



BANK OF CANADA
BANQUE DU CANADA

Financial Statements of
THE BANK OF CANADA
REGISTERED PENSION PLAN

as at 31 December 2011

FINANCIAL REPORTING RESPONSIBILITY

The Bank of Canada (the Bank) is the administrator of the Bank of Canada Registered Pension Plan (the Plan) and has established and maintains a trust fund for the Plan. The Bank's Board of Directors has established a Pension Committee and has delegated to it the responsibility for carrying out the Bank's duties as administrator of the Plan.

The accompanying financial statements of the Plan have been prepared by the Bank's management in accordance with Canadian accounting standards for pension plans and contain certain items that reflect estimates and judgment of management. The integrity and reliability of the data in these financial statements are management's responsibility. Management is also responsible for ensuring that all information in the annual report is consistent with the financial statements.

In support of its responsibility for the integrity and reliability of these financial statements and for the accounting system from which they are derived, management has developed and maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

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

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



Tiff Macklem

Senior Deputy Governor and Chair, Pension Committee



S. Vokey, CA

Chief Accountant and Member, Pension Committee

Ottawa, Canada
19 June 2012

ACTUARY'S OPINION

Mercer (Canada) Limited was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and pension obligation of the Bank of Canada Registered Pension Plan as of 31 December 2011, for inclusion in the Plan's financial statements.

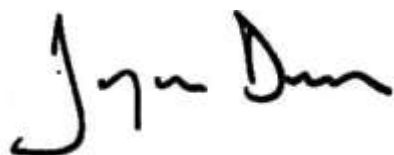
The objective of the financial statements is to fairly present the financial position of the Plan as of 31 December 2011, on a going-concern basis. While the actuarial assumptions used to estimate the pension obligation for the Plan's financial statements represent the Bank of Canada's best estimate of future events, and while in our opinion these assumptions are reasonable for the purposes of these statements, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

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

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

- the results of our 1 January 2012 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by the Bank of Canada as of 31 December 2011,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by the Bank of Canada and Mercer (Canada) Limited.

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



J. Demers

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries



S. Crabtree

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer (Canada) Limited

Ottawa
24 May 2012

INDEPENDENT AUDITOR'S REPORT

To the Members of the Bank of Canada Board of Directors

We have audited the accompanying financial statements of the Bank of Canada Registered Pension Plan, which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of changes in net assets available for benefits and changes in pension obligations for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank of Canada Registered Pension Plan as at 31 December 2011, 31 December 2010 and 1 January 2010, and the changes in its net assets available for benefits and changes in its pension obligations for the years ended 31 December 2011 and 31 December 2010 in accordance with Canadian accounting standards for pension plans.



Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
19 June 2012

STATEMENT OF FINANCIAL POSITION

| | 31 December 2011 | As at 31 December 2010 | 1 January 2010 |
|--|-----------------------|------------------------------|----------------------|
| ASSETS | | | |
| Investments (note 4) | \$ 1,086,389,311 | \$1,025,558,473 | \$882,931,374 |
| Accrued investment income | 284,879 | 123,330 | 413,360 |
| Accrued employer contributions | - | - | 4,351,366 |
| | <u>1,086,674,190</u> | <u>1,025,681,803</u> | <u>887,696,100</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | <u>1,001,733</u> | <u>747,025</u> | <u>641,616</u> |
| NET ASSETS AVAILABLE FOR BENEFITS | 1,085,672,457 | 1,024,934,778 | 887,054,484 |
| Pension obligations (note 6) | <u>951,157,430</u> | <u>914,713,704</u> | <u>852,774,805</u> |
| PENSION PLAN SURPLUS (note 9) | <u>\$ 134,515,027</u> | <u>\$ 110,221,074</u> | <u>\$ 34,279,679</u> |

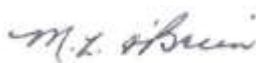
On behalf of the Pension Committee and the Board of Directors of the Bank of Canada



Tiff Macklem
Senior Deputy Governor and Chair, Pension Committee



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



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

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | For the year ended 31 December | |
|---|--------------------------------|--------------------------------|
| | 2011 | 2010 |
| INCREASE IN ASSETS | | |
| Investment income (note 4) | \$ 41,899,098 | \$ 35,568,823 |
| Current-year change in fair value of investments (note 4) | 14,875,685 | 82,401,913 |
| | <u>56,774,783</u> | <u>117,970,736</u> |
| Employer contributions | | |
| Current service (note 9) | 18,540,897 | 20,328,608 |
| Special payment for pension plan deficit (note 9) | 21,554,765 | 33,041,811 |
| Employee contributions | | |
| Current service | 6,313,544 | 6,229,796 |
| Past service | 1,639,320 | 616,154 |
| Transfers from other plans | 2,743,899 | 1,669,123 |
| | <u>50,792,425</u> | <u>61,885,492</u> |
| | <u>107,567,208</u> | <u>179,856,228</u> |
| DECREASE IN ASSETS | | |
| Retirement benefit payments | 31,124,586 | 29,202,936 |
| Termination benefits payments | 7,087,936 | 5,166,999 |
| Disability benefits payments | 100,051 | 103,508 |
| Death benefits payments | 3,595,244 | 3,196,728 |
| Administrative expenses (note 7) | 4,921,712 | 4,305,763 |
| | <u>46,829,529</u> | <u>41,975,934</u> |
| INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS | 60,737,679 | 137,880,294 |
| NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR | <u>1,024,934,778</u> | <u>887,054,484</u> |
| NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR | <u>\$ 1,085,672,457</u> | <u>\$ 1,024,934,778</u> |

