BANK OF CANADA
BANQUE DU CANADA

2016 QUARTERLY FINANCIAL REPORT

DYNAMIC.
ENGAGED.
TRUSTED.

30 June 2016 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 17 August 2016 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 2015. The *Annual Report* includes a Management Discussion and Analysis (MD&A) for the year ended 31 December 2015. Disclosures and information in the 2015 *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 (MTP) that provides a road map for the next three years.

This year, 2016, represents the first year of the Bank's 2016–18 MTP, Central Banking for a New Era.

The MTP was developed based on financial assumptions that balance the need to invest in our people, infrastructure and tools with the recognition of the Bank's commitment to ensure effective use of public funds.

2016 Outlook

The Bank's 2016 Plan

(Millions of dollars)	2016 budget	2015 actual
MTP expenditures	398.0	**370.0**
Bank note production	63.0	**70.0**
Non-current deferred employee benefits	14.0	**14.0**
Head Office Renewal and strategic investment programs	209.0	**185.0**
Total expenditures[a]	684.0	**639.0**

[a] Includes operational and capital expenditures

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 first year of the new MTP will see the launch of several new initiatives resulting in a temporary growth rate for 2016 MTP expenditures of 4 per cent. This temporary growth in expenditures has been factored into the MTP financial assumptions. The average annual rate across the three years is targeted at 2 per cent.

Bank note production costs are projected to decrease in 2016, as fewer new notes are needed to replace the more durable polymer bank notes in the system.

In 2016, the Bank also expects to incur $172 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

The Bank's *Total assets* and *Total liabilities and equity* have increased by $2,932.1 million since 31 December 2015 as a result of seasonal fluctuations in *Bank notes in circulation* and increases in *Deposits*.

Changes to the Bank's balance sheet in the first half of 2016 were also driven by revisions to its framework for financial market operations that were introduced in October 2015. The financial impact of these changes included the introduction of a regular program of term repo operations and a corresponding reduction in the Bank's minimum purchase of nominal bonds at auction from 20 per cent to 15 per cent.

Financial Position

(Millions of dollars)	30 June 2016	As at 31 December 2015
Assets		
Cash and foreign deposits	16.8	11.2
Loans and receivables	8,482.3	6,096.7
Investments	94,998.7	94,389.0
Capital assets[a]	526.7	469.3
Other assets	54.5	180.7
Total assets	104,079.0	101,146.9
Liabilities and Equity		
Bank notes in circulation	76,534.8	75,496.9
Deposits	26,508.4	24,592.9
Other liabilities	545.7	558.9
Equity	490.1	498.2
Total liabilities and equity	104,079.0	101,146.9

[a] Includes *Property and equipment* and *Intangible assets*

Assets

As the exclusive issuer of bank notes, the Bank invests proceeds from the issuance of notes into Government of Canada securities.

The Bank's investments increased in 2016 (by $609.7 million or 1 per cent), generally driven by increases in bank notes in circulation. Government of Canada treasury bills increased by $148.1 million and Government of Canada bonds increased by $470.3 million. The balance of the change in investments resulted from a decrease of $8.7 million in the foreign-denominated fair value of the Bank's investment in shares of the Bank for International Settlements (BIS).

At 30 June 2016, there was $8,473.3 million in *Loans and receivables* in connection with securities purchased under resale agreements.

Construction related to the Bank's Head Office Renewal Program drove the majority of capital asset spending in the first half of 2016.

Other assets include the net defined-benefit asset. The net defined-benefit asset related to the Bank's registered pension plan decreased relative to December 2015. The change is mainly due to the decrease in the discount rate[1] (as described in the discussion of *Other comprehensive income*).

Liabilities

The bank note liability represents approximately 74 per cent of the Bank's *Total liabilities and equity*. The value of *Bank notes in circulation* has increased by 1 per cent since 31 December 2015. 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 $20,000 million held for the government's prudential liquidity-management plan and $3,192.2 million held for the Government of Canada for operational balances. The Government of Canada operational balances[3] increased by $574.9 million compared with year-end 2015. Deposits held by Members of Payments Canada (formerly Canadian Payments Association) increased by $1,145.7 million compared with year-end 2015 in connection with the Overnight Repo operations at 30 June 2016.

