	5,120,764	3,001,544
	<u>37,670,171</u>	<u>33,946,367</u>
Net increase in actuarial value of accrued pension benefits	61,938,899	32,975,291
Actuarial value of accrued pension benefits, beginning of year	<u>852,774,805</u>	<u>819,799,514</u>
Actuarial value of accrued pension benefits, end of year	<u>\$ 914,713,704</u>	<u>\$ 852,774,805</u>

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

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 of Canada Board of Directors (the Board).

The Plan is a contributory defined-benefit pension plan covering substantially all employees of the Bank of Canada (the Bank). 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 (OSFI) 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 annually. The most recent actuarial valuation of the Plan for funding purposes was performed as at 1 January 2011, 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) (\$47,200 in 2010 and \$46,300 in 2009) 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

The financial statements of the Bank of Canada Registered Pension Plan are in accordance with Canadian generally accepted accounting principles (GAAP) 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. These standards have been consistently applied to both years, unless otherwise stated.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions based on information available at the financial statement date. Actual results could differ from these estimates. The estimates and assumptions relate primarily to valuation of certain real estate funds and assumptions used in the calculation of the pension obligation.

a) 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. Transaction costs are expensed as incurred.

b) Accrual of income

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

c) 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.

d) 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.

e) 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).

f) Employer contributions

Contributions for current service and special payment for funding deficiency must meet or exceed the minimum contributions required based on the most recent actuarial valuation report (note 9).

g) Employee contributions

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.

h) Future accounting changes

In April 2010, the CICA issued the Handbook Section 4600, Pension Plans. The Section applies to all pension plans as well as to benefit plans with characteristics similar to pension plans that provide benefits other than pensions.

This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. The new Section is based on existing Section 4100, Pension Plans, in Part V of the Handbook, with some substantive modifications as summarized below:

- measure financial instruments at fair value in accordance with International Financial Reporting Standards (IFRS) guidance in IAS 39, Financial Instruments: Recognition and Measurement;
- present investments on a non-consolidated basis;
- disclose financial instruments in accordance with the guidances in IFRS 7, Financial Instruments: Disclosures;
- exclude the actuarial asset value adjustment when determining the funding excess (or deficit);
- determine the accrued pension benefits in accordance with the guidance in CICA Section 3461, Employee Future Benefits, and IFRS guidance in IAS 19, Employee Benefits;
- present net assets available for benefits, the accrued pension benefits and the resulting excess or deficit in the statement of financial position;
- select either IFRS or Canadian accounting standards for private enterprises on a consistent basis for accounting policies that do not relate to the Plan's investments or accrued pension benefits.

The Plan is currently evaluating the impact of the adoption of this new Section on its financial statements.

3. INVESTMENTS

a) General

The Plan invests in money market instruments, fixed-income securities, equities, inflation-linked assets, and real estate funds in accordance with its SIPP. To comply with its SIPP, the 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	15	60
Foreign equities	-	40
Real estate	-	10
Nominal bonds and mortgages	20	50
Inflation-linked assets	-	20
Cash and cash equivalents	-	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 Board. 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 \$386,703 (\$1,965,431 in 2009). Investment income includes interest and dividends earned during the year, as well as income from real estate.

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

As at 31 December 2010

	Fair value	Cost	Current-year change in fair value of investments (1)	Investment income	Total return
Money market instruments					
Cash and short-term investments	\$ 15,270,287	\$ 15,270,191	\$ 322	\$ 45,746	\$ 46,068
Fixed-income securities					
Bonds	53,528,233	50,428,824	(5,988,414)	2,340,118	(3,648,296)
Fixed-income fund	231,904,454	213,247,333	11,858,549	13,319,502	25,178,051
	<u>285,432,687</u>	<u>263,676,157</u>	<u>5,870,135</u>	<u>15,659,620</u>	<u>21,529,755</u>
Equities					
Canadian equity funds	283,340,185	277,731,370	35,293,874	8,591,938	43,885,812
Foreign equity funds	308,823,908	343,298,706	21,609,257	5,035,716	26,644,973
	<u>592,164,094</u>	<u>621,030,076</u>	<u>56,903,131</u>	<u>13,627,654</u>	<u>70,530,785</u>
Inflation-linked assets					
Canadian marketable bonds	81,561,139	63,106,723	15,778,056	3,398,646	19,176,702
Corporate	3,483,957	2,305,331	221,183	196,387	417,570
Mortgages	12,411,308	10,979,698	107,509	618,618	726,127
	<u>97,456,404</u>	<u>76,391,752</u>	<u>16,106,749</u>	<u>4,213,650</u>	<u>20,320,399</u>
Real estate funds	<u>35,235,001</u>	<u>37,037,093</u>	<u>3,521,576</u>	<u>2,022,153</u>	<u>5,543,729</u>
Total	<u>\$ 1,025,558,473</u>	<u>\$ 1,013,405,268</u>	<u>\$ 82,401,913</u>	<u>\$ 35,568,823</u>	<u>\$ 117,970,736</u>

