BANK OF CANADA
BANQUE DU CANADA

2015 QUARTERLY FINANCIAL REPORT

DYNAMIC.
ENGAGED.
TRUSTED.

30 June 2015 Unaudited

Contents

Context of the Quarterly Financial Report

The Bank of Canada (the Bank) is the nation's central bank. Its mandate, as defined in the Bank of Canada Act, is "to promote the economic and financial welfare of Canada."

The Bank is committed to keeping Canadians informed about its policies, operations and activities.

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 of Canada Secretariat.

Management is responsible for the preparation of this report, which was approved on 24 August 2015 by the Audit and Finance Committee of the Board of Directors.

The *Quarterly Financial Report* should be read in conjunction with the financial statements included in this report and with the Bank's *Annual Report* for 2014. The *Annual Report* includes a Management Discussion and Analysis (MD&A) for the year ended 31 December 2014. Disclosures and information in the 2014 *Annual Report* and the MD&A apply to the current quarter unless otherwise updated in this quarterly report.

Performance Against Plan

On a triennial basis, the Bank establishes a strategic medium-term plan that provides a road map for the next three years. The 2013–15 medium-term plan (MTP), *Building on Excellence: Strength, Stability and Confidence*, focuses on three strategic priorities: performing superior policy analytics; building a resilient global and domestic financial system; and delivering excellent services to meet the evolving needs of Canadians, financial markets and the Government of Canada.

The MTP also describes the Bank's strategic investments in people, infrastructure and resilience, together with its continued commitment to carefully manage public funds, especially in the environment of fiscal restraint. The Financial Plan, the Infrastructure and Resilience Plan, and the Human Resources Plan support the Bank's day-to-day activities, as well as the achievement of its strategic and functional priorities.

The Financial Plan (the Plan) takes into account the Bank's responsibility, as a public institution, to always exercise prudent financial management and ensure that resources are allocated to priorities that add the most value. It also reflects the Bank's commitment to adhere to the spirit and intent of the government's Deficit Reduction Action Plan by embedding reduced operating costs. Accordingly, the Plan incorporates growth of 2 per cent between 2012 and 2015, or zero real growth, consistent with inflation averaging 2 per cent—the Bank's target. Real increases necessary to ensure the delivery of the Bank's mandate are matched by equivalent reductions.

The Bank made significant progress in 2013 and 2014 against the objectives set out in the MTP, while managing operating expenses within the Plan estimates.

The Bank's 2015 Plan
(Millions of Canadian dollars)

	2015 budget	2014 actual
MTP operating expenses	**363.0**	348.0
Bank note production	**73.0**	96.0
Non-current deferred employee benefits	**14.0**	(3.0)
MTP programs, including Head Office Renewal	**19.0**	37.0
Total expenses	**469.0**	478.0

2015 Outlook

The Bank's forecasts for its operations do not include projections of net income and financial position. Such projections would require assumptions about interest rates, which could be interpreted as a signal of future monetary policy.

The 2013–15 Financial Plan established a target of $363 million for MTP operating expenses for 2015, up 2 per cent from a budget of $356 million in 2014.

Total operating expenses in 2015 are budgeted to decrease by $9 million from 2014 levels.

Expenses related to bank note production are budgeted to be lower than in 2014 as a result of lower production volumes. Operating costs associated with the Head Office Renewal Program are also budgeted to decrease in 2015, since the majority of costs associated with the project will be capital in nature.

In 2015, the Bank also budgeted to incur $208 million in capital expenditures, of which the majority relates to the Head Office Renewal Program.

At the end of the second quarter, the Bank was on track to deliver on its full-year Financial Plan.

Financial Discussion

Financial Position

The Bank's *Total assets* and *Total liabilities and equity* have increased by $1,739.0 million since 31 December 2014 as a result of seasonal fluctuations in bank notes in circulation.

Assets

As the exclusive issuer of bank notes, the Bank invests proceeds from the issuance of notes into Government of Canada securities. *Investments* have increased by $4,424.8 million (5 per cent). Government of Canada treasury bills increased by $1,849.0 million and Government of Canada bonds increased by $2,552.0 million. The balance of the change in investments resulted from an increase in the fair value of the Bank's investment in shares of the Bank for International Settlements (BIS).

As at 30 June 2015, *Loans and receivables* consisted primarily of other receivables; there were no purchase and resale agreements (PRAs) outstanding at 30 June 2015. The PRAs that were outstanding at year-end 2014 matured in January 2015.

Highlights of the Statement of Financial Position

(Millions of Canadian dollars)

	As at 30 June 2015	As at 31 December 2014
Assets		
Cash and foreign deposits	**5.8**	8.4
Loans and receivables	**6.3**	2,768.4
Investments	**95,251.2**	90,826.4
Capital assets[a]	**383.5**	327.7
Other assets	**204.3**	181.2
Total assets	**95,851.1**	94,112.1
Liabilities and Equity		
Bank notes in circulation	**71,428.3**	70,023.5
Deposits	**23,327.2**	23,195.6
Other liabilities	**616.6**	443.7
Equity	**479.0**	449.3
Total liabilities and equity	**95,851.1**	94,112.1

a. Includes *Property and equipment* and *Intangible assets*

The increase in *Capital assets* resulted from capital spending related to the Bank's Head Office Renewal Program.

