

BANK OF CANADA PENSION GOVERNANCE POLICY

1. Introduction

Role of the Bank: The Bank of Canada (the “Bank”) is the sponsor of the Bank of Canada Pension Plan (the “Pension Plan”) and the Bank of Canada Supplementary Pension Arrangement (the “SPA”) (collectively, the “Plans” and, singly, a “Plan”), and exercises all powers and authority in its capacity as the sponsor of the Plans.

The Bank is the administrator of the Plans for purposes of applicable pension benefits standards and income tax legislation governing each Plan. All benefits are calculated and paid out in accordance with the terms of the Pension Plan. The SPA supplements the pensions of those employees whose contributions and benefits exceed the maximum prescribed by the *Income Tax Act* (Canada) (“ITA”). Its terms mirror those of the Pension Plan. A separate trust fund has been established for each Plan to receive and invest contributions and pay benefits due under the Plans (collectively, the “Plan Funds” and singly, a “Plan Fund”). Plan Funds are physically held by a trustee appointed by the Pension Committee.

Fiduciary Duties of the Bank: While acting in its capacity as the administrator of the Plans, the Bank has certain fiduciary or other obligations to members, former members and others entitled to benefits under the Plans. In its fiduciary role, the Bank must act in good faith and in the best interests of the members and other beneficiaries of the Pension Plan and with the care, diligence and skill of a prudent person; treat Plan members and beneficiaries, and interpret the Plan terms, fairly and impartially; and within the scope of its authority, is responsible for ensuring that members and beneficiaries receive the promised benefits under the Plans.

2. Purpose of Policy

This Pension Governance Policy (the “Policy”) is designed to guide the various participants in the governance framework of the Plans, including members of the Bank’s Board of Directors, its Human Resources and Compensation Committee (the “HRCC”), Pension Committee and any subsidiary committees, as well as Bank employees and service providers (the “Participants”). This governance framework is a control mechanism for good decision making, proper and timely execution of responsibilities, clear accountability, and the regular review and assessment of all Participants. While performing their duties and responsibilities in connection with the Plans, all Participants should be aware of the objectives of this Policy, which are to ensure:

- that benefits under the Plans are adequately funded;
- that risks under the Plans are properly managed;

- that the Bank's distinct responsibilities as sponsor and administrator of the Plans are clearly distinguished, identified and appropriately fulfilled;
- proper, accurate and timely administration of the Plans in accordance with the respective Plan terms and prudent investment of each Plan's respective Plan Fund;
- that all roles and responsibilities of significant Participants are adequately described and documented and that clear guidelines for the governance and administration of the Plans and their respective assets are established for Participants;
- that appropriate and accurate information that is material in nature is assembled and communicated to the Board and those of its committees to allow timely decisions to be made regarding required Plan administration and governance issues;
- compliance with all legal and regulatory requirements applicable to the administration, investment and operation of the Plans and the maintenance of registration of the Pension Plan; and
- communication of these objectives to all participants in the pension governance process and promote transparency of this Policy.

This Policy is intended to summarize and explain the roles and responsibilities of the Participants, but does not supersede the formal Plan documents or the applicable provisions of the *Pension Benefits Standards Act, 1985* or the *Income Tax Act (Canada)*. In the event of any conflict between this Policy and the Plan documents or the requirements of applicable legislation, the latter will prevail to the extent of the conflict.

3. Application

This Policy applies to all Participants and to the advisers, delegates and agents retained by the Bank to assist in the operation, administration and investment of the assets of the Plans on the Bank's behalf. This Policy takes into account and should be applied in a manner consistent with pension benefits standards and income tax legislation and related regulatory policies and guidelines applicable to pension plan administration and governance, including without limitation: *Guideline for Governance of Federally Regulated Pension Plans*, issued by the Office of the Superintendent of Financial Institutions Canada (“OSFI”), and *Guideline No. 4: Pension Plan Governance Guidelines and Self-Assessment Questionnaire*, published by the Canadian Association of Pension Supervisory Authorities (“CAPSA”) and any successor publications.