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

| | For the year ended 31 December | |
|---|---------------------------------------|-----------------------|
| | 2011 | 2010 |
| INCREASE IN PENSION OBLIGATIONS | | |
| Benefits earned | \$ 29,237,660 | \$ 28,843,681 |
| Interest cost | 47,689,878 | 46,659,886 |
| Experience loss | 216,070 | 10,041,804 |
| Change of method | - | 8,667,861 |
| Change of assumptions | - | 5,395,838 |
| Change in Plan provisions (note 1) | 1,207,935 | - |
| | 78,351,543 | 99,609,070 |
| DECREASE IN PENSION OBLIGATIONS | | |
| Retirement benefit payments | 31,124,586 | 29,202,936 |
| Termination benefits payments | 7,087,936 | 5,166,999 |
| Disability benefits payments | 100,051 | 103,508 |
| Death benefits payments | 3,595,244 | 3,196,728 |
| | 41,907,817 | 37,670,171 |
| NET INCREASE IN PENSION OBLIGATIONS | 36,443,726 | 61,938,899 |
| PENSION OBLIGATIONS, BEGINNING OF YEAR | 914,713,704 | 852,774,805 |
| PENSION OBLIGATIONS, END OF YEAR | \$ 951,157,430 | \$ 914,713,704 |

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS OF THE BANK OF CANADA REGISTERED PENSION PLAN

For the year ended 31 December 2011

1. Description of the Registered Pension Plan

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

a) General

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

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

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

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

Effective 1 January 2012, By-law 15 was amended, to reflect a new defined benefit plan design for eligible employees hired after that date and for current plan members who selected the new design for service from that date forward. The amendment increased the age at which members are entitled to receive pension benefits, removed the bridge benefit and adjusted employee contribution rates (as described in note 1c)).

Changes in legislation (Bill C-9), effective 1 July 2011, included enhanced pre-retirement death benefits. The changes have not yet been reflected in the By-law but the financial impact of the legislation was recognized as at 31 December 2011.

b) Benefits

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

Death benefits are available on the death of an active member or of a retired member. The benefits may take the form of a refund of the contributions plus interest, a transfer to the survivor's locked-in retirement vehicle or a survivor pension.

Upon termination of employment, a Plan member has the option of taking a deferred pension for service rendered or of transferring the commuted value of the pension benefit to a locked-in retirement vehicle.

Pension benefits are indexed to reflect the changes in the Consumer Price Index on the date that payment begins and each 1 January thereafter.

c) Funding

Required contributions to the Plan are determined annually by actuarial valuations that are performed in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Plan members are required to contribute a percentage of their pensionable salary to the Plan each year, to a maximum of 35 years of credited service. In 2011, all members contributed in accordance with the pre-1 January 2012 plan design. In 2012 and beyond, contributions depend on plan membership as follows:

| | Salary below the YMPE ⁽¹⁾ | Salary above the YMPE ⁽¹⁾ |
|---|--|--|
| Contributions by members according to the pre-1 January 2012 plan design | 5.7% | 7.5% |
| Contributions by members according to the post-1 January 2012 plan design | 5.0% | 6.5% |

⁽¹⁾ The year's maximum pensionable earnings (YMPE) were \$48,300 in 2011 and \$47,200 in 2010.

In accordance with maximums prescribed by the ITA, a member may accrue benefits from the Plan on a salary of up to \$139,686 in 2011. Contributions on earnings above this maximum are made to the SPA.

2. Basis of preparation

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

The Bank of Canada Board of Directors approved the financial statements on 19 June 2012.

Change in accounting framework

The Plan adopted Section 4600, Pension Plans, of the Canadian Institute of Chartered Accountants (CICA) Handbook, effective 1 January 2011. International Financial Reporting Standards (IFRS) as set out in Part I of the CICA Handbook, have been chosen for accounting policies that do not relate to the Plan's investment portfolio or pension obligations, to the extent that those standards do not conflict with the requirements of Section 4600. This change has been applied retrospectively to all periods presented as required by Section 4600. A reconciliation of the transition to Section 4600 is included in note 10.

Significant accounting estimates and judgments in applying accounting policies

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

Functional and presentation currency

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

3. Significant accounting policies

a) Investments

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

b) Accrual of income

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

c) Current-year change in fair value of investments

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

d) Foreign currency translation and foreign exchange forward contracts

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

e) Pension obligations

Pension obligations are based on an actuarial valuation for funding purposes which is prepared on an annual basis by a firm of independent actuaries (note 6).

f) Employer contributions

Contributions for current service and special payments to fund the pension plan deficit must meet the minimum contributions required based on the most recent actuarial funding valuation report (note 9).

g) Employee contributions

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

4. Investments

a) General

The Statement of Investment Policy and Procedures (SIPP) complies with the Regulations of the Pension Benefits Standards Act (PBSA). The SIPP is updated by the Pension Committee and approved annually by the Board. Compliance with the SIPP is evaluated on a regular basis.

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

| | % of total portfolio market value | |
|-----------------------------|-----------------------------------|-----------|
| | Minimum | Maximum |
| Total equity, of which: | 40 | 70 |
| Canadian equities | 15 | 60 |
| Foreign equities | - | 40 |
| Real estate | - | 10 |
| Total bonds, of which: | 20 | 70 |
| Nominal bonds and mortgages | 20 | 50 |
| Inflation-linked assets | - | 20 |
| Cash and cash equivalents | - | 10 |

Investment valuations are reviewed on an ongoing basis by management.

The carrying values of accrued investment income, accrued employee contributions, and accounts payable and accrued liabilities approximate their fair values owing to their short-term nature.

There are no past due or impaired amounts.

The following table shows the fair value and the cost of investments at the reporting date, as well as the current-year change in the fair value of investments and related income. Investment income includes interest and dividends earned during the year, as well as income from real estate.

