



BANK OF CANADA  
BANQUE DU CANADA

# Quarterly Financial Report

31 March 2012

Unaudited

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## Context of the Quarterly Financial Report

The Bank of Canada (the Bank) develops and implements policy within its mandate, specifically in relation to its four core functions: monetary policy, the financial system, currency and funds management. The activities and operations of the Bank are not undertaken with the objective to generate revenue or profits and cannot be fully captured in a discussion of the financial statements. While the Bank provides full disclosure of its activities in its financial statements, those statements alone do not permit a full understanding of the Bank's activities.

The Bank's *2011 Annual Report* includes its Management's Discussion and Analysis (MD&A) for the year ended 31 December 2011. The MD&A provides a detailed analysis of the Bank's operations and how they impact its financial results, its capability to deliver results, and key areas of risks. Disclosures and information in the *Annual Report* and MD&A are assumed to apply to the current quarter unless otherwise updated in this report.

This Quarterly Financial Report is to be read in conjunction with the unaudited condensed interim financial statements of the Bank of Canada and related notes for the period ended 31 March 2012.

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. The preparation of this Quarterly Financial Report is the responsibility of Management. The report was approved by the Audit and Finance Committee of the Board of Directors.

## The Medium-Term Plan (2010–12)

The three-year medium-term plan (MTP) is the main planning tool the Bank uses to establish its strategic priorities. The priorities set out in the current MTP are to conduct leading research and policy analysis; to strengthen business resilience and infrastructure; to attract, retain and engage employees; and to unveil and issue a new series of bank notes.

As described in the MD&A, the Bank monitors its expenses in two ways—total operating expenses as reported in the Bank's financial results in accordance with International Financial Reporting Standards (IFRS) and MTP operating expenses,<sup>1</sup> which are a subset of the total operating expenses reported in the financial statements.

The Bank projects its operating expenses in connection with the medium-term plan. Consistent with the commitment made in late 2010, when the MTP financial plan was updated in response to federal government guidelines, the Bank intends to hold 2012 MTP operating expenses at \$342 million.

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<sup>1</sup> MTP operating expenses are considered a non-IFRS measure that does not have a standardized meaning. MTP operating expenses are described in the MD&A and exclude costs that have a record of volatility or that cannot be accurately predicted.

## Financial Discussion

### Highlights of the Statement of Financial Position (unaudited)

| (Millions of Canadian dollars) | 31 March<br>2012 | 31 December<br>2011 | \$ change      | % change   |
|--------------------------------|------------------|---------------------|----------------|------------|
| <b>Assets</b>                  |                  |                     |                |            |
| Cash and foreign deposits      | 6.6              | 11.7                | (5.1)          | (43.6)     |
| Loans and receivables          | 2,285.7          | 1,530.8             | 754.9          | 49.3       |
| Investments                    | 65,780.6         | 62,424.2            | 3,356.4        | 5.4        |
| Property and equipment         | 179.9            | 176.6               | 3.3            | 1.9        |
| Intangible assets              | 47.9             | 44.6                | 3.3            | 7.4        |
| Other assets                   | 67.7             | 59.3                | 8.4            | 14.2       |
|                                | <b>68,368.4</b>  | <b>64,247.2</b>     | <b>4,121.2</b> | <b>6.4</b> |
| <b>Liabilities and Equity</b>  |                  |                     |                |            |
| Bank notes in circulation      | 58,025.8         | 61,028.8            | (3,003.0)      | (4.9)      |
| Deposits                       | 9,405.9          | 2,481.0             | 6,924.9        | 279.1      |
| Other liabilities              | 511.3            | 312.8               | 198.5          | 63.5       |
| Equity                         | 425.4            | 424.6               | 0.8            | 0.2        |
|                                | <b>68,368.4</b>  | <b>64,247.2</b>     | <b>4,121.2</b> | <b>6.4</b> |

At the close of the first quarter of 2012, the Bank had assets of \$68,368.4 million, an increase of 6.4 per cent compared with year-end 2011.

*Loans and receivables* increased by \$754.9 million since 31 December 2011. At 31 March 2012, purchase and resale agreements (PRA) operations totalling \$2,283.6 million were outstanding. These operations had been undertaken to maintain the overnight interest rate close to the target rate. Other PRA operations which were outstanding at year-end 2011 matured in January 2012.

*Investments* increased by \$3,356.4 million, owing primarily to net purchases of Government of Canada bonds in excess of maturities. Government of Canada bonds increased by \$4,030.7 million and were offset by a decline of \$682.5 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).

The increase in *Property and equipment* and *Intangible assets* was owing to capital spending of \$11.5 million offset by depreciation and amortization of \$4.8 million. Capital spending during the quarter included \$5.7 million related to the Enhanced Business-Continuity Program and the refurbishment of elevators at the head office complex. In addition, \$5.8 million was spent to support the Bank's achievement of its priorities under the medium-term plan. The largest initiative is the Auctions and Market Applications Program, which aims to support end-to-end post-trade processing and to strengthen business-continuity capacity. Another significant strategic initiative for the Bank is the Information Technology Infrastructure Upgrade and Evolution project, which will upgrade obsolete network components and improve performance.

