BANK OF CANADA
BANQUE DU CANADA

QUARTERLY FINANCIAL REPORT 2017

DYNAMIC.
ENGAGED.
TRUSTED.

31 March 2017 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 18 May 2017 by the Audit and Finance Committee of the Board of Directors.

The *Quarterly Financial Report* should be read in conjunction with the condensed interim financial statements included in this report and with the Bank's *Annual Report* for 2016. The Annual Report includes a Management Discussion and Analysis (MD&A) for the year ended 31 December 2016. Disclosures and information in the 2016 *Annual Report* and the MD&A apply to the current quarter unless otherwise updated in this quarterly report.

Managing the Balance Sheet

The Bank's holdings of financial assets are generally driven by its role as the exclusive issuer of Canadian bank notes. The Bank invests the proceeds from the issuance of notes primarily into Government of Canada securities that are acquired on a non-competitive basis.

The Bank's investments broadly mirror the structure of the federal government's nominal domestic debt outstanding. This makes the Bank's balance sheet a neutral factor in the government's debt-management and fiscal planning activities and limits the impact of the Bank's purchases on market prices.

Financial Position

(Millions of Canadian dollars)	31 March 2017	As at 31 December 2016
Assets		
Cash and foreign deposits	**18.7**	19.3
Loans and receivables	**7,004.2**	8,282.2
Investments	**96,316.3**	97,032.7
Capital assets[a]	**606.6**	606.9
Other assets	**214.2**	164.9
Total assets	**104,160.0**	106,106.0
Liabilities and equity		
Bank notes in circulation	**77,794.0**	80,478.6
Deposits	**25,285.6**	22,831.5
All other liabilities[b]	**582.0**	2,308.9
Equity	**498.4**	487.0
Total liabilities and equity	**104,160.0**	106,106.0

[a] Includes *Property and equipment* and *Intangible assets*
[b] Includes *Securities sold under repurchase agreements* and *Other liabilities*

Assets

Overall, the Bank's investments have decreased by $716.4 million (or 1 per cent) since 31 December 2016 generally driven by seasonal decreases in *Bank notes in circulation* (as described in the discussion on Liabilities). *Government of Canada bonds* decreased by $556.9 million because a lower minimum purchase amount of nominal bonds at auctions was partially offset by higher volumes of bonds auctioned on behalf of the Government of Canada. The minimum purchase amount of nominal bonds at auctions was reduced from 20 to 15 per cent in 2016 and further reduced to 14 per cent during the period.

Government of Canada treasury bills decreased by $170.9 million primarily as a result of higher volumes of maturities over purchases. Purchases of Government of Canada treasury bills are based on the Bank's balance sheet needs.

The balance of the change in investments resulted from an increase of $11.4 million in the fair value of the Bank's investment in shares of the Bank for International Settlements (BIS).

The impact of the seasonal decreases in *Bank notes in circulation* was also seen in the Bank's *Loans and receivables* which decreased by $1,278.0 million (or 15 per cent) during the first quarter as a result of higher volumes of maturities of *Securities purchased under resale agreements* compared with the level of new issuances.

The Bank's *Capital assets* remained consistent with 31 December 2016, following the completion of the Head Office Renewal Program during the fourth quarter of 2016.

Other assets include the net defined-benefit asset related to the Bank's registered pension plan. The net defined-benefit asset increased compared with 31 December 2016 primarily because positive asset returns were partially offset by a decrease in the discount rate[1] during the first quarter (as described in the discussion on *Other comprehensive income*).

Liabilities

The *Bank notes in circulation* liability represents approximately 75 per cent of the Bank's *Total liabilities and equity*. Currency remains an essential means of undertaking transactions in Canada. The value of *Bank notes in circulation* has decreased by 3 per cent since 31 December 2016, driven largely by seasonal variations in demand.[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 $20,000.0 million held for the government's prudential liquidity-management plan and $2,506.1 million held for the government's operational balance. The Government of Canada operational balance[3] increased by $2,277.7 million compared with 31 December 2016. This increase is notably because of the maturity of the *Securities sold under repurchase agreements* outstanding at 31 December 2016 as described further below. Also in *Deposits* is $500.3 million held for members of Payments Canada to support the smooth operation of the Canadian payments system.

All other liabilities consists mainly of the surplus payable to the Receiver General for Canada and the net defined-benefit liabilities for the Bank's deferred employee benefit plans (which include the liability for the Supplementary Pension Arrangement and unfunded post-employment defined-benefit plans).

