BANK OF CANADA
BANQUE DU CANADA

2020 QUARTERLY FINANCIAL REPORT

DYNAMIC.
ENGAGED.
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September 30, 2020, Unaudited

Contents

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.

Bank Management is responsible for the preparation of this report, which was approved by the Audit and Finance Committee of the Board of Directors on November 4, 2020.

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

COVID-19: what the Bank is doing

During the third quarter of 2020, the Bank maintained the measures that were established in the first two quarters of the year to support the economy and financial system. It also introduced the Securities Repo Operations program (SRO) to provide primary dealers with a temporary source of Government of Canada nominal bonds and treasury bills to support liquidity in the securities financing market[1].

Managing the balance sheet

Financial position

(in millions of Canadian dollars)

As at	September 30, 2020	December 31, 2019	September 30, 2019
Assets			
Cash and foreign deposits	6.8	6.4	5.4
Loans and receivables	170,106.0	15,521.9	11,612.1
Investments	362,203.3	103,346.9	104,366.7
Capital assets	691.9	700.9	700.1
Other assets	32.9	66.7	43.1
Total assets	533,040.9	**119,642.8**	**116,727.4**
Liabilities and equity			
Bank notes in circulation	102,984.1	93,094.3	89,791.6
Deposits	427,351.1	25,243.3	25,695.9
Securities sold under repurchase agreements	532.1	-	-
Derivatives—Indemnity agreements with the Government of Canada	415.8	-	-
Other liabilities	1,160.3	774.9	703.4
Equity	597.5	530.3	536.5
Total liabilities and equity	533,040.9	**119,642.8**	**116,727.4**

1 Refer to COVID-19: Actions to Support the Economy and Financial System and to Note 3 in the condensed interim financial statements for more details on all the Bank's measures.

The Bank's holdings of financial assets have typically been driven by its role as the exclusive issuer of Canadian bank notes, where issuing bank notes creates a liability for the Bank. However, changes to the Bank's balance sheet during the first nine months of 2020 resulted largely from activities undertaken as part of the Bank's financial system and monetary policy functions. Starting in March 2020, the Bank implemented several measures to support key financial markets and to provide liquidity for individual financial institutions. These measures caused a significant increase in the balance sheet. During the second and third quarter of 2020, many of these operations were scaled back as financial conditions normalized. At the same time, purchases under the Government of Canada Bond Purchase Program (GBPP) continued as a tool of monetary policy. On the asset side, the Bank expanded the range of instruments it acquires as well as their aggregate amount. On the liability side, these purchases resulted in a significant increase in deposits by the Government of Canada and by financial institutions.

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.

Assets

Summary of assets

(in millions of Canadian dollars)

As at	September 30, 2020	December 31, 2019	Variance $	Variance %
Cash and foreign deposits	6.8	6.4	0.4	6
Loans and receivables				
Securities purchased under resale agreements	169,950.8	15,516.5	154,434.3	995
Advances to members of Payments Canada	150.3	-	150.3	-
Other receivables	4.9	5.4	(0.5)	(9)
	170,106.0	**15,521.9**	**154,584.1**	**996**
Investments				
Government of Canada treasury bills	93,268.6	23,367.4	69,901.2	299
Government of Canada bonds—carried at amortized cost	94,196.1	79,030.5	15,165.6	19
Government of Canada bonds—carried at fair value through profit and loss	147,493.3	-	147,493.3	-
Canada Mortgage Bonds	9,133.3	510.7	8,622.6	1,688
Other bonds*	9,537.7	-	9,537.7	-
Securities lent or sold under repurchase agreements	1,032.7	-	1,032.7	-
Other securities†	7,036.1	-	7,036.1	-
Shares in the Bank for International Settlements	505.5	438.3	67.2	15
	362,203.3	**103,346.9**	**258,856.4**	**250**
Capital assets‡	691.9	700.9	(9.0)	(1)
Other assets	32.9	66.7	(33.8)	(51)
Total assets	**533,040.9**	**119,642.8**	**413,398.1**	**346**

* Includes *Provincial bonds* and *Corporate bonds*
† Includes *Provincial money market securities*
‡ Includes *Property and equipment, Intangible assets* and *Right-of-use leased assets*

The Bank's total assets more than quadrupled over the first nine months of 2020 to $533,040.9 million as at September 30, 2020. This significant increase reflects the impact of the Bank's interventions to respond to the financial and economic turmoil associated with the COVID-19 pandemic and to provide monetary policy support during the subsequent recovery.

Loans and receivables is composed primarily of securities purchased under resale agreements (SPRAs) totalling $169,950.8 million as at September 30, 2020 ($15,516.5 million as at December 31, 2019). SPRAs are high-quality assets temporarily acquired through the repo market, in line with the Bank's framework for market operations and liquidity provision. These operations are normally conducted to manage the Bank's balance sheet, promote the orderly functioning of Canadian financial markets and offset seasonal fluctuations in the demand for bank notes. Beginning in March 2020, the Bank increased SPRAs by extending terms, by expanding the size and the frequency of the transactions and by expanding eligible collateral as a measure to increase liquidity in the Canadian financial system.

Investments more than tripled to $362,203.3 million as at September 30, 2020. This increase was a result of the following movements within the Bank's holdings:

- Government of Canada treasury bills increased by $69,901.2 million to $93,268.6 million as at September 30, 2020. Purchases of Government of Canada treasury bills are typically based on the Bank's balance sheet needs. The increase also reflects the growth in Government of Canada issuances and the Bank's increased purchases.[2]
- Government of Canada bonds (carried at amortized cost and at fair value through profit and loss combined) more than tripled to $241,689.4 million as at September 30, 2020. This growth reflects the purchases as part of the GBPP, which also includes purchases of real-return bonds in the secondary market. It also reflects the increase in Government of Canada bond issuances[3].
- Canada Mortgage Bonds (CMBs) increased to $9,133.3 million as at September 30, 2020. Purchases of these bonds are normally conducted in the primary market on a non-competitive basis. However, in March, the Bank also started acquiring CMBs in the secondary market through a competitive tender process to support the CMB market. The Canada Mortgage Bond Purchase Program, through which those purchases were done, was discontinued in October 2020.
- During the second quarter of 2020, the Bank started purchasing corporate bonds and provincial bonds as part of the Corporate Bond Purchase Program (CBPP) and the Provincial Bond Purchase Program (PBPP). The launch of these programs resulted in an increase of $9,537.7 million to the Bank's assets as at September 30, 2020.
- The Bank began operating a securities-lending program to support the liquidity of provincial bonds in the securities financing markets by lending securities purchased under the PBPP. During the third quarter of 2020, the Bank also started conducting SROs to foster a well-functioning Government of Canada securities market. As at September 30, 2020, the Bank's investments included $1,032.7 million of securities that were either lent or sold under repurchase agreements.
- The Bank also started acquiring bankers' acceptances, provincial money market securities and commercial paper as part of the Bankers' Acceptance Purchase Facility (BAPF), the Provincial Money Market Purchase Program and the Commercial Paper Purchase Program in 2020. The BAPF was discontinued in October 2020. As at September 30, 2020, the Bank held $7,036.1 million solely in provincial money market securities in its portfolio.
- The value of the Bank's investment in shares of the Bank for International Settlements (BIS) increased by 15 percent to $505.5 million as at September 30, 2020. The growth in BIS equity resulted in an increase of $48.0 million, while fluctuations in the Special Drawing Rights exchange rate resulted in a further increase of $19.2 million.

Capital assets decreased slightly by $9.0 million to $691.9 million as at September 30, 2020. This change resulted mainly from $45.8 million of amortization and depreciation during the first nine months of the year, which was offset by $37.8 million of ongoing investments in capital assets, including enhancements to cyber security and business recovery as well as investments in evergreening initiatives and the Agency Operations Centres Modernization Program.

