

Quarterly Financial Report

Second Quarter, 2011

For the period ended 30 June 2011

24 August 2011

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

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

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

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Medium-Term Plan (2010–12)

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

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

The Financial Plan

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

The financial plan is based on full-year expenses, whereas quarterly financial results may not trend evenly with the full-year plan. The Bank monitors its expenses from a full-year perspective and forecasts 2011 expenses to be in line with the plan.

Overall, the Bank is operating within the expectations outlined in the medium-term plan.

Operational Highlights and Changes

The following significant changes in operations, personnel and programs have occurred since 31 December 2010.

Operations and Programs

Key changes during the quarter ended 30 June 2011

On 20 June 2011, the Bank unveiled a new polymer bank note for Canada. Information on the polymer material and advanced security features was released, along with the images and designs of the soon-to-be-issued \$100 and \$50 bank notes, as well as the themes for the remaining notes in the series. The \$100 polymer bank note will begin circulating in November 2011, with the \$50 note to follow in March 2012. The new notes will contain a number of unique features that expand the frontiers of bank note security and make them difficult to counterfeit but easy to check. In the next six months, the Bank will focus on raising public awareness of the coming note series. It will also continue to provide information to the cash-handling industry to help prepare the system for polymer notes, and will work to inform retailers, financial institutions and law-enforcement agencies about how to check the new security features once the notes enter circulation. More information on the new bank note series can be found on the Bank's [website](#).

On 29 June 2011, the Bank of Canada and the Federal Reserve Bank of New York agreed to extend the term of a US\$30 billion swap facility (reciprocal currency arrangement) that was set to expire in August 2011. The facility would be accessed, should the need arise, to provide U.S.-dollar liquidity in Canada. The swap facility is now set to expire on 1 August 2012.

The Bank's Enhanced Business-Continuity Program was initiated in 2009 to renew and update the current off-site operations centre in Ottawa with a view to splitting the Bank's critical financial market operations and to house its primary data centre. During the quarter, the Bank entered into a \$27 million fixed-price construction contract with a general contractor, and construction began in June. This is an important step toward achieving the Bank's medium-term plan priority to enhance business resilience and improve its infrastructure.

Other significant changes since the beginning of 2011

In 2010, the Bank launched a Corporate Effectiveness Program designed to ensure that it would deliver on its medium-term plan priorities, while also remaining consistent with federal government guidelines to hold expenses at 2010 levels. During the first half of

2011, a review of operations was carried out and the Bank announced the elimination of 88 positions. Approximately one-quarter of the 88 reductions occurred through retirements, the elimination of vacant positions and normal attrition.

During the first quarter of 2011, the Bank signed a 10-year printing contract with Note Printing Australia Limited, a wholly owned subsidiary of the Reserve Bank of Australia, for the production and supply of the polymer substrate for the Bank's next generation of bank notes at a value not to exceed \$250 million over the life of the contract.

The sale of the Bank's Optical Security Material operations was completed in the first quarter. The Bank continues to provide services to the buyer under a service agreement, until the removal of the equipment from the Bank's facility is completed.

Also during the first quarter, the Public Service Alliance of Canada was certified by the Canada Industrial Relations Board as the bargaining unit for certain non-management employees in the Bank's Information Technology Services (ITS) Department.

Board of Directors and Personnel¹

During the first six months of 2011, the following directors were reappointed for terms ending on 28 February 2014:

Philip Deck, Brian Henley, Daniel Johnson, Leo Ledohowski and Richard McGaw.

Financial Discussion

Key Factors Affecting the Bank's Financial Results

As a government business entity and in accordance with public sector accounting standards, the Bank of Canada transitioned to reporting under International Financial Reporting Standards (IFRS) on 1 January 2011. The Bank's first annual IFRS financial statements will be for the year ending 31 December 2011 and, for comparison purposes, will include restated figures for fiscal 2010, as well as an opening IFRS statement of financial position as at 1 January 2010. Details on the financial impact of the transition to IFRS on the Bank's opening statement of financial position as at 1 January 2010 were included in the Bank's *2010 Annual Report* and are also available in note 15 to the condensed interim financial statements.

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

Highlights of the Statement of Financial Position (unaudited)

(Millions of dollars)

	30 June 2011	31 December 2010*	\$ change	% change
Assets				
Loans and receivables	266	2,087	(1,821)	-87%
Investments	59,970	58,767	1,203	2%
Other assets	402	362	40	11%
	60,638	61,216	(578)	-1%
Liabilities and Equity				
Bank notes in circulation	57,446	57,874	(428)	-1%
Deposits	2,231	2,557	(326)	-13%
Other liabilities	525	368	157	43%
Equity	436	417	19	5%
	60,638	61,216	(578)	-1%

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

At the close of the second quarter of 2011, the Bank had assets of \$60,638 million in the form of *Loans and receivables*, *Investments*, and *Other assets*. Compared with year-end 2010, assets decreased by \$578 million, primarily because fewer assets were needed to support bank notes in circulation, which fluctuated based on seasonal demand, and also to offset lower *Deposits* liabilities.

Loans and receivables decreased by \$1,821 million since 31 December 2010 as term purchase and resale agreement (PRA) operations outstanding at year-end matured in January 2011. These operations had been undertaken to offset the seasonal demand for bank notes, and were no longer required once the demand for bank notes returned to pre-holiday levels. During the quarter ended 30 June, the Bank issued and matured one term PRA for \$700 million for general balance-sheet management purposes.

Investments increased by \$1,203 million, owing primarily to net purchases of Government of Canada treasury bills and bonds in excess of maturities. Government of Canada bonds increased by \$4,124 million and were offset by a decline of \$2,931 million in Government of Canada treasury bills, with the balance of the increase resulting from fair-value changes in the Bank's investment in the Bank for International Settlements (BIS).

Liabilities from *Bank notes in circulation* decreased 0.7 per cent, reflecting the seasonal reduction in demand following the end of the winter holiday period, consistent with earlier years.

The main element of the *Deposits* liability is the deposit held for the Government of Canada, the balance of which fluctuates based on the government's cash-management needs. Deposits as at 30 June 2011 were \$326 million lower than the level at the end of 2010.

Other liabilities increased by \$157 million compared with the prior year-end, mainly as a result of a higher balance owing to the Receiver General for Canada. Net income earned on the Bank's assets, after deduction for operating expenses and allocations to reserves, is paid each year to the Receiver General for Canada. At 30 June 2011, the unremitted balance was \$330 million (\$168 million at 31 December 2010).