Securities sold under repurchase agreements of $1,500.0 million, outstanding at 31 December 2016, matured during the quarter, and there are no outstanding operations at 31 March 2017.

Changes in the surplus payable to the Receiver General for Canada 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. For the three-month period ended 31 March 2017, the Bank transferred cash payments of $468.8 million. At 31 March 2017, the surplus payable was $268.3 million ($468.8 million at 31 December 2016).

Increases in the liabilities related to defined-benefit plans are mainly due to a decrease in the discount rate used to value these liabilities partially offset by positive asset returns (as described in the discussion on *Other comprehensive income*).

Managing Equity

The Bank of Canada operates safely with a low capital base relative to its assets. The Bank's primary equity includes $5 million of authorized share capital and a $25 million statutory reserve. In accordance with the *Bank of Canada Act*, the Bank remits its surplus, after funding operations, to the Receiver General for Canada and does not hold retained earnings.

One reason it can safely operate with a low capital base is because the Bank's balance sheet is not exposed to significant foreign currency risk or fluctuations in the price of gold holdings that are often held by other central banks. Canada's foreign reserves are held by the Exchange Fund Account and not by the Bank. The Bank's exposure

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[1] The net defined-benefit asset is measured using the discount rate in effect as at the period-end. The rate as at 31 March 2017 was 3.8 per cent (3.9 per cent at 31 December 2016).

[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.

to currency risk is primarily through its holdings of shares in the BIS. Given the small size of the Bank's exposure to currency risk relative to its total assets, currency risk is not considered significant.

The Bank's asset portfolio also has a low credit risk since it consists mainly of Government of Canada bonds with AAA credit ratings. As well, the holdings in Government of Canada bonds are not subject to fair-value accounting since they are acquired with the intention to hold until maturity and are accounted for using the amortized cost method. Other financial assets, such as advances and loans related to repurchase agreements, are transacted on a fully collateralized basis (see note 4 to the condensed interim financial statements for further information of the quality of collateral held).

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 to 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 AFS reserve within *Equity* (see note 11 to the condensed interim financial statements). As at 31 March 2017, this reserve totalled $368.4 million ($357.0 million at 31 December 2016) and consisted of the fair value change in the Bank's investment in the BIS. The fair-value changes of the Government of Canada treasury bill portion of the reserve was $Nil at the period end.

Results of Operations

		For the three-month period ended
(Millions of Canadian dollars)	**31 March 2017**	**31 March 2016**
Total income	**369.8**	394.2
Total expenses	**110.7**	104.7
Net income	**259.1**	289.5
Other comprehensive income (loss)	**20.6**	(69.4)
Comprehensive income	**279.7**	220.1

Income

Total income for the first quarter of 2017 was $369.8 million, a decrease of $24.4 million (or 6 per cent), compared with the same period in 2016. 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"; this generates a stable source of funding for the Bank's operations. Investment revenue also includes revenue on investments backing the *Deposits*.

The Bank's primary source of revenue is *Interest earned on investments*, which is derived from investments in Government of Canada securities and fluctuates with market conditions. During the first quarter, the Bank recorded $389.7 million in interest revenue from treasury bills and bonds, a decrease of $22.6 million from the same period in 2016. The decline in *Interest revenue* is due mainly to the lower yields on newly acquired bonds compared with yields on investments that have matured, which was partially offset by higher overall average holdings throughout the period. This decline was also slightly offset by an increase in revenues from treasury bills as a result of higher yields and higher overall average holdings throughout the period.