*Other assets* have increased by \$8.4 million since 31 December 2011, owing mainly to a higher net post-employment benefit asset as a result of contributions to the pension plan and increases in prepaid property taxes.

Liabilities from *Bank notes in circulation* decreased by 5 per cent, reflecting the seasonal reduction in demand following the end of the winter holiday period.

The main components of the *Deposits* liability are \$2,068.2 million held for the Government of Canada for operational balances and \$4,000 million held for the government's prudential liquidity management plan. The operating portion of the deposit is dependent on the cash needs of the Government of Canada, and fluctuations that occur are a result of cash-flow management decisions. Deposits at 31 March 2012 increased by \$6,924.9 million compared with the previous year-end mainly as a result of the increase owing to the prudential liquidity management plan deposit.

*Other liabilities* increased by \$198.5 million compared with year-end 2011, largely 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. At 31 March 2012, the unremitted balance was \$269.6 million (\$78.4 million at 31 December 2011). During the quarter ended 31 March 2012, the Bank transferred \$78.4 million related to 2011 net income to the Receiver General.

Since 31 December 2011, the Bank's *Equity* has been affected by the non-cash elements of *Other Comprehensive Income*. An increase of \$0.8 million in fair-value changes related to the investment in the BIS was reported in *Other Comprehensive Income* and accumulated in the available-for-sale reserve within *Equity*.

**Highlights of the Statement of Comprehensive Income (unaudited)**

Results for the three months ended 31 March 2012

(Millions of Canadian dollars)

|                                               | Three-month period<br>ended 31 March |       |           |          |
|-----------------------------------------------|--------------------------------------|-------|-----------|----------|
|                                               | 2012                                 | 2011  | \$ change | % change |
| <b>Income</b>                                 |                                      |       |           |          |
| Interest revenue                              | <b>398.3</b>                         | 405.5 | (7.2)     | (1.8)    |
| Interest expense                              | <b>(12.0)</b>                        | (5.6) | (6.4)     | (114.3)  |
| Other revenue                                 | <b>2.3</b>                           | 2.9   | (0.6)     | (20.7)   |
| Total income                                  | <b>388.6</b>                         | 402.8 | (14.2)    | (3.5)    |
| <b>Expenses</b>                               |                                      |       |           |          |
| Staff costs                                   | <b>46.1</b>                          | 41.2  | (4.9)     | (11.9)   |
| Bank note research, production and processing | <b>23.8</b>                          | 13.4  | (10.4)    | (77.6)   |
| Premises maintenance                          | <b>6.4</b>                           | 6.2   | (0.2)     | (3.2)    |
| Technology and telecommunications             | <b>5.9</b>                           | 4.6   | (1.3)     | (28.3)   |
| Depreciation and amortization                 | <b>4.8</b>                           | 4.3   | (0.5)     | (11.6)   |
| Other operating expenses                      | <b>17.7</b>                          | 18.7  | 1.0       | 5.3      |
| Total expenses                                | <b>104.7</b>                         | 88.4  | (16.3)    | (18.4)   |
| <b>Net Income</b>                             | <b>283.9</b>                         | 314.4 | (30.5)    | (9.7)    |
| <b>Other Comprehensive Income</b>             | <b>(13.5)</b>                        | 4.7   | (18.2)    | (387.2)  |
| <b>Comprehensive Income</b>                   | <b>270.4</b>                         | 319.1 | (48.7)    | (15.3)   |

**Income**

Income for the first quarter of 2012 was \$388.6 million, a decrease of \$14.2 million or 3.5 per cent, compared with the same period in the previous year.

Interest income derived from the Bank's investments in Government of Canada securities is its primary source of revenue. The Bank recorded \$397.9 million in interest revenue from treasury bills and bonds, a decrease of \$7.3 million compared with the first quarter of 2011. While revenue increased as a result of the higher level of investments, this was offset by lower yields on treasury bills and bonds. The remaining component is interest earned on PRAs which is consistent with 2011 levels.

Revenues are reported net of interest paid on Government of Canada deposits. Interest expense on deposits increased by \$6.4 million, compared with the same period in 2011, owing mainly to a higher level of Government of Canada deposits.

The Bank's revenues from its remaining sources decreased slightly from 2011 levels.

## Expenses

Operating expenses in the first quarter were \$16.3 million higher than for the same period in the previous year, primarily as a result of increased costs for bank note production and staffing.

Costs associated with bank note production were \$10.4 million higher than 2011 levels. The increase in costs was the result of a higher unit cost to produce the new *Polymer* series notes than to produce the cotton-based notes, as well as a slight increase in the volume of notes received.

Staff costs in the quarter increased by \$4.9 million compared with 2011, owing to additional term resources related to strategic investment projects, annual compensation increases, and higher benefit costs associated with the Bank's deferred employee benefit plans.

Increased technology costs of \$1.3 million are the result of investments made to upgrade the IT infrastructure. Other operating expenses, including premises maintenance, and depreciation and amortization, are consistent with 2011 levels.

## Net income

*Net income* for the quarter was \$283.9 million, a decrease of \$30.5 million compared with the same period of 2011.

## Other Comprehensive Income

*Other Comprehensive Income* of -\$13.5 million for the quarter consists of a decrease of \$0.3 million in the fair values of available-for-sale assets and actuarial losses of \$13.2 million on the Bank's deferred employee benefit plans.