(1) The 2010 change in fair value of investments includes \$2,020,593 of unrealized losses on foreign exchange.

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

As at 31 December 2009

	Fair value	Cost	Current-year change in fair value of investments (1)	Investment income	Total return
Money market instruments					
Cash and short-term investments	\$ 8,920,377	\$ 8,919,801	\$ (1,643)	\$ 34,411	\$ 32,768
Fixed-income securities					
Bonds	45,858,340	56,968,563	(1,849,795)	4,885,153	3,035,358
Fixed-income fund	195,526,402	188,727,831	447,929	9,364,686	9,812,615
	<u>241,384,742</u>	<u>245,696,394</u>	<u>(1,401,866)</u>	<u>14,249,839</u>	<u>12,847,973</u>
Equities					
Canadian equity funds	239,454,373	269,139,431	53,520,166	6,190,968	59,711,134
Foreign equity funds	269,816,774	318,728,585	38,099,925	4,633,966	42,733,891
	<u>509,271,147</u>	<u>587,868,016</u>	<u>91,620,091</u>	<u>10,824,934</u>	<u>102,445,025</u>
Inflation-linked assets					
Canadian marketable bonds	70,827,681	50,766,488	7,064,587	1,207,194	8,271,781
Corporate	3,214,747	1,885,659	331,731	128,683	460,414
Mortgages	13,175,823	11,851,723	929,655	846,249	1,775,904
	<u>87,218,251</u>	<u>64,503,870</u>	<u>8,325,973</u>	<u>2,182,126</u>	<u>10,508,099</u>
Real estate funds	<u>36,136,857</u>	<u>40,049,126</u>	<u>(10,430,495)</u>	<u>2,324,131</u>	<u>(8,106,364)</u>
Total	<u>\$ 882,931,374</u>	<u>\$ 947,037,207</u>	<u>\$ 88,112,060</u>	<u>\$ 29,615,441</u>	<u>\$ 117,727,501</u>

(1) The 2009 change in fair value of investments includes \$3,991,896 of unrealized gains on foreign exchange.

b) Determination of fair values

The following are descriptions of the methodologies used by management to determine the fair-value measurements of investments held by the Plan.

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

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

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.

Inflation-linked assets

Inflation-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.

Fair-value hierarchy

Financial instruments recorded 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. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Financial assets at fair value as at 31 December 2010

	Level 1	Level 2	Level 3	Total
Money market instruments	\$ 15,270,287	\$ -	\$ -	\$ 15,270,287
Fixed-income securities				
Bonds	-	53,528,233	-	53,528,233
Fixed-income fund	-	231,904,454	-	231,904,454
Equities				
Canadian equity funds	-	283,340,185	-	283,340,185
Foreign equity funds	-	308,823,908	-	308,823,908
Inflation-linked assets				
Canadian marketable bonds	-	81,561,139	-	81,561,139
Corporate	-	3,483,957	-	3,483,957
Mortgages	-	12,411,308	-	12,411,308
Real estate funds	-	-	35,235,001	35,235,001
	<u>\$ 15,270,287</u>	<u>\$ 975,053,184</u>	<u>\$ 35,235,001</u>	<u>\$ 1,025,558,473</u>