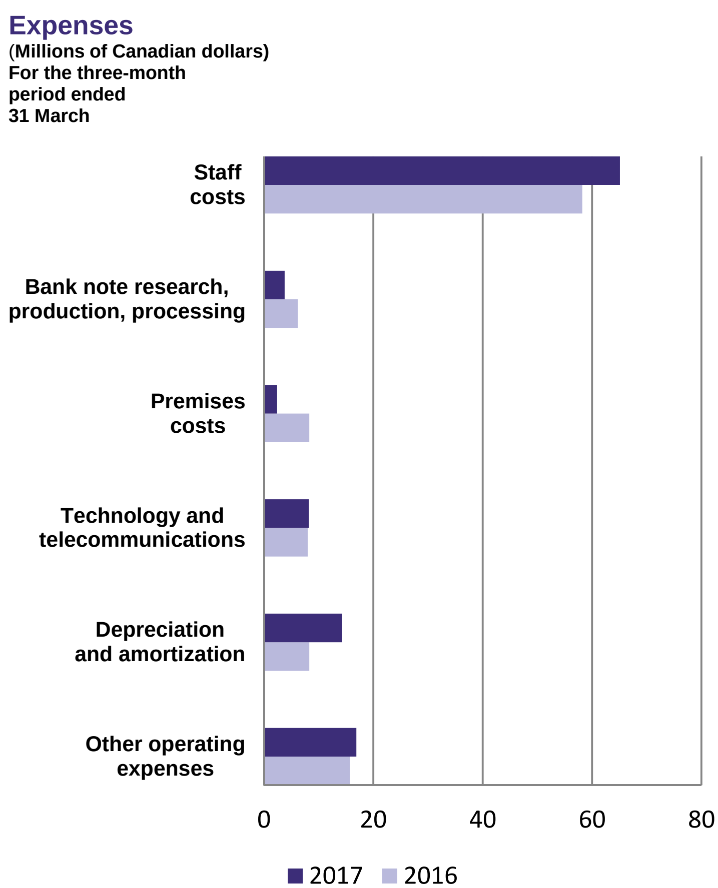
The Interest earned on securities purchased under resale agreements increased by $1.6 million to $9.4 million, driven primarily by the increased volume.

Income is reported net of the interest paid on Government of Canada deposits of $31.2 million. Interest rates paid on deposits are based on market-related rates, which were higher during the first quarter of 2017, resulting in a $4.0 million increase in *Interest expense on deposits*.

The Bank's revenues from its remaining sources[4] increased slightly compared with the same period in 2016.

Expenses

Operating expenses were in line with expectations for 2017. The increase of $6.0 million compared with the same period in 2016 primarily reflects increases in staffing costs planned and required to support of the Bank's medium-term plan (MTP) initiatives.



Staff costs increased by $6.9 million in the first quarter of 2017 compared with same period in 2016. The increase is 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.

Costs associated with bank note production were $2.4 million lower than in the same period in the previous year. During the first quarter of 2017, 0.4 million polymer notes were received compared with 11.8 million notes received in the same period in 2016.

The remaining expenses (*Premises costs, Technology and telecommunications, Depreciation and amortization* and *Other operating expenses)* represent 38 per cent of the Bank's total operating expenses. These costs increased by $1.5 million in total compared with the same period in 2016. The Bank's staff moved back to the head office at the end of 2016, and depreciation on the newly renovated building began in the first quarter of 2017. Consequently, premises costs decreased as the temporary locations used throughout the renovations were no longer required.

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

Other Comprehensive Income

Other comprehensive income (loss) of $20.6 million includes remeasurement gains of $9.4 million on the Bank's net defined-benefit plan asset and liabilities, and an increase of $11.2 million in the fair values of AFS assets.

Remeasurements of the net defined-benefit liability/asset 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 the first quarter of 2017 are mostly the result of positive asset returns of the Bank's registered pension plan, which was partially offset by a 10-basis-point decrease in the discount rate used to value the related net defined-benefit asset.[5] The 10-basis-point decrease in the discount rate reflects the change in AA-corporate-bond yields over the past three-months.

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 31 March 2017, the fair value of the Bank's investment in the BIS was $406.4 million, representing an increase of $11.4 million driven by the growth of the BIS balance sheet during the period.

Surplus for the Receiver General for Canada

The Bank's operations are not constrained by its cash flow or by its holdings of liquid assets since income is predictable and exceeds expenses. The net income of the Bank, less any allocation to reserves, is considered to be ascertained surplus (surplus), which was $268.3 million for the first quarter of 2017. In accordance with the requirements of the *Bank of Canada Act*, the Bank remits its surplus to the Receiver General for Canada and does not hold retained earnings.

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and withhold 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 reimbursed upon the recognition of unrealized gains.

The Bank reimbursed $9.2 million from its previously withheld remittances of surplus to the Receiver General mainly as a result of actuarial gains on the defined-benefit plans in first quarter of 2017. At 31 March 2017, $100.2 million in withheld remittances was outstanding.

[5] The net defined-benefit asset is based on the discount rate as at the period-end. The rate in effect at 31 March 2017 was 3.8 per cent (3.9 per cent at 31 December 2016).