Available-for-sale assets comprise Government of Canada treasury bills and the Bank's investment in the Bank for International Settlements (BIS). Fair-value changes are accumulated in the reserve for available-for-sale assets within the Bank's *Equity*. As at 31 March 2012, this reserve totalled \$295.4 million and consists primarily of the fair-value change in the Bank's investment in the BIS.

Under IFRS, the Bank recognizes all actuarial gains and losses on post-employment benefits immediately in *Other Comprehensive Income* at each reporting period. Actuarial losses are affected by the actual return, compared with the expected return, on plan assets, and the discount rate used to determine defined-benefit obligations. The \$13.2 million actuarial loss recorded in the first quarter is the result of a reduction in the discount rate used to value the defined-benefit obligation offset by higher returns on plan assets.

## Financial Outlook Compared with the Medium-Term Plan

### **Medium-Term Plan (MTP)**

At the end of the first quarter of 2012, the Bank is on track to deliver on the full-year plan of \$342 million of MTP expenses.

### **Expenses excluded from the MTP**

The Bank expects to incur costs of approximately \$150 million for the production of bank notes in 2012. In addition to the *Polymer* series \$100 and \$50 notes and the final order of the cotton \$5 and \$10 notes, the Bank will produce the new \$20 polymer notes later in 2012.

### ***Capital spending***

Capital expenditures of \$66 million for ongoing operations and strategic investments are expected in 2012. This estimate may be updated during 2012, pending the outcome of further decisions taken regarding the Head Office Renewal Program.

### ***Statement of Financial Position***

In connection with the Government of Canada's prudential liquidity management plan, government deposits held at the Bank are expected to increase by \$10 billion in 2012.



## Operational Highlights and Changes

The following significant changes in operations, personnel and programs have occurred since 31 December 2011.

### Operations and Programs

On 26 March 2012, the Bank launched the second denomination in its new *Polymer* series notes—the \$50 note—into circulation. The \$20 note will be issued in November 2012, with the remaining notes in the series—the \$5 and \$10 denominations—to be issued by the end of 2013.

Subsequent to the quarter end, the Governor of the Bank designated the Canadian Derivatives Clearing Service (CDCS) as subject to ongoing regulatory oversight by the Bank under the Payment Clearing and Settlement Act. CDCS provides central counterparty services for derivatives contracts traded on the Montréal Exchange and certain fixed income securities issued or guaranteed by the Government of Canada. The designation will not have a direct impact on the Bank's financial operations.

### Board of Directors and Personnel

A complete description of the composition and roles of the Bank's Board of Directors and Management is included in the 2011 Annual Report. There were no changes to these key management personnel during the quarter that ended 31 March 2012.

## Risk Analysis

The Risk section of the Bank's Management's Discussion and Analysis (MD&A) for the year ended 31 December 2011 outlines its risk management framework and its risk profile. The key areas of risk—financial risk, enterprise risk, business risk, people risk, and operational risk—are discussed. The financial risks are discussed further in the notes to the 31 December 2011 financial statements which are included in the *2011 Annual Report*.

The risks identified in the MD&A remain the key risks for the Bank. During the first quarter, the Bank did not identify any material changes in any of its risk categories or ratings compared with the assessment at year-end.



**BANK OF CANADA**  
**BANQUE DU CANADA**

**Condensed Interim Financial Statements of**

**THE BANK OF CANADA**

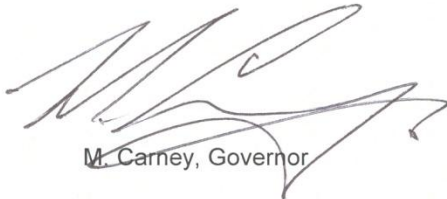
**(Unaudited)**

**as at 31 March 2012**  
**and for the three-month period 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 that 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 May 2012  
Ottawa, Canada

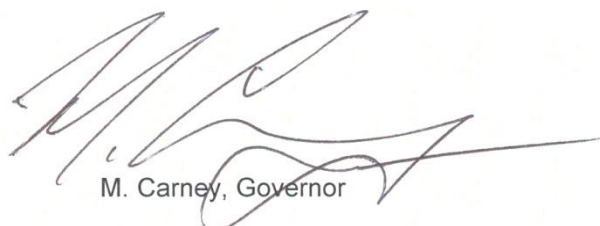


S. Vokey, CA, Chief Accountant


**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

(Millions of Canadian dollars)