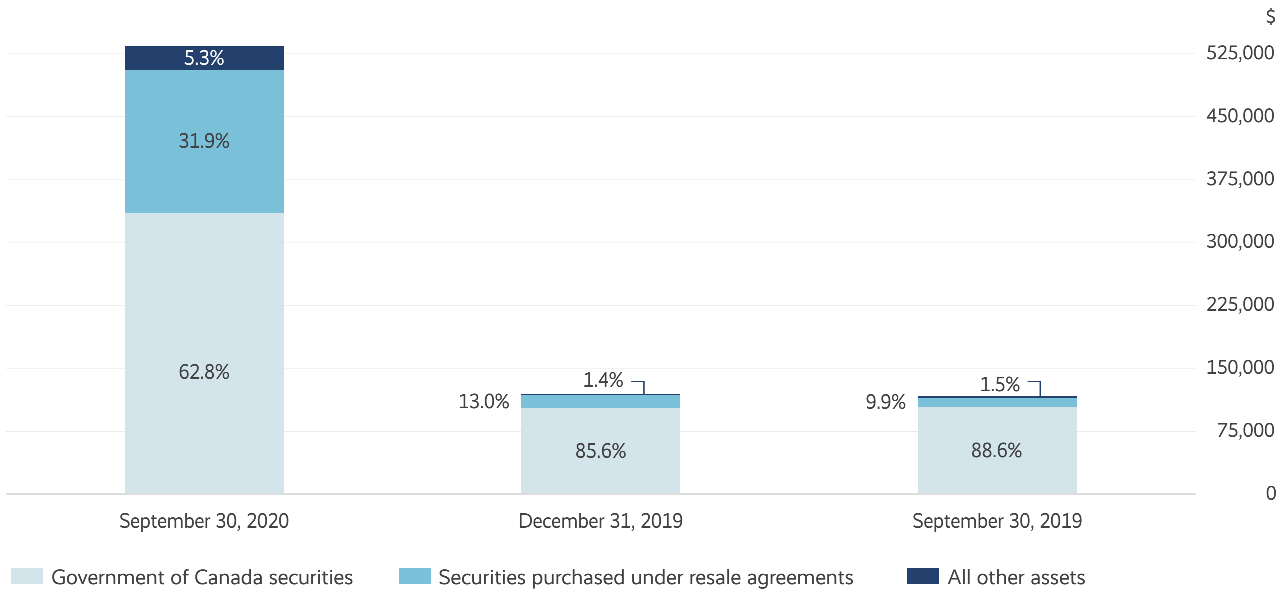
Other assets decreased by 51 percent to $32.9 million as at September 30, 2020. This decrease over the first nine months of the year is due primarily to the net defined-benefit asset, which turned into a liability position following a decrease of 40 basis points in the discount rate since December 31, 2019. This resulted in a $33.8 million decrease in *Other assets*.

2 In April 2020, the Bank increased its purchases of treasury bills from 25 percent to 40 percent of issuances from the Government of Canada. In July 2020, it subsequently reduced its purchases to 20 percent. In September 2020, it reduced them to 10 percent.

3 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 bonds and treasury bills are made on a non-competitive basis and are structured to broadly reflect the composition of the Government of Canada's domestic debt issuances.

Asset profile

(in millions of Canadian dollars)



Liabilities

Summary of liabilities

(in millions of Canadian dollars)

As at	September 30, 2020	December 31, 2019	Variance $	Variance %
Bank notes in circulation	102,984.1	93,094.3	9,889.8	11
Deposits				
Government of Canada	81,766.4	21,765.6	60,000.8	276
Members of Payments Canada	337,194.8	249.5	336,945.3	135,048
Other deposits	8,389.9	3,228.2	5,161.7	160
	427,351.1	25,243.3	402,107.8	1,593
Securities sold under repurchase agreements	532.1	-	532.1	-
Derivatives—Indemnity agreements with the Government of Canada	415.8	-	415.8	-
Other liabilities	1,160.3	774.9	385.4	50
Total liabilities	532,443.4	119,112.5	413,330.9	347

The Bank's total liabilities have increased by $413,330.9 million to $532,443.4 million since December 31, 2019. This increase was driven mainly by increases in deposits.

Bank notes in circulation increased by 11 percent to $102,984.1 million as at September 30, 2020, driven by higher demand for bank notes since the start of the pandemic and by seasonal variations in demand.

Deposits now represents the largest liability on the balance sheet. This change in the composition of the liabilities results directly from measures the Bank implemented starting in March 2020 to support the Canadian economy and financial system. Deposits increased to $427,351.1 million as at September 30, 2020, and consist of the following:

- Government of Canada deposits totaling $61,766.4 million held for the government's operational balance ($1,765.6 million as at December 31, 2019) and $20,000.0 million held for the government's prudential liquidity-management plan ($20,000.0 million as at December 31, 2019). The operational balance fluctuates based on the cash requirements and debt management of the Government of Canada. The substantial increase in this balance during the first three quarters of 2020 largely reflects the borrowing undertaken in anticipation of spending planned in response to the COVID-19 pandemic.
- Deposits by members of Payments Canada of $337,194.8 million as at September 30, 2020 ($249.5 million as at December 31, 2019). This growth in deposits results from the Bank's asset purchases and repurchase operations.
- Other deposits, which more than doubled to $8,389.9 million as at September 30, 2020 ($3,228.2 million as at December 31, 2019). This 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.

Securities sold under repurchase agreements stems from the Bank's SRO program, which was introduced in July 2020 to support liquidity in the securities financing market. As part of this program, the Bank makes a portion of its holdings of Government of Canada nominal bonds and treasury bills available to primary dealers on an overnight basis through daily repurchase operations. This resulted in a liability balance of $532.1 million as at September 30, 2020, arising from the Bank's requirement to repurchase the securities that were sold.

Derivatives—Indemnity agreements with the Government of Canada refers to the indemnification agreements that were put in place during the second quarter to allow the Bank to support the provincial, corporate and Government of Canada bond markets. Losses resulting from the sale of assets within the GBPP, CBPP and PBPP programs will be indemnified by the Government of Canada, whereas gains on disposal will be remitted. The $415.8 million balance represents the fair value of the derivative associated with the net unrealized gains on these assets as at September 30, 2020.

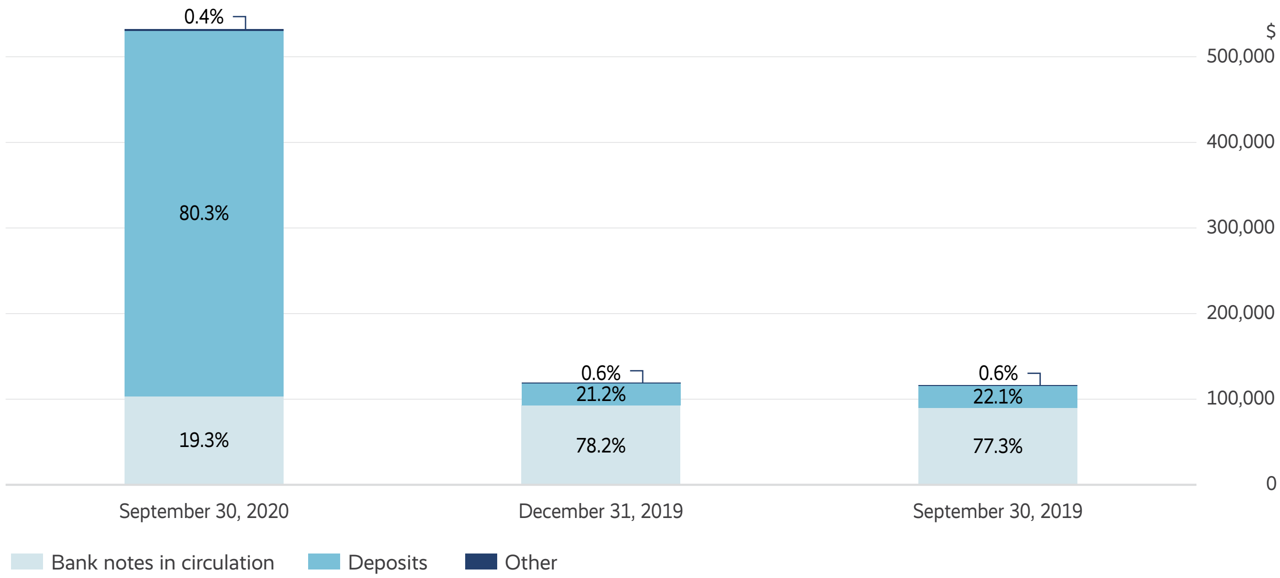
Other liabilities consists mainly of the surplus payable to the Receiver General for Canada and the net defined-benefit liabilities of the Bank's employee benefit plans. These liabilities increased by 50 percent to $1,160.3 million as at September 30, 2020, primarily as a result of the following changes:

- The surplus payable to the Receiver General for Canada increased by $182.6 million compared with December 31, 2019. 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.
- Liabilities related to the Bank's defined-benefit plans include those related to the Bank of Canada Supplementary Pension Arrangement and unfunded post-employment defined-benefit plans. These liabilities increased by $201.2 million (or 70 percent) to $489.0 million as at September 30, 2020 ($287.8 million as at December 31, 2019), primarily reflecting decreases in the discount rates[4] used to measure the defined-benefit obligations.