Other assets have increased by $23.1 million since 31 December 2014, owing mainly to a higher net defined-benefit asset related to the Bank's registered pension plan. The increase in the net defined-benefit asset[1] is mainly the result of contributions to the plan and pension plan asset returns (as described in the discussion of *Other comprehensive income*). Bank note inventory decreased by $3.5 million (20 per cent), which corresponds with the production cycle.

[1] The net defined-benefit liability/asset is measured using the discount rate in effect as at the period-end. The rate at 30 June 2015 was 4.0 per cent (4.0 per cent at 31 December 2014).

Liabilities

The bank note liability represents approximately 75 per cent of the Bank's *Total liabilities and equity*. *Bank notes in circulation* have increased by 2 per cent since 31 December 2014. This liability increases over time with the growth in demand for bank notes and is also subject to seasonal variations.[2]

The second-largest liability on the balance sheet consists of deposits held for the Government of Canada and other financial institutions. The main components of the *Deposits* liability are $1,809.0 million held for the Government of Canada for operational balances and

[2] The *Bank notes in circulation* liability typically reaches its lowest level at the end of the first quarter and peaks in the second and fourth quarters around holiday periods.

$20,000.0 million held for the Government's prudential liquidity-management plan. The Government of Canada operational balances[3] increased by $282.4 million compared with year-end 2014.

Other liabilities consist mainly of the accrued profit transfer to the Receiver General for Canada and the defined-benefit liabilities for the Bank's deferred employee benefit plans.

Changes in the accrued profit transfer liability are the result of the timing of cash payments to the Receiver General for Canada. Net income earned on the Bank's assets, after deductions for operating expenses and allocations to reserves, is paid each year to the Receiver General. At 30 June 2015, the unremitted balance was $326.9 million[4] ($150.4 million at 31 December 2014).

Liabilities related to defined-benefit plans were level with year-end, since the discount rate used to value these liabilities was unchanged from 31 December 2014 (as described in the discussion of *Other comprehensive income*).[1]

Since 31 December 2014, the Bank's *Equity* has increased by $29.7 million as a result of fair-value increases in the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills. Fair-value changes related to the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills are reported in *Other comprehensive income* and accumulated in the available-for-sale reserve within *Equity* (see note 11 of the condensed interim financial statements for the second quarter). As at 30 June 2015, this reserve totalled $349.0 million and consisted primarily of the fair-value change in the Bank's investment in the BIS.

---

[3] 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 decisions related to cash-flow management.

[4] For the six months ended 30 June 2015, the Bank transferred cash payments of $450.4 million.

Net Income and Comprehensive Income

Highlights of the Statement of Net Income

(Millions of Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Income				
Interest revenue	**442.2**	451.1	**892.3**	903.9
Interest expense	**(37.1)**	(55.2)	**(74.8)**	(106.5)
Other revenue	**1.9**	1.3	**4.8**	3.7
Total income	**407.0**	397.2	**822.3**	801.1
Expenses				
Staff costs (includes salaries and employee benefits)	**54.4**	51.2	**108.5**	99.6
Bank note research, production and processing	**19.4**	26.3	**31.2**	52.5
Other expenses	**42.4**	44.1	**84.5**	91.1
Total expenses	**116.2**	121.6	**224.2**	243.2
Net income	**290.8**	275.6	**598.1**	557.9

Income

The Bank's primary source of income is interest revenue derived from investments in Government of Canada securities. This income will fluctuate based on market conditions. Total income for the second quarter of 2015 was $407.0 million, an increase of $9.8 million, or 2 per cent, compared with the same period in the previous year. On a year-to-date basis, income grew by $21.2 million, or 3 per cent.

The Bank's *Interest revenue*[5] consists mainly of interest revenue from treasury bills and bonds. In the first six months of 2015, the Bank recorded $887.3 million in interest revenue from treasury bills and bonds, a decrease of $12.5 million compared with the same period in 2014.

The decrease in *Interest revenue* is due mainly to lower yields on newly acquired treasury bills and bonds, compared with yields on investments that have matured. Dividend revenue increased by $0.5 million as a result of a higher dividend issued by the BIS. The remaining component is interest earned on PRAs, which increased by $0.4 million, owing mainly to a higher level of overnight PRA operations to maintain the overnight interest rate close to the target rate.

Income is reported net of the interest paid on Government of Canada deposits. Interest rates paid on deposits are based on market-related rates, which decreased significantly over the comparable period in 2014, resulting in a lower interest expense on deposits of $74.8 million for the six months ended 30 June 2015.

[5] Interest revenue consists of *Interest earned on investments, Dividend revenue, Interest earned on securities purchased under resale agreements* and *Other interest revenue.*

The Bank's revenue from its remaining sources[6] increased slightly from 2014 levels.

Expenses

Operating expenses were in line with expectations and decreased relative to 2014, owing to the lower production costs of polymer bank notes. Total expenses decreased by $5.4 million for the second quarter of 2015 compared with the same period in the previous year, and, on a year-to-date basis, expenses decreased by $19.0 million relative to 2014.