Other liabilities consist mainly of the accrued profit transfer to the Receiver General for Canada and the net 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 2016, the unremitted balance was $209.5 million[4] ($249.5 million at 31 December 2015).

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[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 2016 was 3.5 per cent (4.1 per cent at 31 December 2015).

[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.

[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 2016, the Bank transferred cash payments of $449.5 million.

The liabilities related to defined-benefit plans increased by $29.4 million as a result of a decrease in the discount rate used to value these liabilities (as described in the discussion of *Other comprehensive income*).[1]

Managing 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 available-for-sale (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 AFS reserve, which consists of fair-value changes in the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills. These fair-value changes 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). As at 30 June 2016, this reserve totalled $360.1 million and consisted primarily of the fair-value change in the Bank's investment in the BIS.

Results of Operations

	For the three-month period ended		For the six-month period ended	
(Millions of dollars)	**30 June 2016**	**30 June 2015**	**30 June 2016**	**30 June 2015**
Total income	**385.4**	407.0	**779.6**	822.3
Total expenses	**115.6**	116.2	**220.3**	224.2
Net income	**269.8**	290.8	**559.3**	598.1
Other comprehensive income (loss)	**(88.5)**	30.5	**(157.9)**	58.5
Comprehensive income	**181.3**	321.3	**401.4**	656.6

Income

Total income for the second quarter of 2016 was $385.4 million, a decrease of $21.6 million compared with the same period in the previous year, and, on a year-to-date basis, *Total income* was $779.6 million, a decrease of $42.7 million relative to 2015.

The Bank's primary source of revenue is *Interest revenue* from investments, which is derived from investments in Government of Canada securities and fluctuates with market conditions. In the second quarter of 2016, the Bank recorded $402.8 million in interest revenue from treasury bills and bonds, a decrease of $35.3 million, compared with the same period in the previous year. On a year-to-date basis, *Interest revenue* decreased by $72.2 million. The decline is due mainly to the lower yields on newly acquired securities compared with yields on investments that have matured. These lower yields are partially offset by a higher level of investments.

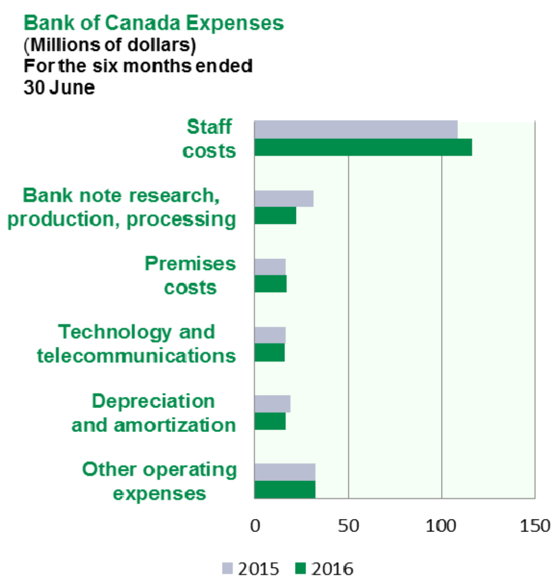
The interest earned on purchase and resale agreements was $9.5 million for the three-month period, an increase of $9.3 million compared with the same period in the previous year and $17.3 million for the six months ended 30 June 2016, an increase of $16.2 million compared with the six months ended 30 June 2015. The increases are in connection with the revised framework for financial market operations introduced in October 2015.

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 over the comparable period in 2015, resulting in a lower interest expense on deposits of $32.3 million for the three months ended 30 June 2016 and of $59.5 million for the six months ended 30 June 2016.

The Bank's revenue from its remaining sources[5] decreased slightly from 2015 levels.