4. Pension Governance Structure

The Bank through its Board of Directors (the “Board”) is responsible for the establishment of the Plans and oversight of their administration. The Board has established the Pension Committee to assist in and monitor the administration of the Plans and to carry out the implementation of this Policy. The Pension Committee has created a Pension Administration Committee (“PAC”) and a Pension Fund Investment Committee (“PFIC”) and delegated to each of them certain of its responsibilities in connection with the management and administration of the Plans and the investment of Plan assets. The Board has delegated to the HRCC certain responsibilities relating to Plan design. All delegations must be appropriately documented and monitored as set out in the

terms of reference applicable to those committees. All Participants are charged with carrying out the specific responsibilities and duties delegated to them and reporting to others in the pension governance structure as specified and, ultimately, to the Board.

The Board shall establish, monitor and amend the terms of reference of the Pension Committee and may make such amendments to this Policy as it deems appropriate. The Pension Committee shall carry out those duties and responsibilities as set out in its Terms of Reference.

Specific terms of reference for the PAC and the PFIC have also been established and will be maintained consistent with this Policy. The Pension Committee may also establish mandates of an administrative nature for designated employees of the Bank involved in Plan administration and for legal counsel, and other third-party advisers, agents and other service providers tasked with specific functions in connection with the Plans (“External Providers”).

5. Communication and Education

This Policy will be made available to all Participants. The Pension Committee will ensure that each Participant is properly educated and possesses the requisite knowledge and skills required to enable that person to properly fulfill his or her responsibilities. The Pension Committee will assess, on an ongoing basis, the knowledge and skills required of the Committee and Participants. To the extent that any deficiencies are identified, the Pension Committee will take reasonable measures to remedy that deficiency. As well, the Board and the Pension Committee will ensure that Participants are provided with continuing education and skills training regarding Plan governance and administration obligations on at least an annual basis.

6. The Responsibilities of the Board in Relation to the Bank's Dual Roles as Plan Sponsor and Administrator

The Bank has certain powers and responsibilities both as sponsor and as administrator of the Plans. In relation to its role as sponsor under a Plan, the Bank has the powers, duties and responsibilities of the employer as set out in the Plan, including the right to amend or terminate the Plan, and is also responsible for making decisions relating to overall Plan design.

In its role as administrator of the Pension Plan, the Bank has the responsibility for the prudent administration of the Pension Plan and Plan Fund in accordance with the applicable pension benefits standards legislation and the *Income Tax Act* (Canada). Under applicable law, the Bank's obligations as Pension Plan administrator are fiduciary in nature.

If there is any material conflict between the role of the Bank as sponsor and the Bank as administrator of the Pension Plan, the Bank will take appropriate steps to address the conflict and will comply with the requirements of the *Pension Benefits Standards Act, 1985* (Canada).

Plan Sponsor Functions

Without limiting its general authority and powers to act on behalf of the Bank as Plan sponsor, the Board will exercise the following specific powers and authority of the Bank when acting on behalf of the Bank in its capacity as Plan sponsor:

- Amendment or termination of the Plans, including any merger or consolidation of the Plans with new or existing plans or any transfer of assets to or from any other plans;
- Plan design, including the total cost of the Plans and the cost of benefits;
- Funding policy for the Plans, including but not limited to:
 - Asset and liability management, and
 - Significant matters relating to Plan funding, such as contribution holidays, use of surplus and solvency funding.

Any committee, department of the Bank or employee that has been delegated any of the above powers and authorities shall exercise such powers and authorities in a Plan sponsor capacity.