|                                                          | As at<br>31 March<br>2012 | As at<br>31 December<br>2011 |
|----------------------------------------------------------|---------------------------|------------------------------|
| <b>ASSETS</b>                                            |                           |                              |
| <b>Cash and foreign deposits</b>                         | 6.6                       | 11.7                         |
| <b>Loans and receivables</b>                             |                           |                              |
| Securities purchased under resale agreements             | 2,283.6                   | 1,447.7                      |
| Advances to members of the Canadian Payments Association | -                         | 81.5                         |
| Other receivables                                        | 2.1                       | 1.6                          |
|                                                          | <u>2,285.7</u>            | <u>1,530.8</u>               |
| <b>Investments</b>                                       |                           |                              |
| Government of Canada treasury bills                      | 17,863.1                  | 18,545.6                     |
| Government of Canada bonds                               | 47,584.0                  | 43,553.3                     |
| Other investments                                        | 333.5                     | 325.3                        |
|                                                          | <u>65,780.6</u>           | <u>62,424.2</u>              |
| <b>Property and equipment</b> (note 5)                   | 179.9                     | 176.6                        |
| <b>Intangible assets</b> (note 6)                        | 47.9                      | 44.6                         |
| <b>Other assets</b> (note 7)                             | 67.7                      | 59.3                         |
| <b>Total assets</b>                                      | <u><u>68,368.4</u></u>    | <u><u>64,247.2</u></u>       |
| <b>LIABILITIES AND EQUITY</b>                            |                           |                              |
| <b>Bank notes in circulation</b>                         | 58,025.8                  | 61,028.8                     |
| <b>Deposits</b> (note 8)                                 |                           |                              |
| Government of Canada                                     | 6,068.2                   | 1,512.5                      |
| Members of the Canadian Payments Association             | 2,182.6                   | 106.7                        |
| Other deposits                                           | 1,155.1                   | 861.8                        |
|                                                          | <u>9,405.9</u>            | <u>2,481.0</u>               |
| <b>Other liabilities</b> (note 9)                        | 511.3                     | 312.8                        |
|                                                          | <u>67,943.0</u>           | <u>63,822.6</u>              |
| <b>Equity</b> (note 11)                                  | 425.4                     | 424.6                        |
| <b>Total liabilities and equity</b>                      | <u><u>68,368.4</u></u>    | <u><u>64,247.2</u></u>       |



M. Carney, Governor



S. Vokey, CA, Chief Accountant

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

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

(Millions of Canadian dollars)

|                                                                 | For the three-month period<br>ended 31 March |              |
|-----------------------------------------------------------------|----------------------------------------------|--------------|
|                                                                 | 2012                                         | 2011         |
| <b>INCOME</b>                                                   |                                              |              |
| <b>Net interest income</b>                                      |                                              |              |
| <b>Interest revenue</b>                                         |                                              |              |
| Interest earned on investments                                  | 397.9                                        | 405.2        |
| Interest earned on securities purchased under resale agreements | 0.3                                          | 0.4          |
| Other interest revenue (expense)                                | 0.1                                          | (0.1)        |
|                                                                 | <u>398.3</u>                                 | <u>405.5</u> |
| <b>Interest expense</b>                                         |                                              |              |
| Interest expense on deposits                                    | (12.0)                                       | (5.6)        |
|                                                                 | <u>386.3</u>                                 | <u>399.9</u> |
| <b>Other revenue</b>                                            | <u>2.3</u>                                   | <u>2.9</u>   |
| <b>Total income</b>                                             | <u>388.6</u>                                 | <u>402.8</u> |
| <b>EXPENSES</b>                                                 |                                              |              |
| Staff costs                                                     | 46.1                                         | 41.2         |
| Bank note research, production and processing                   | 23.8                                         | 13.4         |
| Premises maintenance                                            | 6.4                                          | 6.2          |
| Technology and telecommunications                               | 5.9                                          | 4.6          |
| Depreciation and amortization                                   | 4.8                                          | 4.3          |
| Other operating expenses                                        | 17.7                                         | 18.7         |
| <b>Total expenses</b>                                           | <u>104.7</u>                                 | <u>88.4</u>  |
| <b>NET INCOME</b>                                               | <u>283.9</u>                                 | <u>314.4</u> |
| <b>OTHER COMPREHENSIVE INCOME</b>                               |                                              |              |
| Change in fair value of available-for-sale financial assets     | (0.3)                                        | 4.7          |
| Actuarial losses                                                | (13.2)                                       | -            |
| <b>Other comprehensive income</b>                               | <u>(13.5)</u>                                | <u>4.7</u>   |
| <b>COMPREHENSIVE INCOME</b>                                     | <u>270.4</u>                                 | <u>319.1</u> |

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

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

(Millions of Canadian dollars)