Expenses

Operating expenses were in line with expectations for 2016 and decreased by $0.6 million for the second quarter of 2016 compared with the same period in the previous year, and, on a year-to-date basis, expenses decreased by $3.9 million relative to 2015.



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

Costs associated with bank note production were $3.2 million lower in the quarter, and $8.8 million lower year-to-date, compared with the same periods in 2015. During the first six months of 2016, 72 million polymer notes were received compared with 122 million notes received over the same period in 2015.

Staff costs increased by $3.6 million in the second quarter and by $7.5 million for the first six months of 2016 compared with the same periods in 2015. The increase was the result of increased staffing to support MTP initiatives, salary adjustments to maintain market competitiveness and higher benefit costs associated with the Bank's defined-benefit plans.[6] Benefit costs increased by $0.9 million for the second quarter and by $2.0 million for the first six months of 2016 compared with the same periods in 2015.

The remaining expenses (*Premises costs*, *Technology and telecommunications*, *Depreciation and amortization* and *Other operating expenses*) represent 37 per cent of the Bank's total operating expenses in the first six months of 2016. These costs decreased by $1.0 million in the three-month period and by $2.6 million in the six-month period ended 30 June 2016 compared with the same periods in 2015.

Other comprehensive income and Remittances

Other comprehensive income (loss) of $-88.5 million for the quarter includes remeasurement losses of $87.2 million on the Bank's net defined-benefit plan assets and liabilities. In addition, there were losses of $1.3 million in the fair values of AFS assets. On a year-to-date basis, *Other comprehensive income (loss)* of $-157.9 million includes

[6] Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2016 are based on a discount rate of 4.1 per cent (4.0 per cent in 2015).

remeasurement losses of $149.8 million on the Bank's net defined-benefit plan assets and liabilities and losses of $8.1 million in the fair values of AFS assets.

Remeasurements[7] of net defined-benefit plan assets and liabilities are affected by the return on plan assets and by changes in the discount rate used to determine net defined-benefit obligations. The remeasurements recorded in 2016 are mainly the result of a 40-basis-point decrease in the three-month period and a 60-basis-point decrease year-to-date in the discount rate used to value the net defined-benefit liability/asset.[8]

Available-for-sale 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 2016, the fair value of the Bank's investment in the BIS was $396.5 million, representing a decrease of $8.7 million since year-end 2015. The remainder of the change resulted from an increase in the fair value of 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 $409.5 million for the first six months of 2016.

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and hold within *Equity* 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 losses on the defined-benefit plans in the first six months of 2016, the Bank withheld $149.8 million from its remittances to the transfers to the Receiver General. At 30 June 2016, $263.1 million in withheld remittances was outstanding.

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[7] 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.

[8] The net defined-benefit liability/asset is measured using the discount rate in effect as at the period-end. The rate at 30 June 2016 was 3.5 per cent (4.1 per cent at 31 December 2015).

Operational Highlights and Changes

The following describes any significant changes in operations, personnel and programs that have been announced since 31 March 2016.

Management and Board of Directors

On 24 June 2016, Sheila Vokey, Chief Risk Officer, accepted a three-year secondment with Payments Canada.

Operations and Programs

On 25 June 2016, there was a fire at the Canadian Bank Note Company (CBN), the Bank's printer of bank notes. Potential damages to Bank assets maintained by CBN are being assessed and any losses are expected to be reimbursed to the Bank. It is management's expectation that the impact would be immaterial to the financial statements and delays in production would not affect the Bank's operations.

Risk Analysis

The Risk Management section of the Management Discussion and Analysis (MD&A) for the year ended 31 December 2015 outlines the Bank's risk-management framework and risk profile and reviews the key areas of risk—strategic risk, financial risk and operational risk.

The financial risks are discussed further in the notes to the 31 December 2015 Financial Statements, which are included in the Bank's *Annual Report* for 2015, available at

http://www.bankofcanada.ca/2016/03/annual-report-2015.