Included in *Other assets* are the Bank's *Property and equipment*, and *Intangible assets*. Capital spending since 31 December 2010 totalled \$15 million. The portion related to the Head Office Renewal Program and the Enhanced Business-Continuity Program totalled \$5 million. In addition, \$10 million was spent on strategic investments to support the Bank's achievement of its medium-term plan priorities. The largest component of these investments is the Auctions and Markets Applications Program, which aims to support end-to-end post-trade processing, and to strengthen business-continuity capacity.

Highlights of the Statement of Comprehensive Income (unaudited)

Results for the Three Months Ended 30 June 2011

(Millions of dollars)

	Three months ended 30 June			
	2011	2010*	\$ change	% change
Income	407.7	383.8	23.9	6.2%
Expenses	85.7	84.2	(1.5)	-1.8%
Net income	322.0	299.6	22.4	7.5%
Other comprehensive income	16.4	6.2	10.2	**
Comprehensive income	338.4	305.8	32.6	10.7%

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

** Comparison is not meaningful.

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

Income

Second-quarter income represents an increase of \$23.9 million, or 6 per cent, compared with the same period in the previous year.

Increased interest revenue from treasury bills and bonds of \$32.6 million was due primarily to higher yields on short-term investments. Decreases in other sources of revenue offset the growth in investment revenue. The Bank reported lower interest earned on purchase and resale agreements of \$13.5 million. During the quarter ended 30 June 2011, the Bank issued one term PRA for \$700 million, compared with a higher level of term PRA balances issued during the financial crisis, which matured in the first half of 2010.

Dividend revenue decreased by \$5.8 million, since revenue for 2010 included a special dividend paid on the Bank's investment in the BIS that was not repeated in 2011.

Revenues are reported net of interest paid on Government of Canada deposits. Therefore, also contributing to the growth of revenue is a reduced interest expense of \$11.3 million, owing to the lower average level of Government of Canada deposits compared with the previous year.

Expenses

Operating expenses in the second quarter were \$1.5 million higher than for the same period of the previous year, primarily as a result of costs associated with the Bank's strategic business initiatives.

Costs associated with bank note production were \$2 million lower than 2010 levels, because fewer bank notes were received from the printers. During the quarter ended 30 June 2011, 82 million notes were received, compared with 132 million received during the same period in 2010.

Staff expenses in the quarter increased by \$0.9 million, 2 per cent higher than the same period in 2010. The Bank is renewing its total compensation framework to support the attraction, retention and engagement of staff, in line with one of the Bank's medium-term plan objectives. Also contributing to staff costs are annual compensation increases and additional term resources to support initiatives related to the Bank's medium-term plan.

Other operating expenses, including premises, and depreciation and amortization, rose by \$2.6 million, compared with the quarter ended 30 June 2010. Increased expenses for professional services resulted from significant investments associated with business and infrastructure improvements. These investments are related to the following objectives under the medium-term plan: the enhancement of the technology systems supporting economic analysis and financial market operations; the development and release of the new polymer bank notes; and the implementation of the Head Office Renewal and the Enhanced Business-Continuity programs.

Net income

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

Other comprehensive income

Other comprehensive income of \$16.4 million for the second quarter reflects changes in the fair values of available-for-sale assets, which comprise Government of Canada treasury bills and the Bank's investment in the BIS. These fair-value changes are accumulated in the reserve for available-for-sale assets within the Bank's *Equity*. As at 30 June 2011, this reserve totalled \$292.1 million and consists primarily of the fair-value change in the Bank's investment in the BIS.

Results for the Six Months Ended 30 June 2011

(Millions of dollars)

	Six months ended 30 June		\$ change	% change
	2011	2010*		
Income	810.5	764.6	45.9	6.0%
Expenses	174.1	158.6	(15.5)	-9.8%
Net income	636.4	606.0	30.4	5.0%
Other comprehensive income	21.1	(19.2)	40.3	**
Comprehensive income	657.5	586.8	70.7	12.0%

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

** Comparison is not meaningful.

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

Income

Total income for the first half of 2011 was \$810.5 million, an increase of \$45.9 million, or 6 per cent, compared with the previous year. Increased revenue from treasury bills and bonds of \$67.1 million was due primarily to higher yields on short-term investments. Decreases in other sources of revenue offset the growth in investment revenue. The Bank reported lower interest earned on purchase and resale agreements, since there has been only one term PRA issued thus far in 2011, resulting in a decrease of \$33.9 million in interest earned on securities purchased under resale agreements. Dividend revenue decreased by \$5.8 million, since 2010 revenue had included a special dividend paid by the Bank for International Settlements that was not repeated in 2011. Revenues are reported net of interest paid on Government of Canada deposits. Therefore, also contributing to the growth of revenue is a reduced interest expense owing to a lower average level of Government of Canada deposits, representing a decrease of \$19.5 million compared with 2010.

Expenses

On a year-to-date basis, operating expenses were \$15.5 million higher than for the same period of the previous year, primarily as a result of increased bank note production and higher project costs.

Costs associated with bank note production were \$8.9 million higher than 2010 levels, mainly because of the higher number of notes received during the first quarter of 2011. To date in 2011, 203 million notes have been received from the printers, compared with 132 million notes received in 2010. The production of bank notes in 2010 had been delayed by preparations and testing for the new series of notes, and no bank notes were expensed in the first quarter of 2010.

Staffing costs for the first half of 2011 were \$2.6 million higher than for the comparable period in 2010. Consistent with the results for the second quarter, annual compensation increases and additional term resources related to strategic investment projects are contributing to increased costs.

Other operating expenses, including premises, and depreciation and amortization, for the six months ended 30 June 2011 increased by \$4.0 million, compared with 2010. Consistent with the results for the quarter, professional services expenses related to the Bank's investments in business and infrastructure represent the main portion of the growth in expenses. These investments are consistent with the objectives under the medium-term plan to enhance the technology systems supporting economic analysis

and financial market operations, to develop and release the new polymer bank note series, and invest in the renewal of the head office complex and the Enhanced Business-Continuity Program. The harmonized sales tax in Ontario and British Columbia, which came into effect on 1 July 2010, also contributed to increased expenses during the first six months of 2011 compared with the same period in the previous year.