|                                                             | For the three-month period ended 31 March |                   |                 |                            |                         |                   | Total          |
|-------------------------------------------------------------|-------------------------------------------|-------------------|-----------------|----------------------------|-------------------------|-------------------|----------------|
|                                                             | Share capital                             | Statutory reserve | Special reserve | Available-for-sale reserve | Actuarial gains reserve | Retained earnings |                |
| <b>Balance, 1 January 2012</b>                              | <b>5.0</b>                                | <b>25.0</b>       | <b>100.0</b>    | <b>294.6</b>               | <b>-</b>                | <b>-</b>          | <b>424.6</b>   |
| <b>Comprehensive income for the period</b>                  |                                           |                   |                 |                            |                         |                   |                |
| Net income                                                  | -                                         | -                 | -               | -                          | -                       | 283.9             | 283.9          |
| Change in fair value of available-for-sale financial assets | -                                         | -                 | -               | 0.8                        | -                       | (1.1)             | (0.3)          |
| Actuarial losses                                            | -                                         | -                 | -               | -                          | -                       | (13.2)            | (13.2)         |
|                                                             | -                                         | -                 | -               | 0.8                        | -                       | 269.6             | 270.4          |
| <b>Transfer to Receiver General for Canada</b>              | <b>-</b>                                  | <b>-</b>          | <b>-</b>        | <b>-</b>                   | <b>-</b>                | <b>(269.6)</b>    | <b>(269.6)</b> |
| <b>Balance, 31 March 2012</b>                               | <b>5.0</b>                                | <b>25.0</b>       | <b>100.0</b>    | <b>295.4</b>               | <b>-</b>                | <b>-</b>          | <b>425.4</b>   |
| <b>Balance, 1 January 2011</b>                              | <b>5.0</b>                                | <b>25.0</b>       | <b>100.0</b>    | <b>271.0</b>               | <b>14.1</b>             | <b>1.7</b>        | <b>416.8</b>   |
| <b>Comprehensive income for the period</b>                  |                                           |                   |                 |                            |                         |                   |                |
| Net income                                                  | -                                         | -                 | -               | -                          | -                       | 314.4             | 314.4          |
| Change in fair value of available-for-sale financial assets | -                                         | -                 | -               | 4.7                        | -                       | -                 | 4.7            |
|                                                             | -                                         | -                 | -               | 4.7                        | -                       | 314.4             | 319.1          |
| <b>Transfer to Receiver General for Canada</b>              | <b>-</b>                                  | <b>-</b>          | <b>-</b>        | <b>-</b>                   | <b>-</b>                | <b>(316.1)</b>    | <b>(316.1)</b> |
| <b>Balance, 31 March 2011</b>                               | <b>5.0</b>                                | <b>25.0</b>       | <b>100.0</b>    | <b>275.7</b>               | <b>14.1</b>             | <b>-</b>          | <b>419.8</b>   |

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

**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

(Millions of Canadian dollars)

|                                                                          | <b>For the three-month<br/>period ended 31 March</b> |                  |
|--------------------------------------------------------------------------|------------------------------------------------------|------------------|
|                                                                          | <b>2012</b>                                          | <b>2011</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |                                                      |                  |
| Interest received                                                        | 162.7                                                | 128.5            |
| Other revenue received                                                   | 1.8                                                  | 2.5              |
| Interest paid                                                            | (12.0)                                               | (5.6)            |
| Payments to or on behalf of employees and to suppliers                   | (114.3)                                              | (104.4)          |
| Net decrease in advances to members of the Canadian Payments Association | 81.5                                                 | 12.8             |
| Net increase (decrease) in deposits                                      | 6,925.0                                              | (831.8)          |
| Proceeds from maturity of securities purchased under resale agreements   | 3,677.1                                              | 2,061.4          |
| Acquisition of securities purchased under resale agreements              | (4,513.3)                                            | -                |
| Repayments of securities sold under repurchase agreements                | -                                                    | (764.8)          |
| Proceeds from securities sold under repurchase agreements                | -                                                    | 764.8            |
| Net cash provided by operating activities                                | <u>6,208.5</u>                                       | <u>1,263.4</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                              |                                                      |                  |
| Net decrease in Government of Canada treasury bills                      | 671.0                                                | 5,048.9          |
| Purchases of Government of Canada bonds                                  | (4,254.3)                                            | (3,235.7)        |
| Proceeds from maturity of Government of Canada bonds                     | 462.6                                                | 203.9            |
| Additions of property and equipment                                      | (6.9)                                                | (2.4)            |
| Additions of intangible assets                                           | (4.6)                                                | (4.0)            |
| Net cash (used in) provided by investing activities                      | <u>(3,132.2)</u>                                     | <u>2,010.7</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |                                                      |                  |
| Net decrease in bank notes in circulation                                | (3,003.0)                                            | (3,125.0)        |
| Remittance of ascertained surplus to the Receiver General for Canada     | (78.4)                                               | (151.1)          |
| Net cash used in financing activities                                    | <u>(3,081.4)</u>                                     | <u>(3,276.1)</u> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY</b>               | <u>-</u>                                             | <u>(0.1)</u>     |
| <b>DECREASE IN CASH AND FOREIGN DEPOSITS</b>                             | <u>(5.1)</u>                                         | <u>(2.1)</u>     |
| <b>CASH AND FOREIGN DEPOSITS, BEGINNING OF PERIOD</b>                    | <u>11.7</u>                                          | <u>4.7</u>       |
| <b>CASH AND FOREIGN DEPOSITS, END OF PERIOD</b>                          | <u>6.6</u>                                           | <u>2.6</u>       |

(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 31 March 2012

(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 and is exempt from income taxes. The Bank is a Government Business Enterprise, as defined by the Public Sector Accounting Board Handbook and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the 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 the 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**

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 International Financial Reporting Standards (IFRS) accounting policies the Bank adopted 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 condensed interim financial statements and related notes should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2011. When necessary, the condensed interim financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim period reported are not necessarily indicative of results expected for the year.

The Board of Directors approved the condensed interim financial statements on 24 May 2012.

#### **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.

### **Seasonality**

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

### **Functional and presentation currency**

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

### **Fiscal agent and custodial activities**

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the government) and the Department of Finance. In this fiscal agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas. The assets, liabilities, expenditures and revenues to which this support relates are those of the Government of Canada and are not included in the condensed interim financial statements of the Bank.