Costs associated with bank note production were $6.9 million lower in the quarter, and $21.3 million lower year-to-date, compared with the same periods in 2014. The Bank is benefiting from the adoption of polymer notes, which are lasting at least 2.5 times longer than paper bank notes. Because the notes are lasting longer, reducing the need to replace unfit notes, the production of new notes is decreasing. During the first six months of 2015, 122 million polymer notes were received, compared with 261 million notes received over the same period in 2014.

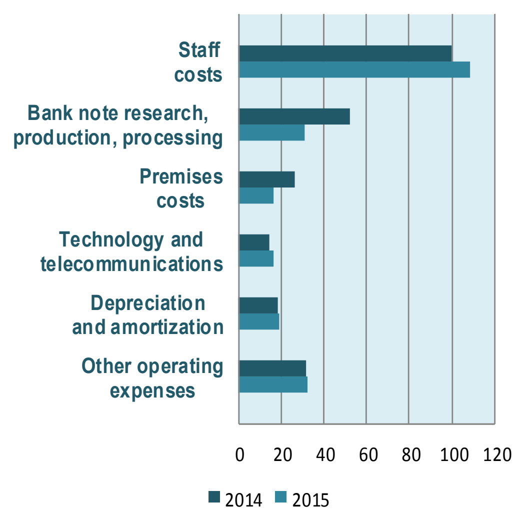
Excluding the impact of the polymer bank notes, the increase in expenses is $1.5 million in the quarter, and $2.3 million year-to-date, and is broadly distributed among staff costs, technology costs, premises costs and depreciation.

Staff costs increased by $3.2 million in the second quarter and by $8.9 million for the first six months of 2015 compared with the same periods in 2014. The increase was the result of salary adjustments to maintain market competitiveness as well as higher benefit costs associated with the Bank's defined-benefit plans, which are driven by changes in discount rates.[7] For the first six months of 2015, benefit costs increased by $5.8 million compared with the same period in 2014.

The remaining expenses (premises, technology and telecommunications, depreciation and amortization, and other operating expenses) represent 36 per cent of the Bank's total operating expenses in the quarter. These costs decreased by $1.7 million in the second quarter and by $6.6 million year-to-date compared with the same periods in 2014.

Decreases in *Premises costs* of $4.7 million in the quarter and $10.1 million year-to-date are related to demolition costs incurred in 2014 associated with the Bank's Head Office Renewal Program.

Bank of Canada Expenses
(Millions of Canadian dollars)
For the six-month period ended 30 June



[6] Other sources of revenue include interest earned on lending facilities and client deposits as well as safekeeping and custodial fees.

[7] Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2015 are based on a discount rate of 4.0 per cent (4.9 per cent in 2014).

Highlights of the Statement of Comprehensive Income

(Millions of Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
Net income	**290.8**	275.6	**598.1**	557.9
Other comprehensive income (loss)	**30.5**	(40.9)	**58.5**	(80.1)
Comprehensive income	**321.3**	234.7	**656.6**	477.8

Technology and telecommunications costs increased by $1.0 million in the second quarter and by $2.1 million for the first six months of 2015 compared with the same periods in 2014, as a result of the timing of costs associated with the Bank's strategic investment projects.

Other comprehensive income, Equity and Reserves, and Remittances

Net income was $290.8 million for the quarter and $598.1 million year-to-date. The increase in net income relative to 2014 was driven mainly by lower costs in 2015.

Other comprehensive income (loss) of $30.5 million for the quarter consists mainly of remeasurement gains of $34.4 million on the Bank's defined-benefit plan assets and liabilities. The gain was offset by a decrease of $3.9 million in the fair values of available-for-sale (AFS) assets. On a year-to-date basis, *Other comprehensive income (loss)* of $58.5 million includes remeasurement gains of $28.8 million and increases of $29.7 million in the fair values of AFS assets.

The Bank recognizes all remeasurements of the net defined-benefit liability/asset on post-employment defined-benefit plans immediately in *Other comprehensive income* at each reporting period. Remeasurements are affected by the return on plan assets and by changes in the discount rate used to determine defined-benefit obligations. The remeasurements recorded in 2015 are mainly the result of returns on pension plan assets. The discount rate used to value the net defined-benefit liability/asset was unchanged from the prior year end.[1]

AFS assets are composed of Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for AFS assets within the Bank's *Equity* (see note 11 of the condensed interim financial statements). At 30 June 2015, the fair value of the Bank's investment in the BIS was $379.0 million, representing an increase of $23.8 million since year-end 2014. The remainder of the change related to fair-value changes in the Bank's portfolio of treasury bills.

Transfer to Receiver General for Canada

In accordance with the requirements of the Bank of Canada Act, the Bank remits its surplus income, after funding its operations, to the Receiver General for Canada and does not hold retained earnings. The Bank's operations are not constrained by its cash flow or by its holdings of liquid assets because income is predictable and exceeds its expenses. The balance of this income, less agreed reserves and deductions, is remitted to the Receiver General for Canada. This amount was $626.9 million for the first six months of 2015.

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and hold within retained earnings an amount equal to unrealized losses on AFS assets, unrealized remeasurement losses on post-employment defined-benefit plans, and other unrealized or non-cash losses. Subsequently, amounts held back are issued upon the recognition of unrealized gains.