Net income

Net income earned on the Bank's assets, after deductions for operating expenses and allocations to reserves, is paid each year to the Receiver General for Canada. Since the beginning of the year, the Bank has transferred \$476.1 million to the Receiver General (\$126.1 million related to 2010 net income and \$350 million related to 2011 net income).

Other comprehensive income

Other comprehensive income of \$21.1 million reflects changes in the fair values of available-for-sale assets, and stems primarily from the second-quarter results discussed above.

Actual Financial Results Compared with Medium-Term Plan

The Bank is operating within the expectations outlined in the medium-term plan.

The financial plan is based on a full year of expenses, which typically differs from a quarterly snapshot. Historically, the Bank's quarterly financial results do not trend evenly throughout the year. In the context of the 2011 full-year forecast, expenses are in line with plan expectations as a result of the timing of costs associated with medium-term plan initiatives, and the commencement of savings resulting from the Corporate Effectiveness Program in the second half of 2011.

Risk Analysis

Since 31 December 2010, the Bank has not identified material increases in any of its monitored risk categories, which were reported in the Bank's 2010 *Annual Report*.

Significant risk-mitigation activities that took place since the beginning of the year included a full-scale exercise of the Bank's continuity plans at its recovery site. As well, in response to the increasing number and severity of cyber attacks on computer networks affecting financial institutions and federal government departments, the Bank enhanced its protection, detection and response capabilities to potential threats to its computer environment.



BANK OF CANADA
BANQUE DU CANADA

Condensed Interim Financial Statements of

THE BANK OF CANADA

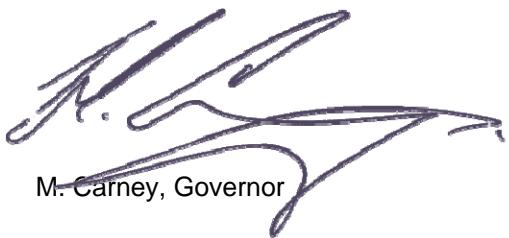
(Unaudited)

as at 30 June 2011
and for the three- and six-month periods then ended

Management Responsibility

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

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



M. Carney, Governor

24 August 2011
Ottawa, Canada

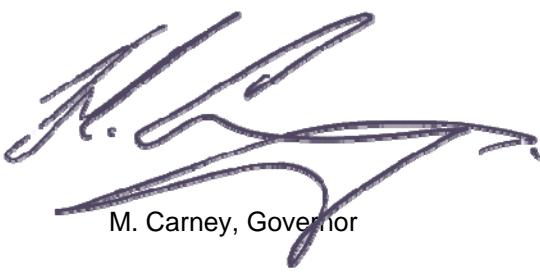


S. Vokey, CA, Chief Accountant

CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Millions of dollars)

	As at		
	30 June 2011	31 December 2010	1 January 2010
ASSETS			
Cash and foreign deposits	3.5	4.7	20.4
Loans and receivables			
Securities purchased under resale agreements	-	2,062.4	25,374.8
Advances to members of the Canadian Payments Association	258.7	22.5	-
Other receivables	6.9	2.1	2.2
	265.6	2,087.0	25,377.0
Investments			
Government of Canada treasury bills	21,975.1	24,906.1	13,684.0
Government of Canada bonds	37,674.7	33,550.6	31,986.2
Other investments	320.1	310.7	318.7
	59,969.9	58,767.4	45,988.9
Property and equipment (note 5)	152.1	153.0	155.2
Intangible assets (note 6)	33.3	25.9	23.7
Other assets (note 7)	213.2	178.1	211.6
Total assets	60,637.6	61,216.1	71,776.8
LIABILITIES AND EQUITY			
Bank notes in circulation	57,446.3	57,874.2	55,467.9
Deposits			
Government of Canada	1,153.2	1,869.4	11,847.6
Members of the Canadian Payments Association	284.0	47.5	2,999.6
Other deposits	793.7	639.9	703.0
	2,230.9	2,556.8	15,550.2
Other liabilities (note 8)	524.2	368.3	189.8
	60,201.4	60,799.3	71,207.9
Equity (note 10)	436.2	416.8	568.9
Total liabilities and equity	60,637.6	61,216.1	71,776.8



M. Carney, Governor



S. Vokey, CA, Chief Accountant

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions of dollars)

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2011	2010	2011	2010
INCOME				
Net interest income				
Interest revenue				
Interest earned on investments	406.1	373.5	811.3	744.2
Dividend revenue	4.3	10.1	4.3	10.1
Interest earned on securities purchased under resale agreements	0.6	14.1	1.0	34.9
Other interest revenue	0.1	0.1	0.1	0.1
	411.1	397.8	816.7	789.3
Interest expense				
Interest expense on deposits	5.2	16.5	10.8	30.3
	405.9	381.3	805.9	759.0
Other revenue	1.8	2.5	4.6	5.6
Total income	407.7	383.8	810.5	764.6
EXPENSES				
Staff costs	41.0	40.1	82.2	79.6
Bank note research, production and processing	10.3	12.3	23.7	14.8
Premises maintenance	5.3	5.9	11.5	11.8
Depreciation and amortization	4.3	3.6	8.6	7.3
Other operating expenses	24.8	22.3	48.1	45.1
Total expenses	85.7	84.2	174.1	158.6
NET INCOME	322.0	299.6	636.4	606.0
OTHER COMPREHENSIVE INCOME				
Change in Available-for-sale reserve	16.4	6.2	21.1	(19.2)
Other comprehensive income	16.4	6.2	21.1	(19.2)
COMPREHENSIVE INCOME	338.4	305.8	657.5	586.8

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

CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of dollars)