2017 Outlook

The Bank's 2017 Plan

(Millions of Canadian dollars)

	2017 budget		2016 actual	
	$	%	$	%
MTP expenditures	412	66	390	61
Bank note production	57	9	49	8
Non-current deferred employee benefits	16	3	13	2
Head Office Renewal and strategic investment programs	137	22	188	29
Total expenditures[a]	**622**	**100**	**640**	**100**

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 Bank's MTP, now in its second year, is based on a commitment of 2 per cent growth of MTP expenditures between 2015 and 2018. This represents zero real growth, consistent with the Bank's 2 per cent inflation target.

The initiatives launched in 2016 will continue in 2017 for implementation over the duration of the current and the next MTP. The projected cumulative average growth over the life of the MTP remains aligned with our commitment of 2 per cent.

Bank note production costs will be higher in 2017 to reflect the costs associated with the production of the commemorative $10 bank note marking the 150th anniversary of Confederation, which will enter circulation on 1 June 2017.

In 2017, the Bank also expects to see capital expenditures drop to $35.0 million from $172.0 million in 2016, reflecting the completion of several key capital projects, including the Head Office Renewal Program and the design and building of the Bank of Canada Museum. The Bank will remain focused on strengthening its business continuity posture by continuing work on cyber security and business resiliency initiatives.

Operational Highlights and Changes

The following describes any significant changes in personnel, operations and programs that have occurred since 31 December 2016.

Governing Council and Board of Directors

There were no changes to members of the Governing Council or Board of Directors during the quarter.

Operations and Programs

On 3 February 2017, the Bank announced a reduction in the minimum purchase amount of nominal bonds at auctions from 15 per cent to 14 per cent.

On 1 March 2017, the Bank of Canada began publishing new data on the foreign exchange (FX) rate for 26 currencies. New FX rates are published once a day, by 16:30 Eastern Time (ET), in the form of a single indicative rate per currency pair, representing a daily average rate for that currency against the Canadian dollar. As of 1 May 2017, the Bank has ceased publishing the noon and closing exchange rates calculated by the previous methodology, high and low FX rates for a given period, and all forward exchange rates and forward points. The new FX calculation methodology did not have an impact on the financial operations.

Subsequent to quarter-end on 7 April 2017, Bank of Canada Governor Stephen S. Poloz and Parliamentary Secretary to the Minister of Finance Ginette Petitpas Taylor unveiled a commemorative $10 bank note celebrating the 150th anniversary of Confederation. This special note—showcasing our history, land and culture—was revealed during a ceremony at the Bank's head office in Ottawa. It will enter into circulation on 1 June 2017.

Risk Analysis

The Risk Management section of the Management Discussion and Analysis (MD&A) for the year ended 31 December 2016 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 2016 Financial Statements, which are included in the Bank's *Annual Report* for 2016.

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

BANK OF CANADA
BANQUE DU CANADA

Financial Statements

31 March 2017

Management Responsibility

Management of the Bank of Canada (the Bank) 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, financial performance and cash flows of the Bank, 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
18 May 2017

Condensed Interim Statement of Financial Position (Unaudited)

(Millions of Canadian dollars)

	31 March 2017	As at 31 December 2016
Assets		
Cash and foreign deposits	**18.7**	19.3
Loans and receivables		
Securities purchased under resale agreements	**6,997.4**	8,277.0
Other receivables	**6.8**	5.2
	7,004.2	8,282.2
Investments (note 4)		
Government of Canada treasury bills	**16,620.9**	16,791.8
Government of Canada bonds	**79,289.0**	79,845.9
Other investments	**406.4**	395.0
	96,316.3	97,032.7
Property and equipment (note 5)	**570.6**	570.7
Intangible assets (note 6)	**36.0**	36.2
Other assets (note 7)	**214.2**	164.9
Total assets	**104,160.0**	106,106.0
Liabilities and Equity		
Bank notes in circulation	**77,794.0**	80,478.6
Deposits (note 8)		
Government of Canada	**22,506.1**	20,228.4
Members of Payments Canada	**500.3**	499.7
Other deposits	**2,279.2**	2,103.4
	25,285.6	22,831.5
Securities sold under repurchase agreements (note 9)	**-**	1,500.0
Other liabilities (note 9)	**582.0**	808.9
Total liabilities	**103,661.6**	105,619.0
Equity (note 11)	**498.4**	487.0
Total liabilities and equity	**104,160.0**	106,106.0