| As at 31 December 2011 | | | | | |
|-------------------------------------|-------------------------|-------------------------|---|----------------------|----------------------|
| | Fair value | Cost | Current-year change in fair value of investments (¹) | Investment income | Total return |
| Money market instruments | | | | | |
| Cash | \$ 8,078,234 | \$ 8,078,234 | \$ - | \$ - | \$ - |
| Short-term investments | 3,990,800 | 3,994,307 | (3,608) | 115,877 | 112,269 |
| | <u>12,069,034</u> | <u>12,072,541</u> | <u>(3,608)</u> | <u>115,877</u> | <u>112,269</u> |
| Fixed-income securities | | | | | |
| Bonds | 71,772,983 | 52,754,892 | 15,918,682 | 2,446,964 | 18,365,646 |
| Fixed-income fund | 242,146,272 | 204,013,455 | 24,715,224 | 15,826,594 | 40,541,818 |
| | <u>313,919,255</u> | <u>256,768,346</u> | <u>40,633,906</u> | <u>18,273,558</u> | <u>58,907,464</u> |
| Equities | | | | | |
| Canadian equity funds | 223,844,236 | 243,699,634 | (23,749,894) | 10,253,945 | (13,495,949) |
| Foreign equity funds ⁽²⁾ | 362,264,957 | 392,427,182 | (23,858,125) | 5,733,940 | (18,124,185) |
| | <u>586,109,193</u> | <u>636,126,816</u> | <u>(47,608,019)</u> | <u>15,987,885</u> | <u>(31,620,134)</u> |
| Inflation-linked assets | | | | | |
| Canadian marketable bonds | 98,583,456 | 66,292,229 | 13,035,639 | 4,503,695 | 17,539,334 |
| Corporate bonds | 4,029,732 | 2,269,529 | 476,829 | 230,555 | 707,384 |
| Mortgages | 12,024,992 | 10,233,292 | 360,090 | 744,408 | 1,104,498 |
| | <u>114,638,180</u> | <u>78,795,050</u> | <u>13,872,558</u> | <u>5,478,658</u> | <u>19,351,216</u> |
| Real estate funds | <u>59,653,649</u> | <u>54,203,433</u> | <u>7,980,848</u> | <u>2,043,120</u> | <u>10,023,968</u> |
| | <u>59,653,649</u> | <u>54,203,433</u> | <u>7,980,848</u> | <u>2,043,120</u> | <u>10,023,968</u> |
| Total | <u>\$ 1,086,389,311</u> | <u>\$ 1,037,966,186</u> | <u>\$ 14,875,685</u> | <u>\$ 41,899,098</u> | <u>\$ 56,774,783</u> |

⁽¹⁾ The 2011 change in the fair value of investments includes \$6,912,805 of unrealized gains on foreign exchange.

⁽²⁾ Foreign equity funds include the fair value of foreign exchange forward contracts of \$(353,781) as at 31 December 2011, as described in note 4d).

| As at 31 December 2010 | | | | | |
|-------------------------------------|------------------------|-------------------------|---|----------------------|----------------------|
| | Fair value | Cost | Current-year change in fair value of investments (¹) | Investment income | Total return |
| Money market instruments | | | | | |
| Cash | \$ 5,377,181 | \$ 5,377,181 | \$ - | \$ - | \$ - |
| Short-term investments | 9,893,106 | 9,893,010 | 322 | 45,746 | 46,068 |
| | <u>15,270,287</u> | <u>15,270,191</u> | <u>322</u> | <u>45,746</u> | <u>46,068</u> |
| Fixed-income securities | | | | | |
| Bonds | 53,528,233 | 50,428,824 | (5,988,414) | 2,340,118 | (3,648,296) |
| Fixed-income fund | 231,904,454 | 213,247,333 | 11,858,549 | 13,319,502 | 25,178,051 |
| | <u>285,432,687</u> | <u>263,676,157</u> | <u>5,870,135</u> | <u>15,659,620</u> | <u>21,529,755</u> |
| Equities | | | | | |
| Canadian equity funds | 283,340,185 | 277,731,370 | 35,293,874 | 8,591,938 | 43,885,812 |
| Foreign equity funds ⁽²⁾ | 308,823,908 | 343,298,706 | 21,609,257 | 5,035,716 | 26,644,973 |
| | <u>592,164,094</u> | <u>621,030,076</u> | <u>56,903,131</u> | <u>13,627,654</u> | <u>70,530,785</u> |
| Inflation-linked assets | | | | | |
| Canadian marketable bonds | 81,561,139 | 63,106,723 | 15,778,056 | 3,398,646 | 19,176,702 |
| Corporate bonds | 3,483,957 | 2,305,331 | 221,183 | 196,387 | 417,570 |
| Mortgages | 12,411,308 | 10,979,698 | 107,509 | 618,618 | 726,127 |
| | <u>97,456,404</u> | <u>76,391,752</u> | <u>16,106,749</u> | <u>4,213,650</u> | <u>20,320,399</u> |
| Real estate funds | <u>35,235,001</u> | <u>37,037,093</u> | <u>3,521,576</u> | <u>2,022,153</u> | <u>5,543,729</u> |
| | <u>35,235,001</u> | <u>37,037,093</u> | <u>3,521,576</u> | <u>2,022,153</u> | <u>5,543,729</u> |
| Total | <u>\$1,025,558,473</u> | <u>\$ 1,013,405,268</u> | <u>\$ 82,401,913</u> | <u>\$ 35,568,823</u> | <u>\$117,970,736</u> |

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

⁽²⁾ Foreign equity funds include the fair value of foreign exchange forward contracts of \$386,703 as at 31 December 2010, as described in note 4d).

| | As at 1 January 2010 | |
|-------------------------------------|-----------------------|-----------------------|
| | Fair value | Cost |
| Money market instruments | | |
| Cash | \$ 52,153 | \$ 52,153 |
| Short-term investments | 8,868,224 | 8,867,648 |
| | <u>8,920,377</u> | <u>8,919,801</u> |
| Fixed-income securities | | |
| Bonds | 45,858,340 | 56,968,563 |
| Fixed-income fund | 195,526,402 | 188,727,831 |
| | <u>241,384,742</u> | <u>245,696,394</u> |
| Equities | | |
| Canadian equity funds | 239,454,373 | 269,139,431 |
| Foreign equity funds ⁽¹⁾ | 269,816,774 | 318,728,585 |
| | <u>509,271,147</u> | <u>587,868,016</u> |
| Inflation-linked assets | | |
| Canadian marketable bonds | 70,827,681 | 50,766,488 |
| Corporate bonds | 3,214,747 | 1,885,659 |
| Mortgages | 13,175,823 | 11,851,723 |
| | <u>87,218,251</u> | <u>64,503,870</u> |
| Real estate funds | | |
| | 36,136,857 | 40,049,126 |
| | <u>36,136,857</u> | <u>40,049,126</u> |
| Total | <u>\$ 882,931,374</u> | <u>\$ 947,037,207</u> |

⁽¹⁾ Foreign equity funds include the fair value of foreign exchange forward contracts of \$1,965,431 as at 1 January 2010, as described in note 4d).

b) Determination of fair values

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

Money market instruments

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

Fixed-income securities

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

Equities

Equity investments consist of Canadian and foreign equity funds. Foreign equity funds also include the fair value of foreign exchange forward contracts. Investment valuations for the funds are received from the various issuers and are calculated in accordance with their published

valuation methodologies. Valuations are derived from the sum of the fair value of equity fund assets determined using published market quotations less equity fund liabilities divided by the total number of units outstanding. The fair value of foreign exchange forward contracts is determined by reference to the forward exchange rate available on a similar contract at the reporting date.

