BANK OF CANADA
BANQUE DU CANADA

2019 QUARTERLY FINANCIAL REPORT

DYNAMIC.
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September 30, 2019 - Unaudited

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Context of the Quarterly Financial Report

The Bank of Canada is the nation's central bank. The Bank's mandate under the *Bank of Canada Act* is to promote the economic and financial welfare of Canada. Its activities and operations are undertaken in support of this mandate and not with the objective of generating revenue or profit. The Bank is committed to keeping Canadians informed about its policies, activities and operations.

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 November 6, 2019, 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 2018. The Annual Report includes a Management Discussion and Analysis (MD&A) for the year ended December 31, 2018. Disclosures and information in the 2018 Annual Report and the MD&A apply to the current quarter unless otherwise updated in this quarterly report.

Managing the balance sheet

Financial position
(in millions of Canadian dollars)

As at	September 30, 2019	December 31, 2018	September 30, 2018
Assets			
Cash and foreign deposits	5.4	17.0	17.3
Loans and receivables	11,612.1	10,676.1	8,609.4
Investments	104,366.7	104,527.8	105,419.8
Capital assets	700.1	644.3	622.6
Other assets	43.1	189.7	242.1
Total assets	**116,727.4**	**116,054.9**	**114,911.2**
Liabilities and equity			
Bank notes in circulation	89,791.6	90,193.1	88,065.4
Deposits	25,695.9	24,806.2	25,740.4
Other liabilities	703.4	530.3	603.5
Equity	536.5	525.3	501.9
Total liabilities and equity	**116,727.4**	**116,054.9**	**114,911.2**

The Bank's holdings of financial assets are generally driven by its role as the exclusive issuer of Canadian bank notes. The issuance of bank notes creates a liability for the Bank, the largest on its balance sheet. Government of Canada deposits, including those supporting the government's prudential liquidity plan, represent the second-largest liability for the Bank. To offset these liabilities, the Bank invests the proceeds from the issuance of notes and deposits primarily into Government of Canada securities, which are acquired on a non-competitive basis.

The Bank also undertakes financial market transactions with eligible financial institutions in support of monetary policy objectives and the efficient functioning of Canadian financial markets. These transactions are typically composed of securities purchased under resale agreements (SPRAs) or securities sold under repurchase agreements (SSRAs), where the Bank injects or withdraws liquidity by acquiring or selling financial assets. In addition, the Bank may issue SPRAs to offset the seasonal fluctuations in demand for bank notes.

The Bank manages its balance sheet to support its core functions. Cash flows are not a primary focus of the Bank's financial management framework.

The Bank's investments broadly mirror the structure of the federal government's nominal outstanding domestic debt. 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.

Assets

Summary of assets
(in millions of Canadian dollars)

As at	September 30, 2019	December 31, 2018	Variance $	Variance %
Cash and foreign deposits	5.4	17.0	(11.6)	(68)
Loans and receivables	11,612.1	10,676.1	936.0	9
Investments				
Government of Canada treasury bills	25,931.4	24,217.8	1,713.6	7
Canada Mortgage Bonds	514.7	251.3	263.4	105
Government of Canada bonds	77,476.1	79,625.4	(2,149.3)	(3)
Other investments	444.5	433.3	11.2	3
	104,366.7	104,527.8	(161.1)	0
Capital assets*	700.1	644.3	55.8	9
Other assets	43.1	189.7	(146.6)	(77)
Total assets	**116,727.4**	**116,054.9**	**672.5**	**1**

*Includes *Property and equipment*, *Intangible assets* and *Right-of-use leased assets*

The Bank's total assets have marginally increased over the first three quarters of 2019 to $116,727.4 million as at September 30, 2019, mainly due to increased levels of deposits. This increase was offset by the impact of seasonal fluctuations in demand for bank notes[1] and by the net defined-benefit asset of the Bank of Canada Pension Plan (the Bank's registered pension plan), which inverted to a net defined-benefit liability position in the second quarter of 2019.

Loans and receivables is composed primarily of SPRAs totalling $11,608.1 million as at September 30, 2019 ($10,673.0 million as at December 31, 2018). SPRAs are high-quality assets temporarily acquired through the repurchase agreement (repo) market, in line with the Bank's *Framework for Market Operations and Liquidity Provision*. These operations are conducted primarily to manage the Bank's balance sheet and promote the orderly functioning of Canadian financial markets. In August 2019, as noted in the "Operational highlights and changes" section of this report, the Bank announced it would start accepting National Housing Act Mortgage-Backed Securities as eligible securities for the term repo program in September 2019. This change resulted in an increase of approximately $500.0 million in SPRAs as at September 30, 2019.

Investments as a whole remained stable during the year. The marginal decrease was a result of the following movements within the Bank's holdings:

- Government of Canada treasury bills increased by 7 percent to $25,931.4 million as at September 30, 2019. Purchases of Government of Canada treasury bills vary based on the Bank's balance sheet needs.[2]
- Canada Mortgage Bonds increased by 105 percent to $514.7 million as at September 30, 2019. Purchases of Canada Mortgage Bonds are conducted in the primary market on a non-competitive basis. Canada Mortgage Bonds are intended to provide the Bank with more flexibility in the range

1 Demand for bank notes typically reaches its lowest level at the end of the first quarter and peaks in the second and fourth quarters, around holiday periods.

2 In accordance with Section 5.1 of the Bank's *Statement of Policy Governing the Acquisition and Management of Financial Assets for the Bank of Canada's Balance Sheet,* the Bank's purchases of Government of Canada treasury bills and bonds are made on a non-competitive basis and are structured to broadly reflect the composition of the Government of Canada's domestic debt issuances.

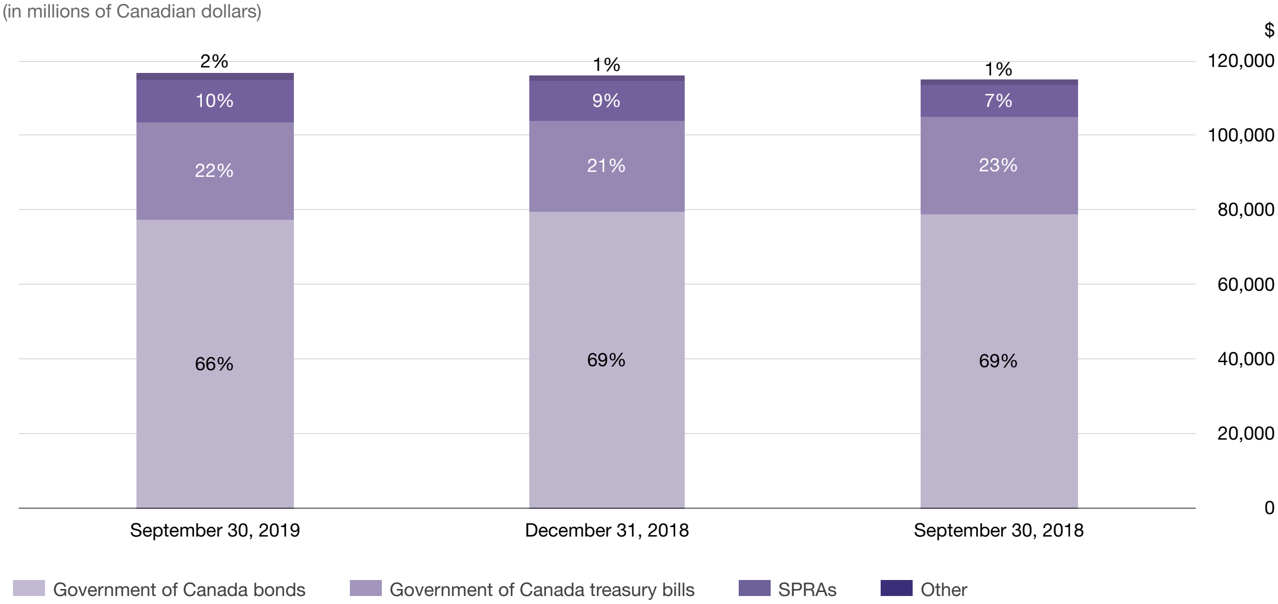
of high-quality assets it can acquire to offset the continued growth in bank notes in circulation.

- Government of Canada bonds decreased by 3 percent to $77,476.1 million as at September 30, 2019. This decrease primarily reflects past reductions in the Bank's minimum purchase amount of nominal bonds at auctions,[3] as well as fluctuations in Government of Canada debt issuances.

Capital assets increased by 9 percent to $700.1 million as at September 30, 2019. This increase is mainly the result of the adoption of the new lease standard, International Financial Reporting Standard 16 *Leases* (IFRS 16), on January 1, 2019. As described in Note 2 to the condensed interim financial statements, the adoption of IFRS 16 resulted in the recognition of $54.4 million of leased assets on the Bank's balance sheet. The remaining increase reflects ongoing investments in the resiliency initiatives of the Bank's medium-term plan (MTP), including cyber security and business recovery enhancements.