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 31 March 2017	31 March 2016
Income		
Interest revenue		
Interest earned on investments	**389.7**	412.3
Interest earned on securities purchased under resale agreements	**9.4**	7.8
Other interest revenue	**0.1**	-
	399.2	420.1
Interest expense		
Interest expense on deposits	**(31.2)**	(27.2)
Net interest income	**368.0**	392.9
Other revenue	**1.8**	1.3
Total income	**369.8**	394.2
Expenses		
Staff costs	**65.1**	58.2
Bank note research, production and processing	**3.8**	6.2
Premises costs	**2.4**	8.3
Technology and telecommunications	**8.2**	8.0
Depreciation and amortization	**14.3**	8.3
Other operating expenses	**16.9**	15.7
Total expenses	**110.7**	104.7
Net income	**259.1**	289.5
Other comprehensive income (loss)		
Items that will not be reclassified to net income		
Remeasurements of the net defined-benefit liability/asset	**9.4**	(62.6)
Items that may be reclassified subsequently to net income		
Change in fair value of available-for-sale financial assets	**11.2**	(6.8)
Other comprehensive income (loss)	**20.6**	(69.4)
Comprehensive income	**279.7**	220.1

(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 31 March 2017	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2017	**5.0**	**25.0**	**100.0**	**357.0**	**-**	**487.0**
Comprehensive income for the period						
Net income	**-**	**-**	**-**	**-**	**259.1**	**259.1**
Remeasurements of the net defined-benefit liability/asset	**-**	**-**	**-**	**-**	**9.4**	**9.4**
Change in fair value of BIS shares	**-**	**-**	**-**	**11.4**	**-**	**11.4**
Change in fair value of Government of Canada treasury bills	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
	-	**-**	**-**	**11.4**	**268.3**	**279.7**
Surplus for the Receiver General for Canada	**-**	**-**	**-**	**-**	**(268.3)**	**(268.3)**
Balance, 31 March 2017	**5.0**	**25.0**	**100.0**	**368.4**	**-**	**498.4**

For the three-month period ended 31 March 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	-	-	-	-	289.5	289.5
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	(62.6)	(62.6)
Change in fair value of BIS shares	-	-	-	(5.2)	-	(5.2)
Change in fair value of Government of Canada treasury bills	-	-	-	(1.1)	(0.5)	(1.6)
	-	-	-	(6.3)	226.4	220.1
Surplus for the Receiver General for Canada	-	-	-	-	(226.4)	(226.4)
Balance, 31 March 2016	5.0	25.0	100.0	361.9	-	491.9

(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 31 March 2017	31 March 2016
Cash Flows from Operating Activities		
Interest received	**260.8**	278.7
Other revenue received	**0.9**	4.1
Interest paid	**(31.4)**	(27.2)
Payments to or on behalf of employees/suppliers and to members of Payments Canada	**(163.0)**	(120.3)
Net increase in deposits	**2,454.1**	7.0
Proceeds from maturity of securities purchased under resale agreements – overnight repo	**1,500.0**	14,125.2
Acquisition of securities purchased under resale agreements – overnight repo	**(1,500.0)**	(13,125.3)
Repayments of securities sold under repurchase agreements	**(4,300.0)**	-
Proceeds from securities sold under repurchase agreements	**2,800.0**	-
Net cash provided by operating activities	**1,021.4**	1,142.2
Cash Flows from Investing Activities		
Net decrease in Government of Canada treasury bills	**178.5**	3,738.7
Purchases of Government of Canada bonds	**(4,657.1)**	(3,707.0)
Proceeds from maturity of Government of Canada bonds	**5,345.0**	2,940.0
Proceeds from maturity of securities purchased under resale agreements – term repo	**19,196.0**	13,455.5
Acquisition of securities purchased under resale agreements – term repo	**(17,916.9)**	(15,367.6)
Additions of property and equipment	**(11.7)**	(34.0)
Additions of intangible assets	**(2.3)**	(0.4)
Net cash provided by investing activities	**2,131.5**	1,025.2
Cash Flows from Financing Activities		
Net decrease in bank notes in circulation	**(2,684.6)**	(1,916.2)
Remittance of surplus to the Receiver General for Canada	**(468.8)**	(249.5)
Net cash used in financing activities	**(3,153.4)**	(2,165.7)
Effect of Exchange Rate Changes on Foreign Currency	**(0.1)**	(0.6)
Increase (Decrease) in Cash and Foreign Deposits	**(0.6)**	1.1
Cash and Foreign Deposits, Beginning of Period	**19.3**	11.2
Cash and Foreign Deposits, End of Period	**18.7**	12.3

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

Notes to the condensed interim financial statements of the Bank of Canada (Unaudited)

For the three-month period ended 31 March 2017

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 Bank registered head office is 234 Wellington Street, 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.