4 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, 2020, ranged from 2.2 to 2.9 percent (2.9 to 3.2 percent as at December 31, 2019). See Note 11 to the condensed interim financial statements for more information.

Liability profile

(in millions of Canadian dollars)



Equity

Summary of equity

(in millions of Canadian dollars)

			Variance	
As at	September 30, 2020	December 31, 2019	$	%
Share capital	5.0	5.0	-	-
Statutory reserve	25.0	25.0	-	-
Special reserve	100.0	100.0	-	-
Investment revaluation reserve	467.5	400.3	67.2	17
Retained earnings	-	-	-	-
Total equity	597.5	530.3	67.2	13

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 losses (not covered by an indemnity agreement) due to changes in the fair value of the Bank's investment portfolio.

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 BIS. Fair value changes in the Bank's investment in the BIS are reported in *Other comprehensive income*, and the net unrealized fair value gains are accumulated in the investment revaluation reserve within Equity, which totalled $467.5 million as at September 30, 2020 ($400.3 million as at December 31, 2019).

Results of operations

Results of operations

(in millions of Canadian dollars)

For the three-month period ended September 30	2020	2019	2018
Total income	711.2	475.3	420.9
Total expenses	(161.7)	(144.9)	(124.2)
Net income	549.5	330.4	296.7
Other comprehensive income	37.9	2.3	25.2
Comprehensive income	587.4	332.7	321.9

Results of operations

(in millions of Canadian dollars)

For the nine-month period ended September 30	2020	2019	2018
Total income	1,881.7	1,400.9	1,213.4
Total expenses	(460.7)	(415.0)	(391.3)
Net income	1,421.0	985.9	822.1
Other comprehensive income (loss)	(127.9)	(227.4)	137.1
Comprehensive income	1,293.1	758.5	959.2

Income

Total income

(in millions of Canadian dollars)

			Variance	
For the three-month period ended September 30	2020	2019	$	%
Interest revenue				
Investments	705.6	526.4	179.2	34
Securities purchased under resale agreements	255.1	46.6	208.5	447
Other sources	1.4	0.3	1.1	367
	962.1	573.3	388.8	68
Interest expense	(252.5)	(100.3)	(152.2)	152
Net interest revenue	709.6	473.0	236.6	50
Dividend revenue	-	-	-	-
Other revenue	1.6	2.3	(0.7)	(30)
Total income	711.2	475.3	235.9	50

Total income

(in millions of Canadian dollars)

For the nine-month period ended September 30	2020	2019	Variance $	Variance %
Interest revenue				
Investments	1,850.7	1,560.9	289.8	19
Securities purchased under resale agreements	572.9	134.3	438.6	327
Other sources	9.0	0.7	8.3	1,186
	2,432.6	**1,695.9**	**736.7**	**43**
Interest expense	**(555.5)**	**(304.9)**	**(250.6)**	**82**
Net interest revenue	**1,877.1**	**1,391.0**	**486.1**	**35**
Dividend revenue	**-**	**4.2**	**(4.2)**	**(100)**
Other revenue	**4.6**	**5.7**	**(1.1)**	**(19)**
Total income	**1,881.7**	**1,400.9**	**480.8**	**34**

Revenue generated from the assets backing the bank notes in circulation is referred to as seigniorage. Seigniorage provides a stable source of funding for the Bank's operations, ensuring the Bank's operational independence while supporting the execution of its responsibilities.

Total income for the third quarter of 2020 was $711.2 million, an increase of 50 percent compared with the same period in 2019. On a year-to-date basis, total income was $1,881.7 million, an increase of $480.8 million (or 34 percent) compared with the same period in 2019. The Bank's total income is driven by current market conditions, their impact on the interest-bearing assets and liabilities held on the Bank's balance sheet, and the volume and blend of these assets and liabilities. The first three quarters of 2020 have seen a significant increase in both the assets and the liabilities on the Bank's balance sheet. Since the Bank's portfolio of interest-bearing assets is higher than last year, the Bank earned more interest revenue. Although the increase in the deposits is in line with the increase in the assets, the interest rates applicable to the deposits were lower than the yield that the Bank earns on its assets. These interest rates were also lower than they were in the same period in 2019, as the Bank lowered its policy interest rate from 1.75 to 0.25 percent in March 2020.

The Bank's primary source of interest revenue is interest earned on its investments in Government of Canada securities. In the third quarter of 2020, the Bank recorded $705.6 million in revenue from interest—an increase of 34 percent over the same period in 2019. On a year-to-date basis, total revenue from interest was $1,850.7 million, an increase of $289.8 million (or 19 percent) compared with the same period in 2019. The increase was primarily the result of revenue from incremental interest earned on investments acquired since March 2020.

In the third quarter of 2020, interest earned on SPRAs was $255.1 million, representing an increase of $208.5 million (or 447 percent) compared with the same period in 2019. On a year-to-date basis, the Bank recorded $572.9 million in interest earned on SPRAs, representing an increase of $438.6 million (or 327 percent). This was driven by higher holdings as a result of the Bank's interventions to provide liquidity support to financial institutions. The Bank also earns interest revenue on its cash and foreign deposits and on advances to members of Payments Canada.

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 some other financial institutions. In the third quarter of 2020, this amounted to $252.5 million—an increase of 152 percent over the same period in 2019. On a year-to-date basis, interest paid on deposits increased by $250.6 million (or 82 percent). This resulted primarily from an increase in the amount of deposits the Bank pays interest on, which was offset by lower interest rates.

The BIS did not declare a dividend in 2020. The Bank's revenue from its remaining sources was $4.6 million for the first nine months of 2020 ($5.7 million for the first nine months of 2019) and included safekeeping and custodial fees.

Expenses

Total expenses
(in millions of Canadian dollars)

For the three-month period ended September 30	2020	2019	Variance $	Variance %
Staff costs	82.3	68.4	13.9	20
Bank note research, production and processing	19.7	18.0	1.7	9
Premises costs	6.3	8.0	(1.7)	(21)
Technology and telecommunications	22.1	18.8	3.3	18
Depreciation and amortization	15.2	13.0	2.2	17
Other operating expenses	16.1	18.7	(2.6)	(14)
Total expenses	**161.7**	**144.9**	**16.8**	**12**

Total expenses
(in millions of Canadian dollars)

For the nine-month period ended September 30	2020	2019	Variance $	Variance %
Staff costs	243.1	210.8	32.3	15
Bank note research, production and processing	34.5	35.1	(0.6)	(2)
Premises costs	19.6	21.7	(2.1)	(10)
Technology and telecommunications	67.5	52.7	14.8	28
Depreciation and amortization	45.8	39.4	6.4	16
Other operating expenses	50.2	55.3	(5.1)	(9)
Total expenses	**460.7**	**415.0**	**45.7**	**11**

Total expenses for the third quarter and for the first nine months of the year are $16.8 million and $45.7 million (or 12 percent and 11 percent) higher, respectively, over the comparable three- and nine-month periods in 2019. This primarily reflects increases in staff costs and in expenditures on resilience initiatives in the medium-term plan (MTP), including enhancements to cyber security and business recovery.

Staff costs increased by 20 percent and 15 percent for the three- and nine-month periods respectively, compared with the same periods in 2019 as a result of the following changes:

- Benefit costs associated with the Bank's defined-benefit plans increased by $19.0 million (or 26 percent), from $72.6 million to $91.6 million. This increase results mainly from the discount rates used to calculate the benefit costs.[5]
- Salary costs increased by $13.3 million (or 10 percent), from $138.2 million to $151.5 million, resulting from the filling of strategic initiatives positions and annual compensation adjustments.

Bank note research, production and processing costs were $1.7 million (or 9 percent) higher in the quarter and $0.6 million (or 2 percent) lower year-to-date compared with the same periods in the previous year. This is due primarily to research and development costs being postponed as a result of the COVID-19 pandemic, offset by higher costs for bank note transportation because of greater demand for bank notes during the pandemic.

Premises costs were $1.7 million (or 21 percent) lower in the third quarter of 2020 and $2.1 million (or 10 percent) lower in the first three quarters of 2020 compared with the same periods in 2019. This is due primarily to lower building repair costs and lower equipment and furniture costs as a result of reduced physical access to the Bank's premises during the pandemic.