Inflation-linked assets

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

Real estate funds

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

Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair-value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

| Financial assets at fair value as at 31 December 2011 | | | | |
|---|---------------------|------------------------|----------------------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market instruments | \$12,069,034 | \$ - | \$ - | \$ 12,069,034 |
| Fixed-income securities | | | | |
| Bonds | - | 71,772,983 | - | 71,772,983 |
| Fixed-income fund | - | 242,146,272 | - | 242,146,272 |
| Equities | | | | |
| Canadian equity funds | - | 223,844,236 | - | 223,844,236 |
| Foreign equity funds | - | 362,264,957 | - | 362,264,957 |
| Inflation-linked assets | | | | |
| Canadian marketable bonds | - | 98,583,456 | - | 98,583,456 |
| Corporate | - | 4,029,732 | - | 4,029,732 |
| Mortgages | - | 12,024,992 | - | 12,024,992 |
| Real estate funds | - | - | 59,653,649 | 59,653,649 |
| | <u>\$12,069,034</u> | <u>\$1,014,666,628</u> | <u>\$ 59,653,649</u> | <u>\$ 1,086,389,311</u> |

There were no transfers of amounts between Level 1 and Level 2 in 2011 (\$Nil in 2010).

The following table reconciles the fair value of the Real estate funds determined using Level 3 fair-value measurements:

| | 31 December 2011 | 31 December 2010 | 1 January 2010 |
|---|----------------------|----------------------|----------------------|
| Fair value at beginning of year | \$ 35 235 001 | \$ 36 136 857 | \$ 43 816 183 |
| Total unrealized gains (losses) included in net assets ⁽¹⁾ | 7 252 307 | 2 110 177 | (10 451 779) |
| Purchases | 16 999 997 | 266 882 | 2 777 383 |
| Capitalized dividends | 166 344 | - | - |
| Sales ⁽²⁾ | - | (3 278 915) | (4 930) |
| Transfers in/out of Level 3 | - | - | - |
| Fair value at end of year | \$ 59 653 649 | \$ 35 235 001 | \$ 36 136 857 |

⁽¹⁾ The fair-value losses are presented in the *Current-year change in fair value of investments* in the *Statement of Changes in Net Assets Available for Benefits*. Of this amount, \$4,955,486 is attributable to financial instruments that were held at 31 December 2010 (\$2,281,787 at 1 January 2010).

⁽²⁾ Sales are presented net of realized gains of \$Nil (\$1,411,399 at 31 December 2010).

| Financial assets at fair value as at 31 December 2010 | | | | |
|---|----------------------|-----------------------|----------------------|------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market instruments | \$ 15,270,287 | \$ - | \$ - | \$ 15,270,287 |
| Fixed-income securities | | | | |
| Bonds | - | 53,528,233 | - | 53,528,233 |
| Fixed-income fund | - | 231,904,454 | - | 231,904,454 |
| Equities | | | | |
| Canadian equity funds | - | 283,340,185 | - | 283,340,185 |
| Foreign equity funds | - | 308,823,908 | - | 308,823,908 |
| Inflation-linked assets | | | | |
| Canadian marketable bonds | - | 81,561,139 | - | 81,561,139 |
| Corporate | - | 3,483,957 | - | 3,483,957 |
| Mortgages | - | 12,411,308 | - | 12,411,308 |
| Real estate funds | - | - | 35,235,001 | 35,235,001 |
| | \$ 15,270,287 | \$ 975,053,184 | \$ 35,235,001 | \$1,025,558,473 |

| Financial assets at fair value as at 1 January 2010 | | | | |
|---|---------------------|-----------------------|----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market instruments | \$ 8,920,377 | \$ - | \$ - | \$ 8,920,377 |
| Fixed-income securities | | | | |
| Bonds | - | 45,858,340 | - | 45,858,340 |
| Fixed-income fund | - | 195,526,402 | - | 195,526,402 |
| Equities | | | | |
| Canadian equity funds | - | 239,454,373 | - | 239,454,373 |
| Foreign equity funds | - | 269,816,774 | - | 269,816,774 |
| Inflation-linked assets | | | | |
| Canadian marketable bonds | - | 70,827,681 | - | 70,827,681 |
| Corporate | - | 3,214,747 | - | 3,214,747 |
| Mortgages | - | 13,175,823 | - | 13,175,823 |
| Real estate funds | - | | 36,136,857 | 36,136,857 |
| | <u>\$ 8,920,377</u> | <u>\$ 837,874,140</u> | <u>\$ 36,136,857</u> | <u>\$ 882,931,374</u> |

c) Securities-lending

The Plan lends securities as a means of generating incremental income or of supporting the normal practice with regard to investment strategies. Securities are loaned only against collateral representing at least 102 per cent of the value of the securities. At 31 December 2011, the Plan's investments included loaned securities with a fair value of \$47,394,876 (\$Nil as at 31 December 2010; and \$4,199,652 as at 1 January 2010). The fair value of collateral received in respect of these loans was \$50,148,936 (\$Nil as at 31 December 2010; and \$4,425,650 as at 1 January 2010).