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.

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.

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 statement of financial position. 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 2016. 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 18 May 2017.

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 (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. The amounts in the notes to the condensed interim financial statements of the Bank are in millions of Canadian dollars, unless otherwise stated.

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, consistent with the requirement of section 24 of the *Bank of Canada Act*. The Bank does not bear the risks and rewards as part of its role as fiscal agent. The assets, liabilities, expenditures and revenues that this support relates to 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 2016.

There were no new or amended standards adopted by the Bank during the three-month period ended 31 March 2017 that had a material impact on the condensed interim financial statements.

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, securities sold under repurchase agreements and other liabilities (excluding the net defined-benefit liability for the pension benefit plan and 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.

	31 March 2017		31 December 2016	
	$	%	$	%
Securities issued or guaranteed by the Government of Canada	**413.0**	**5.6**	878.4	10.1
Securities issued or guaranteed by a provincial government	**6,933.2**	**94.4**	7,796.4	89.9
Total fair value of collateral pledged	**7,346.2**	**100.0**	8,674.8	100.0
As a percentage of amortized cost		**105%**		105%

As at 31 March 2017, there were no advances to members of Payments Canada ($Nil at 31 December 2016). The Bank operates a Securities-Lending Program to support the liquidity of Government of Canada securities by providing the market with a secondary and temporary source of these securities. These securities-lending transactions are fully collateralized by securities and are generally one business day in duration. As at 31 March 2017, there were no loaned securities in the Bank's investments ($Nil at 31 December 2016).

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 31 March 2017				
Government of Canada treasury bills	**16,620.9**	**-**	**-**	**16,620.9**
BIS shares	**-**	**-**	**406.4**	**406.4**
	16,620.9	**-**	**406.4**	**17,027.3**
Financial assets at fair value as at 31 December 2016				
Government of Canada treasury bills	16,791.8	-	-	16,791.8
BIS shares	-	-	395.0	395.0
	16,791.8	-	395.0	17,186.8

There were no transfers of amounts between levels during the three-month period ended 31 March 2017.

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. The 30 per cent discount to the net asset value is equivalent to the methodology applied by the BIS for all share repurchases since the 1970s, and was further endorsed in a decision by the International Court at the Hague relating to a share repurchase by the BIS in 2001 (the last share repurchase conducted by the BIS). The Bank considers the 30 per cent discount against the net asset value of the BIS to be the appropriate basis for valuation. The Bank expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates. There were no changes to the valuation technique during the three-month period ended 31 March 2017.

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	
	31 March 2017	**31 March 2016**
Opening balance at beginning of period	**395.0**	405.2
Change in fair value recorded through *Other comprehensive income*	**11.4**	(5.2)
Closing balance at period-end	**406.4**	400.0

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 $82,903.7 million at 31 March 2017 ($83,528.5 million at 31 December 2016). The fair value of all other financial instruments approximates their carrying value.

5. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2017				
Cost				
Balances, 31 December 2016	**560.8**	**68.8**	**113.8**	**743.4**
Additions	**5.8**	**1.8**	**4.1**	**11.7**
Disposals	**(0.5)**	**(0.7)**	**(31.5)**	**(32.7)**
Transfers to other asset categories	**(0.6)**	**0.1**	**0.5**	**-**
Balances, 31 March 2017	**565.5**	**70.0**	**86.9**	**722.4**
Depreciation				
Balances, 31 December 2016	**(90.3)**	**(23.1)**	**(59.3)**	**(172.7)**
Depreciation expense	**(3.6)**	**(2.5)**	**(5.7)**	**(11.8)**
Disposals	**0.5**	**0.7**	**31.5**	**32.7**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 31 March 2017	**(93.4)**	**(24.9)**	**(33.5)**	**(151.8)**
Carrying amounts				
At 31 December 2016	**470.5**	**45.7**	**54.5**	**570.7**
At 31 March 2017	**472.1**	**45.1**	**53.4**	**570.6**

	Land and buildings	Computer equipment	Other equipment	Total
2016				
Cost				
Balances, 31 December 2015	457.4	41.0	82.9	581.3
Additions	139.8	18.9	6.6	165.3
Disposals	-	(3.2)	-	(3.2)
Transfers to other asset categories	(36.4)	12.1	24.3	-
Balances, 31 December 2016	560.8	68.8	113.8	743.4
Depreciation				
Balances, 31 December 2015	(84.4)	(20.9)	(44.6)	(149.9)
Depreciation expense	(5.9)	(5.4)	(14.7)	(26.0)
Disposals	-	3.2	-	3.2
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2016	(90.3)	(23.1)	(59.3)	(172.7)
Carrying amounts				
At 31 December 2015	373.0	20.1	38.3	431.4
At 31 December 2016	470.5	45.7	54.5	570.7