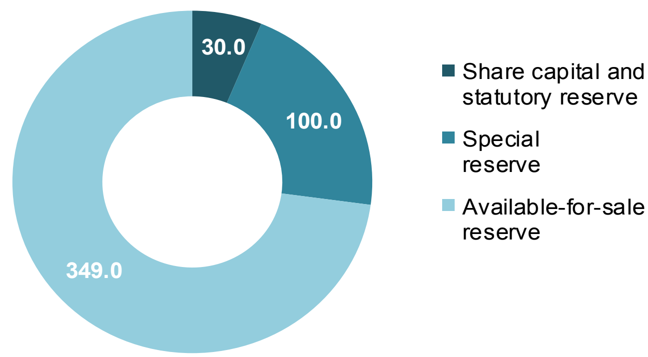
As a result of actuarial gains on the defined-benefit plans in the first six months of 2015, the Bank reimbursed $28.8 million from its previously withheld remittances to its transfers to the Receiver General.

Equity

The Bank's primary equity includes $5 million of authorized share capital and a $25 million statutory reserve. The Bank also holds a special reserve of $100 million to offset valuation losses arising from changes in the fair value of AFS assets (see note 11 of the condensed interim financial statements). There has been no change in the reserve since its inception.

The largest reserve held by the Bank is the available-for-sale reserve (discussed above).

Bank of Canada Equity
(Millions of Canadian dollars)



Operational Highlights and Changes

The following describes any significant changes in operations, personnel and programs that have occurred since 31 March 2015.

Management and Board of Directors

There was a change to the membership of the Board of Directors during the quarter. Jean Simon was appointed to the Board.

A list of the membership of Board committees is available on the Bank's website at

http://www.bankofcanada.ca/about/corporate-governance/board-of-directors.

Operations and Programs

There were no significant changes during the quarter.

Risk Analysis

The Risk section of the Management Discussion and Analysis (MD&A) for the year ended 31 December 2014 outlines the Bank's risk-management framework and risk profile and reviews the key areas of risk—financial risk, business risk and enterprise risk.

The financial risks are discussed further in the notes to the 31 December 2014 Financial Statements, which are included in the Bank's *Annual Report* for 2014.

The risks identified in the MD&A remain the key risks for the Bank.

BANK OF CANADA
BANQUE DU CANADA

Financial Statements

30 June 2015

MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim 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 condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in the quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim 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 condensed interim financial statements.

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
24 August 2015

Condensed Interim Statement of Financial Position (Unaudited)

(Millions of Canadian dollars)

	30 June 2015	As at 31 December 2014
Assets		
Cash and foreign deposits	**5.8**	8.4
Loans and receivables		
Securities purchased under resale agreements	**-**	2,764.8
Advances to members of the Canadian Payments Association	**-**	-
Other receivables	**6.3**	3.6
	6.3	2,768.4
Investments (note 4)		
Government of Canada treasury bills	**21,235.5**	19,386.5
Government of Canada bonds	**73,636.7**	71,084.7
Other investments	**379.0**	355.2
	95,251.2	90,826.4
Property and equipment (note 5)	**343.7**	283.9
Intangible assets (note 6)	**39.8**	43.8
Other assets (note 7)	**204.3**	181.2
Total assets	**95,851.1**	94,112.1
Liabilities and Equity		
Bank notes in circulation	**71,428.3**	70,023.5
Deposits (note 8)		
Government of Canada	**21,809.0**	21,526.6
Members of the Canadian Payments Association	**150.0**	150.1
Other deposits	**1,368.2**	1,518.9
	23,327.2	23,195.6
Other liabilities (note 9)	**616.6**	443.7
	95,372.1	93,662.8
Equity (note 11)	**479.0**	449.3
Total liabilities and equity	**95,851.1**	94,112.1

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

(See accompanying notes to the condensed interim financial statements.)

Condensed Interim Statement of Net Income and Comprehensive Income (Unaudited)

(Millions of Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Income				
Interest revenue				
Interest earned on investments	**438.1**	447.8	**887.3**	899.8
Dividend revenue	**3.8**	3.3	**3.8**	3.3
Interest earned on securities purchased under resale agreements	**0.2**	-	**1.1**	0.7
Other interest revenue	**0.1**	-	**0.1**	0.1
	442.2	451.1	**892.3**	903.9
Interest expense				
Interest expense on deposits	**(37.1)**	(55.2)	**(74.8)**	(106.5)
Net interest income	**405.1**	395.9	**817.5**	797.4
Other revenue	**1.9**	1.3	**4.8**	3.7
Total income	**407.0**	397.2	**822.3**	801.1
Expenses				
Staff costs	**54.4**	51.2	**108.5**	99.6
Bank note research, production and processing	**19.4**	26.3	**31.2**	52.5
Premises costs	**7.9**	12.6	**16.4**	26.5
Technology and telecommunications	**9.1**	8.1	**16.6**	14.5
Depreciation and amortization	**9.6**	9.2	**19.3**	18.6
Other operating expenses	**15.8**	14.2	**32.2**	31.5
Total expenses	**116.2**	121.6	**224.2**	243.2
Net income	**290.8**	275.6	**598.1**	557.9
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Remeasurements of the net defined-benefit liability/asset	**34.4**	(28.5)	**28.8**	(83.2)
Items that may subsequently be reclassified to net income				
Change in fair value of available-for-sale financial assets	**(3.9)**	(12.4)	**29.7**	3.1
Other comprehensive income (loss)	**30.5**	(40.9)	**58.5**	(80.1)
Comprehensive income	**321.3**	234.7	**656.6**	477.8