Other assets decreased by 77 percent to $43.1 million as at September 30, 2019. This decrease over the first three quarters of the year is primarily due to changes in the Bank's registered pension plan in the second quarter of 2019. At that time, the plan's net defined-benefit asset inverted to a net defined-benefit liability position—now reflected in *Other liabilities*. This change is mainly the result of a 100-basis-point decrease in the discount rate used to measure the related defined-benefit obligation since December 31, 2018. Further information can be found in the *Other liabilities* discussion.

Asset profile
(in millions of Canadian dollars)



3 The Bank's minimum purchase amount of nominal bonds at auctions was reduced from 20 percent to 13 percent over the period from October 2015 to December 2017 and has been 13 percent since then.

Liabilities

Summary of liabilities
(in millions of Canadian dollars)

As at	September 30, 2019	December 31, 2018	Variance $	Variance %
Bank notes in circulation	**89,791.6**	**90,193.1**	**(401.5)**	**0**
Deposits				
Government of Canada	22,709.9	21,725.6	984.3	5
Members of Payments Canada	249.8	250.5	(0.7)	0
Other deposits	2,736.2	2,830.1	(93.9)	(3)
	25,695.9	**24,806.2**	**889.7**	**4**
Other liabilities	**703.4**	**530.3**	**173.1**	**33**
Total liabilities	**116,190.9**	**115,529.6**	**661.3**	**1**

The Bank's total liabilities have marginally increased to $116,190.9 million since December 31, 2018. This rise is generally driven by increases in deposits offset by a decrease in bank notes in circulation.

Bank notes in circulation continues to represent approximately 77 percent (78 percent as at December 31, 2018) of the Bank's total liabilities. The value of bank notes in circulation decreased slightly to $89,791.6 million as at September 30, 2019, driven largely by seasonal variations in demand.

Deposits represents the second-largest liability on the balance sheet. Deposits increased by 4 percent to $25,695.9 million as at September 30, 2019. This rise was a result of the following changes:

- The operational balance component of Government of Canada deposits increased to $2,709.9 million as at September 30, 2019 ($1,725.6 million as at December 31, 2018). The operational balance fluctuates based on the cash requirements of the Government of Canada. The other component of Government of Canada deposits consists of $20,000.0 million held for the government's prudential liquidity-management plan,[4] which remains unchanged.
- *Other deposits* decreased by 3 percent to $2,736.2 million as at September 30, 2019. It consists of deposits from central banks and other financial institutions, over which the Bank does not exercise control, as well as unclaimed balances remitted to the Bank in accordance with governing legislation.

Other liabilities consists mainly of the surplus payable to the Receiver General for Canada and the net defined-benefit liabilities of the Bank's employee benefit plans. These liabilities increased by 33 percent to $703.4 million as at September 30, 2019, primarily as a result of the following changes:

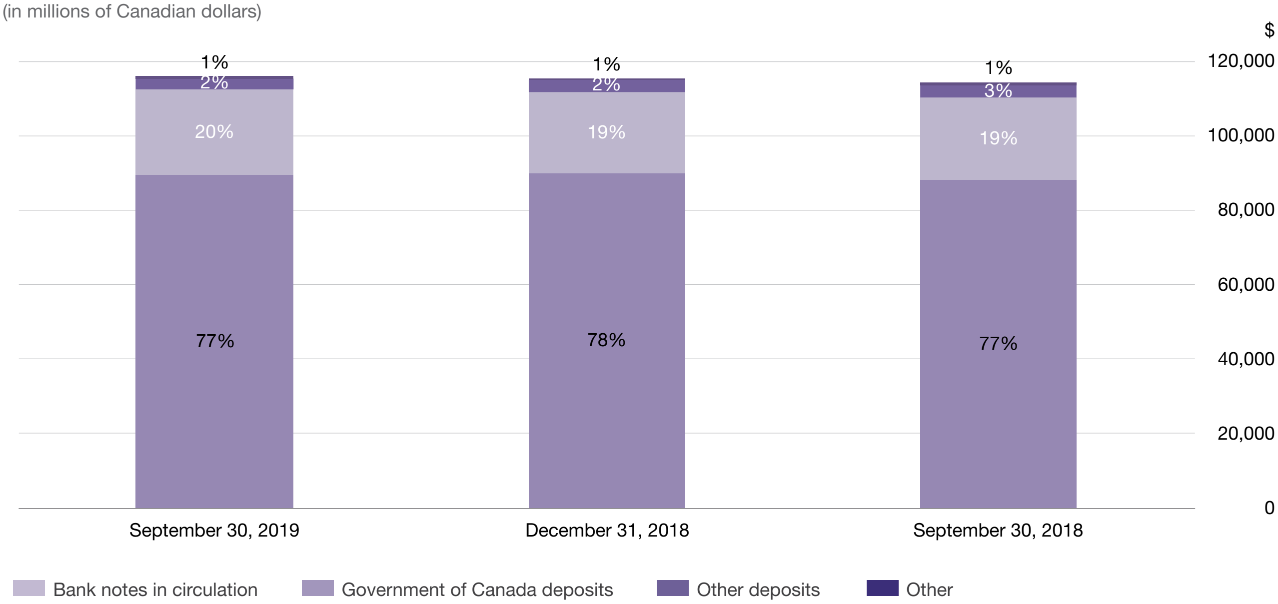
- Liabilities related to the Bank's defined-benefit plans include those related to the Bank of Canada Pension Plan, the Bank of Canada Supplementary Pension Arrangement, and unfunded post-employment defined-benefit plans. These liabilities increased by $120.4 million (or 53 percent) to $347.5 million as at September 30, 2019 ($227.1 million as at December 31, 2018), primarily reflecting decreases in the discount rates[5] used to measure the defined-benefit obligations. As discussed in the "Assets" section above, the net defined-benefit asset related to the Bank of Canada Pension Plan changed to a net defined-benefit liability in the second quarter of 2019 due to the decrease in discount rates.

4 The Government of Canada holds liquid financial assets at various financial institutions, including the Bank of Canada, to safeguard its ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed and also to support investor confidence in Canadian government debt.

5 The defined-benefit obligation component of the net defined-benefit liability is measured using the discount rates in effect for each defined benefit plan as at the period-end. The rates as at September 30, 2019, ranged from 2.7 to 3.0 percent (3.5 to 4.0 percent as at December 31, 2018). The lower the discount rates are, the higher the related defined-benefit obligations will be. See Note 10 to the condensed interim financial statements for more information.

- The surplus payable to the Receiver General for Canada was $247.3 million as at September 30, 2019 ($225.9 million as at December 31, 2018). Changes in the surplus payable to the Receiver General for Canada are driven by the net income of the Bank, less any allocations to reserves, and by the timing of remittances to the Receiver General for Canada. The Bank remitted $725.9 million during the first three quarters of 2019, which included $200.0 million in the third quarter ($854.2 million in the first three quarters of 2018, which included $375.0 million in the third quarter).
- Following the adoption of IFRS 16 on January 1, 2019, the Bank recognized $52.7 million in lease liabilities (as described in Note 2 to the condensed interim financial statements) and had $51.4 million in lease liabilities outstanding as at September 30, 2019 ($nil at December 31, 2018).

Liability profile
(in millions of Canadian dollars)



Equity

Summary of equity
(in millions of Canadian dollars)

As at	September 30, 2019	December 31, 2018	Variance $	Variance %
Share capital	5.0	5.0	-	-
Statutory reserve	25.0	25.0	-	-
Special reserve	100.0	100.0	-	-
Investment revaluation reserve	406.5	395.3	11.2	3
Retained earnings	-	-	-	-
Total equity	**536.5**	**525.3**	**11.2**	**2**

The Bank's primary equity includes $5.0 million of authorized share capital and a $25.0 million statutory reserve. The Bank also holds a special reserve of $100.0 million to offset potential unrealized valuation losses due to changes in the fair value of the Bank's investment portfolio.

The Bank can operate safely with a low capital base because its balance sheet is not exposed to significant risks, as described in Note 7 to the financial statements in the Bank's Annual Report for 2018. Of note, unlike some other countries, Canada's foreign reserves are not held by the central bank.[6]

The Bank's asset portfolio has a low credit risk since it consists primarily of bonds and treasury bills issued by the Government of Canada, and Canada Mortgage Bonds, which are fully guaranteed by the Government of Canada. Government of Canada bonds, Canada Mortgage Bonds and Government of Canada treasury bills are acquired with the intention to be held until maturity and are not subject to fair value accounting since they are measured at amortized cost. Other financial assets, such as advances and repurchase agreements, are transacted on a fully collateralized basis (see Note 3 to the condensed interim financial statements for further information on the quality of collateral held).

The largest reserve held by the Bank is the investment revaluation reserve, which represents the unrealized fair value gains in the Bank's investment in the Bank for International Settlements (BIS). Fair value changes in the Bank's investment in the BIS are reported in other comprehensive income, and the cumulative net unrealized fair value gains are accumulated in the investment revaluation reserve within *Equity*, which totalled $406.5 million as at September 30, 2019.