**BANK OF CANADA REGISTERED PENSION PLAN
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010**

Financial assets at fair value as at 31 December 2009

	Level 1	Level 2	Level 3	Total
Money market instruments	\$ 8,920,377	\$ -	\$ -	\$ 8,920,377
Fixed-income securities				
Bonds	-	45,858,340	-	45,858,340
Fixed-income fund	-	195,526,402	-	195,526,402
Equities				
Canadian equity funds	-	239,454,373	-	239,454,373
Foreign equity funds	-	269,816,774	-	269,816,774
Inflation-linked assets				
Canadian marketable bonds	-	70,827,681	-	70,827,681
Corporate	-	3,214,747	-	3,214,747
Mortgages	-	13,175,823	-	13,175,823
Real estate funds	-	-	36,136,857	36,136,857
	<u>\$ 8,920,377</u>	<u>\$ 837,874,140</u>	<u>\$ 36,136,857</u>	<u>\$ 882,931,374</u>

There were no transfers of amounts between Level 1 and Level 2 in 2010 or 2009.

The following table reconciles the fair value of the Real estate funds determined using Level 3 fair-value measurements for the period from 31 December 2009 to 31 December 2010:

	2010	2009
Fair value at beginning of year	\$ 36,136,857	\$ 43,816,183
Total unrealized gains (losses) included in net assets ⁽¹⁾	2,110,177	(10,451,779)
Purchases	266,882	2,777,383
Sales ⁽²⁾	(3,278,915)	(4,930)
Transfers in/out of Level 3	-	-
Fair value at end of year	<u>\$ 35,235,001</u>	<u>\$ 36,136,857</u>

⁽¹⁾ The fair value gains (losses) are presented in the *Current-year change in fair value of investments* in the *Statement of changes in net assets available for benefits*. Of this amount, \$2,281,787 is attributable to financial instruments that were held at 31 December 2009.

⁽²⁾ Sales are presented net of realized gains of \$1,411,399.

Investment valuations are reviewed on an ongoing basis by management.

The carrying values of accrued investment income, accrued employee contributions, and accounts payable and accrued liabilities approximate their fair values owing 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 2010, the Plan did not hold loaned securities (\$4,199,652 held in 2009). The fair value of collateral received in respect of these loans was nil (\$4,425,650 in 2009).

d) Foreign exchange forward contracts

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

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	2010		2009	
	Notional value	Fair value	Notional value	Fair value
U.S. dollars	\$ 80,254,909	\$ 743,265	\$ 67,937,600	\$ 417,701
Euros	16,306,758	59,343	17,526,880	581,415
Pound sterling	15,715,030	107,634	12,959,250	159,719
Japanese yen	15,017,314	(172,601)	10,790,073	621,261
Swiss francs	7,077,286	(280,998)	7,253,886	152,717
Australian dollars	2,075,220	(69,941)	2,400,000	32,618
	\$ 136,446,517	\$ 386,703	\$ 118,867,689	\$ 1,965,431

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 foreign exchange forward contracts are all set to mature within 30 days of 31 December 2010.

The Plan's investments, securities lending activities and foreign exchange forward contracts are subject to various risks that can affect 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 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 that its investments 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 inflation-linked assets, as well as 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 inflation-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.

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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.

Owing to the minimum credit-rating requirements 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 inflation-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 *Inflation-linked assets* categories as follows:

	2010					
	Money market instruments		Fixed-income securities		Inflation-linked assets ⁽¹⁾	
	\$	%	\$	%	\$	%
Securities issued or guaranteed by the Government of Canada	9,893,106	100.0	73,768,807	25.9	81,462,269	83.6
Securities issued or guaranteed by Canadian provinces or municipalities	-	-	161,595,709	56.6	12,510,178	12.8
Securities issued by corporations	-	-	50,068,171	17.5	3,483,957	3.6
	<u>9,893,106</u>	<u>100.0</u>	<u>285,432,687</u>	<u>100.0</u>	<u>97,456,404</u>	<u>100.0</u>
Credit Rating						
AAA to AA	9,893,106	100.0	186,078,634	65.2	73,990,304	87.0
A	-	-	83,514,979	29.3	11,054,792	13.0
BBB	-	-	15,839,074	5.5	-	-
	<u>9,893,106</u>	<u>100.0</u>	<u>285,432,687</u>	<u>100.0</u>	<u>85,045,096</u>	<u>100.0</u>