	For the three- and six-month periods ended 30 June 2011						
	Share capital	Statutory reserve	Special reserve	for-sale reserve	Available-gains reserve	Actuarial	Retained earnings
Balance, 1 April 2011	5.0	25.0	100.0	275.7	14.1	-	419.8
Comprehensive income for the period							
Net income	-	-	-	-	-	322.0	322.0
Change in fair value of available-for-sale financial assets	-	-	-	16.4	-	-	16.4
	-	-	-	16.4	-	322.0	338.4
Transfer to Receiver General for Canada	-	-	-	-	-	(322.0)	(322.0)
Balance, 30 June 2011	<u>5.0</u>	<u>25.0</u>	<u>100.0</u>	<u>292.1</u>	<u>14.1</u>	-	<u>436.2</u>
 Balance, 1 January 2011							
5.0	25.0	100.0	271.0	14.1	1.7	416.8	
Comprehensive income for the period							
Net income	-	-	-	-	-	636.4	636.4
Change in fair value of available-for-sale financial assets	-	-	-	21.1	-	-	21.1
	-	-	-	21.1	-	636.4	657.5
Transfer to Receiver General for Canada	-	-	-	-	-	(638.1)	(638.1)
Balance, 30 June 2011	<u>5.0</u>	<u>25.0</u>	<u>100.0</u>	<u>292.1</u>	<u>14.1</u>	-	<u>436.2</u>

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

CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of dollars)

	For the three- and six-month periods ended 30 June 2010						
	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Actuarial gains reserve	Retained earnings	Total
Balance, 1 April 2010	5.0	25.0	100.0	262.1	119.7	2.3	514.1
Comprehensive income for the period							
Net income	-	-	-	-	-	299.6	299.6
Change in fair value of available-for-sale financial assets	-	-	-	6.2	-	-	6.2
	-	-	-	6.2	-	299.6	305.8
Transfer to Receiver General for Canada	-	-	-	-	-	48.1	48.1
Balance, 30 June 2010	5.0	25.0	100.0	268.3	119.7	350.0	868.0
Balance, 1 January 2010	5.0	25.0	100.0	287.5	119.7	31.7	568.9
Comprehensive income for the period							
Net income	-	-	-	-	-	606.0	606.0
Change in fair value of available-for-sale financial assets	-	-	-	(19.2)	-	-	(19.2)
	-	-	-	(19.2)	-	606.0	586.8
Transfer to Receiver General for Canada	-	-	-	-	-	(287.7)	(287.7)
Balance, 30 June 2010	5.0	25.0	100.0	268.3	119.7	350.0	868.0

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

CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

(Millions of dollars)

	For the three-month period ended 30 June 2011	For the six-month period ended 30 June 2011	For the six-month period ended 30 June 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	664.7	777.4	793.2
Other revenue received	2.1	3.8	4.6
Interest paid	(5.2)	(16.5)	(10.8)
Payments to or on behalf of employees and to suppliers	(102.5)	(97.0)	(206.9)
Net decrease in advances to members of the Canadian Payments Association	(249.0)	(14.9)	(236.2)
Net decrease (increase) in deposits	505.5	(13,886.8)	(326.3)
Proceeds from maturity of securities purchased under resale agreements	924.0	32,875.3	2,985.4
Acquisition of securities purchased under resale agreements	(924.0)	(16,815.1)	(924.0)
Repayments of securities sold under repurchase agreements	-	(470.0)	(764.8)
Proceeds from securities sold under repurchase agreements	-	470.0	764.8
Net cash provided by operating activities	815.6	2,826.2	2,079.0
	8,113.2		
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (increase) decrease in Government of Canada treasury bills	(2,097.1)	(5,107.2)	2,951.8
Purchases of Government of Canada bonds	(4,133.9)	(1,326.8)	(7,369.6)
Proceeds from maturity of Government of Canada bonds	3,052.7	1,938.1	3,256.6
Additions of property and equipment	(2.9)	(2.1)	(5.3)
Additions of intangible assets	(5.7)	(0.9)	(9.7)
Net cash used in investing activities	(3,186.9)	(4,498.9)	(1,176.2)
	(7,563.0)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in bank notes in circulation	2,697.1	2,021.6	(427.9)
Remittance of ascertained surplus to the Receiver General for Canada	(325.0)	(350.0)	(476.1)
Net cash provided by (used in) financing activities	2,372.1	1,671.6	(904.0)
	(567.9)		
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY			
	0.1	-	(0.2)
INCREASE (DECREASE) IN CASH AND FOREIGN DEPOSITS			
	0.9	(1.1)	(1.2)
	(17.9)		
CASH AND FOREIGN DEPOSITS, BEGINNING OF PERIOD			
	2.6	3.6	4.7
	20.4		
CASH AND FOREIGN DEPOSITS, END OF PERIOD			
	3.5	2.5	3.5
	2.5		

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

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

For the period ended 30 June 2011

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

1. The business of the Bank of Canada

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

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

Monetary policy

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

Financial system

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

Currency

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

Funds management

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

2. Basis of preparation

Compliance with International Financial Reporting Standards ("IFRS")

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

These are the Bank's second IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements. The Bank has elected 1 January 2010 as the date of transition to IFRS (the "transition date"). IFRS 1 *First-time Adoption of IFRS* ("IFRS 1"), has been applied. An explanation of how the transition to IFRS has affected the financial statements is included in note 15. Certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS have been included in notes 16 and 17 of these condensed interim financial statements for the comparative annual period.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of 24 August 2011. Any subsequent changes to IFRS that are given effect in the Bank's annual financial statements for the year ending 31 December 2011 could result in restatement of these condensed interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These condensed interim financial statements should be read in conjunction with the Bank's 2010

annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and in consideration of the IFRS transition disclosures included in note 15 to the condensed interim financial statements and the additional annual disclosures included in notes 16 and 17.

Measurement base

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

Significant accounting estimates and judgments in applying accounting policies

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

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

Functional and presentation currency

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

3. Significant accounting policies

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

a) Translation of foreign currencies

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

b) Financial instruments

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

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

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

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

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

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

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

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

c) Securities purchased under resale agreements

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

d) Securities sold under repurchase agreements

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

e) Securities Lending Program

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

f) Property and equipment

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

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

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate

being accounted for on a prospective basis.

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

g) Intangible assets

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

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

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

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

h) Leases

Where the Bank is a lessee

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

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

Where the Bank is a lessor

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

i) Impairment

Impairment of financial assets

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

Impairment of non-financial assets

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

j) Employee benefits

Short-term employee benefits

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

Long-term employee benefits

The Bank sponsors a long-term disability program.