Results of operations

Results of operations
(in millions of Canadian dollars)

For the three-month period ended September 30	2019	2018	2017
Total income	475.3	420.9	359.3
Total expenses	(144.9)	(124.2)	(125.1)
Net income	**330.4**	**296.7**	**234.2**
Other comprehensive income	2.3	25.2	87.3
Comprehensive income	**332.7**	**321.9**	**321.5**

Results of operations
(in millions of Canadian dollars)

For the nine-month period ended September 30	2019	2018	2017
Total income	1,400.9	1,213.4	1,097.9
Total expenses	(415.0)	(391.3)	(362.1)
Net income	**985.9**	**822.1**	**735.8**
Other comprehensive income (loss)	(227.4)	137.1	4.1
Comprehensive income	**758.5**	**959.2**	**739.9**

6 The Government of Canada's Exchange Fund Account is the main repository of Canada's official international reserves and is reflected in the Public Accounts.

Income

Total income
(in millions of Canadian dollars)

For the three-month period ended September 30	2019	2018	Variance $	Variance %
Interest revenue				
Investments	526.4	483.2	43.2	9
Securities purchased under resale agreements	46.6	32.0	14.6	46
Other	0.3	0.2	0.1	50
	573.3	515.4	57.9	11
Interest expense	(100.3)	(96.0)	(4.3)	4
Net interest revenue	473.0	419.4	53.6	13
Dividend revenue	-	-	-	-
Other revenue	2.3	1.5	0.8	53
Total income	475.3	420.9	54.4	13

Total income
(in millions of Canadian dollars)

For the nine-month period ended September 30	2019	2018	Variance $	Variance %
Interest revenue				
Investments	1,560.9	1,372.9	188.0	14
Securities purchased under resale agreements	134.3	84.7	49.6	59
Other	0.7	0.4	0.3	75
	1,695.9	1,458.0	237.9	16
Interest expense	(304.9)	(254.6)	(50.3)	20
Net interest revenue	1,391.0	1,203.4	187.6	16
Dividend revenue	4.2	4.2	-	-
Other revenue	5.7	5.8	(0.1)	(2)
Total income	1,400.9	1,213.4	187.5	15

Total income for the third quarter of 2019 was $475.3 million, an increase of $54.4 million (or 13 percent) compared with the same period in 2018. On a year-to-date basis, total income was $1,400.9 million, an increase of $187.5 million (or 15 percent) compared with the same period in 2018.

The Bank's income is primarily driven by current market conditions and their impact on the interest-bearing assets and liabilities held on the Bank's balance sheet. Market rates applicable to interest-bearing assets and liabilities invested in and used by the Bank were higher in the third quarter of 2019 compared with the same period in 2018. This increases the yield profile of the Bank's investment portfolio as older instruments with lower yields reach maturity and are replaced by newer instruments with higher yields. It also increases interest that the Bank pays on deposits.

The magnitude of the impact of changing market rates depends on the average time to maturity of the instrument group; those with longer durations are slower to react. This is reflected in the fact that both the deposits held at the Bank and SPRAs react much more quickly to changes in market rates than the Bank's investment portfolio, which is composed primarily of Government of Canada bonds with an average term to maturity of six years.

Interest revenue generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage." It provides a stable source of funding for the Bank's operations, ensuring the Bank's operational independence while supporting the execution of its responsibilities.

The Bank's primary source of interest revenue is interest earned on its investments in Government of Canada securities. In the third quarter of 2019, the Bank recorded $526.4 million in interest revenue on its investments—an increase of $43.2 million (or 9 percent) from the same period in 2018. On a year-to-date basis, the Bank recorded $1,560.9 million in interest revenue on treasury bills and bonds, representing an increase of $188.0 million (or 14 percent). The increase was primarily the result of higher yields on newly acquired bonds and treasury bills.

In the third quarter of 2019, interest earned on SPRAs was $46.6 million, representing an increase of $14.6 million (or 46 percent) over the same period in 2018. On a year-to-date basis, the Bank recorded $134.3 million in interest earned on SPRAs, representing an increase of $49.6 million (or 59 percent). This increase was driven primarily by higher overall yields, supplemented by higher average holdings throughout the third quarter.

Income is reported net of the interest paid on deposits held by the Bank on behalf of the Government of Canada, members of Payments Canada and other financial institutions, and interest paid on securities sold under repurchase agreements. *Interest expense* amounted to $100.3 million in the third quarter of 2019—an increase of $4.3 million (or 4 percent) over the same period in 2018. On a year-to-date basis, interest expense was $304.9 million, representing an increase of $50.3 million (or 20 percent).

The Bank's revenue from its remaining sources was $2.3 million for the third quarter of 2019 ($1.5 million for the third quarter of 2018) and $9.9 million on a year-to-date basis ($10.0 million for the first nine months of 2018). This revenue included dividends earned on the Bank's investment in the BIS and safekeeping and custodial fees.

Expenses

Total expenses
(in millions of Canadian dollars)

For the three-month period ended September 30	2019	2018	Variance $	Variance %
Staff costs	68.4	65.7	2.7	4
Bank note research, production and processing	18.0	8.0	10.0	125
Premises costs	8.0	7.9	0.1	1
Technology and telecommunications	18.8	14.8	4.0	27
Depreciation and amortization	13.0	11.5	1.5	13
Other operating expenses	18.7	16.3	2.4	15
Total expenses	**144.9**	**124.2**	**20.7**	**17**

Total expenses
(in millions of Canadian dollars)

For the nine-month period ended September 30	2019	2018	Variance $	Variance %
Staff costs	210.8	207.9	2.9	1
Bank note research, production and processing	35.1	32.7	2.4	7
Premises costs	21.7	21.3	0.4	2
Technology and telecommunications	52.7	41.6	11.1	27
Depreciation and amortization	39.4	35.8	3.6	10
Other operating expenses	55.3	52.0	3.3	6
Total expenses	**415.0**	**391.3**	**23.7**	**6**

Expenses for the third quarter and first three quarters of the year are $20.7 million and $23.7 million (or 17 percent and 6 percent) higher, respectively, over the comparable three- and nine-month previous-year periods. This primarily reflects expenditures on MTP resiliency initiatives (including cyber security and business resiliency enhancements) and higher bank note costs in the third quarter due to the timing of production costs.

Staff costs remained fairly stable both in the third quarter of 2019 and year-to-date at $68.4 million and $210.8 million, respectively, compared with the same periods in 2018, but its composition has changed as a result of offsetting factors. Increased salary costs related to annual compensation adjustment and the filling of vacant positions were offset by decreased benefit costs, which are mainly the result of the discount rates used for their calculation.[7]

Bank note research, production and processing costs were $10.0 million (or 125 percent) higher in the quarter and $2.4 million (or 7 percent) higher year-to-date relative to the same periods in the previous year. This is due primarily to higher volumes of bank notes received during the year, especially during the third quarter. The timing of bank note production varies from one year to the next based on the annual production plan.

Premises costs were stable both in the third quarter of 2019 and year-to-date at $8.0 million and $21.7 million, respectively, compared with the same periods in 2018. Equipment repair and building maintenance costs were higher than last year, but this was offset by lower utility and rental costs.

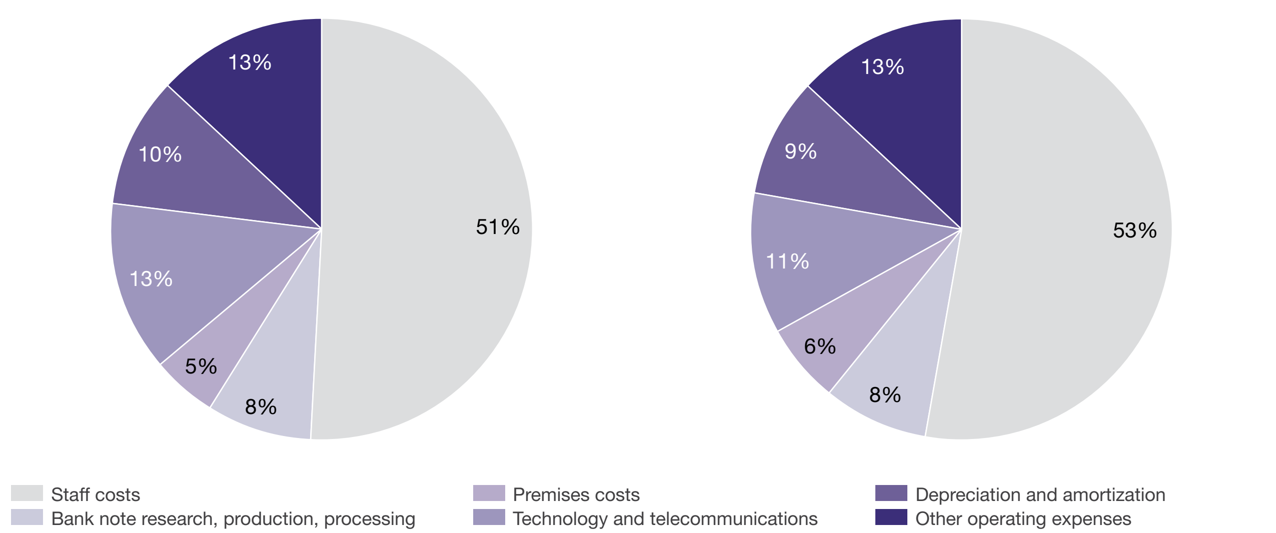
Technology and telecommunications expenses were $4.0 million (or 27 percent) higher in the third quarter of 2019 and $11.1 million (or 27 percent) higher for the first three quarters of 2019 compared with the same periods in 2018. This increase was driven by the Bank's continued focus on strengthening its business continuity posture through investment in cyber security and business resiliency initiatives.