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

BANK OF CANADA
BANQUE DU CANADA

Financial Statements

30 June 2016

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

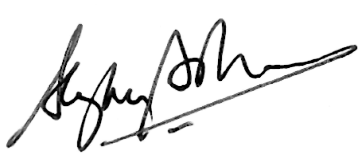
Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

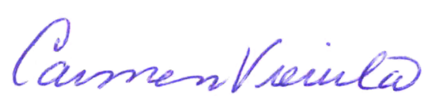
Ottawa, Canada
17 August 2016

Condensed Interim Statement of Financial Position (Unaudited)

(Millions of Canadian dollars)

	30 June 2016	As at 31 December 2015
Assets		
Cash and foreign deposits	**16.8**	11.2
Loans and receivables		
Securities purchased under resale agreements	**8,473.3**	6,089.4
Advances to members of Payments Canada	**-**	-
Other receivables	**9.0**	7.3
	8,482.3	6,096.7
Investments (note 4)		
Government of Canada treasury bills	**18,368.4**	18,220.3
Government of Canada bonds	**76,233.8**	75,763.5
Other investments	**396.5**	405.2
	94,998.7	94,389.0
Property and equipment (note 5)	**490.5**	431.4
Intangible assets (note 6)	**36.2**	37.9
Other assets (note 7)	**54.5**	180.7
Total assets	**104,079.0**	101,146.9
Liabilities and Equity		
Bank notes in circulation	**76,534.8**	75,496.9
Deposits (note 8)		
Government of Canada	**23,192.2**	22,617.3
Members of Payments Canada	**1,646.1**	500.4
Other deposits	**1,670.1**	1,475.2
	26,508.4	24,592.9
Other liabilities (note 9)	**545.7**	558.9
	103,588.9	100,648.7
Equity (note 11)	**490.1**	498.2
Total liabilities and equity	**104,079.0**	101,146.9





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 2016	30 June 2015	30 June 2016	30 June 2015
Income				
Interest revenue				
Interest earned on investments	**402.8**	438.1	**815.1**	887.3
Dividend revenue	**3.6**	3.8	**3.6**	3.8
Interest earned on securities purchased under resale agreements	**9.5**	0.2	**17.3**	1.1
Other interest revenue	**0.1**	0.1	**0.1**	0.1
	416.0	442.2	**836.1**	892.3
Interest expense				
Interest expense on deposits	**(32.3)**	(37.1)	**(59.5)**	(74.8)
Net interest income	**383.7**	405.1	**776.6**	817.5
Other revenue	**1.7**	1.9	**3.0**	4.8
Total income	**385.4**	407.0	**779.6**	822.3
Expenses				
Staff costs	**58.0**	54.4	**116.0**	108.5
Bank note research, production and processing	**16.2**	19.4	**22.4**	31.2
Premises costs	**8.7**	7.9	**17.0**	16.4
Technology and telecommunications	**7.6**	9.1	**15.8**	16.6
Depreciation and amortization	**8.4**	9.6	**16.7**	19.3
Other operating expenses	**16.7**	15.8	**32.4**	32.2
Total expenses	**115.6**	116.2	**220.3**	224.2
Net income	**269.8**	290.8	**559.3**	598.1
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Remeasurements of the net defined-benefit liability/asset	**(87.2)**	34.4	**(149.8)**	28.8
Items that may be reclassified				
Change in fair value of available-for-sale financial assets	**(1.3)**	(3.9)	**(8.1)**	29.7
Other comprehensive income (loss)	**(88.5)**	30.5	**(157.9)**	58.5
Comprehensive income	**181.3**	321.3	**401.4**	656.6