5 Benefit costs for a given period are based on the discount rate as at December 31 of the preceding year (e.g., the rate at December 31, 2019, was used to calculate the benefit expenses for 2020). 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 decreased by an average of 80 basis points between 2020 (2.9 to 3.2 percent) and 2019 (3.5 to 4.0 percent). This decrease will result in increased benefit costs for 2020, all else being equal.

Technology and telecommunications expenses were $3.3 million (or 18 percent) higher in the third quarter of 2020 and $14.8 million (or 28 percent) higher for the first nine months of 2020 compared with the same periods in 2019. This increase was driven by the Bank's continued focus on strengthening its business continuity posture by investing in cyber security and business resilience initiatives.

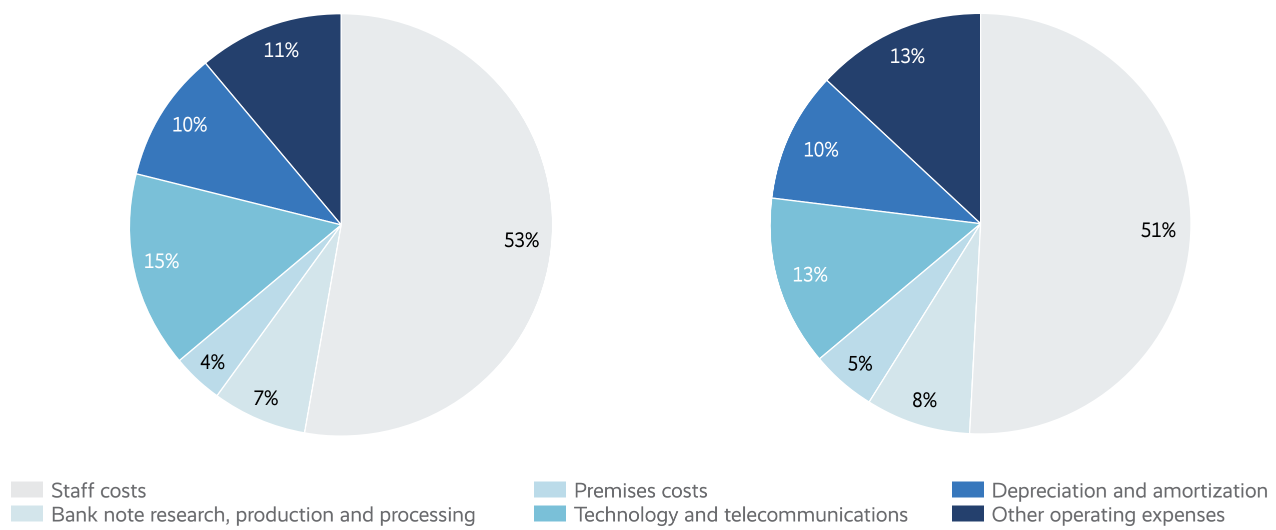
Depreciation and amortization expenses were $2.2 million (or 17 percent) higher in the third quarter of 2020 and $6.4 million (or 16 percent) higher for the first three quarters of 2020 compared with the same periods in 2019. The increase was largely the result of new assets being amortized in 2020.

Other operating expenses is composed mostly of purchased services in support of the Bank's operations. The $5.1 million (or 9 percent) decrease from 2019 was driven by lower costs for retail debt, consultants and Bank-hosted events. The decrease was partially offset by higher legal, advisory, investment management and custodial fees to support new policy instruments and market operations as part of the Bank's response to support the economy and financial system through the COVID-19 pandemic.

Composition of expenses

For the nine-month period ended September 30, 2020

For the nine-month period ended September 30, 2019



Other comprehensive income

Other comprehensive income

(in millions of Canadian dollars)

For the three-month period ended September 30	2020	2019	Variance $
Remeasurements of the net defined-benefit liability/asset	22.6	(5.4)	28.0
Change in fair value of BIS shares	15.3	7.7	7.6
Other comprehensive income	**37.9**	**2.3**	**35.6**

Other comprehensive income

(in millions of Canadian dollars)

For the nine-month period ended September 30	2020	2019	Variance $
Remeasurements of the net defined-benefit liability/asset	(195.1)	(238.6)	43.5
Change in fair value of BIS shares	67.2	11.2	56.0
Other comprehensive income (loss)	**(127.9)**	**(227.4)**	**99.5**

Other comprehensive income for the third quarter of 2020 was $37.9 million. It consists of remeasurement gains of $22.6 million on the Bank's net defined-benefit plan liabilities and a $15.3 million increase in the fair value of the Bank's investment in the BIS.

Remeasurements pertaining to the Bank's defined-benefit plans are affected primarily by changes in the discount rate used to determine the related defined-benefit obligations and by the return on plan assets, where funded. The remeasurement losses recorded for the nine-month period ended September 30, 2020, were mostly the result of a decrease of 40 basis points in the discount rates used to value the Bank's defined-benefit plan obligations.[6]

Surplus for the Receiver General for Canada

The Bank's operations are not constrained by its cash flows or by its holdings of liquid assets. The net income of the Bank, less any allocation to reserves, is considered ascertained surplus (surplus). It was $572.1 million in the third quarter of 2020 ($325.0 million in the third quarter of 2019) and $1,225.9 million for the first three quarters of the year ($747.3 million for the same period in 2019). 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 remeasurements and fair value changes of the BIS investment, 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 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 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 12 to the condensed interim financial statements.

Looking ahead

The Bank's 2020 Plan

(in millions of Canadian dollars)

	2020 budget		2020 forecast	
For the year ended December 31	$	%	$	%
Core expenditures	379	55	380	59
Bank note production	47	7	46	7
New mandates	15	2	6	1
Sustaining resilience operations	57	8	57	9
Deferred employee benefits (net of allocations)	32	5	39	6
Strategic investment programs	153	22	117	18
Other provisions	3	1	-	-
Total expenditures*	686	100	645	100

* *Total expenditures* includes capital expenditures and lease liabilities repayments and excludes depreciation.

6 The net defined-benefit liabilities are measured using the discount rate in effect as at the period-end. The rate applicable to the net defined-benefit liabilities as at September 30, 2020, ranged from 2.2 to 2.9 percent (2.9 to 3.2 percent as at December 31, 2019). See Note 11 to the condensed interim financial statements for more information.

The year 2020 represents the second year of the Bank's 2019–21 MTP, *Leading in the New Era*. The Bank's financial management framework is designed to enable decision making related to the allocation of resources to achieve the Bank's objectives and mitigate risks in a prudent fiscal manner. The framework balances the need to be fiscally responsible in the public sector environment and the need to invest in our people and tools.[7]

A wide range of exceptional measures have been taken to achieve monetary policy, to support key financial markets and to provide liquidity for individual financial institutions. The increasing volume of new market operations coupled with mandatory physical distancing measures and remote work have resulted in higher forecasted *Core expenditures*. *Strategic investment programs* and *New mandates*, in contrast, are expected to progress more slowly than planned because resources are focused on core activities, key partners are unavailable, physical access to the work locations has been reduced due to COVID-19, and timelines have been shifted to manage interdependencies.

The financial planning assumption in *Core expenditures* is anchored on a commitment of 2 percent growth between the 2019 and 2020 budgets, or zero real growth, consistent with inflation averaging 2 percent, the Bank's inflation-control target. Core expenditures reflect the cost of ongoing operations for the Bank's core functions. The Bank's other financial investment requirements are identified separately and excluded from the MTP's commitment to the growth of core expenditures.

Bank note production includes the costs of developing and producing bank notes. Volumes depend on anticipated demand.

New mandates captures the development costs related to new and potential legislative amendments from the Parliament of Canada.

Sustaining resilience operations captures the incremental operating costs resulting from the implementation of resilience investments and an annual evergreening provision for information technology to sustain the Bank's resilience posture. Once the costs have stabilized after the 2019–21 MTP, they will form part of the Bank's *Core expenditures*.

Strategic investment programs includes work from resilience programs that span multiple MTPs, which will continue to improve the Bank's resilience posture by reducing its exposure to cyber risks and other potential major disruptions to its networks, facilities or employees and by supporting its timely recovery. The Bank also sees a continuation of the multi-year initiative led by Payments Canada to replace the current Large Value Transfer System and the Automated Clearing Settlement System. In addition, the Agency Operations Centres Modernization Program will improve cash-handling systems and reduce the risk of equipment failure due to aging infrastructure.