(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 30 June 2015	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 April 2015	**5.0**	**25.0**	**100.0**	**352.9**	**-**	**482.9**
Comprehensive income for the period						
Net income	-	-	-	-	290.8	290.8
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	34.4	34.4
Change in fair value of BIS shares	-	-	-	2.4	-	2.4
Change in fair value of Government of Canada treasury bills	-	-	-	(6.3)	-	(6.3)
	-	-	-	(3.9)	325.2	321.3
Transfer to Receiver General for Canada	-	-	-	-	(325.2)	(325.2)
Balance, 30 June 2015	**5.0**	**25.0**	**100.0**	**349.0**	**-**	**479.0**

For the six-month period ended 30 June 2015	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2015	**5.0**	**25.0**	**100.0**	**319.3**	**-**	**449.3**
Comprehensive income for the period						
Net income	-	-	-	-	598.1	598.1
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	28.8	28.8
Change in fair value of BIS shares	-	-	-	23.8	-	23.8
Change in fair value of Government of Canada treasury bills	-	-	-	5.9	-	5.9
	-	-	-	29.7	626.9	656.6
Transfer to Receiver General for Canada	-	-	-	-	(626.9)	(626.9)
Balance, 30 June 2015	**5.0**	**25.0**	**100.0**	**349.0**	**-**	**479.0**

(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 30 June 2014	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 April 2014	**5.0**	**25.0**	**100.0**	**320.7**	**-**	**450.7**
Comprehensive income for the period						
Net income	-	-	-	-	275.6	275.6
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	(28.5)	(28.5)
Change in fair value of BIS shares	-	-	-	(9.0)	-	(9.0)
Change in fair value of Government of Canada treasury bills	-	-	-	(3.4)	-	(3.4)
	-	-	-	(12.4)	247.1	234.7
Transfer to Receiver General for Canada	-	-	-	-	(247.1)	(247.1)
Balance, 30 June 2014	**5.0**	**25.0**	**100.0**	**308.3**	**-**	**438.3**

For the six-month period ended 30 June 2014	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2014	**5.0**	**25.0**	**100.0**	**305.2**	**-**	**435.2**
Comprehensive income for the period						
Net income	-	-	-	-	557.9	557.9
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	(83.2)	(83.2)
Change in fair value of BIS shares	-	-	-	9.3	-	9.3
Change in fair value of Government of Canada treasury bills	-	-	-	(6.2)	-	(6.2)
	-	-	-	3.1	474.7	477.8
Transfer to Receiver General for Canada	-	-	-	-	(474.7)	(474.7)
Balance, 30 June 2014	**5.0**	**25.0**	**100.0**	**308.3**	**-**	**438.3**

(See accompanying notes to the condensed interim financial statements.)

Condensed Interim Statement of Cash Flows (Unaudited)

(Millions of Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Cash Flows from Operating Activities				
Interest received	**643.9**	668.7	**924.5**	944.0
Dividends received	**-**	-	**-**	-
Other revenue received	**2.1**	(0.5)	**5.3**	6.7
Interest paid	**(37.1)**	(55.2)	**(74.8)**	(106.5)
Payments to or on behalf of employees/suppliers and to members of the Canadian Payments Association	**(94.6)**	(142.7)	**(202.5)**	(278.4)
Net increase in advances to members of the Canadian Payments Association	**80.4**	-	**-**	-
Net increase (decrease) in deposits	**141.0**	355.3	**131.5**	(67.6)
Proceeds from maturity of securities purchased under resale agreements	**4,109.9**	1,235.8	**11,806.1**	5,457.4
Acquisition of securities purchased under resale agreements	**(4,109.9)**	(1,236.5)	**(9,042.4)**	(3,252.3)
Repayments of securities sold under repurchase agreements	**(115.0)**	-	**(115.0)**	(229.9)
Proceeds from securities sold under repurchase agreements	**115.0**	-	**115.0**	229.9
Net cash provided by operating activities	**735.7**	824.9	**3,547.7**	2,703.3
Cash Flows from Investing Activities				
Net increase in Government of Canada treasury bills	**(2,408.8)**	(3,268.3)	**(1,848.6)**	(1,629.5)
Purchases of Government of Canada bonds	**(4,345.1)**	(5,140.1)	**(9,003.2)**	(9,217.0)
Proceeds from maturity of Government of Canada bonds	**3,301.8**	4,765.0	**6,421.8**	8,234.0
Additions of property and equipment	**(43.7)**	(12.1)	**(72.7)**	(21.5)
Additions of intangible assets	**(1.2)**	(1.0)	**(2.4)**	(1.0)
Net cash used in investing activities	**(3,497.0)**	(3,656.5)	**(4,505.1)**	(2,635.0)
Cash Flows from Financing Activities				
Net increase in bank notes in circulation	**3,058.5**	3,056.4	**1,404.8**	310.8
Remittance of ascertained surplus to the Receiver General for Canada	**(300.0)**	(225.0)	**(450.4)**	(378.7)
Net cash provided by (used in) financing activities	**2,758.5**	2,831.4	**954.4**	(67.9)
Effect of Exchange Rate Changes on Foreign Currency	**-**	(0.2)	**0.4**	-
(Decrease) increase in Cash and Foreign Deposits	**(2.8)**	(0.4)	**(2.6)**	0.4
Cash and Foreign Deposits, Beginning of Period	**8.6**	5.8	**8.4**	5.0
Cash and Foreign Deposits, End of Period	**5.8**	5.4	**5.8**	5.4

(See accompanying notes to the condensed interim financial statements.)