Depreciation and amortization expenses were $1.5 million (or 13 percent) higher in the third quarter of 2019 and $3.6 million (or 10 percent) higher for the first three quarters of 2019 compared with the same periods in 2018. The increase was primarily the result of the recognition of depreciation related to leased assets following the adoption of IFRS 16 on January 1, 2019, as described in Note 2 to the condensed interim financial statements.

Composition of expenses

For the nine-month period ended September 30, 2019

For the nine-month period ended September 30, 2018



7 Benefit costs are based on the discount rate as at December 31 of the preceding year (e.g., the rate at December 31, 2018, was used to calculate the benefit expenses for 2019). Discount rates and related benefit costs share an inverse relationship; as rates decrease, benefit expenses increase (and vice versa). The discount rates used for the calculation of the pension benefit plans and other benefit plan expenses increased by an average of 50 basis points between the measurement dates as follows:

	2019 (rate as at December 31, 2018)	2018 (rate as at December 31, 2017)
Pension benefit plans	4.0%	3.5%
Other benefit plans	3.5–4.0%	3.1–3.5%

Other operating expenses represented 13 percent of the Bank's total operating expenses for both the third quarter and the first three quarters of 2019 (13 percent for both the third quarter and the first three quarters of 2018) and is mostly composed of purchased services in support of the Bank's operations.

Other comprehensive income (loss)

Other comprehensive income (loss)
(in millions of Canadian dollars)

For the three-month period ended September 30	2019	2018	Variance $	Variance %
Remeasurements of the net defined-benefit liability/asset	(5.4)	40.7	(46.1)	(113)
Change in fair value of BIS shares	7.7	(15.5)	23.2	(150)
Other comprehensive income	**2.3**	**25.2**	**(22.9)**	**(91)**

Other comprehensive income (loss)
(in millions of Canadian dollars)

For the nine-month period ended September 30	2019	2018	Variance $	Variance %
Remeasurements of the net defined-benefit liability/asset	(238.6)	130.8	(369.4)	(282)
Change in fair value of BIS shares	11.2	6.3	4.9	78
Other comprehensive income (loss)	**(227.4)**	**137.1**	**(364.5)**	**(266)**

Remeasurements of the net defined-benefit liability/asset pertaining to the Bank's defined-benefit plans are primarily affected by changes in the discount rates used to determine the related defined-benefit obligations and by the return on plan assets, where funded. The remeasurement losses recorded in the three- and nine-month periods ended September 30, 2019, were mostly the result of decreases in the discount rates during the year[8] used to value the Bank's defined-benefit plan obligations. The fair value of the Bank's investment in the BIS fluctuates over time in conjunction with the strength of the BIS balance sheet and exchange rates.

Surplus for the Receiver General for Canada

The Bank's operations are not constrained by its cash flows or 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 ascertained surplus (surplus). This was $325.0 million in the third quarter of 2019 ($337.4 million in the third quarter of 2018, and $747.3 million for the nine-month period ended September 30, 2019 ($952.9 million for the nine-month period ended September 30, 2018). In accordance with the requirements of section 27 of the *Bank of Canada Act*, the Bank remits its surplus to the Receiver General for Canada and does not hold retained earnings.

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements with consideration given to the volatility arising from fair value changes and remeasurements, which are recorded in other comprehensive income. This agreement allows the Bank to withhold from its remittance to the Receiver General for Canada any increase in cumulative net losses on the following: unrealized losses on financial assets that are classified and measured at fair value through other comprehensive income, unrealized remeasurement losses on the post-employment defined-benefit plans, and other unrealized or non-cash losses arising from changes in accounting standards or legislation. Any decrease in

8 The net defined-benefit liability is measured using the discount rates in effect as at the period-end. The rates applicable to the net defined-benefit liability as at September 30, 2019, ranged from 2.7 to 3.0 percent (3.5 to 4.0 percent as at December 31, 2018).

previously withheld cumulative net unrealized non-cash losses is added to the remittance.

Further information on the Bank's remittance agreement with the Minister of Finance is provided in Note 11 to the condensed interim financial statements.

Looking ahead

The Bank's 2019 Plan
(in millions of Canadian dollars)

	2019 Budget	
	$	%
Core expenditures	372	59
Bank note production	54	9
New mandates	3	0
Sustaining resilience operations	38	6
Deferred employee benefits (net of allocations)	13	2
Strategic investment programs	155	24
Total expenditures*	**635**	**100**

* Includes operational and capital expenditures, and excludes depreciation.

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 year 2019 is the first of the Bank's 2019–21 MTP, Leading in the New Era. The current MTP maintains a commitment to 2 percent growth on 2019 budgeted *Core expenditures*, or zero real growth, consistent with the Bank's 2 percent inflation target. The Bank's other financial requirements are identified separately and excluded from the MTP's commitment to core operations growth.

The main areas of focus are multi-year infrastructure, cyber security and business resiliency initiatives that were launched during the 2016–18 MTP and continue to progress under the current MTP. Further information on the 2019–21 MTP can be found in the "Mandate and Planning Framework" section of the Annual Report for 2018.

When compared with budget, expenses for the first three quarters of the year are below plan, primarily due to lower-than-expected staff costs related to the new Calgary Operational Site. The Bank continues to expect capital expenditures[9] of $68 million in 2019. These predominantly reflect the Bank's continued investment in 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 June 30, 2019.

Governing Council and Board of Directors

As announced on May 8, Lynn Patterson retired from the Governing Council effective July 19. The vacancy created by her retirement was filled by Toni Gravelle, as announced on September 19.

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

9 Anticipated capital expenditures reflect solely investments in *Property and equipment* and *Intangible assets* and exclude *Right-of-use leased assets*.

Operations and programs

On July 16, 2019, the Bank announced that it would become the administrator of the Canadian Overnight Repo Rate Average (CORRA), a key interest rate benchmark for financial markets, effective in 2020.

On July 29, 2019, the Bank announced changes to assets eligible as collateral under the Bank's Standing Liquidity Facility. These changes include the introduction of a new asset category (Other Public Sector) and changes to concentration limits for those participants that do not use their non-mortgage loan portfolios as collateral.

On August 21, 2019, as mentioned in the "Managing the balance sheet" section of this report, the Bank announced it would start accepting National Housing Act Mortgage-Backed Securities as eligible securities for the term repo program.

Risk analysis

The "Risk Management" section of the MD&A for the year ended December 31, 2018, 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 December 31, 2018, financial statements, which are included in the Bank's Annual Report for 2018.

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

CONDENSED INTERIM FINANCIAL STATEMENTS

September 30, 2019

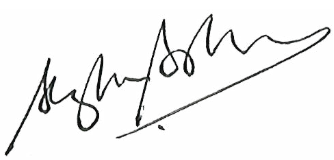
Glossary of abbreviations

BIS	Bank for International Settlements	**IFRIC**	interpretation developed by the IFRS Interpretations Committee
CPA Canada	Chartered Professional Accountants of Canada	**IFRS**	International Financial Reporting Standards
ECL	expected credit loss	**PSAS**	Public Sector Accounting Standards
FVOCI	fair value through other comprehensive income	**SPRAs**	securities purchased under resale agreements
IAS	International Accounting Standard	**SSRAs**	securities sold under repurchase agreements
IASB	International Accounting Standards Board		

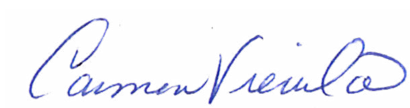
Management responsibility

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* (IAS 34), 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
November 6, 2019

Condensed interim statement of financial position (unaudited)

(in millions of Canadian dollars)