In 2020, the Bank expects to incur $57 million in capital expenditures (included in strategic investment program expenditures), which predominantly reflect the Bank's continued investment in cyber security and resilience initiatives. This amount is slightly lower than planned, which is partially due to shifts in timing as a result of the pandemic.

Operational highlights and changes

The following describes any significant changes in personnel, operations and programs that have occurred since June 30, 2020.

Governing Council and Board of Directors

On September 17, 2020, the Board of Directors announced that Senior Deputy Governor Carolyn A. Wilkins informed them that she will not seek a second term. Her current term runs to May 1, 2021. The Board will initiate a search process to select her successor.

7 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.

Operations and programs

On July 20, 2020, the Bank announced that it will suspend its Securities Lending Program, effective July 27, 2020.

On October 15, 2020, as overall financial market conditions continue to improve in Canada, the Bank announced that it would discontinue the Bankers' Acceptance Purchase Facility with the last operation scheduled for October 26, 2020. Similarly, the Bank discontinued the Canada Mortgage Bond Purchase Program with the last operations scheduled for the week of October 26, 2020.

Risk analysis

The "Risk Management" section of the MD&A for the year ended December 31, 2019, outlines the Bank's risk management framework and risk profile. It also reviews the key areas of risk—strategic, operational, financial, and environment and climate-related. The financial risks are discussed further in the notes to the December 31, 2019, financial statements, which are included in the Bank's Annual Report for 2019. Note 4 of the condensed interim financial statements for September 30, 2020, also provides an update on the financial risks. Although the pandemic has triggered more financial and volatility risks involving some of the assets that the Bank holds, the risks identified in the MD&A remain the key risks for the Bank.

CONDENSED INTERIM FINANCIAL STATEMENTS

September 30, 2020

Glossary of abbreviations

BIS	Bank for International Settlements	**IFRS**	International Financial Reporting Standards
CBPP	Corporate Bond Purchase Program	**LVTS**	Large Value Transfer System
CPA Canada	Chartered Professional Accountants of Canada	**OCI**	other comprehensive income
ECL	expected credit loss	**PBPP**	Provincial Bond Purchase Program
FVOCI	fair value through other comprehensive income	**Pension Plan**	Bank of Canada Pension Plan
FVTPL	fair value through profit and loss	**SPRAs**	securities purchased under resale agreements
GBPP	Government of Canada Bond Purchase Program	**SROs**	Securities Repo Operations
IAS	International Accounting Standard	**SSRAs**	securities sold under repurchase agreements

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.

Tiff Macklem,
Governor

Coralia Bulhoes, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
November 4, 2020

Condensed interim statement of financial position (unaudited)

(in millions of Canadian dollars)

As at	Note	September 30, 2020	December 31, 2019
Assets			
Cash and foreign deposits	3	6.8	6.4
Loans and receivables	3, 4		
Securities purchased under resale agreements		169,950.8	15,516.5
Advances to members of Payments Canada		150.3	-
Other receivables		4.9	5.4
		170,106.0	15,521.9
Investments	3, 4		
Government of Canada treasury bills		93,268.6	23,367.4
Government of Canada bonds—carried at amortized cost		94,196.1	79,030.5
Government of Canada bonds—carried at fair value through profit and loss		147,493.3	-
Canada Mortgage Bonds		9,133.3	510.7
Other bonds		9,537.7	-
Securities lent or sold under repurchase agreements		1,032.7	-
Other securities		7,036.1	-
Shares in the Bank for International Settlements (BIS)		505.5	438.3
		362,203.3	103,346.9
Capital assets			
Property and equipment	5	573.6	590.6
Intangible assets	6	71.8	59.4
Right-of-use leased assets	7	46.5	50.9
		691.9	700.9
Other assets	8	32.9	66.7
Total assets		533,040.9	119,642.8
Liabilities and equity			
Bank notes in circulation	3	102,984.1	93,094.3
Deposits	3, 4, 9		
Government of Canada		81,766.4	21,765.6
Members of Payments Canada		337,194.8	249.5
Other deposits		8,389.9	3,228.2
		427,351.1	25,243.3
Securities sold under repurchase agreements	3, 4	532.1	-
Derivatives—Indemnity agreements with the Government of Canada	3, 4	415.8	-
Other liabilities	3, 10	1,160.3	774.9
Total liabilities		532,443.4	119,112.5
Equity	12	597.5	530.3
Subsequent events	14		
Total liabilities and equity		533,040.9	119,642.8

Tiff Macklem,
Governor

Coralia Bulhoes, 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	2020	2019	2020	2019
Income					
Interest revenue					
Investments—carried at amortized cost		542.7	526.4	1,648.7	1,560.9
Investments—carried at fair value through profit and loss		162.9	-	202.0	-
Securities purchased under resale agreements		255.1	46.6	572.9	134.3
Other sources		1.4	0.3	9.0	0.7
		962.1	**573.3**	**2,432.6**	**1,695.9**
Interest expense					
Deposits		(252.5)	(100.3)	(555.5)	(304.8)
Other		-	-	-	(0.1)
Net interest revenue		**709.6**	**473.0**	**1,877.1**	**1,391.0**
Dividend revenue		-	-	-	4.2
Other revenue		1.6	2.3	4.6	5.7
Total income		**711.2**	**475.3**	**1,881.7**	**1,400.9**
Expenses					
Staff costs		82.3	68.4	243.1	210.8
Bank note research, production and processing		19.7	18.0	34.5	35.1
Premises costs		6.3	8.0	19.6	21.7
Technology and telecommunications		22.1	18.8	67.5	52.7
Depreciation and amortization		15.2	13.0	45.8	39.4
Other operating expenses		16.1	18.7	50.2	55.3
Total expenses		**161.7**	**144.9**	**460.7**	**415.0**
Net income		**549.5**	**330.4**	**1,421.0**	**985.9**
Other comprehensive income (loss)					
Remeasurements of the net defined-benefit liability/asset	11	22.6	(5.4)	(195.1)	(238.6)
Change in fair value of BIS shares	3	15.3	7.7	67.2	11.2
Other comprehensive income (loss)		**37.9**	**2.3**	**(127.9)**	**(227.4)**
Comprehensive income		**587.4**	**332.7**	**1,293.1**	**758.5**

(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, 2020		5.0	25.0	100.0	452.2	-	582.2
Comprehensive income for the period							
Net income		-	-	-	-	549.5	**549.5**
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	22.6	**22.6**
Change in fair value of BIS shares	3	-	-	-	15.3	-	**15.3**
		-	-	-	15.3	572.1	587.4
Surplus for the Receiver General for Canada		-	-	-	-	(572.1)	**(572.1)**
Balance as at September 30, 2020		5.0	25.0	100.0	467.5	-	597.5

	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	11	-	-	-	-	(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

(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, 2020		5.0	25.0	100.0	400.3	-	530.3
Comprehensive income for the period							
Net income		-	-	-	-	1,421.0	**1,421.0**
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	(195.1)	**(195.1)**
Change in fair value of BIS shares	3	-	-	-	67.2	-	**67.2**
		-	-	-	**67.2**	**1,225.9**	**1,293.1**
Surplus for the Receiver General for Canada		-	-	-	-	(1,225.9)	**(1,225.9)**
Balance as at September 30, 2020		5.0	25.0	100.0	467.5	-	597.5

	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	11	-	-	-	-	(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