d) Foreign exchange forward contracts

The notional and fair values of foreign exchange forward contracts included in *Foreign equity funds* are summarized in the following table:

| | 31 December 2011 | | 31 December 2010 | | 1 January 2010 | |
|--------------------|-----------------------|--------------------|----------------------|-------------------|----------------------|--------------------|
| | Notional value | Fair value | Notional value | Fair value | Notional value | Fair value |
| U.S. dollars | \$ 86,397,965 | \$(430,778) | \$ 80,254,909 | \$ 743,265 | \$ 67,937,600 | \$ 417,701 |
| Euros | 17,057,880 | 373,102 | 16,306,758 | 59,343 | 17,526,880 | 581,415 |
| Pounds sterling | 15,766,358 | (7,740) | 15,715,030 | 107,634 | 12,959,250 | 159,719 |
| Japanese yen | 17,155,008 | (307,794) | 15,017,314 | (172,601) | 10,790,073 | 621,261 |
| Swiss francs | 8,863,696 | 49,429 | 7,077,286 | (280,998) | 7,253,886 | 152,717 |
| Australian dollars | 3,785,099 | (30,000) | 2,075,220 | (69,941) | 2,400,000 | 32,618 |
| | <u>\$ 149,026,006</u> | <u>\$(353,781)</u> | <u>\$136,446,517</u> | <u>\$ 386,703</u> | <u>\$118,867,689</u> | <u>\$1,965,431</u> |

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

The foreign exchange forward contracts are all set to mature within 30 days of 31 December 2011 (within 30 days of 31 December 2010; within 30 days of 1 January 2010).

The Plan's investments, securities-lending activities and foreign exchange forward contracts are subject to various risks that can affect their fair value, recoverable amount or future cash flows. These risks are discussed in note 5.

5. Financial instruments and risk

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

Financial risk

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

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

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

a) Credit risk

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

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

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

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

In addition to being fully collateralized with high-quality securities, securities-lending transactions take place under strict adherence to OSFI guidelines and are indemnified through a custodial agreement in the event of default. Securities are loaned only against collateral representing at least 102 per cent of the value of the securities. As a result of the collateral on hand, the net credit exposure is considered insignificant.

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

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

Concentrations of credit risk

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

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

| | 31 December 2011 | | | | | |
|---|--------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| | Money market instruments | | Fixed-income securities | | Inflation-linked assets | |
| | \$ | % | \$ | % | \$ | % |
| Securities issued or guaranteed by the Government of Canada | 3,990,800 | 100.0 | 69,931,844 | 22.3 | 96,047,112 | 83.8 |
| Securities issued or guaranteed by Canadian provinces or municipalities | - | - | 191,780,675 | 61.1 | 14,561,336 | 12.7 |
| Securities issued by corporations | - | - | 52,206,736 | 16.6 | 4,029,732 | 3.5 |
| | <u>3,990,800</u> | <u>100.0</u> | <u>313,919,255</u> | <u>100.0</u> | <u>114,638,180</u> | <u>100.0</u> |
| Credit Rating | | | | | | |
| AAA to AA | 3,990,800 | 100.0 | 203,694,696 | 64.9 | 89,986,642 | 87.7 |
| A | - | - | 93,516,466 | 29.8 | 12,626,547 | 12.3 |
| BBB | - | - | 16,708,093 | 5.3 | - | - |
| Not rated ⁽¹⁾ | - | - | - | - | 12,024,991 | N/A |
| | <u>3,990,800</u> | <u>100.0</u> | <u>313,919,255</u> | <u>100.0</u> | <u>114,638,180</u> | <u>100.0</u> |

⁽¹⁾ Inflation-linked assets includes mortgages that are guaranteed by the Canada Mortgage and Housing Corporation but are not directly rated by a credit-rating agency.

| | 31 December 2010 | | | | | |
|---|--------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| | Money market instruments | | Fixed-income securities | | Inflation-linked assets | |
| | \$ | % | \$ | % | \$ | % |
| Securities issued or guaranteed by the Government of Canada | 9,893,106 | 100.0 | 73,768,807 | 25.9 | 81,462,269 | 83.6 |
| Securities issued or guaranteed by Canadian provinces or municipalities | - | - | 161,595,709 | 56.6 | 12,510,178 | 12.8 |
| Securities issued by corporations | - | - | 50,068,171 | 17.5 | 3,483,957 | 3.6 |
| | <u>9,893,106</u> | <u>100.0</u> | <u>285,432,687</u> | <u>100.0</u> | <u>97,456,404</u> | <u>100.0</u> |
| Credit Rating | | | | | | |
| AAA to AA | 9,893,106 | 100.0 | 186,078,634 | 65.2 | 73,990,304 | 87.0 |
| A | - | - | 83,514,979 | 29.3 | 11,054,792 | 13.0 |
| BBB | - | - | 15,839,074 | 5.5 | - | - |
| Not rated ⁽¹⁾ | - | - | - | - | 12,411,308 | N/A |
| | <u>9,893,106</u> | <u>100.0</u> | <u>285,432,687</u> | <u>100.0</u> | <u>97,456,404</u> | <u>100.0</u> |

⁽¹⁾ Inflation-linked assets includes mortgages that are guaranteed by the Canada Mortgage and Housing Corporation but are not directly rated by a credit-rating agency.

| | 1 January 2010 | | | | | |
|---|--------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| | Money market instruments | | Fixed-income securities | | Inflation-linked assets | |
| | \$ | % | \$ | % | \$ | % |
| Securities issued or guaranteed by the Government of Canada | 8,868,224 | 100.0 | 65,043,666 | 26.9 | 72,573,245 | 83.2 |
| Securities issued or guaranteed by Canadian provinces or municipalities | - | - | 133,835,336 | 55.4 | 11,430,260 | 13.1 |
| Securities issued by corporations | - | - | 42,505,740 | 17.7 | 3,214,746 | 3.7 |
| | <u>8,868,224</u> | <u>100.0</u> | <u>241,384,742</u> | <u>100.0</u> | <u>87,218,251</u> | <u>100.0</u> |
| Credit Rating | | | | | | |
| AAA to AA | 8,868,224 | 100.0 | 124,614,863 | 51.6 | 66,421,233 | 89.7 |
| A | - | - | 105,429,348 | 43.7 | 7,621,195 | 10.3 |
| BBB | - | - | 11,340,531 | 4.7 | - | - |
| Not rated ⁽¹⁾ | - | - | - | - | 13,175,823 | N/A |
| | <u>8,868,224</u> | <u>100.0</u> | <u>241,384,742</u> | <u>100.0</u> | <u>87,218,251</u> | <u>100.0</u> |

⁽¹⁾ Inflation-linked assets includes mortgages that are guaranteed by the Canada Mortgage and Housing Corporation but are not directly rated by a credit-rating agency.