As at	Note	September 30, 2019	December 31, 2018
Assets			
Cash and foreign deposits	3	5.4	17.0
Loans and receivables	3		
Securities purchased under resale agreements		11,608.1	10,673.0
Other receivables		4.0	3.1
		11,612.1	**10,676.1**
Investments	3		
Government of Canada treasury bills		25,931.4	24,217.8
Canada Mortgage Bonds		514.7	251.3
Government of Canada bonds		77,476.1	79,625.4
Other investments		444.5	433.3
		104,366.7	**104,527.8**
Capital assets			
Property and equipment	4	595.3	600.3
Intangible assets	5	52.8	44.0
Right-of-use leased assets	2, 6	52.0	n.a.
		700.1	**644.3**
Other assets	2, 7	43.1	189.7
Total assets		**116,727.4**	**116,054.9**
Liabilities and equity			
Bank notes in circulation	3	89,791.6	90,193.1
Deposits	3, 8		
Government of Canada		22,709.9	21,725.6
Members of Payments Canada		249.8	250.5
Other deposits		2,736.2	2,830.1
		25,695.9	**24,806.2**
Other liabilities	2, 3, 9	703.4	530.3
Total liabilities		**116,190.9**	**115,529.6**
Equity	11	536.5	525.3
Total liabilities and equity		**116,727.4**	**116,054.9**

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)

(in millions of Canadian dollars)

		For the three-month period ended September 30		For the nine-month period ended September 30	
	Note	2019	2018	2019	2018
Income					
Interest revenue					
Investments		526.4	483.2	1,560.9	1,372.9
Securities purchased under resale agreements		46.6	32.0	134.3	84.7
Other		0.3	0.2	0.7	0.4
		573.3	**515.4**	**1,695.9**	**1,458.0**
Interest expense					
Deposits		(100.3)	(95.9)	(304.8)	(254.1)
Other		-	(0.1)	(0.1)	(0.5)
Net interest revenue		**473.0**	**419.4**	**1,391.0**	**1,203.4**
Dividend revenue		-	-	4.2	4.2
Other revenue		2.3	1.5	5.7	5.8
Total income		**475.3**	**420.9**	**1,400.9**	**1,213.4**
Expenses					
Staff costs		68.4	65.7	210.8	207.9
Bank note research, production and processing		18.0	8.0	35.1	32.7
Premises costs		8.0	7.9	21.7	21.3
Technology and telecommunications		18.8	14.8	52.7	41.6
Depreciation and amortization		13.0	11.5	39.4	35.8
Other operating expenses		18.7	16.3	55.3	52.0
Total expenses		**144.9**	**124.2**	**415.0**	**391.3**
Net income		**330.4**	**296.7**	**985.9**	**822.1**
Other comprehensive income (loss)					
Items that will not be reclassified to net income					
Remeasurements of the net defined-benefit liability/asset	10	(5.4)	40.7	(238.6)	130.8
Change in fair value of BIS shares	3	7.7	(15.5)	11.2	6.3
Other comprehensive income (loss)		**2.3**	**25.2**	**(227.4)**	**137.1**
Comprehensive income		**332.7**	**321.9**	**758.5**	**959.2**

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

Condensed interim statement of changes in equity (unaudited)

For the three-month period ended September 30 (in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at July 1, 2019		5.0	25.0	100.0	398.8	-	528.8
Comprehensive income for the period							
Net income		-	-	-	-	330.4	330.4
Remeasurements of the net defined-benefit liability/asset	10	-	-	-	-	(5.4)	(5.4)
Change in fair value of BIS shares	3	-	-	-	7.7	-	7.7
		-	-	-	7.7	325.0	332.7
Surplus for the Receiver General for Canada		-	-	-	-	(325.0)	(325.0)
Balance as at September 30, 2019		5.0	25.0	100.0	406.5	-	536.5

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at July 1, 2018		5.0	25.0	100.0	387.4	-	517.4
Comprehensive income for the period							
Net income		-	-	-	-	296.7	296.7
Remeasurements of the net defined-benefit liability/asset	10	-	-	-	-	40.7	40.7
Change in fair value of BIS shares	3	-	-	-	(15.5)	-	(15.5)
		-	-	-	(15.5)	337.4	321.9
Surplus for the Receiver General for Canada		-	-	-	-	(337.4)	(337.4)
Balance as at September 30, 2018		5.0	25.0	100.0	371.9	-	501.9

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

Condensed interim statement of changes in equity (unaudited)

For the nine-month period ended September 30 (in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at January 1, 2019		5.0	25.0	100.0	395.3	-	525.3
Comprehensive income for the period							
Net income		-	-	-	-	985.9	985.9
Remeasurements of the net defined-benefit liability/asset	10	-	-	-	-	(238.6)	(238.6)
Change in fair value of BIS shares	3	-	-	-	11.2	-	11.2
		-	-	-	11.2	747.3	758.5
Surplus for the Receiver General for Canada		-	-	-	-	(747.3)	(747.3)
Balance as at September 30, 2019		5.0	25.0	100.0	406.5	-	536.5

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at January 1, 2018		5.0	25.0	100.0	365.6	-	495.6
Comprehensive income for the period							
Net income		-	-	-	-	822.1	822.1
Remeasurements of the net defined-benefit liability/asset	10	-	-	-	-	130.8	130.8
Change in fair value of BIS shares	3	-	-	-	6.3	-	6.3
		-	-	-	6.3	952.9	959.2
Surplus for the Receiver General for Canada		-	-	-	-	(952.9)	(952.9)
Balance as at September 30, 2018		5.0	25.0	100.0	371.9	-	501.9

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

Condensed interim statement of cash flows (unaudited)

(in millions of Canadian dollars)

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2019	2018	2019	2018
Cash flows from operating activities				
Interest received	386.9	313.1	1,383.9	1,228.1
Dividends received	4.2	-	4.2	4.2
Other revenue received	1.8	0.9	6.6	5.7
Interest paid	(102.4)	(94.6)	(304.9)	(253.6)
Payments to or on behalf of employees and to suppliers and to members of Payments Canada	(125.7)	(106.0)	(369.4)	(358.9)
Net increase in deposits	580.7	339.3	889.7	1,511.6
Acquisition of securities purchased under resale agreements—overnight repo	(2,899.9)	(1,800.0)	(5,899.9)	(18,815.2)
Proceeds from maturity of securities purchased under resale agreements—overnight repo	2,899.9	1,800.0	5,899.9	18,815.2
Proceeds from securities sold under repurchase agreements	-	3,000.1	1,500.0	11,150.2
Repayments of securities sold under repurchase agreements	-	(3,000.1)	(1,500.0)	(11,150.2)
Net cash provided by operating activities	**745.5**	**452.7**	**1,610.1**	**2,137.1**
Cash flows from investing activities				
Net maturities (purchases) in Government of Canada treasury bills	82.3	(2,472.3)	(1,568.7)	(7,781.8)
Purchases of Canada Mortgage Bonds	-	-	(262.8)	-
Purchases of Government of Canada bonds	(3,850.0)	(3,238.6)	(10,719.3)	(9,876.0)
Proceeds from maturity of Government of Canada bonds	5,199.0	4,380.0	13,037.0	13,345.0
Acquisition of securities purchased under resale agreements—term repo	(28,160.0)	(24,578.4)	(76,635.9)	(65,666.8)
Proceeds from maturity of securities purchased under resale agreements—term repo	26,765.1	23,848.1	75,698.9	66,539.8
Additions of property and equipment	(4.4)	(19.1)	(22.5)	(41.6)
Additions of intangible assets	(7.2)	(2.7)	(17.3)	(8.5)
Net cash provided by (used in) investing activities	**24.8**	**(2,083.0)**	**(490.6)**	**(3,489.9)**
Cash flows from financing activities				
Net increase (decrease) in bank notes in circulation	(581.9)	2,001.8	(401.5)	2,209.5
Remittance of surplus to the Receiver General for Canada	(200.0)	(375.0)	(725.9)	(854.2)
Payments on lease liabilities	(0.4)	-	(3.1)	-
Net cash provided by (used in) financing activities	**(782.3)**	**1,626.8**	**(1,130.5)**	**1,355.3**
Effect of exchange rate changes on foreign currency	0.1	(0.4)	(0.6)	0.2
Increase (decrease) in cash and foreign deposits	**(11.9)**	**(3.9)**	**(11.6)**	**2.7**
Cash and foreign deposits, beginning of period	17.3	21.2	17.0	14.6
Cash and foreign deposits, end of period	**5.4**	**17.3**	**5.4**	**17.3**

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

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

For the period ended September 30, 2019

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 address of the Bank's registered head office is 234 Wellington Street, Ottawa, Ontario.

The Bank conforms to the financial reporting requirements of the *Bank of Canada Act* as prescribed in the Bank's bylaws, which require that the Bank's financial statements be prepared in accordance with Generally Accepted Accounting Principles as set out in the *CPA Canada Handbook* published by the Chartered Professional Accountants of Canada (CPA Canada). Consistent with CPA Canada guidance, the Bank is a government business enterprise as defined by the Canadian Public Sector Accounting Standards (PSAS) and, as such, adheres to the standards applicable to publicly accountable enterprises. In compliance with this requirement, management has developed accounting policies in accordance with International Financial Reporting Standards (IFRS).

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 Bank conducts monetary policy 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. The Bank is the fiscal agent for the government, providing treasury-management services and administering and advising 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 balance sheet. The Bank invests the proceeds from the issuance of bank notes into Government of Canada securities and Canada Mortgage Bonds, 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.