	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress 2017				
Included in *Carrying amounts* at 31 March 2017	**-**	**11.6**	**8.8**	**20.4**
Commitments at 31 March 2017	**14.7**	**0.1**	**1.5**	**16.3**
Projects in progress 2016				
Included in *Carrying amounts* at 31 December 2016	0.5	11.0	6.5	18.0
Commitments at 31 December 2016	17.1	0.1	16.4	33.6

The commitments at 31 March 2017 primarily consist of finishing work and remaining equipment related to the Head Office Renewal Program and are expected to be completed during 2017.

6. Intangible assets

	Internally generated software	Other software	Total
2017			
Cost			
Balances, 31 December 2016	**53.4**	**63.1**	**116.5**
Additions	**1.2**	**1.1**	**2.3**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 31 March 2017	**54.6**	**64.2**	**118.8**
Amortization			
Balances, 31 December 2016	**(42.5)**	**(37.8)**	**(80.3)**
Amortization expense	**(0.5)**	**(2.0)**	**(2.5)**
Disposals	**-**	**-**	**-**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 31 March 2017	**(43.0)**	**(39.8)**	**(82.8)**
Carrying amounts			
At 31 December 2016	**10.9**	**25.3**	**36.2**
At 31 March 2017	**11.6**	**24.4**	**36.0**

	Internally generated software	Other software	Total
2016			
Cost			
Balances, 31 December 2015	49.1	64.1	113.2
Additions	4.3	3.6	7.9
Disposals	-	(4.6)	(4.6)
Transfers to other asset categories	-	-	-
Balances, 31 December 2016	53.4	63.1	116.5
Accumulated amortization			
Balances, 31 December 2015	(41.0)	(34.3)	(75.3)
Amortization expense	(1.5)	(8.1)	(9.6)
Disposals	-	4.6	4.6
Transfers to other asset categories	-	-	-
Balances, 31 December 2016	(42.5)	(37.8)	(80.3)
Carrying amounts			
At 31 December 2015	8.1	29.8	37.9
At 31 December 2016	10.9	25.3	36.2

	Internally generated software	Other software	Total
Projects in progress 2017			
Included in *Carrying amounts* at 31 March 2017	**5.6**	**3.7**	**9.3**
Commitments at 31 March 2017	**-**	**-**	**-**
Projects in progress 2016			
Included in *Carrying amounts* at 31 December 2016	4.6	2.5	7.1
Commitments at 31 December 2016	-	-	-

7. Other assets

	31 March 2017	31 December 2016
Bank note inventory	**8.7**	3.0
Net defined-benefit asset (note 10)	**143.7**	131.2
All other assets	**61.8**	30.7
Total other assets	**214.2**	164.9

Included in *All other assets* is a $47.9 million advance in connection with the Head Office Renewal Program ($15.7 million at 31 December 2016). The advance is to facilitate the timely payment of subcontractor agreements. Subsequent to quarter-end, $32.9 million of this balance was applied to subcontractor invoices.

8. Deposits

The liabilities within *Deposits* consist of $25,285.6 million in Canadian-dollar demand deposits ($22,831.5 million at 31 December 2016). The Bank pays interest on the deposits for the Government of Canada, members of Payments Canada and other financial institutions at short-term market rates.

Deposits from the Government of Canada consist of $2,506.1 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($228.4 million and $20,000.0 million, respectively, at 31 December 2016).

9. Securities sold under repurchase agreements and other liabilities

Securities sold under repurchase agreements

There were no securities sold under repurchase agreements outstanding at 31 March 2017 ($1,500.0 million at 31 December 2016).