b) Liquidity risk

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

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

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

The actuarial value of pension obligations is not considered a financial liability; however, it is the most significant liability of the Plan in the *Statement of Financial Position*. The Bank, as Plan sponsor, is required to contribute all funds necessary to meet any funding shortfalls of the Plan as they may arise from time to time.

c) Market risk

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

(i) Interest rate risk

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

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

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

| | 31 December 2011 | |
|--------------------------|------------------------|----------------------|
| | Increase | Decrease |
| Money market instruments | \$ (1,714) | \$ 1,675 |
| Fixed-income securities | (12,776,514) | 12,776,514 |
| | <u>\$ (12,778,228)</u> | <u>\$ 12,778,189</u> |

| | 31 December 2010 | |
|--------------------------|------------------------|----------------------|
| | Increase | Decrease |
| Money market instruments | \$ (1,834) | \$ 1,810 |
| Fixed-income securities | (10,960,615) | 10,960,615 |
| | <u>\$ (10,962,449)</u> | <u>\$ 10,962,425</u> |

| | 1 January 2010 | |
|--------------------------|-----------------------|---------------------|
| | Increase | Decrease |
| Money market instruments | \$ (2,768) | \$ 1,776 |
| Fixed-income securities | (9,051,928) | 9,051,928 |
| | <u>\$ (9,054,696)</u> | <u>\$ 9,053,704</u> |

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

The actuarial value of pension obligations is not considered to be a financial instrument; however, these obligations are sensitive to changes in long-term interest rates. The Plan is exposed to interest rate risk because of mismatches between the impacts of interest rates on the actuarial value of pension obligations and their corresponding impact on the investment portfolio as a whole. Given the nature of pension benefits, such risks cannot be eliminated but are addressed through the funding of the Plan and through regular review of the characteristics of the Plan's investment portfolio relative to the pension obligation liability.

A 25-basis-point increase/decrease in the interest rate assumption would have had the following impact on the value of pension obligations:

| | 31 December 2011 | |
|---------------------|------------------------|----------------------|
| | Increase | Decrease |
| Pension obligations | <u>\$ (34,473,477)</u> | <u>\$ 36,654,363</u> |

| | 31 December 2010 | |
|---------------------|------------------------|----------------------|
| | Increase | Decrease |
| Pension obligations | <u>\$ (33,617,074)</u> | <u>\$ 35,730,793</u> |

| | 1 January 2010 | |
|---------------------|-----------------|---------------|
| | Increase | Decrease |
| Pension obligations | \$ (31,449,833) | \$ 33,428,025 |

(ii) Currency risk

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

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

The Plan manages these risks through its SIPP, which limits the proportion of foreign assets within the portfolio. To further limit currency risk, the Plan has entered into off-balance-sheet commitments in the form of foreign exchange forward contracts for the sale of various currencies (note 4). The purpose of these contracts is to partially preserve the fair value of Plan assets by offsetting the impact of increases in the Canadian dollar relative to the underlying foreign currency exposure. In the case of a decrease in the Canadian dollar relative to the underlying foreign currency exposure, foreign exchange forward contracts in place decrease in value, while the relative value of the foreign currency funds increases.

The Plan's net foreign currency exposure in Canadian dollars, after giving effect to the notional value of foreign currency forward contracts described in note 4d), is presented in the following table.

| | 31 December 2011 | 31 December 2010 | 1 January 2010 |
|-----------------------------|---|--|--|
| | Notional value of foreign exchange forward contracts | | |
| | Foreign currency exposure | Net foreign currency exposure | Net foreign currency exposure |
| Foreign equity funds | | | |
| U.S. dollars | \$ 173,992,823 | \$ 86,397,965 | \$ 87,594,858 |
| Euros | 32,896,561 | 17,057,880 | 15,838,681 |
| Pounds sterling | 30,001,091 | 15,766,358 | 14,234,733 |
| Japanese yen | 32,265,067 | 17,155,008 | 15,110,059 |
| Swiss francs | 17,164,560 | 8,863,696 | 8,300,864 |
| Australian dollars | 7,172,376 | 3,785,099 | 3,387,277 |
| Other currencies | 69,126,260 | - | 69,126,260 |
| | \$ 362,618,738 | \$ 149,026,006 | \$ 213,592,732 |
| | | | \$ 171,990,689 |
| | | | \$ 148,983,654 |

The fair value of Plan assets, specifically those denominated in foreign currencies, is affected by changes in foreign exchange rates.

The most significant concentrations of net foreign currency exposures are on U.S. dollars, euros, pound sterling, and Japanese yen. A 1 per cent increase/decrease in the foreign exchange rate of a significant foreign currency in which investments are denominated relative to the Canadian dollar would have the following impact on the fair value of investments net of foreign currency hedges:

| | 31 December 2011 | | 31 December 2010 | | 1 January 2010 | |
|-----------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| | Increase | Decrease | Increase | Decrease | Increase | Decrease |
| U.S. dollars | \$ 875,949 | \$ (875,949) | \$ 849,157 | \$ (849,157) | \$ 657,083 | \$ (657,083) |
| Euros | 158,387 | (158,387) | 172,846 | (172,846) | 135,893 | (135,893) |
| Pounds sterling | 142,347 | (142,347) | 168,037 | (168,037) | 130,641 | (130,641) |
| Japanese yen | 151,100 | (151,100) | 157,899 | (157,899) | 159,260 | (159,260) |
| | \$1,327,783 | \$(1,327,783) | \$1,347,939 | \$(1,347,939) | \$1,082,877 | \$(1,082,877) |

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

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

(iii) Other price risk

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

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

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

A 1 per cent increase/decrease in the underlying market prices in the equities portfolio would have the following impact on the fair value of investments and the net increase in assets:

| | 31 December 2011 | |
|-----------------------|---------------------|-----------------------|
| | Increase | Decrease |
| Canadian equity funds | \$ 2,238,442 | \$ (2,238,442) |
| Foreign equity funds | 3,626,188 | (3,626,188) |
| | \$ 5,864,630 | \$ (5,864,630) |

| | 31 December 2010 | |
|-----------------------|---------------------|-----------------------|
| | Increase | Decrease |
| Canadian equity funds | \$ 2,833,402 | \$ (2,833,402) |
| Foreign equity funds | 3,084,372 | (3,084,372) |
| | \$ 5,917,774 | \$ (5,917,774) |

| | 1 January 2010 | |
|-----------------------|---------------------|-----------------------|
| | Increase | Decrease |
| Canadian equity funds | \$ 2,394,544 | \$ (2,394,544) |
| Foreign equity funds | 2,678,513 | (2,678,513) |
| | <u>\$ 5,073,057</u> | <u>\$ (5,073,057)</u> |