The interest income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage" and is the Bank's primary source of revenue. It provides a stable and constant source of funding for the Bank's operations, which enables the Bank to function independently of government appropriations. A portion of this revenue is used to fund the Bank's operations and reserves, and the remaining net income is remitted to the Receiver General for Canada 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 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 December 31, 2018. 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 November 6, 2019.

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 Canada. In this fiscal-agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas, consistent with the requirements 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 relating to this support are the Government of Canada's and are not included in the financial statements of the Bank.

Securities safekeeping and other custodial services are provided to foreign central banks, international organizations and other government-related entities. Under the terms governing these services, the Bank is indemnified against losses. Any assets and income that are managed under these services are excluded from the Bank's financial statements, as they are not assets or income of the Bank.

Measurement base

The financial statements have been prepared on a historical cost basis, except for the following items:

- financial instruments classified and measured at amortized cost, using the effective interest method;
- the Bank's shares in the Bank for International Settlements (BIS shares), which are measured at fair value through other comprehensive income (FVOCI); 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 obligations.

Functional and presentation currency

The Bank's functional and presentation currency is the Canadian dollar. The amounts in the notes to the financial statements of the Bank are in millions of Canadian dollars, unless otherwise stated.

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 typically at their lowest level at the end of the first quarter, while demand peaks in the second and fourth quarters around holiday periods. In addition to the regular term repo program, the Bank may purchase securities under term resale agreements to offset the increased bank note liability during periods of high seasonal demand.

Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those disclosed in the Bank's financial statements for the year ended December 31, 2018, except for that which was affected by the adoption of IFRS 16 *Leases* (IFRS 16) on January 1, 2019, as discussed in the "Changes to IFRS" section below.

Key accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and other related information.

Management based their 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 used in the measurement of financial instruments (Note 3) and employee benefits (Note 10).

Changes to IFRS

Certain pronouncements were issued by the IASB, or by the IFRS Interpretations Committee after approval by the IASB (IFRIC interpretations, or IFRICs), that are mandatory for accounting periods beginning on or after January 1, 2019.

Effective January 1, 2019, the Bank adopted IFRS 16 and the related amendments in accordance with the transition provisions set out in IFRS 16 as described below. No other new or amended standards were adopted by the Bank during the first nine months of 2019.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 and other related guidance (collectively, the previous lease standard). Significant changes have been made to lessee accounting since the distinction between operating and finance leases was eliminated, and thus, assets and liabilities must be recognized for all leases (subject to limited exceptions for short-term leases and leases of low-value assets). IFRS 16 does not include significant changes to the requirements for lessors.

With regard to the Bank's financial statements, the adoption of IFRS 16 resulted in changes to the Bank's accounting policies for the recognition and measurement of leases for which the Bank is a lessee. The Bank's accounting policy for leases is discussed in Note 6.

Transition to IFRS 16

As permitted by the transitional provisions of IFRS 16, management elected to apply the modified retrospective approach and not restate comparative figures since the impact of the adoption is not significant to the Bank's financial statements. The Bank's approach and related impact upon transition to IFRS 16 is disclosed below.

Transitional expedients

Upon transition, management elected to apply the following transitional expedients available under IFRS 16:

- Grandfather assessments of whether an agreement existing at the transition date and entered into prior to adoption contained a lease under the previous lease standard.
- Measure the right-of-use leased assets equal to the related lease liability, less any prepaid or accrued lease payments recognized at the date of initial application, January 1, 2019.
- Not apply the recognition and measurement requirements of IFRS 16 for leases of low-value assets as defined in the Bank's accounting policy for leases in Note 6.

Financial statement impact of transition

Upon initial application of IFRS 16, the Bank recognized right-of-use leased assets of $54.4 million and lease liabilities of $52.7 million as at January 1, 2019, with no impact on retained earnings. The $1.7 million difference between the carrying amount of right-of-use leased assets and lease liabilities recognized at the transition date relates to prepaid lease payments made as of December 31, 2018. The prepaid lease balance was reclassified from prepaid lease expenses to right-of-use leased assets on January 1, 2019.

As the discount rate implicit in each lease contract is not readily determinable, when measuring lease liabilities, future lease payments are discounted using yields of zero-coupon Government of Canada bonds with durations approximating the remaining lease term as at January 1, 2019. The weighted average discount rate applied as at January 1, 2019, is 2.0 percent.

Impact on opening financial statements as at date of initial application—January 1, 2019

Partial statement of financial position

	Ref.	December 31, 2018	Effect of transition to IFRS 16	January 1, 2019
Assets				
Capital assets				
Property and equipment		600.3	-	600.3
Intangible assets		44.0	-	44.0
Right-of-use leased assets	Note 6	n.a.	54.4	54.4
		644.3	**54.4**	**698.7**
Other assets	A	189.7	(1.7)	188.0
Total assets		**834.0**	**52.7**	**886.7**
Liabilities and equity				
Other liabilities	B	530.3	52.7	583.0
Total liabilities		**530.3**	**52.7**	**583.0**
Equity		525.3	-	525.3
Total liabilities and equity		**1,055.6**	**52.7**	**1,108.3**

(A) As noted above, the $1.7 million difference between the carrying amount of right-of-use leased assets and lease liabilities recognized at the transition date relates to prepaid lease payments made as of December 31, 2018. As a result, these prepaid lease payments were reclassified from *All other assets* to *Right-of-use leased assets* as at January 1, 2019.

Composition of other assets

	December 31, 2018	Effect of transition to IFRS 16	January 1, 2019
Bank note inventory	12.1	-	12.1
Net defined-benefit asset	149.5	-	149.5
All other assets	28.1	(1.7)	26.4
Total other assets	**189.7**	**(1.7)**	**188.0**

(B) As noted above, lease liabilities recognized on transition to IFRS 16 resulted in a $52.7 million increase to *Total other liabilities*.

Composition of other liabilities

	December 31, 2018	Effect of transition to IFRS 16	January 1, 2019
Surplus payable to the Receiver General for Canada	225.9	-	225.9
Net defined-benefit liability			
Pension benefit plans	66.2	-	66.2
Other benefit plans	160.9	-	160.9
Lease liabilities	n.a.	52.7	52.7
All other liabilities and provisions	77.3	-	77.3
Total other liabilities	**530.3**	**52.7**	**583.0**

Reconciliation of lease commitments at transition

The following table reconciles the Bank's undiscounted operating lease commitments disclosed in the Bank's financial statements as at December 31, 2018, to the lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019.

Reconciliation of lease commitments at transition

Operating lease commitments at December 31, 2018	25.6
Extension options reasonably certain to be exercised	33.6
Lease of low-value assets	(0.5)
Other	2.3
	61.0
Discounted using the yield curves for zero-coupon bonds at January 1, 2019	(8.3)
Lease liabilities recognized at January 1, 2019	**52.7**

3. Financial instruments

The Bank's financial instruments consist of the following:

- cash and foreign deposits,
- loans and receivables,
- investments,
- bank notes in circulation,
- deposits,
- securities sold under repurchase agreements (SSRAs), and
- certain other liabilities.

Measurement of financial instruments

Financial instrument categories	Measurement
Financial assets	
Cash and cash equivalents at amortized cost ▪ Cash and foreign deposits **Debt instruments at amortized cost** ▪ Securities purchased under resale agreements (SPRAs) ▪ Advances to members of Payments Canada ▪ Other receivables ▪ Government of Canada treasury bills ▪ Canada Mortgage Bonds ▪ Government of Canada bonds	Amortized cost using the effective interest method,* less any expected credit losses (ECLs)
Equity instruments at FVOCI ▪ BIS shares	FVOCI
Financial liabilities	
Financial liabilities at amortized cost ▪ Deposits ▪ SSRAs ▪ Other liabilities	Amortized cost using effective interest method*
Financial liabilities at face value ▪ Bank notes in circulation	Face value

* The effective interest method uses the rate inherent in a financial instrument that discounts the estimated future cash flows over the expected life of the financial instrument in order to recognize interest on a constant-yield basis.

Fair value of financial instruments

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 unadjusted quoted prices in active markets for identical assets or liabilities, which represent actual and regularly occurring arm's-length market transactions

Level 2 inputs other than quoted prices included in Level 1, which are observable for the assets or liabilities either directly (e.g., prices for similar instruments, prices from inactive markets) or indirectly (e.g., interest rates, credit spreads)

Level 3 unobservable inputs for the assets or liabilities that are not based on observable market data due to inactive markets (e.g., market participant assumptions)

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.

The tables below explain the valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy. There were no changes to valuation methodologies during the period.

Financial instruments carried at fair value	Valuation method
BIS shares	Significant unobservable inputs (Level 3) Estimated as 70 percent of the Bank's interest in the net asset value of the BIS at the reporting date. This is consistent with 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). Management expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates.