(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	
	2020	2019	2020	2019
Cash flows from operating activities				
Interest received	951.7	409.0	2,501.5	1,517.3
Dividends received	-	4.2	-	4.2
Other revenue received	1.0	1.8	5.9	6.6
Interest paid	(252.9)	(102.4)	(553.9)	(304.9)
Payments to or on behalf of employees and to suppliers	(125.3)	(125.7)	(371.2)	(369.4)
Net increase in deposits	871.7	580.7	402,107.8	889.7
Acquisition of securities purchased under resale agreements	(14,795.2)	(2,899.9)	(263,242.9)	(5,899.9)
Proceeds from maturity of securities purchased under resale agreements	50,212.9	2,899.9	93,707.3	5,899.9
Net proceeds from securities sold under repurchase agreements	532.1	-	532.1	-
Advances repaid from (made to) members of Payments Canada	455.3	-	(150.0)	-
Purchases of Canada Mortgage Bonds	(1,694.0)	-	(8,162.9)	-
Purchases of Government of Canada bonds—carried at FVTPL	(71,471.2)	-	(152,809.1)	-
Proceeds from maturity of Government of Canada bonds—carried at FVTPL	4,988.8		4,988.8	
Purchases of other bonds	(4,786.1)	-	(10,049.4)	-
Purchases of other securities	(3,717.2)	-	(62,553.0)	-
Proceeds from maturity of other securities	7,640.0	-	55,524.8	-
Net cash provided by (used in) operating activities	**(31,188.4)**	**767.6**	**61,475.8**	1,743.5
Cash flows from investing activities				
Acquisition of securities purchased under resale agreements—term repo	-	(28,160.0)	(33,228.6)	(76,635.9)
Proceeds from maturity of securities purchased under resale agreements—term repo	-	26,765.1	48,725.8	75,698.9
Net maturities (purchases) of Government of Canada treasury bills	35,905.6	60.2	(70,246.0)	(1,702.1)
Purchases of Government of Canada bonds	(13,601.8)	(3,850.0)	(29,212.0)	(10,719.3)
Proceeds from maturity of Government of Canada bonds	5,980.0	5,199.0	14,180.0	13,037.0
Purchases of Canada Mortgage Bonds	-	-	(499.7)	(262.8)
Additions of property and equipment	(7.0)	(4.4)	(18.0)	(22.5)
Additions of intangible assets	(7.1)	(7.2)	(19.8)	(17.3)
Net cash provided by (used in) investing activities	**28,269.7**	**2.7**	**(70,318.3)**	**(624.0)**
Cash flows from financing activities				
Net increase (decrease) in bank notes in circulation	2,918.4	(581.9)	9,889.8	(401.5)
Remittance of surplus to the Receiver General for Canada	-	(200.0)	(1,043.3)	(725.9)
Payments of lease liabilities	(0.8)	(0.4)	(3.8)	(3.1)
Net cash provided by (used in) financing activities	**2,917.6**	**(782.3)**	**8,842.7**	**(1,130.5)**
Effect of exchange rate changes on foreign currency	0.1	0.1	0.2	(0.6)
Increase (decrease) in cash and foreign deposits	**(1.0)**	**(11.9)**	**0.4**	**(11.6)**
Cash and foreign deposits, beginning of period	7.8	17.3	6.4	17.0
Cash and foreign deposits, end of period	**6.8**	**5.4**	**6.8**	**5.4**

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

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

For the nine-month period ended September 30, 2020

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 Minister of Finance on behalf of 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 and, as such, adheres to the standards applicable to publicly accountable enterprises. In compliance with this requirement, the Bank 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 a significant liability on the Bank's balance sheet. The Bank invests part of the proceeds from issuing bank notes into Government of Canada securities and Canada Mortgage Bonds acquired on a non-competitive basis on the primary market. The Bank also uses part of these proceeds to execute its responsibilities for its monetary policy and financial system functions. Starting in the first quarter of 2020, as part of the Bank's response to help support the financial system in the face of the 2020 COVID-19 pandemic, the Bank introduced many asset purchase programs and measures to provide liquidity to individual financial institutions. Several of these programs were scaled down during the second and third quarter of 2020 as market conditions normalized. At the same time, large-scale purchases under the GBPP continued as a tool of monetary policy characterized as quantitative easing: they are intended to support economic activity by lowering borrowing costs facing Canadian businesses and households.

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 typically 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 total revenue earned by the Bank is used to fund 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

Compliance with International Financial Reporting Standards

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. 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, 2019. 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 4, 2020.

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 role as fiscal agent, 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*. As fiscal agent for the Government of Canada, the Bank does not bear the risks and rewards of the related financial assets and liabilities. These assets, liabilities and related revenues and expenses 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 because 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;
- financial instruments classified and measured at fair value through profit and loss (FVTPL);
- the Bank's shares in the Bank for International Settlements (BIS), 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. Such demand is typically at its lowest level in the first quarter and peaks in the second and fourth quarters around holiday periods. In addition to the regular term repo program, the Bank may issue securities purchased under 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, 2019. The significant accounting policies adopted in the nine-month period ending on September 30, 2020, are disclosed below.

Derivatives—Indemnity agreements with the Government of Canada

These agreements with the Government of Canada were entered into to address market fluctuation as a result of the Bank's operations under the GBPP, CBPP and PBPP. Realized losses resulting from the sale of assets within these programs will be indemnified by the Government of Canada, whereas realized gains on disposal will be remitted. Given that the value of the agreements responds to changes in the underlying prices of the instruments in the programs, the indemnity agreements are considered derivatives. Derivatives, and thus these agreements, are initially recognized and are carried at their fair value on the statement of financial position with changes in fair value recognized in income (loss). The fair value of these derivatives is calculated with reference to the fair value of the related instruments and their amortized cost.

Financial Guarantee Contracts—Indemnity agreements with the Government of Canada

The Bank entered into separate agreements with the Government of Canada that indemnify the Bank in the event that credit losses are incurred on securities purchased under the Provincial Money Market Purchase Program or under the Commercial Paper Purchase Program. These agreements are recognized as stand alone financial guarantee contracts and are accounted for under IAS 37. An asset will be recognized only when there is an issuer default and the Bank has filed a reimbursement claim with the government.

Financial assets designated at fair value through profit and loss

Debt instruments in a held-to-collect or held-to-collect-and-sell business model can be designated at initial recognition as measured at FVTPL, provided the designation can eliminate or significantly reduce an accounting inconsistency that would otherwise arise from measuring these financial assets on a different basis. Once financial assets are designated at FVTPL, the designation is irrevocable.

The Bank has designated instruments under the GBPP, the CBPP and the PBPP as FVTPL. The designation is to reduce the accounting mismatch arising from the indemnity agreement on these instruments. Changes in fair value as well as any gains or losses realized on disposal are recognized as income (loss). Amounts relating to fair value changes and realized gains and losses can be found in Note 3. The Bank has also elected to recognize interest income and expense resulting from these instruments separate from net gains and losses. Interest is calculated using the effective interest method.

Securities lent or sold under repurchase agreements

The Bank operates a securities-lending program for provincial bonds purchased under the PBPP. The Bank enters into arrangements whereby it lends securities against collateral, with the agreement to receive the securities back at a future date, thereby retaining substantially all the risks and rewards of ownership. As a result, the securities do not qualify for derecognition and remain on the statement of financial position. These transactions are fully collateralized by securities.

In July 2020, the Bank launched its Securities Repo Operations program (SRO) and began entering into sale and repurchase agreements for Government of Canada securities, whereby the securities are sold and repurchased the following day. Under such transactions, the Bank retains substantially all the risks and rewards associated with the assets. Where financial assets are not eligible for derecognition, the transfers are viewed as secured financing transactions, with any consideration received resulting in a corresponding liability measured at amortised cost. The Bank is not entitled to use these financial assets for any other purpose.

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.

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.

Judgments, estimates and underlying assumptions are reviewed for appropriateness and consistent application on an ongoing basis. Revisions to accounting estimates are recognized in the reporting period in which the estimates are revised and in any future periods affected. Significant judgment and estimates are used in the measurement of financial instruments (Note 3) and employee benefits (Note 11).

3. Financial instruments

The Bank's financial instruments are classified and subsequently measured as follows:

Financial instrument	Classification and subsequent measurement	Carrying value	Fair value
Financial assets			
Cash and foreign deposits	Amortized cost	**6.8**	*
Loans and receivables			
Securities purchased under resale agreements	Amortized cost	169,950.8	*
Advances to members of Payments Canada	Amortized cost	150.3	*
Other receivables	Amortized cost	4.9	*
		170,106.0	*
Investments			
Government of Canada treasury bills	Amortized cost	93,268.6	93,319.8
Government of Canada bonds—primary market	Amortized cost	94,196.1	102,272.0
Government of Canada bonds—secondary market			
Government of Canada bonds	FVTPL	144,814.4	144,814.4
Real-return bonds	FVTPL	2,678.9	2,678.9
		147,493.3	147,493.3
Canada Mortgage Bonds	Amortized cost	9,133.3	9,271.4
Other bonds			
Provincial bonds	FVTPL	9,380.4	9,380.4
Corporate bonds	FVTPL	157.3	157.3
		9,537.7	9,537.7
Securities lent or sold under repurchase agreements	FVTPL and amortized cost	1,032.7	1,033.2
Other securities			
Provincial money market securities	Amortized cost	7,036.1	7,089.0
Shares in the Bank for International Settlements	FVOCI	505.5	505.5
		362,203.3	**370,521.9**
Financial liabilities			
Bank notes in circulation	Face value	**102,984.1**	*
Deposits	Amortized cost	**427,351.1**	*
Securities sold under repurchase agreements	Amortized cost	**532.1**	*
Derivatives—Indemnity agreements with the Government of Canada	FVTPL	**415.8**	**415.8**
Certain other liabilities	Amortized cost	**624.1**	*

* Approximates carrying value due to their nature or term to maturity

Financial instruments introduced during the year

In response to the economic impacts of the pandemic, the Bank has undertaken actions to support the Canadian economy and financial system. These include establishing several asset purchase programs to increase liquidity in core funding markets and measures to provide liquidity to financial institutions.