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

Concentration of other price risk

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

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

| | 31 December 2011 | | | |
|----------------------------|-----------------------|--------------|-------------------------------------|--------------|
| | Canadian equity funds | | Foreign equity funds ⁽¹⁾ | |
| | \$ | % | \$ | % |
| Financial | 51,987,114 | 23.1 | 56,727,116 | 15.5 |
| Energy | 57,675,796 | 25.8 | 40,840,246 | 11.3 |
| Information technology | 6,458,570 | 2.9 | 52,574,226 | 14.5 |
| Materials | 34,262,291 | 15.3 | 29,076,369 | 8.0 |
| Industrials | 18,859,794 | 8.4 | 41,638,745 | 11.5 |
| Consumer discretionary | 11,262,393 | 5.0 | 41,187,497 | 11.4 |
| Telecommunication services | 11,994,384 | 5.4 | 15,828,111 | 4.4 |
| Consumer staples | 16,454,486 | 7.4 | 34,448,173 | 9.5 |
| Utilities | 4,569,204 | 2.0 | 11,356,746 | 3.1 |
| Health care | 3,258,783 | 1.5 | 33,671,680 | 9.3 |
| Other | 7,061,421 | 3.2 | 5,269,829 | 1.5 |
| | <u>223,844,236</u> | <u>100.0</u> | <u>362,618,738</u> | <u>100.0</u> |

⁽¹⁾ The *Foreign equity funds* category excludes foreign exchange forward contracts of \$(353,781) as at 31 December 2011.

| | 31 December 2010 | | | |
|----------------------------|-----------------------|--------------|-------------------------------------|--------------|
| | Canadian equity funds | | Foreign equity funds ⁽¹⁾ | |
| | \$ | % | \$ | % |
| Financial | 68,048,355 | 23.9 | 44,716,801 | 14.5 |
| Energy | 63,439,929 | 22.4 | 34,753,053 | 11.3 |
| Information technology | 9,947,981 | 3.5 | 48,284,663 | 15.7 |
| Materials | 57,349,862 | 20.2 | 22,579,257 | 7.3 |
| Industrials | 25,905,956 | 9.1 | 39,737,800 | 12.9 |
| Consumer discretionary | 20,545,737 | 7.3 | 48,178,207 | 15.6 |
| Telecommunication services | 14,083,212 | 5.0 | 12,769,552 | 4.1 |
| Consumer staples | 13,182,847 | 4.7 | 22,185,310 | 7.2 |
| Utilities | 4,120,740 | 1.5 | 7,515,245 | 2.4 |
| Health care | 2,876,029 | 1.0 | 27,717,318 | 9.0 |
| Other | 3,839,537 | 1.4 | - | - |
| | <u>283,340,185</u> | <u>100.0</u> | <u>308,437,206</u> | <u>100.0</u> |

⁽¹⁾ The *Foreign equity funds* category excludes foreign exchange forward contracts of \$386,703 as at 31 December 2010.

| | 1 January 2010 | | | |
|----------------------------|-----------------------|--------------|-------------------------------------|--------------|
| | Canadian equity funds | | Foreign equity funds ⁽¹⁾ | |
| | \$ | % | \$ | % |
| Financial | 67,510,719 | 28.1 | 40,998,744 | 15.3 |
| Energy | 56,170,050 | 23.5 | 28,571,622 | 10.7 |
| Information technology | 12,039,565 | 5.0 | 39,488,055 | 14.7 |
| Materials | 39,895,002 | 16.7 | 14,801,679 | 5.5 |
| Industrials | 18,367,222 | 7.7 | 30,955,128 | 11.6 |
| Consumer discretionary | 17,272,418 | 7.2 | 43,737,273 | 16.3 |
| Telecommunication services | 7,402,505 | 3.1 | 14,381,062 | 5.4 |
| Consumer staples | 12,688,283 | 5.3 | 17,420,207 | 6.5 |
| Utilities | 5,103,378 | 2.1 | 8,301,453 | 3.1 |
| Health care | 942,707 | 0.4 | 26,793,258 | 10.0 |
| Other | 2,062,524 | 0.9 | 2,402,862 | 0.9 |
| | <u>239,454,373</u> | <u>100.0</u> | <u>267,851,343</u> | <u>100.0</u> |

⁽¹⁾ The *Foreign equity funds* category excludes foreign exchange forward contracts of \$1,965,431 as at 1 January 2010.

6. Pension obligations

Actuarial valuations for funding purposes are required annually under the Pension Benefit Standards Act (PBSA). The most recent valuation was performed as of 1 January 2012 by Mercer (Canada) Limited, a firm of consulting actuaries. The economic assumptions used to determine the actuarial value of pension obligations were developed by referencing expected long-term market conditions. The significant long-term economic actuarial assumptions used in the valuation are as follows:

| | 31 December 2011 | 31 December 2010 | 1 January 2010 |
|-------------------------|---------------------|---------------------|-------------------|
| Asset rate of return | 5.25% | 5.25% | 5.50% |
| Discount rate | 5.25% | 5.25% | 5.50% |
| Salary-escalation rate | 3.30% + merit | 3.30% + merit | 3.50% + merit |
| Inflation rate | 2.00% | 2.00% | 2.00% |
| Plan membership | | | |
| Active members | 1,266 | 1,319 | 1,304 |
| Pensioners | 1,523 | 1,438 | 1,399 |
| Deferred ⁽¹⁾ | 557 | 534 | 553 |

⁽¹⁾ Former employees of the Bank who are entitled to a pension starting in the future.

Funding surplus

The surplus for financial statement purposes differs from that calculated on a going-concern funding basis due to the use of smoothed actuarial value of assets for funding purposes. The going-concern funding surplus, is calculated in accordance with applicable legislation and actuarial standards.