Financial instruments carried at amortized cost	Valuation method
Cash and foreign deposits, SPRAs, advances to members of Payments Canada, other receivables, deposits, and financial liabilities	Carrying amount (approximation to fair value assumed due to their nature as short term or due on demand)
Government of Canada treasury bills, Canada Mortgage Bonds, Government of Canada bonds	Quoted market prices (Levels 1 and 2)

Supporting information

Financial instruments carried at fair value

Financial instruments carried at fair value are the Bank's investment in BIS shares (Level 3). There were no transfers of amounts between levels during the reporting period.

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 September 30		For the nine-month period ended September 30	
	2019	2018	2019	2018
Opening balance at beginning of period	436.8	425.4	433.3	403.6
Change in fair value recorded through other comprehensive income	7.7	(15.5)	11.2	6.3
Closing balance at end of period	**444.5**	**409.9**	**444.5**	**409.9**

Financial instruments not carried at fair value

The following table shows the fair value of the Bank's financial instruments classified in accordance with the fair value hierarchy described above for the Bank's financial instruments that are not carried at fair value and whose fair value does not approximate their carrying value.

	Level 1	Level 2	Level 3	Total
As at September 30, 2019				
Government of Canada treasury bills	25,932.4	-	-	**25,932.4**
Canada Mortgage Bonds	525.8	-	-	**525.8**
Government of Canada bonds	81,969.4	143.0	-	**82,112.4**
Total	**108,427.6**	**143.0**	-	**108,570.6**
As at December 31, 2018				
Government of Canada treasury bills	24,225.7	-	-	24,225.7
Canada Mortgage Bonds	252.9	-	-	252.9
Government of Canada bonds	82,134.5	112.5	-	82,247.0
Total	**106,613.1**	**112.5**	-	**106,725.6**

For financial instruments held at September 30, 2019, there were no transfers between levels of the fair value hierarchy as a result of changes in market activity or the availability of quoted market prices or observable inputs during the nine-month period ended September 30, 2019.

Loans and receivables

SPRAs are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. The duration of SPRAs generally ranges from 1 to 90 business days. In September 2019, the Bank started accepting National Housing Act Mortgage-Backed Securities as eligible securities for the term repo program.

The fair value of collateral held against SPRAs at the end of the reporting period is presented below.

As at	September 30, 2019		December 31, 2018	
	$	%	$	%
Securities issued or guaranteed by the Government of Canada	1,211.6	10.0	469.1	4.2
Securities issued or guaranteed by a provincial government	10,413.3	85.8	10,695.5	95.8
Securities guaranteed by a Crown corporation of the Government of Canada[1]	512.1	4.2	-	-
Total fair value of collateral pledged to the Bank	**12,137.0**	**100.0**	**11,164.6**	**100.0**
Carrying value of collateralized securities	**11,608.1**	**100.0**	**10,673.0**	**100.0**
Collateral as a percentage of carrying value		**104.6**		**104.6**

Investments

The Bank also 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 transactions are fully collateralized by securities and are generally one business day in duration. As at September 30, 2019, there were no loaned securities in the Bank's investments ($nil at December 31, 2018).

Expected credit losses and impairment

All the Bank's financial assets subject to impairment assessments are Stage 1 and are considered to have low credit risk. There were no transfers of financial instruments between stages during the reporting period.

Debt instruments

The Bank did not record any ECLs on its financial instruments as at September 30, 2019 ($nil at December 31, 2018), as amounts were negligible. There are no significant past due or impaired amounts as at September 30, 2019 (no significant amounts at December 31, 2018).

Financial guarantees and loan commitments

As at September 30, 2019, none of the Bank's financial guarantees and commitments were in use, nor does management expect that any will be used within the next 12 months (none at December 31, 2018).

[1] Canada Mortgage and Housing Corporation

4. Property and equipment

Property and equipment consists of land, buildings, computer equipment, other equipment and related projects in progress.

Carrying amount of property and equipment

2019	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2018	575.8	142.5	77.2	**795.5**
Additions	0.8	17.3	4.4	**22.5**
Disposals	-	-	-	-
Transfers	(1.4)	0.3	1.1	-
Balances as at September 30, 2019	**575.2**	**160.1**	**82.7**	**818.0**
Accumulated depreciation				
Balances as at December 31, 2018	(121.7)	(46.7)	(26.8)	**(195.2)**
Depreciation expense	(13.6)	(9.6)	(4.3)	**(27.5)**
Disposals	-	-	-	-
Transfers	-	-	-	-
Balances as at September 30, 2019	**(135.3)**	**(56.3)**	**(31.1)**	**(222.7)**
Carrying amounts				
Balances as at December 31, 2018	454.1	95.8	50.4	**600.3**
Balances as at September 30, 2019	**439.9**	**103.8**	**51.6**	**595.3**

2019	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress				
Included in *Carrying amounts* at September 30, 2019	0.2	76.9	5.5	**82.6**
Commitments at September 30, 2019	1.7	5.5	3.1	**10.3**

2018	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2017	578.5	82.4	81.9	**742.8**
Additions	-	60.1	8.5	**68.6**
Disposals	(2.7)	-	(13.2)	**(15.9)**
Transfers	-	-	-	-
Balances as at December 31, 2018	**575.8**	**142.5**	**77.2**	**795.5**
Accumulated depreciation				
Balances as at December 31, 2017	(106.1)	(34.0)	(33.7)	**(173.8)**
Depreciation expense	(18.3)	(12.7)	(6.3)	**(37.3)**
Disposals	2.7	-	13.2	**15.9**
Transfers	-	-	-	-
Balances as at December 31, 2018	**(121.7)**	**(46.7)**	**(26.8)**	**(195.2)**
Carrying amounts				
Balances as at December 31, 2017	472.4	48.4	48.2	**569.0**
Balances as at December 31, 2018	**454.1**	**95.8**	**50.4**	**600.3**

2018	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress				
Included in *Carrying amounts* at December 31, 2018	1.0	60.4	8.3	**69.7**
Commitments at December 31, 2018	1.1	11.8	4.2	**17.1**

5. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance that represent future economic benefits and are controlled by the Bank. The Bank's intangible assets consist of computer software that has been internally developed or externally acquired.

Carrying amount of intangible assets

2019	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2018	62.7	81.3	**144.0**
Additions	9.1	8.2	**17.3**
Disposals	-	-	**-**
Transfers	-	-	**-**
Balances as at September 30, 2019	**71.8**	**89.5**	**161.3**
Accumulated amortization			
Balances as at December 31, 2018	(47.4)	(52.6)	**(100.0)**
Amortization expense	(2.9)	(5.6)	**(8.5)**
Disposals	-	-	**-**
Transfers	-	-	**-**
Balances as at September 30, 2019	**(50.3)**	**(58.2)**	**(108.5)**
Carrying amounts			
Balances as at December 31, 2018	15.3	28.7	**44.0**
Balances as at September 30, 2019	**21.5**	**31.3**	**52.8**

2019	Internally generated software	Other software	Total
Projects in progress			
Included in *Carrying amounts* at September 30, 2019	12.7	15.7	**28.4**
Commitments at September 30, 2019	4.9	1.7	**6.6**

2018	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2017	58.7	71.6	**130.3**
Additions	4.0	9.7	**13.7**
Disposals	-	-	-
Transfers	-	-	-
Balances as at December 31, 2018	**62.7**	**81.3**	**144.0**
Accumulated amortization			
Balances as at December 31, 2017	(44.7)	(45.5)	**(90.2)**
Amortization expense	(2.7)	(7.1)	**(9.8)**
Disposals	-	-	-
Transfers	-	-	-
Balances as at December 31, 2018	**(47.4)**	**(52.6)**	**(100.0)**
Carrying amounts			
Balances as at December 31, 2017	14.0	26.1	**40.1**
Balances as at December 31, 2018	**15.3**	**28.7**	**44.0**

2018	Internally generated software	Other software	Total
Projects in progress			
Included in *Carrying amounts* at December 31, 2018	0.2	7.8	**8.0**
Commitments at December 31, 2018	7.4	1.4	**8.8**

6. Right-of-use leased assets and lease liabilities

The Bank's leases primarily consist of leases for rental of data centre facilities in support of the Bank's business resilience posture, and rental of office space for regional offices (Halifax, Montréal, Toronto, Calgary and Vancouver).

Accounting policy

At the inception of a contract, the Bank assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period in time in exchange for consideration. The Bank recognizes a right-of-use leased asset and lease liability at the lease commencement date. The right-of-use leased asset is initially measured as the sum of

- the value of the initial amount of the lease liability included with *Other liabilities* as discussed in Note 9;
- the value of initial direct costs incurred;
- an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset of the site on which it is located; and
- any lease payments made at or before the lease commencement date, less any lease incentives received.

Right-of-use leased assets are depreciated over the lesser of the end of the useful life of the right-of-use leased asset or the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the Bank is reasonably certain to exercise that option. The right-of-use leased asset may be remeasured from time to time to reflect certain remeasurements in the related lease liability and impairment losses, if any.