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	2009					
	Money market		Fixed-income		Inflation-linked	
	instruments		securities		assets ⁽¹⁾	
	\$	%	\$	%	\$	%
Securities issued or guaranteed by the Government of Canada	8,868,224	100.0	65,043,666	26.9	72,573,245	83.2
Securities issued or guaranteed by Canadian provinces or municipalities	-	-	133,835,336	55.4	11,430,260	13.1
Securities issued by corporations	-	-	42,505,740	17.7	3,214,746	3.7
	<u>8,868,224</u>	<u>100.0</u>	<u>241,384,742</u>	<u>100.0</u>	<u>87,218,251</u>	<u>100.0</u>
Credit Rating						
AAA to AA	8,868,224	100.0	124,614,863	51.6	66,421,233	89.7
A	-	-	105,429,348	43.7	7,621,195	10.3
BBB	-	-	11,340,531	4.7	-	-
	<u>8,868,224</u>	<u>100.0</u>	<u>241,384,742</u>	<u>100.0</u>	<u>74,042,428</u>	<u>100.0</u>

⁽¹⁾ The Inflation-linked assets category includes mortgages of \$12,411,308 (\$13,175,823 in 2009) which are guaranteed by the Canada Mortgage and Housing Corporation but are not directly rated by a credit-rating agency.

b) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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 that 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, 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 owing 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.

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

	2010		2009	
	Increase	Decrease	Increase	Decrease
Money market instruments	\$ (1,834)	\$ 1,810	\$ (2,768)	\$ 1,776
Fixed-income securities	(10,960,615)	10,960,615	(9,051,928)	9,051,928
	<u>\$ (10,962,449)</u>	<u>\$ 10,962,425</u>	<u>\$ (9,054,696)</u>	<u>\$ 9,053,704</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 affected 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, these benefits are sensitive to changes in long-term interest rates. The Plan is exposed to interest rate risk because of mismatches between the impacts of interest rates on the actuarial value of accrued pension benefits and their corresponding impact on 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, a 25-basis-point increase/decrease in the interest rate assumption would have had the following impact on the value of accrued pension benefits:

	2010		2009	
	Increase	Decrease	Increase	Decrease
Accrued pension benefits	<u>\$ (33,617,074)</u>	<u>\$ 35,730,793</u>	<u>\$ (31,449,833)</u>	<u>\$ 33,428,025</u>

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 increases.

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, is presented in the following table.

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	2010		2009	
	Foreign currency exposure	Notional value of foreign exchange forward contracts	Net foreign currency exposure	Net foreign currency exposure
Foreign equity funds				
U.S. dollars	\$ 165,170,647	\$ 80,254,909	\$ 84,915,738	\$ 65,708,258
Euros	33,591,313	16,306,758	17,284,555	13,589,348
Pound sterling	32,518,741	15,715,030	16,803,711	13,064,085
Japanese yen	30,807,172	15,017,314	15,789,858	15,926,006
Swiss francs	13,238,901	7,077,286	6,161,615	7,986,242
Australian dollars	4,522,589	2,075,220	2,447,369	3,594,975
Other currencies	28,587,843	-	28,587,843	29,114,740
Total	\$ 308,437,206	\$ 136,446,517	\$ 171,990,689	\$ 148,983,654

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 2010 are on U.S. dollars, euros, pound sterling, and Japanese yen. At 31 December, a 1 per cent increase/decrease in the foreign exchange rate of a significant 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:

	2010		2009	
	Increase	Decrease	Increase	Decrease
U.S. dollars	\$ 849,157	\$ (849,157)	\$ 657,083	\$ (657,083)
Euros	172,846	(172,846)	135,893	(135,893)
Pound sterling	168,037	(168,037)	130,641	(130,641)
Japanese yen	157,899	(157,899)	159,260	(159,260)
Total	\$ 1,347,939	\$ (1,347,939)	\$ 1,082,877	\$ (1,082,877)

This calculation is based on the Plan's direct foreign currency holdings and does not contemplate the effect 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.