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

For the period ended 30 June 2015

(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 nation's central bank. The Bank is a corporation under the Bank of Canada Act, 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 Chartered Professional Accountants of Canada (CPA Canada).

The address of the registered head office is 234 Laurier Avenue West, Ottawa, Ontario.

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 the stability and efficiency of Canada's financial system, both within Canada and globally.

Currency
Designs, produces and distributes Canada's bank notes and replaces worn notes. The Bank deters counterfeiting through leading-edge bank note design, public education and collaboration with law-enforcement agencies.

Funds management
Provides effective and efficient funds-management services for the Government of Canada and administers and advises on the public debt and foreign exchange reserves. In addition, the Bank provides banking services to foreign central banks as well as to critical payment clearing and settlement systems.

The Bank's activities and operations are undertaken in support of its core mandate and not with the objective of generating revenue or profits. It does not offer banking services to the public. The Bank has the exclusive right to issue Canadian bank notes, and the face value of these bank notes is the most significant liability on the Bank's balance sheet. The Bank invests the proceeds from the issuance of bank notes into Government of Canada securities, which are acquired on a non-competitive basis. These assets enable the Bank to execute its responsibilities for the monetary policy and financial system functions.

Interest income derived from Government of Canada securities is the Bank's primary source of revenue each year. The income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage," which provides a stable and constant source of funding for the Bank's operations, enabling it to function independently of government appropriations. A portion of this revenue is used to fund the Bank's operations and reserves; the remaining net income is remitted to the Receiver General in accordance with the requirements of the Bank of Canada Act.

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). These condensed interim financial statements do not include all of the information and disclosures required for full annual financial statements and should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2014. When necessary, the condensed interim financial statements include amounts based on informed estimates and the judgment of management. The results of operations for the interim period reported are not necessarily indicative of results expected for the year.

The Audit and Finance Committee of the Board of Directors approved the condensed interim financial statements on 24 August 2015.

Measurement base

The condensed interim financial statements have been prepared on the historical cost basis, except for the available-for-sale (AFS) financial assets, which are measured at fair value, and the net defined-benefit liability/asset of employee benefit plans, which is recognized as the net of the fair value of plan assets 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, as well as related information. The Bank based its assumptions and estimates on information that was available when these condensed interim financial statements were prepared. Existing circumstances and assumptions about future developments may change, however, in response to market fluctuations or circumstances that are beyond the control of the Bank. In such cases, the impact will be recognized in the financial statements of a future period.

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. Significant estimates are primarily in the area of the fair values of certain financial instruments and collateral taken (note 4) and employee benefit plans (note 10).

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, while demand 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 services are provided to foreign central banks and international organizations. The assets, and the income arising therefrom, are excluded from these condensed interim financial statements because 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 2014.

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 other investments), bank notes in circulation, deposits and other liabilities (excluding the net defined-benefit liability for pension benefit plans and other employee benefit plans).

The Bank operates a Securities Lending Program to support the liquidity of Government of Canada securities by providing the market with a secondary and temporary source of these securities. At 30 June 2015, the Bank's investments included loaned securities with a fair market value of $1,410.5 million ($185.8 million at 31 December 2014) and an amortized cost of $1,359.9 million ($175.0 million at 31 December 2014). Collateral held against investments loaned under securities lending at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $1,447.6 million, representing 102.6 per cent of the fair market value of the securities loaned.

Measurement of financial instruments

Cash and foreign deposits, Government of Canada treasury bills and shares in the Bank for International Settlements (BIS) 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.

Financial instruments measured at fair value

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

	Level 1	Level 2	Level 3	Total
Financial assets at fair value as at 30 June 2015				
Government of Canada treasury bills	**21,235.5**	**-**	**-**	**21,235.5**
BIS shares	**-**	**-**	**379.0**	**379.0**
	21,235.5	**-**	**379.0**	**21,614.5**
Financial assets at fair value as at 31 December 2014				
Government of Canada treasury bills	19,386.5	-	-	19,386.5
BIS shares	-	-	355.2	355.2
	19,386.5	-	355.2	19,741.7

There were no transfers of amounts between levels in the six-month period ended 30 June 2015.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value (NAV) of the BIS at the reporting date. This formula is equivalent to the methodology applied by the BIS to determine the pricing of any new shares issued. While the Bank considers that the 30 per cent discount against the NAV of the BIS continues to be the appropriate basis for valuation, the valuation inputs are not considered to be observable, and a 5 per cent change in the discount to the NAV would not have a material impact on the fair value of the BIS shares. There were no changes to the valuation technique during the three- and six-month periods ended 30 June 2015.