Management has elected to apply the practical expedient not to recognize right-of-use leased assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Accounting estimates and judgments

Judgment is required when determining

- the appropriate term over which the right-of-use leased asset should be depreciated;
- the appropriate lease term, in consideration of early termination or renewal clauses, to be considered in measurement of the lease liability;
- the appropriate discount rate to be used in the measurement of the lease liability; and
- whether existing right-of-use leased assets are subject to impairment.

Supporting information

Carrying amount of right-of-use leased assets

2019	Data centres	Offices	Other	Total
Cost				
Balances as at January 1, 2019	36.1	16.6	1.7	**54.4**
Additions	-	-	1.0	**1.0**
Balances as at September 30, 2019	**36.1**	**16.6**	**2.7**	**55.4**
Accumulated depreciation				
Balances as at January 1, 2019	-	-	-	-
Depreciation expense	(2.3)	(0.9)	(0.2)	(3.4)
Balances as at September 30, 2019	**(2.3)**	**(0.9)**	**(0.2)**	**(3.4)**
Carrying amounts				
Balances as at January 1, 2019	36.1	16.6	1.7	**54.4**
Balances as at September 30, 2019	**33.8**	**15.7**	**2.5**	**52.0**

Carrying value of lease liabilities

As at September 30, 2019	Data centres	Offices	Other	Total
Balances as at January 1, 2019	36.1	16.6	-	**52.7**
Finance charges	0.5	0.3	-	**0.8**
New lease liabilities	-	-	1.0	**1.0**
Lease payments	(2.3)	(0.6)	(0.2)	**(3.1)**
Total	**34.3**	**16.3**	**0.8**	**51.4**

During the first nine months of 2019, the Bank has recognized $0.2 million in expenses related to leases of low-value assets for which the recognition exemption has been applied. The Bank does not have any short-term leases for which the recognition exemption has been applied.

Maturity analysis for lease liabilities (undiscounted)

As at September 30, 2019	Data centres	Offices	Other	Total
Less than 5 years	17.0	5.5	0.9	**23.4**
Between 5 and 10	15.5	5.3	-	**20.8**
Between 10 and 15 years	6.0	5.7	-	**11.7**
More than 15 years	-	3.2	-	**3.2**
Total	**38.5**	**19.7**	**0.9**	**59.1**

7. Other assets

Other assets is composed of bank note inventory (production materials, including the polymer substrate and ink), the net-defined benefit asset related to the Bank of Canada Pension Plan (if any), and all other assets, which are primarily prepaid expenses.

Composition of other assets

As at	Note	September 30, 2019	December 31, 2018
Bank note inventory		13.8	12.1
Net defined-benefit asset	10	-	149.5
All other assets		29.3	28.1
Total other assets		43.1	**189.7**

8. Deposits

Deposits is composed of deposits by the Government of Canada, members of Payments Canada and other financial institutions and also includes unclaimed balances remitted to the Bank in accordance with governing legislation. The Bank pays interest on the deposits for the Government of Canada, members of Payments Canada and some other financial institutions at short-term market rates. The Bank pays interest on unclaimed balances in accordance with governing legislation. Interest expense on deposits is included in net income.

Deposits from the Government of Canada were $22,709.9 million as at September 30, 2019 ($21,725.6 million as at December 31, 2018). They consisted of $2,709.9 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,725.6 million and $20,000.0 million, respectively, at December 31, 2018).

9. Other liabilities

Other liabilities is composed of the following items:

As at	Note	September 30, 2019	December 31, 2018
Surplus payable to the Receiver General for Canada		247.3	225.9
Net defined-benefit liability	10		
Pension benefit plans		154.6	66.2
Other benefit plans		192.9	160.9
Lease liabilities	6	51.4	n.a.
All other liabilities and provisions		57.2	77.3
Total other liabilities		**703.4**	**530.3**

The following table reconciles the opening and closing balances of the Surplus payable to the Receiver General for Canada, which is based on the requirements of section 27 of the *Bank of Canada Act* and the Bank's remittance agreement with the Minister of Finance as described in Note 11.

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2019	2018	2019	2018
Opening balance at beginning of period	122.3	350.2	225.9	213.9
Surplus for the Receiver General for Canada	325.0	337.4	747.3	952.9
Remittance of surplus to the Receiver General for Canada	(200.0)	(375.0)	(725.9)	(854.2)
Closing balance at end of period	**247.3**	**312.6**	**247.3**	**312.6**

All other liabilities and provisions consists mainly of accounts payable and accrued liabilities.

10. Employee benefits

The changes in the net defined-benefit asset (liability) for the period are as follows:

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
	For the nine-month period ended September 30, 2019	For the year ended December 31, 2018	For the nine-month period ended September 30, 2019	For the year ended December 31, 2018
Opening balance at beginning of period	83.3	44.6	(160.9)	(178.3)
Bank contributions	5.6	21.4	-	-
Current service cost	(33.0)	(50.9)	(3.5)	(5.4)
Net interest cost	0.7	0.2	(4.8)	(6.2)
Administration costs	(1.5)	(2.3)	-	-
Net benefit payments and transfers	-	-	6.1	7.4
Remeasurement gains (losses)				
Recognized in profit and loss	-	-	(0.9)	-
Recognized in other comprehensive income	(209.7)	70.3	(28.9)	21.6
Closing balance at end of period	**(154.6)**	**83.3**	**(192.9)**	**(160.9)**
Net defined-benefit asset	-	149.5	-	-
Net defined-benefit liability	(154.6)	(66.2)	(192.9)	(160.9)
Net defined-benefit asset (liability)	**(154.6)**	**83.3**	**(192.9)**	**(160.9)**

The composition of the pension benefit plans' net defined-benefit asset (liability) is presented in the table below:

As at	September 30, 2019	December 31, 2018
Fair value of plan assets	2,003.8	1,826.1
Defined-benefit obligation	2,158.4	1,742.8
Net defined-benefit asset (liability)	**(154.6)**	**83.3**

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

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2019	2018	2019	2018
Expenses				
Pension benefit plans	12.3	12.9	33.4	41.9
Other benefit plans	2.8	2.2	9.0	7.6
Total benefit plan expenses	**15.1**	**15.1**	**42.4**	**49.5**

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Contributions for the three-month period ended				
Employer contributions	1.8	2.0	-	-
Employee contributions	5.9	4.3	-	-
Total contributions	**7.7**	**6.3**	**-**	**-**
Contributions for the nine-month period ended				
Employer contributions	5.6	20.0	-	-
Employee contributions	15.4	11.4	-	-
Total contributions	**21.0**	**31.4**	**-**	**-**

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 rates in effect as at the period-end, which are shown in the table below:

As at	September 30, 2019	December 31, 2018
Discount rate		
Pension benefit plans	3.0%	4.0%
Other benefit plans	2.7–3.0%	3.5–4.0%

The remeasurement losses recorded during the three- and nine-month periods ended September 30, 2019, are mainly the result of the decrease in the discount rates used to value the obligations.

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 Bank's equity is composed of the following elements, as shown below:

As at	September 30, 2019	December 31, 2018
Share capital	5.0	5.0
Statutory reserve	25.0	25.0
Special reserve	100.0	100.0
Investment revaluation reserve	406.5	395.3
Retained earnings	-	-
Total equity	**536.5**	**525.3**

Share capital

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

Following an amendment to section 27.1 of the *Bank of Canada Act*, the special reserve was created in 2007 to offset potential unrealized valuation losses due to changes in the fair value of the Bank's investments portfolio. An initial amount of $100 million was established at that time, and the reserve is subject to a ceiling of $400 million.

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.

Investment revaluation reserve

The investment revaluation reserve represents the net unrealized fair value gains of the Bank's financial assets classified and measured at FVOCI, which consist solely of the Bank's investment in the BIS. The total reserve was $406.5 million as at September 30, 2019 ($395.3 million as at December 31, 2018).

Retained earnings

The net income of the Bank, less any allocation to reserves, is considered 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 given to the volatility arising from fair value changes and remeasurements, which are recorded in other comprehensive income. This agreement allows the Bank to withhold from its remittance to the Receiver General for Canada any increase in cumulative net unrealized losses on financial assets that are classified and measured at FVOCI, unrealized remeasurement losses of the net defined-benefit liability/asset on defined-benefit plans, and other unrealized or non-cash losses arising from changes in accounting standards or legislation. Any decrease in previously withheld cumulative net unrealized non-cash losses is added to the remittance.

During the nine-month period ended September 30, 2019, the Bank withheld $238.6 million from its remittances (released $130.8 million in previously withheld remittances in the nine-month period ended September 30, 2018), and as at September 30, 2019, $293.5 million in withheld remittances was outstanding ($54.9 million as at December 31, 2018).

12. Related parties

Persons or entities are considered related parties to the Bank if they are

- under common ownership to the Government of Canada;
- a post-employment benefit plan for the benefit of Bank employees; or
- a member of key management personnel, which includes members of the Executive Council, Senior Management Council or the Board of Directors, and their families.

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 IAS 24 *Related Party Disclosures* (IAS 24).

The Bank also 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.

The Bank provides management, investment and administrative support to the Bank of Canada pension plans and recovers the cost of these services.