(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 2016

	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 April 2016	**5.0**	**25.0**	**100.0**	**361.9**	**-**	**491.9**
Comprehensive income for the period						
Net income	-	-	-	-	269.8	269.8
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	(87.2)	(87.2)
Change in fair value of BIS shares	-	-	-	(3.5)	-	(3.5)
Change in fair value of Government of Canada treasury bills	-	-	-	1.7	0.5	2.2
	-	-	-	(1.8)	183.1	181.3
Transfer to Receiver General for Canada	-	-	-	-	(183.1)	(183.1)
Balance, 30 June 2016	**5.0**	**25.0**	**100.0**	**360.1**	**-**	**490.1**

For the six-month period ended 30 June 2016

	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2016	**5.0**	**25.0**	**100.0**	**368.2**	**-**	**498.2**
Comprehensive income for the period						
Net income	-	-	-	-	559.3	559.3
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	(149.8)	(149.8)
Change in fair value of BIS shares	-	-	-	(8.7)	-	(8.7)
Change in fair value of Government of Canada treasury bills	-	-	-	0.6	-	0.6
	-	-	-	(8.1)	409.5	401.4
Transfer to Receiver General for Canada	-	-	-	-	(409.5)	(409.5)
Balance, 30 June 2016	**5.0**	**25.0**	**100.0**	**360.1**	**-**	**490.1**

(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 Cash Flows (Unaudited)

(Millions of Canadian dollars)

	For the three-month period ended		For the six-month period ended	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Cash Flows from Operating Activities				
Interest received	**606.9**	643.9	**885.6**	924.5
Dividends received	**-**	-	**-**	-
Other revenue received	**1.6**	2.1	**5.7**	5.3
Interest paid	**(32.3)**	(37.1)	**(59.5)**	(74.8)
Payments to or on behalf of employees/suppliers and to members of Payments Canada	**(80.3)**	(94.6)	**(200.7)**	(202.5)
Net increase in advances to members of Payments Canada	**-**	80.4	**-**	-
Net increase in deposits	**1,908.5**	141.0	**1,915.5**	131.5
Proceeds from maturity of securities purchased under resale agreements	**27,736.2**	4,109.9	**55,316.9**	11,806.1
Acquisition of securities purchased under resale agreements	**(29,205.5)**	(4,109.9)	**(57,698.4)**	(9,042.4)
Repayments of securities sold under repurchase agreements	**-**	(115.0)	**-**	(115.0)
Proceeds from securities sold under repurchase agreements	**-**	115.0	**-**	115.0
Net cash provided by operating activities	**935.1**	735.7	**165.1**	3,547.7
Cash Flows from Investing Activities				
Net increase in Government of Canada treasury bills	**(3,898.0)**	(2,408.8)	**(159.3)**	(1,848.6)
Purchases of Government of Canada bonds	**(4,101.7)**	(4,345.1)	**(7,808.6)**	(9,003.2)
Proceeds from maturity of Government of Canada bonds	**4,355.0**	3,301.8	**7,295.0**	6,421.8
Additions of property and equipment	**(37.7)**	(43.7)	**(71.7)**	(72.7)
Additions of intangible assets	**(2.1)**	(1.2)	**(2.5)**	(2.4)
Net cash used in investing activities	**(3,684.5)**	(3,497.0)	**(747.1)**	(4,505.1)
Cash Flows from Financing Activities				
Net increase in bank notes in circulation	**2,954.1**	3,058.5	**1,037.9**	1,404.8
Remittance of ascertained surplus to the Receiver General for Canada	**(200.0)**	(300.0)	**(449.5)**	(450.4)
Net cash provided by financing activities	**2,754.1**	2,758.5	**588.4**	954.4
Effect of Exchange Rate Changes on Foreign Currency	**(0.2)**	-	**(0.8)**	0.4
Increase (decrease) in Cash and Foreign Deposits	**4.5**	(2.8)	**5.6**	(2.6)
Cash and Foreign Deposits, Beginning of Period	**12.3**	8.6	**11.2**	8.4
Cash and Foreign Deposits, End of Period	**16.8**	5.8	**16.8**	5.8

(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 2016

(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 established under the *Bank of Canada Act*, is wholly owned by the Government of Canada and is exempt from income taxes. The Bank does not offer banking services to the public.