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

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

Post-employment defined-benefit plans

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

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

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

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

k) Provisions

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

l) Revenue recognition

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

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

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

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

m) Bank notes expenses

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

n) Future changes in accounting policies

IFRS 9

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

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

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

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

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

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

IFRS 7

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

IFRS 11

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

IFRS 12

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

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

IFRS 13

On 12 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* ("IFRS 13"). IFRS 13, which is effective from 1 January 2013, defines fair value, sets out in a single IFRS a framework for

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

IAS 19

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

4. Financial instruments

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

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

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

	30 June 2011		31 December 2010		1 January 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and foreign deposits	3.5	3.5	4.7	4.7	20.4	20.4
Securities purchased under resale agreements	-	-	2,062.4	2,062.4	25,374.8	25,377.5
Advances to members of the Canadian Payments Association	258.7	258.7	22.5	22.5	-	-
Other receivables	6.9	6.9	2.1	2.1	2.2	2.2
Government of Canada treasury bills	21,975.1	21,975.1	24,906.1	24,906.1	13,684.0	13,684.0
Government of Canada bonds	37,674.7	40,412.2	33,550.6	36,296.4	31,986.2	34,128.0
Other investments	320.1	320.1	310.7	310.7	318.7	318.7
Total financial assets	60,239.0	62,976.5	60,859.1	63,604.9	71,386.3	73,530.8
Financial liabilities						
Bank notes in circulation	57,446.3	57,446.3	57,874.2	57,874.2	55,467.9	55,467.9
Deposits	2,230.9	2,230.9	2,556.8	2,556.8	15,550.2	15,550.2
Other financial liabilities	369.8	369.8	216.9	216.9	61.7	61.7
Total financial liabilities	60,047.0	60,047.0	60,647.9	60,647.9	71,079.8	71,079.8

5. Property and equipment

	Land and Buildings	Computer Equipment	Other Equipment	Total
Balances, 1 January 2011				
Cost	197.3	25.8	122.2	345.3
Accumulated depreciation	(80.1)	(13.9)	(98.3)	(192.3)
Net book value	117.2	11.9	23.9	153.0
Changes during the period				
Additions	4.0	0.7	0.6	5.3
Depreciation expense	(2.4)	(1.8)	(2.0)	(6.2)
Net changes to Net book value	1.6	(1.1)	(1.4)	(0.9)
Balances, 30 June 2011				
Cost	201.3	21.3	95.1	317.7
Accumulated depreciation	(82.5)	(10.5)	(72.6)	(165.6)
Net book value	118.8	10.8	22.5	152.1
Balances, 1 January 2010				
Cost	185.8	29.2	130.0	345.0
Accumulated depreciation	(74.1)	(16.1)	(99.6)	(189.8)
Net book value	111.7	13.1	30.4	155.2
Changes during the period				
Additions	5.6	2.2	2.9	10.7
Depreciation expense	(5.2)	(3.6)	(3.8)	(12.6)
Transfers to other asset categories	5.1	0.2	(5.1)	0.2
Disposals	-	-	(0.5)	(0.5)
Net changes to Net book value	5.5	(1.2)	(6.5)	(2.2)
Balances, 31 December 2010				
Cost	197.3	25.8	122.2	345.3
Accumulated depreciation	(80.1)	(13.9)	(98.3)	(192.3)
Net book value	117.2	11.9	23.9	153.0

Assets that are fully depreciated and no longer in use were derecognized in the amount of \$32.9 million for the six-month period ended 30 June 2011 (31 December 2010 - \$16.3 million).

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

	<u>Land and Buildings</u>	<u>Computer Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
Projects in progress 2011				
Included in Net book value	8.6	2.8	0.8	12.2
Additions during 2011	4.0	0.7	0.6	5.3
Commitments at 30 June 2011	7.4	2.2	0.2	9.8
Projects in progress 2010				
Included in Net book value	5.9	5.2	1.1	12.2
Additions during 2010	5.3	2.1	1.1	8.5
Commitments at 31 December 2010	1.5	0.1	1.1	2.7

Projects in progress consist primarily of \$4.9 million related to the Enhanced Business Continuity initiative (31 December 2010 - \$3.0 million; 1 January 2010 - \$0.1 million), \$3.6 million related to the Head Office Renewal Program (31 December 2010 - \$1.6 million; 1 January 2010 - \$0.1 million) and \$1.2 million related to the Currency Systems Evolution Program (31 December 2010 - \$1.2 million; 1 January 2010 - \$Nil). The completed streams of the Analytic Environment Program (31 December 2010 - \$3.1 million; 1 January 2010 - \$3.1 million) were put in service in 2011 and removed from Projects in progress.

In May 2011, the Bank entered into an agreement with a general contractor for the Enhanced Business Continuity initiative for a total amount of \$27 million.

6. Intangible assets

	<u>Internally generated software</u>	<u>Other software</u>	<u>Total</u>
Balances, 1 January 2011			
Cost	42.8	16.8	59.6
Accumulated amortization	(21.9)	(11.8)	(33.7)
Net book value	20.9	5.0	25.9
Changes during the period			
Additions	-	9.7	9.7
Amortization expense	(2.0)	(0.3)	(2.3)
Net changes to Net book value	(2.0)	9.4	7.4
Balances, 30 June 2011			
Cost	42.8	26.5	69.3
Accumulated amortization	(23.9)	(12.1)	(36.0)
Net book value	18.9	14.4	33.3

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

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

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

	Internally generated software	Other software	Total
Projects in progress 2011			
Included in Net book value	-	11.9	11.9
Additions during 2011	-	9.7	9.7
Commitments at 30 June 2011	-	-	-
Projects in progress 2010			
Included in Net book value	11.7	4.0	15.7
Additions during 2010	2.2	2.2	4.4
Commitments at 31 December 2010	-	-	-

Projects in progress consist primarily of \$4.6 million related to the Auctions and Market Applications Program (31 December 2010 - \$1.0 million; 1 January 2010 - \$Nil), \$3.9 million related to the Currency Systems Evolution Program (31 December 2010 - \$0.6 million; 1 January 2010 - \$Nil) and \$2.4 million related to the fifth stream of the Analytic Environment Program. The completed streams of the Analytic Environment Program (31 December 2010 - \$13.4 million; 1 January 2010 - \$11.2 million) were put in service in 2011 and removed from Projects in progress.