Plan Administrator Functions

Without limiting its general authority to act on behalf of the Bank as Plan administrator, the Board will exercise the following specific powers and responsibilities when acting on behalf of the Bank in its capacity as Plan administrator:

- Responsibility for Plan governance to ensure oversight of administration, funding and investment of the Plans and the Plan assets in accordance with the Plan terms and the requirements of applicable legislation, including but not limited to:
 - Appointment/removal of Pension Committee members;
 - Establishment and regular review of this Policy and the Terms of Reference of the Pension Committee;
 - Reviewing reports and evaluating recommendations from the Pension Committee, and acting on those recommendations as it deems appropriate;
- Annual review and approval of the Statement of Investment Policies and Procedures (“SIPP”) for the Plans;
- Appointment of the Plan auditors; and
- Annual approval of audited financial statements for the Plans.

Any committee, department of the Bank or employee that has been delegated any of the above powers and responsibilities shall exercise such powers and responsibilities in a Plan administrator capacity.

7. Compliance Review

The Pension Committee, the PAC and the PFIC will implement ongoing procedures to ensure that Participants carry out their delegated responsibilities and duties, including without limitation, procedures to ensure confirmation of statutory compliance and the reporting of compliance status to the Board or one of its committees.

8. Code of Conduct and Plan-Related Conflict of Interest Policy for Participants

Each Participant in the Plan governance framework shall, in the administration of the Pension Plan, exercise the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person and shall, in respect of the investment of the Plan Fund, invest the assets in a manner that a reasonable and prudent person would apply in respect of the portfolio of assets of a pension fund. Each Participant who possesses, or by reason of profession or business ought to possess, a particular level of knowledge and skill relevant to the administration of the Plans shall employ that particular level of knowledge or skill in the administration of the Plans.

No Participant will knowingly permit his or her interest, monetary or otherwise, direct or indirect, to conflict with the proper exercise of his or her duties and responsibilities as described in this Policy or in any related committee terms of reference.

Each Participant will promptly disclose any direct or indirect association or material interest or involvement with respect to the administration of the Plans or investment of the Plans' assets (other than being entitled to a benefit under the Plans) that would result in any actual or perceived conflict of interest. An actual or perceived conflict ("Conflict") may arise as a result of a Participant having or acquiring a material pecuniary interest, direct or indirect, in the administration of any Plan Fund or proposed investment, or if a Participant may materially benefit from an amendment to a Plan or from knowledge of, participation in, or by virtue of an investment decision relating to the Plan.

If a Participant who is not a member of the Pension Committee becomes aware that a Conflict may exist or have arisen, that Participant will advise the Chair of the Pension Committee in writing as soon as possible after becoming aware of the Conflict. The Chair will consult with the Pension Committee and such other persons or experts as the Chair deems appropriate and advise the Participant on the appropriate course of action to resolve the Conflict. That Participant will immediately withdraw from any deliberations, decision-making or activity relating to the matter giving rise to the conflict.

If a Participant is a member of the Pension Committee, the Conflict must be reported in writing by the Participant to the Chair of the Board's Corporate Governance Committee and referred to the Board for advice in the same manner as contemplated in the prior paragraph.

All Participants must comply with this Plan-Related Conflict of Interest Policy and, to the extent applicable to the individual, all other applicable policies adopted by the Bank from time to time, including without limitation, the Bank's and the Board's policies on Conflict of Interest. For Participants, the provisions of this Conflict of Interest Policy for Participants shall take

precedence over any other policy of the Bank applicable to them to the extent of any conflicting provisions.

9. Retaining Consultants, Agents and Advisers

In carrying out the responsibilities and duties that have been delegated to them, Participants may from time to time, retain the services of external service providers (“External Providers”).

Participants are responsible for ensuring that the External Provider is appropriately qualified and capable of performing the service(s) required. In advance of contracting with the External Provider, the Participant must establish a clear expectation with the External Provider on the level and quality of services and must ensure that the External Provider's fees are reasonable, competitive and commensurate with the services to be provided.

Terms of engagement relating to specific assignments for External Providers will be appropriately documented and approved in accordance with prevailing Bank policies and procedures, as well as such additional policies and procedures as may be established by the Pension Committee.

10. Amendment

The Board may amend this Policy from time to time.

TO BE APPROVED BY THE BOARD AT ITS MEETING OF 22 SEPTEMBER 2016.