Securities safekeeping and gold custodial activities are provided to foreign central banks and international organizations. The assets and the income arising therefrom, are excluded from these condensed interim financial statements, as they are not assets or income of the Bank.

## **3. Significant accounting policies**

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those disclosed in the Bank of Canada's financial statements for the year ended 31 December 2011.

### **Changes in accounting policies**

#### **IFRS 7**

The Bank adopted the amendments to IFRS 7 *Financial Instruments: Disclosures* (IFRS 7), effective 1 January 2012. 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 require disclosure relating to the Bank's securities sold under repurchase agreements and securities-lending transactions. There was no material impact on the condensed interim financial statements as a result of these amendments.

#### 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 Bank for International Settlements (BIS)), bank notes in circulation, deposits and other liabilities (excluding 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, with the exception of bank notes in circulation, which are measured at face value.

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

|                                                             | 31 March 2012   |                 | 31 December 2011 |                 |
|-------------------------------------------------------------|-----------------|-----------------|------------------|-----------------|
|                                                             | Carrying amount | Fair value      | Carrying amount  | Fair value      |
| <b>Financial assets</b>                                     |                 |                 |                  |                 |
| Cash and foreign deposits                                   | 6.6             | 6.6             | 11.7             | 11.7            |
| Securities purchased under resale agreements                | 2,283.6         | 2,283.6         | 1,447.7          | 1,447.7         |
| Advances to members of the<br>Canadian Payments Association | -               | -               | 81.5             | 81.5            |
| Other receivables                                           | 2.1             | 2.1             | 1.6              | 1.6             |
| Government of Canada treasury bills                         | 17,863.1        | 17,863.1        | 18,545.6         | 18,545.6        |
| Government of Canada bonds                                  | 47,584.0        | 51,644.9        | 43,553.3         | 48,511.0        |
| Other investments                                           | 333.5           | 333.5           | 325.3            | 325.3           |
| <b>Total financial assets</b>                               | <b>68,072.9</b> | <b>72,133.8</b> | <b>63,966.7</b>  | <b>68,924.4</b> |
| <b>Financial liabilities</b>                                |                 |                 |                  |                 |
| Bank notes in circulation                                   | 58,025.8        | 58,025.8        | 61,028.8         | 61,028.8        |
| Deposits                                                    | 9,405.9         | 9,405.9         | 2,481.0          | 2,481.0         |
| Other financial liabilities                                 | 322.6           | 322.6           | 132.1            | 132.1           |
| <b>Total financial liabilities</b>                          | <b>67,754.3</b> | <b>67,754.3</b> | <b>63,641.9</b>  | <b>63,641.9</b> |

**5. Property and equipment**

|                                               | <b>Land and<br/>buildings</b> | <b>Computer<br/>equipment</b> | <b>Other<br/>equipment</b> | <b>Total</b>   |
|-----------------------------------------------|-------------------------------|-------------------------------|----------------------------|----------------|
| <b>2012</b>                                   |                               |                               |                            |                |
| <b>Cost</b>                                   |                               |                               |                            |                |
| Balances, 1 January 2012                      | 218.2                         | 30.8                          | 99.5                       | 348.5          |
| Additions                                     | 5.3                           | 1.3                           | 0.3                        | 6.9            |
| Disposals                                     | -                             | (2.0)                         | (2.7)                      | (4.7)          |
| Balances, 31 March 2012                       | <b>223.4</b>                  | <b>30.1</b>                   | <b>97.1</b>                | <b>350.6</b>   |
| <b>Depreciation</b>                           |                               |                               |                            |                |
| Balances, 1 January 2012                      | (85.1)                        | (12.2)                        | (74.7)                     | (171.9)        |
| Depreciation expense                          | (1.9)                         | (0.7)                         | (0.9)                      | (3.5)          |
| Disposals                                     | -                             | 2.0                           | 2.7                        | 4.7            |
| Balances, 31 March 2012                       | <b>(86.9)</b>                 | <b>(10.9)</b>                 | <b>(72.9)</b>              | <b>(170.7)</b> |
| <b>Carrying amounts</b>                       |                               |                               |                            |                |
| At 1 January 2012                             | 133.1                         | 18.6                          | 24.8                       | 176.6          |
| At 31 March 2012                              | <b>136.5</b>                  | <b>19.2</b>                   | <b>24.2</b>                | <b>179.9</b>   |
| <b>Projects in progress 2012</b>              |                               |                               |                            |                |
| Included in Carrying amounts at 31 March 2012 | 29.9                          | 12.5                          | 4.5                        | 46.9           |
| Additions during 2012                         | 5.3                           | 1.3                           | 0.2                        | 6.8            |
| Commitments at 31 March 2012                  | 15.2                          | 3.4                           | 4.8                        | 23.4           |

Projects in progress consist primarily of \$31.7 million related to the Enhanced Business Continuity initiative (31 December 2011—\$26.2 million), \$5.1 million related to the Head Office Renewal Program (31 December 2011—\$4.9 million), and \$1.2 million related to the BPS adaptation (31 December 2011—\$1.0 million). The Currency Systems Evolution Program (31 December 2011—\$1.2 million) was put in service in 2012 and removed from Projects in progress.