Asset / Program / Effective date	Description	Objective
Securities purchased under resale agreements / March 12, 2020	Expansion of duration to include terms of approximately 1, 3, 6, 12 or 24 months (previously from 1 to 90 business days)	To proactively support interbank funding
Bankers' acceptances / Bankers' Acceptance Purchase Facility / March 13, 2020	Secondary market purchases of one-month bankers' acceptances issued and guaranteed by Canadian banks	To support the market for bankers' acceptances, a key source of financing for small and medium-sized corporate borrowers
Advances to members of Payments Canada / Standing Term Liquidity Facility / March 19, 2020	Provides advances to eligible financial institutions in need of temporary liquidity support	Complement the Bank's current tools for the provision of liquidity and will strengthen the Bank's role as lender of last resort
Provincial money market securities / Provincial Money Market Purchase Program / March 24, 2020	Asset purchase facility that acquires provincially issued money market securities (treasury bills and short-term promissory notes) through the primary issuance market	To support the liquidity and efficiency of provincial government funding markets
Government of Canada bonds—secondary market (including real-return bonds) / Government of Canada Bond Purchase Program / April 1, 2020	Purchases of Government of Canada nominal and real-return bonds in the secondary market to support market functioning and provide monetary stimulus	Initially, the objective was to address strains in the Government of Canada bond market (including the real-return bond market) and to enhance the effectiveness of all other actions taken to support core funding markets. As market conditions normalized, these operations continued as a tool of monetary policy stimulus.
Commercial paper / Commercial Paper Purchase Program / April 2, 2020	Primary and secondary market purchases of commercial paper, including asset-backed commercial paper, issued by Canadian firms, municipalities and provincial agencies	To help support the flow of credit to the economy by alleviating strains in Canada's commercial paper markets
Securities purchased under resale agreements / Contingent Term Repo Facility / April 6, 2020	Funding for a one-month term to eligible counterparties against securities issued or guaranteed by the Government of Canada or a provincial government	To counter any severe market-wide liquidity stresses and to support the stability of the Canadian financial system

Asset / Program / Effective date	Description	Objective
Provincial bonds / Provincial Bond Purchase Program / May 7, 2020	Secondary market purchases of bonds denominated in Canadian dollars issued by all provinces and fully guaranteed provincial agencies	To support the liquidity and efficiency of provincial government funding markets
Corporate bonds / Corporate Bond Purchase Program / May 26, 2020	Purchases of bonds through a tender process in the secondary market	To support the liquidity and proper functioning of the corporate debt market
Securities Repo Operations / July 20, 2020	Provides a temporary source of Government of Canada nominal bonds and treasury bills to primary dealers by making a portion of the Bank's holdings of these securities available on an overnight basis through daily repurchase operations	To support liquidity in the securities financing market and to foster a well-functioning Government of Canada securities market

Fair value of financial instruments

Financial instruments 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.

Transfers may occur 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. The Bank's policy is to record transfers of assets and liabilities between the different levels of the fair value hierarchy using the fair values as at the end of each reporting period. Transfers from Level 1 to Level 2 occurred in the third quarter of 2020 for treasury bills at amortized cost totalling $1,278.2 million due to reduced market activity ($1,366.8 million for the nine-month period ended September 30, 2020). Transfers from Level 2 to Level 1 occurred in the third quarter of 2020 for other bonds designated at FVTPL totalling $3,832.4 million due to market activity ($3,832.4 million for the nine-month period ended September 30, 2020).

Below are 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 methods during the period.

Shares in the Bank for International Settlements (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). 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.

Derivatives—Indemnity agreements with the Government of Canada

Calculated using market prices derived from observable inputs (Level 2). The fair value of the indemnity agreements is calculated as the difference between the underlying prices of the instruments in the programs and their underlying amortized cost. The Bank expects the value of the indemnity agreements to fluctuate over time, moving opposite to the fair value movements of the underlying instruments.

Cash and foreign deposits, SPRAs, advances to members of Payments Canada, other receivables, deposits, securities sold under repurchase agreements and certain other liabilities

Carrying amount (approximation to fair value due to their nature or term to maturity)

Government of Canada treasury bills, Government of Canada bonds, Canada Mortgage Bonds, provincial money market securities, bankers' acceptances, commercial paper, real-return bonds, provincial bonds, securities lent or sold under repurchase agreements and corporate bonds

Prices observed in active markets (Level 1), or market prices derived from observable inputs (Level 2)

Supporting information

Fair value hierarchy

The following table shows the fair value and carrying value of the Bank's financial assets classified in accordance with the fair value hierarchy described above.

	Level 1	Level 2	Level 3	Fair value	Carrying value
As at September 30, 2020					
Government of Canada treasury bills	91,003.0	2,316.8	-	**93,319.8**	**93,268.6**
Government of Canada bonds—primary market	102,101.3	170.7	-	**102,272.0**	**94,196.1**
Government of Canada bonds—secondary market	143,709.7	1,104.7	-	**144,814.4**	**144,814.4**
Real-return bonds	2,678.9	-	-	**2,678.9**	**2,678.9**
Canada Mortgage Bonds	9,271.4	-	-	**9,271.4**	**9,133.3**
Provincial bonds	7,363.6	2,016.8	-	**9,380.4**	**9,380.4**
Corporate bonds	22.4	134.9	-	**157.3**	**157.3**
Securities lent or sold under repurchase agreements	939.6	93.6	-	**1,033.2**	**1,032.7**
Provincial money market securities	-	7,089.0	-	**7,089.0**	**7,036.1**
Shares in the Bank for International Settlements	-	-	505.5	**505.5**	**505.5**
Total	357,089.9	12,926.5	505.5	370,521.9	362,203.3

The table below presents the comparative fair value and carrying value as at December 31, 2019.

	Level 1	Level 2	Level 3	Fair value	Carrying value
As at December 31, 2019					
Government of Canada treasury bills	23,364.6	-	-	**23,364.6**	**23,367.4**
Government of Canada bonds—primary market	82,450.0	170.2	-	**82,620.2**	**79,030.5**
Government of Canada bonds—secondary market	-	-	-	-	-
Real-return bonds	-	-	-	-	-
Canada Mortgage Bonds	516.3	-	-	**516.3**	**510.7**
Provincial bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Securities lent or sold under repurchase agreements	-	-	-	-	-
Provincial money market securities	-	-	-	-	-
Shares in the Bank for International Settlements	-	-	438.3	**438.3**	**438.3**
Total	**106,330.9**	**170.2**	**438.3**	**106,939.4**	**103,346.9**

BIS shares

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2020	2019	2020	2019
Opening balance at beginning of period	490.2	436.8	438.3	433.3
Change in fair value recorded through other comprehensive income (OCI)	13.7	(3.5)	48.0	(21.2)
Change due to Special Drawing Rights exchange differences recorded through OCI	1.6	11.2	19.2	32.4
Closing balance at end of period	505.5	444.5	505.5	444.5

Derivatives—Indemnity agreements with the Government of Canada

	September 30, 2020			December 31, 2019		
	Related asset		Derivatives—Indemnity agreements with the Government of Canada	Related asset		Derivatives—Indemnity agreements with the Government of Canada
	Amortized cost	Fair value	Fair value	Amortized cost	Fair value	Fair value
Government of Canada Bond Purchase Program	147,312.3	147,680.8	(368.5)	-	-	-
Provincial Bond Purchase Program	9,836.1	9,881.6	(45.5)	-	-	-
Corporate Bond Purchase Program	155.5	157.3	(1.8)	-	-	-
Balance at end of period	**157,303.9**	**157,719.7**	(415.8)	-	-	-

Change in net unrealized gains (losses) on assets carried at fair value through profit and loss

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2020	2019	2020	2019
Government of Canada Bond Purchase Program	(55.8)	-	368.5	-
Provincial Bond Purchase Program	19.7	-	45.5	-
Corporate Bond Purchase Program	1.2	-	1.8	-
Indemnity agreements	34.9	-	(415.8)	-
Total	-	-	-	-

Securities lent or sold under repurchase agreements

As at September 30, 2020, the Bank's investments included loaned provincial bonds with a fair market value of $501.2 million ($nil at December 31, 2019). The fair value of collateral held totalled $527.5 million, representing 105.3 percent of fair value of the securities loaned.