The Bank is a Government Business Enterprise as defined by the Canadian Public Sector Accounting Standards and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Chartered Professional Accountants of Canada (CPA Canada). In compliance with this requirement, the Bank has developed accounting policies in accordance with International Financial Reporting Standards (IFRS).

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

The Bank's mandate under the *Bank of Canada Act* is "to promote the economic and financial welfare of Canada." The Bank's activities and operations are undertaken in support of this mandate and not with the objective of generating revenue or profits. The Bank's four core areas of responsibility are the following:

Monetary policy: The objective of monetary policy is to preserve the value of money by keeping inflation low, stable and predictable.

Financial system: The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.

Currency: The Bank designs, issues and distributes Canada's bank notes, oversees the note distribution system and ensures a supply of quality bank notes that are readily accepted and secure against counterfeiting.

Funds management: The Bank provides funds-management services for the Government of Canada, the Bank itself and other clients. For the government, the Bank provides treasury-management services and administers and advises on the public debt and foreign exchange reserves.

The Corporate Administration function supports the management of the Bank's human resources, operations and strategic initiatives, as well as the stewardship of financial, physical, information and technology assets.

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 2015. 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 17 August 2016.

Measurement base

The condensed interim financial statements have been prepared on a 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 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 the shares in the Bank for International Settlements (BIS) (note 4), collateral taken (note 4) and employee benefits (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 of Canada) 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 financial statements of the Bank.

Securities safekeeping and other custodial activities are provided to foreign central banks, international organizations and other government-related entities. The assets, and income arising therefrom, are excluded from these financial statements since 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 2015.

4. Financial instruments

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of Payments Canada, 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, other employee benefit plans and lease contracts).

Securities purchased under resale agreements are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. The duration of securities purchased under resale agreements generally ranges between 1 and 90 business days.

The fair value of collateral held against securities purchased under resale agreements at the end of the reporting period is presented below.

	30 June 2016		**31 December 2015**	
	$	**%**	**$**	**%**
Securities issued or guaranteed by the Government of Canada	**2,397.9**	**27.0**	1,918.6	30.0
Securities issued or guaranteed by a provincial government	**6,461.5**	**73.0**	4,401.7	70.0
Total fair value of collateral pledged	**8,859.4**	**100.0**	6,320.3	100.0
As a percentage of amortized cost		**105%**		104%

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. These securities-lending transactions are fully collateralized by securities and are generally one business day in duration. As at 30 June 2016, there were no loaned securities in the Bank's investments ($Nil at 31 December 2015).

Measurement of financial instruments

Cash and foreign deposits, Government of Canada treasury bills and BIS shares are measured at fair value. All other financial instruments are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value.

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 2016				
Government of Canada treasury bills	**18,368.4**	**-**	**-**	**18,368.4**
BIS shares	**-**	**-**	**396.5**	**396.5**
	18,368.4	**-**	**396.5**	**18,764.9**
Financial assets at fair value as at 31 December 2015				
Government of Canada treasury bills	18,220.3	-	-	18,220.3
BIS shares	-	-	405.2	405.2
	18,220.3	-	405.2	18,625.5

There were no transfers of amounts between levels in the six-month period ended 30 June 2016.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value 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 net asset value 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 net asset value would not have a material impact on the fair value of the BIS shares. There were no changes to the valuation technique during the six-month period ended 30 June 2016.

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 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Opening balance at beginning of period	**400.0**	376.6	**405.2**	355.2
Change in fair value recorded through *Other comprehensive income*	**(3.5)**	2.4	**(8.7)**	23.8
Closing balance at period-end	**396.5**	379.0	**396.5**	379.0

Financial instruments not measured at fair value

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 was $82,734.7 million at 30 June 2016 ($81,116.9 million at 31 December 2015).

5. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2016				
Cost				
Balances, 31 December 2015	**457.4**	**41.0**	**82.9**	**581.3**
Additions	**69.9**	**1.0**	**0.8**	**71.7**
Disposals	**-**	**(0.1)**	**-**	**(0.1)**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 June 2016	**527.3**	**41.9**	**83.7**	**652.9**
Depreciation				
Balances, 31 December 2015	**(84.4)**	**(20.9)**	**(44.6)**	**(149.9)**
Depreciation expense	**(2.9)**	**(2.5)**	**(7.1)**	**(12.5)**
Disposals	**-**	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 30 June 2016	**(87.3)**	**(23.4)**	**(51.7)**	**(162.4)**
Carrying amounts				
At 31 December 2015	**373.0**	**20.1**	**38.3**	**431.4**
At 30 June 2016	**440.0**	**18.5**	**32.0**	**490.5**

	Land and buildings	Computer equipment	Other equipment	Total
2015				
Cost				
Balances, 31 December 2014	291.5	39.3	79.1	409.9
Additions	165.9	3.0	4.2	173.1
Disposals	-	(1.3)	(0.4)	(1.7)
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2015	457.4	41.0	82.9	581.3
Depreciation				
Balances, 31 December 2014	(78.3)	(16.7)	(31.0)	(126.0)
Depreciation expense	(6.1)	(5.5)	(14.0)	(25.6)
Disposals	-	1.3	0.4	1.7
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2015	(84.4)	(20.9)	(44.6)	(149.9)
Carrying amounts				
At 31 December 2014	213.2	22.6	48.1	283.9
At 31 December 2015	373.0	20.1	38.3	431.4

Land and buildings includes 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 2016 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 2016 was $5.0 million ($6.3 million at 31 December 2015).

	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress 2016				
Included in *Carrying amounts* at 30 June 2016	**325.2**	**0.2**	**1.7**	**327.1**
Additions during 2016	**69.9**	**0.2**	**0.7**	**70.8**
Commitments at 30 June 2016	**47.2**	**0.1**	**16.1**	**63.4**
Projects in progress 2015				
Included in *Carrying amounts* at 31 December 2015	255.3	6.4	4.1	265.8
Additions during 2015	165.9	3.0	3.7	172.6
Commitments at 31 December 2015	99.1	0.2	7.3	106.6

Projects in progress consists primarily of $325.2 million related to the Head Office Renewal Program ($255.3 million at 31 December 2015). The High Availability Renewal Program was put into service in 2016 and removed from *Projects in progress* ($4.5 million at 31 December 2015).

6. Intangible assets

	Internally generated software	Other software	Total
<u>2016</u>			
Cost			
Balances, 31 December 2015	**49.1**	**64.1**	**113.2**
Additions	**2.4**	**0.1**	**2.5**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 30 June 2016	**51.5**	**64.2**	**115.7**
Amortization			
Balances, 31 December 2015	**(41.0)**	**(34.3)**	**(75.3)**
Amortization expense	**(0.1)**	**(4.1)**	**(4.2)**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 30 June 2016	**(41.1)**	**(38.4)**	**(79.5)**
Carrying amounts			
At 31 December 2015	**8.1**	**29.8**	**37.9**
At 30 June 2016	**10.4**	**25.8**	**36.2**

2015			
Cost			
Balances, 31 December 2014	45.9	62.6	108.5
Additions	5.2	1.5	6.7
Disposals	(2.0)	-	(2.0)
Transfers to other asset categories	-	-	-
Balances, 31 December 2015	49.1	64.1	113.2
Amortization			
Balances, 31 December 2014	(38.5)	(26.2)	(64.7)
Amortization expense	(4.5)	(8.1)	(12.6)
Disposals	2.0	-	2.0
Transfers to other asset categories	-	-	-
Balances, 31 December 2015	(41.0)	(34.3)	(75.3)
Carrying amounts			
At 31 December 2014	7.4	36.4	43.8
At 31 December 2015	8.1	29.8	37.9