|                                                     | Land and<br>buildings | Computer<br>equipment | Other<br>equipment | Total   |
|-----------------------------------------------------|-----------------------|-----------------------|--------------------|---------|
| <b>2011</b>                                         |                       |                       |                    |         |
| <b>Cost</b>                                         |                       |                       |                    |         |
| Balances, 1 January 2011                            | 197.3                 | 25.8                  | 122.2              | 345.3   |
| Additions                                           | 21.1                  | 10.2                  | 4.9                | 36.2    |
| Disposals                                           | (0.2)                 | (5.2)                 | (27.6)             | (33.0)  |
| Balances, 31 December 2011                          | 218.2                 | 30.8                  | 99.5               | 348.5   |
| <b>Depreciation</b>                                 |                       |                       |                    |         |
| Balances, 1 January 2011                            | (80.1)                | (13.9)                | (98.3)             | (192.3) |
| Depreciation expense                                | (5.0)                 | (3.5)                 | (4.0)              | (12.5)  |
| Disposals                                           | -                     | 5.2                   | 27.6               | 32.8    |
| Balances, 31 December 2011                          | (85.1)                | (12.2)                | (74.7)             | (171.9) |
| <b>Carrying amounts</b>                             |                       |                       |                    |         |
| At 1 January 2011                                   | 117.2                 | 11.9                  | 23.9               | 153.0   |
| At 31 December 2011                                 | 133.1                 | 18.6                  | 24.8               | 176.6   |
| <b>Projects in progress 2011</b>                    |                       |                       |                    |         |
| Included in Carrying amounts<br>at 31 December 2011 | 25.1                  | 12.3                  | 4.6                | 42.0    |
| Additions during 2011                               | 20.5                  | 10.2                  | 4.4                | 35.1    |
| Commitments at 31 December 2011                     | 0.6                   | 0.3                   | -                  | 0.9     |

**6. Intangible assets**

|                                                  | Internally generated<br>software | Other<br>software | Total  |
|--------------------------------------------------|----------------------------------|-------------------|--------|
| <b>2012</b>                                      |                                  |                   |        |
| <b>Cost</b>                                      |                                  |                   |        |
| Balances, 1 January 2012                         | 42.8                             | 40.2              | 83.0   |
| Additions                                        | -                                | 4.6               | 4.6    |
| Balances, 31 March 2012                          | 42.8                             | 44.8              | 87.6   |
| <b>Amortization</b>                              |                                  |                   |        |
| Balances, 1 January 2012                         | (25.8)                           | (12.6)            | (38.4) |
| Amortization expense                             | (1.0)                            | (0.3)             | (1.3)  |
| Balances, 31 March 2012                          | (26.8)                           | (12.9)            | (39.7) |
| <b>Carrying amounts</b>                          |                                  |                   |        |
| At 1 January 2012                                | 17.0                             | 27.6              | 44.6   |
| At 31 March 2012                                 | 16.0                             | 31.9              | 47.9   |
| <b>Projects in progress 2012</b>                 |                                  |                   |        |
| Included in Carrying amounts<br>at 31 March 2012 | -                                | 21.6              | 21.6   |
| Additions during 2012                            | -                                | 3.8               | 3.8    |
| Commitments at 31 March 2012                     | -                                | 0.6               | 0.6    |

Projects in progress consist primarily of \$13.7 million related to the Auctions and Market Applications Program (31 December 2011—\$11.2 million), \$1.4 million related to the BPS adaptation (31 December 2011—\$1.5 million) and \$4.8 million related to the data-management stream of the Analytic Environment Program (31 December 2011—\$4.0 million). The Currency Systems Evolution Program (31 December 2011—\$7.8 million) was put in service in 2012 and removed from Projects in progress.

|                                                     | Internally generated<br>software | Other<br>software | Total  |
|-----------------------------------------------------|----------------------------------|-------------------|--------|
| <b>2011</b>                                         |                                  |                   |        |
| <b>Cost</b>                                         |                                  |                   |        |
| Balances, 1 January 2011                            | 42.8                             | 16.8              | 59.6   |
| Additions                                           | -                                | 23.5              | 23.5   |
| Transfers to other asset categories                 | -                                | (0.1)             | (0.1)  |
| Balances, 31 December 2011                          | 42.8                             | 40.2              | 83.0   |
| <b>Amortization</b>                                 |                                  |                   |        |
| Balances, 1 January 2011                            | (21.9)                           | (11.8)            | (33.7) |
| Amortization expense                                | (3.9)                            | (0.8)             | (4.7)  |
| Balances, 31 December 2011                          | (25.8)                           | (12.6)            | (38.4) |
| <b>Carrying amounts</b>                             |                                  |                   |        |
| At 1 January 2011                                   | 20.9                             | 5.0               | 25.9   |
| At 31 December 2011                                 | 17.0                             | 27.6              | 44.6   |
| <b>Projects in progress 2011</b>                    |                                  |                   |        |
| Included in Carrying amounts<br>at 31 December 2011 | -                                | 25.6              | 25.6   |
| Additions during 2011                               | -                                | 23.5              | 23.5   |
| Commitments at 31 December 2011                     | 0.9                              | -                 | 0.9    |

## 7. Other assets

|                               | 31 March<br>2012 | 31 December<br>2011 |
|-------------------------------|------------------|---------------------|
| Accrued pension benefit asset | 33.5             | 31.4                |
| All other assets              | 34.2             | 27.9                |
| <b>Total other assets</b>     | <b>67.7</b>      | <b>59.3</b>         |

## 8. Deposits

The liabilities within *Deposits* consist of \$9,405.9 million in Canadian-dollar demand deposits (\$2,481 million at 31 December 2011). Deposits from the Government of Canada consist of \$2,068.2 million for operational balances and \$4,000 million held for the prudential liquidity management plan. The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at market-related rates, and interest expense on deposits is included in the *Statement of Comprehensive Income*.