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair-value measurements:

	For the three-month period ended		For the six-month period ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Opening balance at beginning of period	**376.6**	355.4	**355.2**	337.1
Change in fair value recorded through *Other comprehensive income*	**2.4**	(9.0)	**23.8**	9.3
Closing balance at period-end	**379.0**	346.4	**379.0**	346.4

Financial instruments not measured at fair value

The fair values of Government of Canada bonds are determined based on unadjusted quoted market prices in an active market (Level 1). The fair value of Government of Canada bonds is \$78,674.1 million at 30 June 2015 (\$75,630.7 million at 31 December 2014).

5. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2015				
Cost				
Balances, 31 December 2014	**291.5**	**39.3**	**79.1**	**409.9**
Additions	**71.3**	**0.7**	**0.7**	**72.7**
Disposals	**-**	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 June 2015	**362.8**	**40.0**	**79.8**	**482.6**
Depreciation				
Balances, 31 December 2014	**(78.3)**	**(16.7)**	**(31.0)**	**(126.0)**
Depreciation expense	**(3.1)**	**(2.8)**	**(7.0)**	**(12.9)**
Disposals	**-**	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 June 2015	**(81.4)**	**(19.5)**	**(38.0)**	**(138.9)**
Carrying amounts				
At 31 December 2014	**213.2**	**22.6**	**48.1**	**283.9**
At 30 June 2015	**281.4**	**20.5**	**41.8**	**343.7**

	Land and buildings	Computer equipment	Other equipment	Total
2014				
Cost				
Balances, 31 December 2013	221.4	35.8	80.5	337.7
Additions	70.1	3.4	3.3	76.8
Disposals	-	-	(4.6)	(4.6)
Transfers to other asset categories	-	0.1	(0.1)	-
Balances, 31 December 2014	291.5	39.3	79.1	409.9
Depreciation				
Balances, 31 December 2013	(72.4)	(11.4)	(21.5)	(105.3)
Depreciation expense	(5.9)	(5.3)	(14.0)	(25.2)
Disposals	-	-	4.5	4.5
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2014	(78.3)	(16.7)	(31.0)	(126.0)
Carrying amounts				
At 31 December 2013	149.0	24.4	59.0	232.4
At 31 December 2014	213.2	22.6	48.1	283.9

Land and buildings include the activities related to the Head Office Renewal Program. In December 2013, the Bank signed a memorandum of understanding with the construction manager that establishes a guaranteed maximum price for future construction at the head office facility. The commitments at 30 June 2015 are primarily associated with the Head Office Renewal Program.

Other equipment includes $12.5 million for bank note inspection equipment, which was obtained through a finance lease arrangement in 2013. The net carrying amount of the equipment at 30 June 2015 was $7.5 million ($8.8 million at 31 December 2014).

	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress 2015				
Included in *Carrying amounts* at 30 June 2015	**160.7**	**4.1**	**1.0**	**165.8**
Additions during 2015	**71.3**	**0.7**	**0.6**	**72.6**
Commitments at 30 June 2015	**149.1**	**0.4**	**1.3**	**150.8**
Projects in progress 2014				
Included in *Carrying amounts* at 31 December 2014	89.4	5.1	0.4	94.9
Additions during 2014	69.7	3.4	0.3	73.4
Commitments at 31 December 2014	199.5	0.3	1.0	200.8

Projects in progress consist primarily of $160.7 million related to the Head Office Renewal Program (31 December 2014—$89.4 million) and $4.1 million related to the High Availability Renewal Program (31 December 2014—$5.1 million). In the first quarter of 2015, $1.7 million of the High Availability Renewal Program was put in service.

6. Intangible assets

	Internally generated software	Other software	Total
2015			
Cost			
Balances, 31 December 2014	**45.9**	**62.6**	**108.5**
Additions	**2.4**	**-**	**2.4**
Disposals	**-**	**-**	**-**
Balances, 30 June 2015	**48.3**	**62.6**	**110.9**
Amortization			
Balances, 31 December 2014	**(38.5)**	**(26.2)**	**(64.7)**
Amortization expense	**(2.3)**	**(4.1)**	**(6.4)**
Disposals	**-**	**-**	**-**
Balances, 30 June 2015	**(40.8)**	**(30.3)**	**(71.1)**
Carrying amounts			
At 31 December 2014	**7.4**	**36.4**	**43.8**
At 30 June 2015	**7.5**	**32.3**	**39.8**

	Internally generated software	Other software	Total
2014			
Cost			
Balances, 31 December 2013	43.2	61.4	104.6
Additions	2.7	1.2	3.9
Disposals	-	-	-
Balances, 31 December 2014	45.9	62.6	108.5
Amortization			
Balances, 31 December 2013	(33.8)	(18.6)	(52.4)
Amortization expense	(4.7)	(7.6)	(12.3)
Disposals	-	-	-
Balances, 31 December 2014	(38.5)	(26.2)	(64.7)
Carrying amounts			
At 31 December 2013	9.4	42.8	52.2
At 31 December 2014	7.4	36.4	43.8

	Internally generated software	Other software	Total
Projects in progress 2015			
Included in *Carrying amounts* at 30 June 2015	**5.1**	**-**	**5.1**
Additions during 2015	**2.4**	**-**	**2.4**
Commitments at 30 June 2015	**-**	**-**	**-**
Projects in progress 2014			
Included in *Carrying amounts* at 31 December 2014	2.7	0.5	3.2
Additions during 2014	2.7	0.5	3.2
Commitments at 31 December 2014	-	-	-

7. Other assets

	30 June 2015	31 December 2014
Bank note inventory	**13.7**	17.2
Net defined-benefit asset (note 10)	**160.7**	134.8
All other assets	**29.9**	29.2
Total other assets	**204.3**	181.2

Included in *All other assets* is a $15.0 million advance to CBRE Limited in connection with the Head Office Renewal Program, which is expected to remain in place through to the end of the construction period ($15.0 million at 31 December 2014). The advance is to facilitate the timely payment of subcontractor agreements.