Composition of other liabilities

	31 March 2017	31 December 2016
Surplus payable to the Receiver General for Canada	**268.3**	468.8
Net defined-benefit liability (note 10)		
Pension benefit plan	**37.1**	38.2
Other benefit plans	**178.1**	172.0
All other liabilities and provisions	**98.5**	129.9
Total other liabilities	**582.0**	808.9

Surplus payable to the Receiver General for Canada

The following table reconciles the opening and closing balances of the surplus payable to the Receiver General for Canada:

	For the three-month period ended	
	31 March 2017	31 March 2016
Opening balance at beginning of period	**468.8**	249.5
Remittance of surplus to the Receiver General for Canada	**(468.8)**	(249.5)
Surplus for the Receiver General for Canada	**268.3**	226.4
Closing balance at period-end	**268.3**	226.4

All other liabilities and provisions

Other liabilities consists of provisions, a finance lease obligation, accounts payable and accrued liabilities. Included in *Other liabilities* is a $8.5 million provision for costs related to the temporary office space as a result of the Head Office Renewal Program ($19.9 million at 31 December 2016).

10. Employee benefits

The changes in the net defined-benefit obligations for the period are as follows:

	Pension benefit plans		Other benefit plans	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016
Opening balance at beginning of period	**93.0**	97.7	**(172.0)**	(168.2)
Bank contributions	**8.5**	27.5	**-**	-
Current service cost	**(10.3)**	(37.5)	**(1.3)**	(5.3)
Net interest cost	**0.6**	3.1	**(1.7)**	(6.8)
Administration costs	**(0.6)**	(2.0)	**-**	-
Net benefit payments and transfers	**-**	(0.1)	**2.8**	7.9
Remeasurement gains (losses)	**15.3**	4.3	**(5.9)**	0.4
Closing balance at period-end	**106.6**	93.0	**(178.1)**	(172.0)
Net defined-benefit asset	**143.7**	131.2	**-**	-
Net defined-benefit liability	**(37.1)**	(38.2)	**(178.1)**	(172.0)
Net defined-benefit asset (liability)	**106.6**	93.0	**(178.1)**	(172.0)

Expenses and contributions for the employee benefit plans for the three-month period ended 31 March 2017 are presented in the tables below:

		For the three-month period ended
	31 March 2017	31 March 2016
Expenses		
Pension plans	**10.3**	8.8
Other benefit plans	**2.9**	3.1
Total benefit plan expenses recognized	**13.2**	11.9

		Pension plans (funded)		Other benefit plans (unfunded)
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
Contributions for the three-month period ended				
Employer contributions	**8.5**	7.9	**-**	-
Employee contributions	**3.4**	3.6	**-**	-
Total contributions	**11.9**	11.5	**-**	-

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-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 which are shown in the table below:

	31 March 2017	31 December 2016
Discount rate		
Pension benefit plans	**3.8%**	3.9%
Other benefit plans	**3.0 - 3.8%**	3.2 - 4.0%

The Bank recorded remeasurement gains on the net defined-benefit liability/asset during the three-month period ended 31 March 2017 of $9.4 million (remeasurement losses of $62.6 million for the three-month period ended 31 March 2016). Remeasurement gains recorded during the three-month period are mainly the result of positive asset returns partially offset by 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:

	31 March 2017	31 December 2016
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**368.4**	357.0
Retained earnings	**-**	-
Total equity	**498.4**	487.0

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, consistent with the requirement of section 27 of the *Bank of Canada Act*.

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. This reserve is subject to a ceiling of $400 million; an initial amount of $100 million was established in September 2007, consistent with the requirement of section 27.1 of the *Bank of Canada Act*.

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:

	31 March 2017	31 December 2016
Government of Canada treasury bills	**-**	-
BIS shares	**368.4**	357.0
Available-for-sale reserve	**368.4**	357.0

Retained earnings

The net income of the Bank, less any allocation to reserves, is considered to be ascertained surplus (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 with consideration for the volatility arising from fair-value changes and remeasurements (which are recorded in *Other Comprehensive Income*). This agreement allows the Bank to withhold any increase in cumulative net 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 from its remittance to the Receiver General. Any decrease in withheld cumulative net unrealized non-cash losses is added to the remittance.

During the three-month period ended 31 March 2017, the Bank reimbursed $9.2 million from its previously withheld remittances ($63.1 million withheld in 2016) and, as at 31 March 2017, $100.2 million in withheld remittances was outstanding ($109.4 million as at 31 December 2016).

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.

13. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation, which distinguishes the nature of overnight repo operations from term repo operations in the *Condensed Interim Statement of Cash Flows.*

For the comparative *Condensed Interim Statement of Cash Flows*, amounts related to the acquisition and proceeds from the maturity of term repo operations were reclassified from operating activities to investing activities. As a result, cash flows from operating activities increased by $1,912.1 million, and cash flows from investing activities decreased by $1,912.1 million.