## 9. Other liabilities

|                                                             | 31 March<br>2012 | 31 December<br>2011 |
|-------------------------------------------------------------|------------------|---------------------|
| Post-employment defined-benefit obligations                 | 188.7            | 180.7               |
| Accrued transfer payment to the Receiver General for Canada | 269.6            | 78.4                |
| All other liabilities                                       | 53.0             | 53.7                |
| <b>Total other liabilities</b>                              | <b>511.3</b>     | <b>312.8</b>        |

The accrued transfer payment to the Receiver General for Canada of \$269.6 million (31 December 2011—\$78.4 million) is included in the \$269.6 million transfer to the Receiver General for the period presented in the *Statement of Changes in Equity* (31 December 2011—\$1,067 million). For the three months ended 31 March 2012, an amount of \$78.4 million related to 2011 net income and \$Nil million related to 2012 net income was remitted to the Receiver General for Canada (\$126.1 million remitted in 2011 was related to 2010 net income).

## 10. Employee benefit plans

Expenses for the employee benefit plans for the three-month period ended 31 March are presented in the table below.

|                              | 31 March<br>2012 | 31 March<br>2011 |
|------------------------------|------------------|------------------|
| Pension benefit plans        | 2.9              | 1.7              |
| Other employee benefit plans | 3.7              | 3.6              |
| <b>Total benefit plans</b>   | <b>6.6</b>       | <b>5.3</b>       |

Contributions to the employee benefit plans for the three-month period ended 31 March are presented in the table below.

|                            | Pension plans<br>(funded) |                  | Other benefit plans<br>(unfunded) |                  |
|----------------------------|---------------------------|------------------|-----------------------------------|------------------|
|                            | 31 March<br>2012          | 31 March<br>2011 | 31 March<br>2012                  | 31 March<br>2011 |
| Employer contributions     | 11.1                      | 14.6             | -                                 | -                |
| Employee contributions     | 2.8                       | 2.6              | -                                 | -                |
| <b>Total contributions</b> | <b>13.9</b>               | <b>17.2</b>      | <b>-</b>                          | <b>-</b>         |

The Bank re-measures its deferred employee benefit plan assets and liabilities at interim periods. During the three-month period ended 31 March 2012, the Bank recorded an actuarial loss of \$13.2 million (31 March 2011—\$Nil).

## 11. Equity

The Bank's objectives in managing its capital, the elements of which are outlined in the table below, 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.

|                            | 31 March<br>2012 | 31 December<br>2011 |
|----------------------------|------------------|---------------------|
| Share capital              | 5.0              | 5.0                 |
| Statutory reserve          | 25.0             | 25.0                |
| Special reserve            | 100.0            | 100.0               |
| Available-for-sale reserve | 295.4            | 294.6               |
| Actuarial gains reserve    | -                | -                   |
| Retained earnings          | -                | -                   |
|                            | <u>425.4</u>     | <u>424.6</u>        |

### Share capital

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

### Statutory reserve

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

### Special reserve

The special reserve was created in 2007 further to an amendment to the Bank of Canada Act to offset potential unrealized valuation losses due to changes in the fair value of the Bank's available-for-sale portfolio. The amount held in the special reserve is reviewed regularly for appropriateness 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 related to 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 portfolio, as shown below.

|                                     | 31 March<br>2012 | 31 December<br>2011 |
|-------------------------------------|------------------|---------------------|
| Government of Canada treasury bills | -                | 7.4                 |
| BIS shares                          | 295.4            | 287.2               |
| <b>Available-for-sale reserve</b>   | <u>295.4</u>     | <u>294.6</u>        |



**Actuarial gains reserve**

The actuarial gains reserve was established on 1 January 2010 at an initial amount of \$119.7 million to cover net actuarial losses and to accumulate the net actuarial gains related to the Bank's post-employment defined-benefit plans.

|                                                         | <b>31 March<br/>2012</b> | <b>31 December<br/>2011</b> |
|---------------------------------------------------------|--------------------------|-----------------------------|
| Actuarial gains reserve established on 1 January 2010   | 119.7                    | 119.7                       |
| Accumulated net actuarial losses applied to the reserve | <u>(119.7)</u>           | <u>(119.7)</u>              |
| <b>Actuarial gains reserve</b>                          | <u><u>-</u></u>          | <u><u>-</u></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.

Effective 1 January 2010, 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.

**12. Related parties**

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

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 *Related Parties* (IAS 24).

The Bank provides funds-management, fiscal agent and banking services to the Government of Canada, as mandated by the Bank of Canada Act, and does not recover the costs of these services.