8. Deposits

The liabilities within *Deposits* consist of $23,327.2 million in Canadian-dollar demand deposits ($23,195.6 million at 31 December 2014). The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at short-term market rates, and interest expense on deposits is included in the *Condensed Interim Statement of Net Income and Comprehensive Income*.

Deposits from the Government of Canada consist of $1,809.0 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,526.6 million and $20,000.0 million, respectively, at 31 December 2014).

9. Other liabilities

	30 June 2015	**31 December 2014**
Accrued transfer payment to the Receiver General for Canada	**326.9**	150.4
Net defined-benefit liability (note 10)		
Pension benefit plan	**32.3**	32.0
Other benefit plans	**173.2**	172.8
All other liabilities and provisions	**84.2**	88.5
Total other liabilities	**616.6**	443.7

The accrued transfer payment to the Receiver General for Canada of $326.9 million (31 December 2014—$150.4 million) is included in the $626.9 million *Transfer to the Receiver General for Canada* for the period presented in the *Condensed Interim Statement of Changes in Equity* (31 December 2014—$1,025.4 million).

For the six-month period ended 30 June 2015, an amount of $150.4 million related to 2014 net income and $300.0 million related to the 2015 net income was paid to the Receiver General for Canada ($153.7 million related to 2013 net income and $225.0 million related to 2014 net income was paid during the six months ended 30 June 2014).

10. Employee benefit plans

Expenses and contributions for the employee benefit plans for the three- and six-month periods ended 30 June are presented in the tables below:

	For the three-month period ended		**For the six-month period ended**	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Expenses				
Pension benefit plans	**8.6**	4.9	**17.1**	9.7
Other employee benefit plans	**3.0**	3.5	**6.1**	6.9
Total benefit plan expenses recognized	**11.6**	8.4	**23.2**	16.6

	Pension plans (funded)		Other benefit plans (unfunded)	
	2015	**2014**	**2015**	**2014**
Contributions for the three-month period ended 30 June				
Employer contributions	**6.1**	10.8	**-**	-
Employee contributions	**3.9**	2.9	**-**	-
Total contributions	**10.0**	13.7	**-**	-
Contributions for the six-month period ended 30 June				
Employer contributions	**13.9**	21.2	**-**	-
Employee contributions	**7.0**	5.3	**-**	-
Total contributions	**20.9**	26.5	**-**	-

The Bank remeasures its defined-benefit obligations and the fair value of plan assets at interim periods. The discount rate is determined by reference to Canadian AA-corporate bonds with terms to maturity approximating the duration of the obligation according to guidance issued by the Canadian Institute of Actuaries. The net defined-benefit liability/asset is measured using the discount rate in effect as at the period-end.

During the three- and six-month periods ended 30 June 2015, the Bank recorded remeasurement gains on the net defined-benefit liability/asset of $34.4 million and $28.8 million, respectively (30 June 2014 remeasurement losses of $28.5 million and $83.2 million). Remeasurement gains recorded during the six-month period are mainly the result of returns on plan assets. At 30 June 2015, the discount rate used to value the obligation was unchanged from 31 December 2014.

11. Equity

The Bank manages its capital to ensure compliance with the Bank of Canada Act. There were no other externally imposed capital requirements at the end of the reporting period.

The elements of equity are shown in the table below:

	30 June 2015	**31 December 2014**
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**349.0**	319.3
Retained earnings	-	-
Total equity	**479.0**	449.3

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 of the Bank's treasury bill portfolio. The scenario-based stress tests assess the impact of a rapid increase in interest rates on the value of the Bank's treasury bill portfolio. This reserve is subject to a ceiling of $400 million; an initial amount of $100 million was established in September 2007.

Available-for-sale reserve

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

	30 June 2015	**31 December 2014**
Government of Canada treasury bills	**8.1**	2.2
BIS shares	**340.9**	317.1
Available-for-sale reserve	**349.0**	319.3

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.

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements considering the volatility arising from fair value changes and remeasurements (which are recorded in *Other comprehensive income*). This agreement allows the Bank to deduct from its remittances to the Receiver General and hold within *Retained earnings* an amount equal to unrealized losses on AFS financial assets, unrealized remeasurements of the net defined-benefit liability/asset on defined-benefit plans and other unrealized or non-cash losses arising as a result of changes in accounting standards or legislation.

During the six-month period ended 30 June 2015, the Bank reimbursed $28.8 million in previously withheld remittances ($101.4 million withheld during 2014) and, as at 30 June 2015, $98.1 million ($127.0 million as at 31 December 2014) in withheld remittances was outstanding.

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 condensed interim 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 Party Disclosures* (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.