7. Other assets

	30 June 2011	31 December 2010	1 January 2010
Accrued pension benefit assets	191.7	166.6	196.3
All other assets	<u>21.5</u>	<u>11.5</u>	<u>15.3</u>
Total other assets	<u>213.2</u>	<u>178.1</u>	<u>211.6</u>

8. Other liabilities

	30 June 2011	31 December 2010	1 January 2010
Post-employment defined-benefit obligations	154.4	151.4	128.1
Accrued transfer payment to the Receiver General for Canada	<u>329.5</u>	<u>167.5</u>	<u>23.6</u>
Accounts payable and accrued liabilities	<u>40.1</u>	<u>49.1</u>	<u>37.9</u>
Payroll liabilities	<u>0.2</u>	<u>0.3</u>	<u>0.2</u>
Total other liabilities	<u>524.2</u>	<u>368.3</u>	<u>189.8</u>

The accrued transfer payment to the Receiver General for Canada is included in the \$638.1 million transfer to the Receiver General for the six-month period presented in the *Statement of changes in equity* (31 December 2010 - \$1,152.8 million).

9. Employee benefit plans

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

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2011	2010	2011	2010
Pension benefit plans	1.6	1.4	3.3	2.8
Other employee future benefit plans	<u>3.4</u>	<u>3.5</u>	<u>7.0</u>	<u>6.8</u>
Total benefit plans	<u>5.0</u>	<u>4.9</u>	<u>10.3</u>	<u>9.6</u>

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

	Pension plans (funded)		Other benefit plans (unfunded)	
	2011	2010	2011	2010
For the three-month period ended 30 June				
Contributions				
Employer	13.8	20.8	-	-
Employee	2.2	1.8	-	-
Total contributions	16.0	22.6	-	-
For the six-month period ended 30 June				
Contributions				
Employer	28.4	34.5	-	-
Employee	4.8	4.4	-	-
Total contributions	33.2	38.9	-	-

10. Equity

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

Share capital

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

Statutory reserve

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

Special reserve

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

Available-for-sale reserve

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

	30 June 2011	31 December 2010	1 January 2010
Treasury bills	10.0	(1.7)	6.8
BIS shares	<u>282.1</u>	<u>272.7</u>	<u>280.7</u>
Available-for-sale reserve	<u>292.1</u>	<u>271.0</u>	<u>287.5</u>

Actuarial gains reserve

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

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

Retained Earnings

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

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

For the six months ended 30 June 2011, an amount of \$126.1 million related to 2010 net income and \$350 million related to 2011 net income was remitted to the Receiver General for Canada (\$23.6 million in 2010 related to 2009 net income). Unpaid net income of \$329.5 million (31 December 2010 - \$167.5 million) is included under *Other liabilities* on the *condensed statement of financial position*.

11. Foreign currency contracts

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

12. Related parties

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

In the normal course of its operations, the Bank enters into transactions with related parties. Unless stated otherwise, all transactions with related parties take place at arm's length, except for the

provision of funds management, fiscal agent and banking services of the Government of Canada, which are transactions mandated by the Bank of Canada Act and the costs of which were not recovered. Material transactions and balances with related parties are presented in these financial statements. Not all transactions between the Bank and government related entities have been disclosed as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 *Related Parties* ("IAS 24").

13. Seasonality

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

14. Date of approval

The Board of Directors approved the condensed interim financial statements on 24 August 2011.

15. Explanation of transition to IFRS

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

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

Reconciliation of cash flows

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

Reconciliation of Financial Position and Equity as at 1 January 2010

(Millions of dollars)

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

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

Reconciliation of Financial Position and Equity as at 31 December 2010

(Millions of dollars)

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

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

**Reconciliation of Comprehensive Income for the year ended
31 December 2010**
(Millions of dollars)

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

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

Reconciliation of Financial Position and Equity as at 30 June 2010

(Millions of dollars)

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Cash and foreign deposits		2,5	-	2,5
Loans and receivables				
Securities purchased under resale agreements		5 940,8	-	5 940,8
Advances to members of the Canadian Payments Association		14,9	-	14,9
Other receivables		12,7	-	12,7
		5 968,4	-	5 968,4
Investments				
Government of Canada treasury bills		20 741,8	-	20 741,8
Government of Canada bonds		32 417,7	-	32 417,7
Other investments	(a)	38,0	265,1	303,1
		53 197,5	265,1	53 462,6
Property and equipment	(b,g)	123,1	28,7	151,8
Intangible assets	(g)	25,4	-	25,4
Other assets	(c)	132,3	114,9	247,2
Total assets		<u>59 449,2</u>	<u>408,7</u>	<u>59 857,9</u>
LIABILITIES AND EQUITY				
Bank notes in circulation		55 273,6	-	55 273,6
Deposits				
Government of Canada		2 608,5	-	2 608,5
Members of the Canadian Payments Association		285,7	-	285,7
Other deposits		727,9	-	727,9
		3 622,1	-	3 622,1
Other liabilities	(c,d,e)	420,3	23,9	444,2
		59 316,0	23,9	59 339,9
Equity	(a,b,c,d,e)	<u>133,2</u>	<u>384,8</u>	<u>518,0</u>
Total liabilities and equity		<u>59 449,2</u>	<u>408,7</u>	<u>59 857,9</u>

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

**Reconciliation of Comprehensive Income for the three-month period
ended 30 June 2010**
(Millions of dollars)

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
INCOME				
Net interest income				
Interest revenue				
Interest earned on investments		373.5	-	373.5
Dividend revenue		10.1	-	10.1
Interest earned on securities purchased under resale agreements		14.1	-	14.1
Other interest revenue	(g)	0.1	-	0.1
		397.8	-	397.8
Interest expense				
Interest expense on deposits		16.5	-	16.5
		381.3	-	381.3
Other revenue	(g)	2.5	-	2.5
Total income		383.8	-	383.8
EXPENSES				
Staff costs	(c,d)	42.3	(2.2)	40.1
Bank note research, production and processing		12.3	-	12.3
Premises maintenance		5.9	-	5.9
Depreciation and amortization	(b)	3.8	(0.2)	3.6
Other operating expenses		22.3	-	22.3
Total expenses		86.6	(2.4)	84.2
NET INCOME		297.2	2.4	299.6
OTHER COMPREHENSIVE INCOME				
Change in Available-for-sale reserve	(a)	5.5	0.7	6.2
Other comprehensive income		5.5	0.7	6.2
COMPREHENSIVE INCOME		302.7	3.1	305.8

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

Reconciliation of Comprehensive Income for the six-month period ended 30 June 2010

(Millions of dollars)