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At 31 December, 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:

	2010		2009	
	Increase	Decrease	Increase	Decrease
Canadian equity funds	\$ 2,833,402	\$ (2,833,402)	\$ 2,394,544	\$ (2,394,544)
Foreign equity funds	3,084,372	(3,084,372)	2,678,513	(2,678,513)
	<u>\$ 5,917,774</u>	<u>\$ (5,917,774)</u>	<u>\$ 5,073,057</u>	<u>\$ (5,073,057)</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:

	2010			
	Canadian equity funds		Foreign equity funds ⁽¹⁾	
	\$	%	\$	%
Financials	68,048,355	23.9	44,716,801	14.5
Energy	63,439,929	22.4	34,753,053	11.3
Information technology	9,947,981	3.5	48,284,663	15.7
Materials	57,349,862	20.2	22,579,257	7.3
Industrials	25,905,956	9.1	39,737,800	12.9
Consumer discretionary	20,545,737	7.3	48,178,207	15.6
Telecommunication services	14,083,212	5.0	12,769,552	4.1
Consumer staples	13,182,847	4.7	22,185,310	7.2
Utilities	4,120,740	1.5	7,515,245	2.4
Health care	2,876,029	1.0	27,717,318	9.0
Other	3,839,537	1.4	-	-
	<u>283,340,185</u>	<u>100.0</u>	<u>308,437,206</u>	<u>100.0</u>

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	2009			
	Canadian equity funds		Foreign equity funds ⁽¹⁾	
	\$	%	\$	%
Financials	67,510,719	28.1	40,998,744	15.3
Energy	56,170,050	23.5	28,571,622	10.7
Information technology	12,039,565	5.0	39,488,055	14.7
Materials	39,895,002	16.7	14,801,679	5.5
Industrials	18,367,222	7.7	30,955,128	11.6
Consumer discretionary	17,272,418	7.2	43,737,273	16.3
Telecommunication services	7,402,505	3.1	14,381,062	5.4
Consumer staples	12,688,283	5.3	17,420,207	6.5
Utilities	5,103,378	2.1	8,301,453	3.1
Health care	942,707	0.4	26,793,258	10.0
Other	2,062,524	0.9	2,402,862	0.9
	<u>239,454,373</u>	<u>100.0</u>	<u>267,851,343</u>	<u>100.0</u>

⁽¹⁾ The Foreign equity funds category excludes foreign exchange forward contracts of \$386,703 (\$1,965,431 in 2009).

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. Consistent with the prior year, no such adjustment is included in the *Actuarial Asset Value Adjustment* in 2010.

6. ACCRUED PENSION BENEFITS

Under the PBSA, actuarial valuations are required annually. An actuarial valuation was performed as of 1 January 2011 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:

	2010	2009
Asset rate of return	5.25%	5.50%
Interest rate	5.25%	5.50%
Salary-escalation rate	3.30% + merit	3.50% + merit
Inflation rate	2.00%	2.00%

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7. ADMINISTRATIVE EXPENSES

	<u>2010</u>	<u>2009</u>
Investment management fees	\$ 2,769,519	\$ 2,268,979
Pension administration fees	734,942	646,206
Audit and actuarial fees	84,235	66,825
Other administration fees (note 8)	<u>717,067</u>	<u>808,813</u>
	<u>\$ 4,305,763</u>	<u>\$ 3,790,823</u>

8. RELATED PARTY TRANSACTIONS

Transactions with the Bank were conducted in the normal course of operations during the year and measured at the exchange amount. Included in *Other administration fees* is \$520,884 (\$457,738 in 2009) for administration services provided by the Bank to the Plan.

9. 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 annually.

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 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 (\$20,328,608 in 2010; \$18,986,658 in 2009). Funding deficiencies are managed in accordance with the PBSA in that minimum funding requirements to overcome the deficiency are adhered to as necessary (\$33,041,811 in 2010; \$28,877,932 in 2009).

Subsequent to 31 December 2010, management of the Plan engaged external actuaries to perform an actuarial valuation of the fund as at 1 January 2011. The results of this actuarial valuation have concluded that approximately \$41 million in Bank contributions are required in 2011.

At 31 December 2010, the Plan and its sponsor are not in violation of any externally imposed legal or regulatory requirements.