	Internally generated software	**Other software**	**Total**
Projects in progress 2016			
Included in *Carrying amounts* at 30 June 2016	**3.4**	**2.0**	**5.4**
Additions during 2016	**2.3**	**-**	**2.3**
Commitments at 30 June 2016	**-**	**-**	**-**
Projects in progress 2015			
Included in *Carrying amounts* at 31 December 2015	7.0	1.4	8.4
Additions during 2015	4.5	1.4	5.9
Commitments at 31 December 2015	-	-	-

7. Other assets

	30 June 2016	31 December 2015
Bank note inventory	**9.3**	11.1
Net defined-benefit asset (note 10)	**10.0**	135.1
All other assets	**35.2**	34.5
Total other assets	**54.5**	180.7

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 ($20.0 million at 31 December 2015). The advance is to facilitate the timely payment of subcontractor agreements.

On 25 June 2016, there was a fire at the Canadian Bank Note Company (CBN), the Bank's printer of bank notes. Potential damages to Bank assets maintained by CBN are being assessed and any losses are expected to be reimbursed to the Bank. It is management's expectation that the impact would be immaterial to the financial statements and delays in production would not affect the Bank's operations.

8. Deposits

The liabilities within *Deposits* consist of $26,508.4 million in Canadian-dollar demand deposits ($24,592.9 million at 31 December 2015). 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 $3,192.2 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($2,617.3 million and $20,000.0 million, respectively, at 31 December 2015).

9. Other liabilities

	30 June 2016	31 December 2015
Accrued transfer payment to the Receiver General for Canada	**209.5**	249.5
Net defined-benefit liability (note 10)		
Pension benefit plan	**47.8**	37.4
Other benefit plans	**187.2**	168.2
All other liabilities and provisions	**101.2**	103.8
Total other liabilities	**545.7**	558.9

The following table reconciles the Accrued transfer payment to the Receiver General for Canada:

	For the three-month period ended		For the six-month period ended	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Opening balance at beginning of period	**226.4**	301.7	**249.5**	150.4
Remittance of ascertained surplus to the Receiver General for Canada	**(200.0)**	(300.0)	**(449.5)**	(450.4)
Transfer to Receiver General for Canada	**183.1**	325.2	**409.5**	626.9
Closing balance at period-end	**209.5**	326.9	**209.5**	326.9

10. Employee benefits

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 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Expenses				
Pension benefit plans	**8.9**	8.6	**17.7**	17.1
Other employee benefit plans	**2.9**	3.0	**6.0**	6.1
Total benefit plan expenses recognized	**11.8**	11.6	**23.7**	23.2

	Pension plans (funded)		Other benefit plans (unfunded)	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Contributions for the three-month period ended				
Employer contributions	**6.6**	6.1	**-**	-
Employee contributions	**2.1**	3.9	**-**	-
Total contributions	**8.7**	10.0	**-**	-
Contributions for the six-month period ended				
Employer contributions	**14.5**	13.9	**-**	-
Employee contributions	**5.7**	7.0	**-**	-
Total contributions	**20.2**	20.9	**-**	-

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-rated 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.

The Bank recorded remeasurement losses on the net defined-benefit liability/asset during the three- and six-month periods ended 30 June 2016 of $87.2 million and $149.8 million, respectively (remeasurement gains of $34.4 million and $28.8 million for the three- and six-month periods ended 30 June 2015, respectively). Remeasurement losses recorded during the six-month period are mainly the result of reductions in the discount rate used to value the obligation.

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 2016	31 December 2015
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**360.1**	368.2
Retained earnings	-	-
Total equity	**490.1**	498.2

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 holds 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 2016	31 December 2015
Government of Canada treasury bills	**1.7**	1.1
BIS shares	**358.4**	367.1
Available-for-sale reserve	**360.1**	368.2

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 2016, the Bank withheld $149.8 million from its remittances ($13.7 million reimbursed in 2015) and, as at 30 June 2016, $263.1 million in withheld remittances was outstanding ($113.3 million as at 31 December 2015).

12. Related parties

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

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