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
INCOME				
Net interest income				
Interest revenue				
Interest earned on investments		744.2	-	744.2
Dividend revenue		10.1	-	10.1
Interest earned on securities purchased under resale agreements		34.9	-	34.9
Other interest revenue	(g)	0.1	-	0.1
		789.3	-	789.3
Interest expense				
Interest expense on deposits		30.3	-	30.3
		759.0	-	759.0
Other revenue	(g)	5.6	-	5.6
Total income		764.6	-	764.6
EXPENSES				
Staff costs	(c,d)	84.1	(4.5)	79.6
Bank note research, production and processing		14.8	-	14.8
Premises maintenance		11.8	-	11.8
Depreciation and amortization	(b)	7.6	(0.3)	7.3
Other operating expenses		45.1	-	45.1
Total expenses		163.4	(4.8)	158.6
NET INCOME		601.2	4.8	606.0
OTHER COMPREHENSIVE INCOME				
Change in Available-for-sale reserve	(a)	(3.6)	(15.6)	(19.2)
Other comprehensive income		(3.6)	(15.6)	(19.2)
COMPREHENSIVE INCOME		597.6	(10.8)	586.8

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

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

Measurement changes

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

The impact of the change is summarized as follows:

	Statement of Comprehensive Income	Three-month period ended	Six-month period ended	Year ended
		30 June 2010	30 June 2010	31 December 2010
Decrease in Other Comprehensive Income				
Income	(0.7)		15.6	8.0
		30 June 2010	31 December 2010	1 January 2010
Statement of Financial Position				
Increase in Other investments			265.1	272.7
Change in Equity				280.7
Increase in Available-for-sale reserve		(265.1)	(272.7)	(280.7)

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

The impact of the change is summarized as follows:

	Statement of Comprehensive Income	Three-month period ended	Six-month period ended	Year ended
		30 June 2010	30 June 2010	31 December 2010
Decrease in Depreciation expense		0.2	0.3	1.2
		30 June 2010	31 December 2010	1 January 2010
Statement of Financial Position				
Increase in Property and equipment			28.7	29.6
Change in Equity				28.4
Increase in Retained earnings		(28.7)	(29.6)	(28.4)

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

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

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

The net impact of the changes is summarized as follows:

Statement of Comprehensive Income	Three-month period ended	Six-month period ended	Year ended
	30 June 2010	30 June 2010	31 December 2010
Decrease in benefit expenses	2.2	4.5	9.3
Actuarial losses taken to			
Actuarial gains reserve	-	-	(105.6)
Statement of Financial Position	30 June 2010	31 December 2010	1 January 2010
Increase in Other assets	114.9	29.0	113.0
Decrease (increase) in Other liabilities	9.3	(5.6)	6.7
Change in Equity			
Increase in Actuarial gains reserve	(119.7)	(14.1)	(119.7)
Increase in Retained earnings	(4.5)	(9.3)	-

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

The net impact of the changes is summarized as follows:

	Statement of Comprehensive Income		Three-month period ended	Six-month period ended	Year ended
	30 June 2010	30 June 2010	31 December 2010		
Increase in benefit expenses		-	-	0.8	
Statement of Financial Position			30 June 2010	31 December 2010	1 January 2010
	30 June 2010		31 December 2010	2010	2010
Decrease in Other liabilities			3.3	2.5	3.3
Change in Equity					
Increase in Retained earnings		(3.3)	(2.5)	(3.3)	

	Statement of Financial Position			30 June 2010	31 December 2010	1 January 2010
				2010	2010	2010
Increase in Other liabilities			(36.5)	(41.4)	-	
Change in Equity						
Decrease in Retained earnings			36.5	41.4	-	

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

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

g) Reclassification for IFRS presentation

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

The net impact of the changes is summarized as follows:

Statement of Comprehensive Income	Three-month period ended	Six-month period ended	Year ended
	30 June 2010	30 June 2010	31 December 2010
	<hr/>		
Decrease in Other revenue	(0.1)	(0.1)	(0.1)
Increase in Other interest revenue	0.1	0.1	0.1
<hr/>			
Statement of Financial Position	30 June 2010	31 December 2010	1 January 2010
	<hr/>		
Decrease in Property and equipment		(25.4)	(25.9)
Increase in Intangible assets		25.4	25.9
			23.7

SELECTED ANNUAL DISCLOSURES

As these condensed interim financial statements are the Bank's first financial statements prepared using IFRS, elements of disclosures that are significantly impacted as a result of the transition and required to be included in annual financial statements prepared in accordance with IFRS have been included in these financial statements as notes 16 and 17 for the comparative annual period ended 31 December 2010 which was reported in the Bank's most recent annual financial statements prepared in accordance with previous Canadian GAAP.

16. Financial instruments and risk

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the Canadian Payments Association, other receivables, investments, bank notes in circulation, deposits and other liabilities (net of post-employment and post-retirement obligations).

Fair value of financial instruments

a) Financial instruments measured at fair value

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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value as at 31 December 2010				
Cash and foreign deposits	4.7	-	-	4.7
Government of Canada treasury bills	24,906.1	-	-	24,906.1
BIS shares	-	-	310.7	310.7
	<u>24,910.8</u>	<u>-</u>	<u>310.7</u>	<u>25,221.5</u>
Financial assets at fair value as at 1 January 2010				
Cash and foreign deposits	20.4	-	-	20.4
Treasury bills of Canada	13,684.0	-	-	13,684.0
BIS shares	-	-	318.7	318.7
	<u>13,704.4</u>	<u>-</u>	<u>318.7</u>	<u>14,023.1</u>

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

The Bank holds 9,441 shares in the BIS in order to participate in the BIS and in international initiatives generally. Ownership of the BIS shares is limited to central banks, and new shares can only be acquired following an invitation to subscribe extended by the BIS Board of Directors. The shares are non-transferable unless prior written consent is obtained from the BIS.

The fair value of the BIS shares is estimated as being 70 per cent of the Bank's interest in the BIS's net asset value ("NAV") at the reporting date. This 30 per cent discount to NAV is based on a decision by the International Court at the Hague relating to a share repurchase by the BIS in 2001 and has been used by the BIS to determine the pricing of any new shares issued since that time. While the Bank considers that the 30 per cent discount against the BIS's net asset value continues to be the appropriate basis for valuation, the valuation inputs are not considered to be observable.