A reconciliation of the components of the measurement differences between the surplus on a going-concern funding basis and the surplus for financial statement purposes is as follows:

| | 31 December 2011 | 31 December 2010 | 1 January 2010 |
|--|-----------------------|-----------------------|----------------------|
| Funding surplus | \$ 115,811,967 | \$ 113,628,558 | \$ 113,323,616 |
| Actuarial asset value adjustment | 18,703,060 | (3,407,484) | (79,043,937) |
| Surplus for financial statement purposes | <u>\$ 134,515,027</u> | <u>\$ 110,221,074</u> | <u>\$ 34,279,679</u> |

Actuarial asset value adjustment

The actuarial value of net assets available for benefits has been determined using a smoothing method which recognizes excess investments gains and losses occurring in a calendar year on a straight-line basis over 5 years. Excess gains and losses are determined by reference to the investment return assumption for going-concern valuation purposes (5.25% at 31 December 2011).

7. Administrative expenses

| | 31 December 2011 | 31 December 2010 |
|------------------------------------|---------------------|---------------------|
| Investment management fees | \$ 3,068,113 | \$ 2,769,519 |
| Pension administration fees | 711,957 | 734,942 |
| Audit and actuarial fees | 100,279 | 84,235 |
| Other administration fees (note 8) | 1,041,363 | 717,067 |
| | <u>\$ 4,921,712</u> | <u>\$ 4,305,763</u> |

8. Related parties

Transactions with the Bank were conducted in the normal course of operations during the year and measured at the exchange amount. Included in *Other administration fees* is \$553,893 (\$520,884 in 2010) for administration services provided by the Bank to the Plan.

9. Pension plan surplus and capital requirements

The capital of the Plan consists of the pension plan surplus. Excluding the impact of investment income, the Plan is funded through a combination of employee and employer contributions. The pension plan surplus represents the difference between the net assets available for benefits and the pension obligations on a going-concern basis. Actuarial valuations, which aid in the determination of the extent of Plan capital, are performed annually.

Pension plan surplus or deficit, as they arise, as well as other relevant aspects of the Plan, are managed in order to comply with the externally imposed requirements of the ITA and the PBSA.

In the case of a pension plan surplus, the ITA generally prohibits the Bank from making contributions while the surplus exceeds 125 per cent of the current value of the Plan's liabilities on a going-concern basis, if the Plan is also fully funded on a hypothetical wind-up basis.

In a given Plan year, the Bank is responsible for contributing the amount needed above the employees' contributions in order to fund benefits accrued by members during the year (\$18,540,897 in 2011; \$20,328,608 in 2010). In the case of a funding deficit on either a going-concern or solvency basis, additional contributions are required in accordance with the PBSA to overcome the deficiency (\$21,554,765 in 2011; \$33,041,811 in 2010) to fund the solvency deficit.

Subsequent to 31 December 2011, management of the Plan engaged external actuaries to perform an actuarial valuation of the fund as at 1 January 2012. The results of this actuarial valuation have concluded that approximately \$39 million in Bank contributions are required in 2012.

At 31 December 2011, the Plan and its sponsor are not in violation of any externally imposed legal or regulatory requirements.

10. Reconciliation of the transition to Section 4600

As stated in note 2, the financial statements of the Plan have been prepared in accordance with Section 4600. The Plan previously prepared its financial statements in accordance with Section 4100, Pension Plans, as set out in Part V of the CICA Handbook. The primary impact of the adoption of Section 4600 is the exclusion of the actuarial asset value adjustment and the requirement to make additional disclosures that were not previously required under Section 4100. The accounting policies set out in note 3 have been applied on a consistent basis for all the periods presented. The Plan elected 1 January 2010 as the date of transition to Section 4600 of the Canadian accounting standards for pension plans.

There was no change in the *Statement of Changes in Pension Obligations* and the *Statement of Changes in Net Assets Available for Benefits* for all periods presented, as a result of adopting Section 4600. The only change was to the Statement of Financial Position as shown in the following tables.

Certain of the 2010 comparative figures have been reclassified to conform to the current year's presentation.

RECONCILIATION of STATEMENT OF FINANCIAL POSITION as at 31 December 2010

| | Previously reported | Effect of transition | Revised per Section 4600 |
|--|------------------------|-------------------------|-----------------------------|
| ASSETS | | | |
| Investments | \$ 1,025,558,473 | \$ - | \$ 1,025,558,473 |
| Accrued investment income | 123,330 | - | 123,330 |
| Accrued employer contributions | - | - | - |
| | <u>1,025,681,803</u> | <u>-</u> | <u>1,025,681,803</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | <u>747,025</u> | <u>-</u> | <u>747,025</u> |
| NET ASSETS AVAILABLE FOR BENEFITS | 1,024,934,778 | - | 1,024,934,778 |
| Actuarial asset value adjustment | 3,407,484 | (3,407,484) | - |
| Pension obligations | <u>914,713,704</u> | <u>-</u> | <u>914,713,704</u> |
| PENSION PLAN SURPLUS | <u>\$ 113,628,558</u> | <u>\$ (3,407,484)</u> | <u>\$ 110,221,074</u> |

RECONCILIATION of STATEMENT OF FINANCIAL POSITION as at 1 January 2010

| | Previously reported | Effect of transition | Revised per Section 4600 |
|--|------------------------|-------------------------|-----------------------------|
| ASSETS | | | |
| Investments | \$ 882,931,374 | \$ - | \$ 882,931,374 |
| Accrued investment income | 413,360 | - | 413,360 |
| Accrued employer contributions | 4,351,366 | - | 4,351,366 |
| | <u>887,696,100</u> | <u>-</u> | <u>887,696,100</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | <u>641,616</u> | <u>-</u> | <u>641,616</u> |
| NET ASSETS AVAILABLE FOR BENEFITS | 887,054,484 | - | 887,054,484 |
| Actuarial asset value adjustment | 79,043,937 | (79,043,937) | - |
| Pension obligations | <u>852,774,805</u> | <u>-</u> | <u>852,774,805</u> |
| PENSION PLAN SURPLUS | <u>\$ 113,323,616</u> | <u>\$ (79,043,937)</u> | <u>\$ 34,279,679</u> |