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair value measurements for the period from 1 January 2010 to 31 December 2010:

Year ended 31 December	2010
Opening balance at beginning of year	318.7
Estimated fair value loss for the year	(8.0)
Closing balance at end of year	<u>310.7</u>

b) Financial instruments not measured at fair value

Fair values of securities purchased under resale agreements are determined using market yields to maturity for similar instruments available at the statement of financial position date.

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

The carrying amount of cash and foreign deposits, advances to members of the Canadian Payments Association, other receivables, deposits and other financial liabilities (which is composed of other liabilities, excluding the portion representing accrued benefits liabilities as described in note 8) approximates fair value, given their short-term nature. The face value of

bank notes in circulation is equal to their fair value.

Financial risk

The Bank is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments. The following is an update to the descriptions of the Bank's risks as a result of IFRS accounting policy changes.

a) *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 Bank is exposed to currency risk primarily by holding shares in the BIS. These shares are denominated in Special Drawing Rights ("SDR"). The SDR serves as the unit of account for the International Monetary Fund ("IMF") and its value is based on a "basket" of four major currencies: the euro, the U.S. dollar, the pound sterling and the Japanese yen. As SDRs are translated into Canadian-dollar equivalents at rates prevailing at the date when the fair value is determined, the carrying value approximates fair value on the reporting date. Given the small size of the net foreign currency exposure relative to the total assets of the Bank, currency risk is not considered significant.

b) *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 changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Bank holds shares as a member of the BIS. This membership is mainly to maintain and develop strong relationships with other central banks. Shares in the BIS are owned exclusively by its member central banks and monetary authorities. For accounting purposes, the Bank treats BIS shares as available-for-sale and the fair value of these shares is estimated on the basis of the BIS's net asset value, less a discount of 30 per cent. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Canadian dollar. The price risk faced on BIS shares is incidental to the general reasons for holding them and is immaterial compared with other market risks faced by the Bank.

17. Employee benefit plans

The Bank measures its accrued benefit obligations and fair value of plan assets for accounting purposes as at 31 December of each year. The most recent actuarial valuation for funding purposes of the Registered Pension Plan was done as of 1 January 2010 and the next required valuation will be as of 1 January 2011.

The total cash payment for employee future benefits for 2010 was \$72.7 million, consisting of \$64.1 million in cash contributed by the Bank to its pension plans and \$8.6 million in cash payments directly to beneficiaries for its other benefit plans. The total cash payments expected for 2011 are \$54.7 million consisting of \$45.4 million in cash contributed to its pension plans and \$9.3 million in cash payments to its other post-employment benefit plans.

Benefit obligations and plan assets of post-employment defined-benefit and long-term benefit plans were composed of the following components during 2010:

	2010	
	Pension plans¹	Other benefit plans
Plan assets		
Fair value of plan assets at beginning of year	934.8	-
Expected return on plan assets	60.3	
Actuarial gains	53.0	-
Bank's contribution	64.1	-
Employees' contributions	9.2	-
Benefit payments and transfers	(39.6)	-
<i>Fair value of plan assets at end of year²</i>	<u>1,081.8</u>	<u>-</u>
Benefit obligation		
Benefit obligation at beginning of year	738.5	128.1
Current service cost	14.4	5.0
Interest cost	51.3	8.5
Employee's contributions	9.2	-
Actuarial losses	142.9	16.9
Benefit payments and transfers	(39.6)	(8.6)
<i>Benefit obligation at end of year</i>	<u>916.7</u>	<u>149.9</u>
<i>Employee benefit asset/(liability)</i>	<u>165.1</u>	<u>(149.9)</u>

1. For the Supplementary Pension Arrangement, in which the accrued benefit obligation exceeds plan assets, the accrued benefit obligation and fair value of plan assets totalled \$58.1 million and \$56.6 million, respectively.
2. The assets of the pension benefit plans were composed as follows: 56 per cent equities; 26 per cent bonds; 6 per cent real return Government of Canada bonds; 3 per cent other real return investments; 4 per cent real estate assets; and 5 per cent short-term securities and cash.

Benefit plan expenses recognized in the *Statement of Comprehensive Income* comprised the following components:

	2010	
	Pension plans (funded)	Other benefit plans (unfunded)
Benefit plan expense recognized in <i>Net income</i>		
Current service cost, net of employees' contributions	14.4	5.0
Interest cost	51.3	8.5
Actuarial loss	-	1.0
Expected return on plan assets	(60.3)	-
	5.4	14.5

Actuarial gains and losses pertaining to post-employment benefit plans are recognized in *Other Comprehensive Income* and cumulated in *Equity* in the Actuarial gains reserve.

Cumulative actuarial gains (losses) recognized in *Other Comprehensive Income*

Cumulative actuarial gains/(losses) recognized, beginning of period	-	-
Actuarial gains/(losses) recognized in current year	<u>(89.9)</u>	<u>(15.9)</u>
Cumulative actuarial gains/(losses) recognized, end of period	<u>(89.9)</u>	<u>(15.9)</u>

The significant assumptions used are as follows (on a weighted-average basis):

	2010	
	Pension plans	Other benefit plans
Accrued benefit obligation as at 1 January		
Discount rate	5.75%	5.50%
Rate of compensation increase	3.50%	3.50%
	+ merit	+ merit
Benefit plan expense for year ended 31 December		
Discount rate	7.00%	6.60%
Expected rate of return on assets	6.50%	0.00%
Rate of compensation increase	3.50%	3.50%
	+ merit	+ merit
Assumed medical cost trend		
Initial medical cost trend rate		6.75%
Medical cost trend rate declines to		4.50%
Year that the rate reaches the ultimate trend rate		2029

The discount rate is determined by reference to Canadian AA-corporate bonds with terms to maturity approximating the duration of the obligation.

The expected rate of return on assets that is determined by management relates to the entire plan asset portfolio on a weighted-average basis, and is based on market expectations, at the beginning of the period, for returns over the entire life of the obligation. As such, the expected rate of return may not be indicative of short-term performance of Plan assets or of market conditions generally.

The mortality assumptions used in the plan valuations are based on standard tables published by the Society of Actuaries, which were adjusted in line with both current industry and the actual experience of the relevant plan.

**Sensitivity analysis - Impact of 1.00 percentage point increase/decrease in assumptions
pertaining to medical cost trend rates**

	2010
Change in obligation	20.3 / (15.9)
Change in expense	1.6 / (1.3)