Securities sold under repurchase agreements	September 30, 2020		December 31, 2019	
	Fair value	Carrying value	Fair value	Carrying value
Government of Canada treasury bills	344.5	344.0	-	-
Government of Canada bonds—secondary market	187.5	187.5	-	-
Total	532.0	531.5	-	-
Amount of associated liabilities		(532.1)	-	-

Expected credit losses

The Bank's definitions and approach to calculating expected credit losses (ECLs) are consistent with those disclosed in the Bank's financial statements for the year ended December 31, 2019. The ECL model, under IFRS 9, applies to all financial assets not measured at fair value through profit or loss or fair value through other comprehensive income.

Debt instruments at amortized cost

The Bank's debt instruments at amortized cost consist of Canadian sovereign debt, provincial debt, debt securities that are fully guaranteed by the Government of Canada, fully collateralized instruments with an equivalent credit rating of A- or higher, corporate debt and bankers' acceptances guaranteed by the issuing financial institution. The Bank applies the low-risk practical expedient, available under IFRS 9, when assessing ECLs on these instruments, given their high quality of credit. The Bank corroborates external credit ratings on an internal analysis performed annually, with quarterly updates. The Bank also performs continuous monitoring of relevant economic and financial developments.

All of 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. The Bank did not record any ECLs on these instruments as at September 30, 2020 ($nil at December 31, 2019) because the amount was deemed not to be significant. There are no past due or impaired amounts as at September 30, 2020 ($nil at December 31, 2019).

Financial guarantees

The financial guarantees issued by the Bank consist solely of the Large Value Transfer System (LVTS) guarantee. It is not expected that the LVTS guarantee will be used within the next 12 months; therefore, no ECL was estimated or recorded as at September 30, 2020 ($nil at December 31, 2019).

4. Financial risk management

The Bank maintains a comprehensive risk management and control framework to manage its risks. The Executive Council oversees enterprise risk management and the implementation of sound management processes to safeguard the Bank. The Board of Directors has an oversight role in the Bank's performance of risk management.

The Bank is exposed to financial risks associated with its financial instruments, including credit, market and liquidity risk. The Financial Risk Office monitors and reports on the financial risks related to the Bank's statement of financial position. The following is a description of those risks and how the Bank manages its exposure to them.

Credit risk

Credit risk is the possibility of loss due to the failure of a counterparty or guarantor to meet payment obligations in accordance with agreed-upon terms.

The Bank is exposed to credit risk through its cash and foreign deposits, investments and advances to members of Payments Canada, and through market transactions conducted in the form of SPRAs and loans of securities. The maximum exposure to credit risk is estimated to be the carrying value of those items. The Bank is also exposed to credit risk through its guarantee of the LVTS and through the execution of foreign currency contracts. The maximum exposure under guarantees and foreign currency contracts is consistent with what was disclosed in the Bank's Annual Report for 2019.

Concentration of credit risk

The Bank's investment portfolio represents 68 percent of the carrying value of its total assets (86 percent as at December 31, 2019). The credit risk associated with the Bank's investment portfolio is low because the securities held are primarily direct obligations of the Government of Canada or are fully guaranteed by the Government of Canada, which holds a credit rating of AAA with most credit agencies and has no history of default.

Provincial bonds and corporate bonds are indemnified against realized credit losses by the Government of Canada. Therefore, the Bank bears no credit risk related to these securities.

SPRAs represent 32 percent of the carrying value of the Bank's total assets (13 percent as at December 31, 2019). In the unlikely event of a counterparty default, collateral can be liquidated to offset credit exposure. Collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements, which are available on its website. Strict eligibility criteria are set for all collateral, and the credit quality of collateral is managed through a set of restrictions based on asset type, term to maturity and credit attributes, including ratings of the collateral pledged.

The fair value of collateral pledged to the Bank against these financial instruments at the end of the reporting period is presented below.

As at	September 30, 2020		December 31, 2019	
	$	%	$	%
Securities issued or guaranteed by the Government of Canada	4,249.3	2.4	2,993.2	18.7
Securities issued or guaranteed by a provincial government	30,976.0	17.4	12,552.0	78.4
Securities guaranteed by Crown corporations of the Government of Canada	-	-	460.3	2.9
Securities issued by a municipality	409.9	0.2	-	-
Other public sector securities	1,289.2	0.7	-	-
Corporate debt securities	124,365.8	69.8	-	-
Asset-backed securities	16,853.7	9.5	-	-
Total fair value of collateral pledged to the Bank	**178,143.9**	**100.0**	**16,005.5**	**100.0**
Carrying value of collateralized securities	**169,950.8**	**100.0**	**15,516.5**	**100.0**
Collateral as a percentage of carrying value		**104.8**		**103.2**

Advances to members of Payments Canada represent less than 1 percent of the carrying value of the Bank's total assets (nil as at December 31, 2019). The fair value of collateral pledged to the Bank against these financial instruments at the end of the reporting period is presented below.

As at	September 30, 2020		December 31, 2019	
	$	%	$	%
Non-mortgage loan portfolios	-	-	-	-
Mortgage loan portfolios	478.2	100.0	-	-
Total fair value of collateral pledged to the Bank	**478.2**	**100.0**	**-**	**-**
Carrying value of advances to members of Payments Canada	**150.3**	**100.0**	**-**	**-**
Collateral as a percentage of carrying value		**318.2**		**-**

Market risk

Market risk is the potential for adverse changes in the fair value or future cash flows of a financial instrument due to changes in market variables, such as interest rates, foreign exchange rates and market prices. It is composed of interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the potential for fluctuations in the fair value or future cash flows of a financial instrument because of changes in interest rates.

The Bank's exposure to interest rate risk arises from fluctuations in the future flows of cash and foreign deposits held by the Bank and deposits held at the Bank by other institutions because these instruments are subject to variable interest rates. The Bank also carries interest rate risk associated with fluctuations in future cash flows from real-return bonds, which are linked to inflation. The remainder of the Bank's financial assets and liabilities have either fixed interest rates or are non-interest-bearing.

The table below shows the effect of an increase / decrease in interest rates of 25 basis points on the interest expense or revenue on deposits of both the Government of Canada and members of Payments Canada and real-return bonds, which represents substantially all the Bank's interest rate risk exposure.

For the nine-month period ended September 30	2020	2019
Interest expense on Government of Canada deposits	162.4 / (162.4)	43.1 / (43.1)
Interest expense on deposits of members of Payments Canada	312.2 / (312.2)	0.5 / (0.5)
Interest revenue on real-return bonds	0.5 / (0.5)	0.0 / 0.0

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The currency risk is not considered to be significant because the Bank's net foreign currency exposure relative to its total assets is small.

The Bank is exposed to currency risk primarily by holding shares in the BIS, which are denominated in Special Drawing Rights (SDRs). The SDR serves as the unit of account for the International Monetary Fund, and its value is based on a basket of five major currencies: the euro, the US dollar, the British pound, the Japanese yen and the Chinese renminbi. SDRs are translated into Canadian-dollar equivalents at the rates prevailing on the date when the fair value is determined.

Other price risk

Other price risk arises when the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from changes in interest and exchange rates).

The Bank is exposed to other price risk through its investment in the BIS. As discussed in Note 3, the fair value of these shares is estimated based on the net asset value of the BIS, less a discount of 30 percent. Accordingly, the fair value fluctuations of these shares reflect movements in the net asset value of the BIS and exchange rates.

With the operationalization of the GBPP, CBPP and PBPP in the second quarter of 2020, the Bank began holding securities at fair value through profit and loss, exposing itself to fluctuations in market prices. However, all securities measured at FVTPL are fully indemnified for gains and losses beyond amortized cost. Therefore, the Bank bears no net price risk related to the securities.

Liquidity risk

Liquidity risk is the potential for loss if the Bank is unable to meet its financial obligations as they become due. Liabilities that are due on demand include bank notes in circulation and Government of Canada deposits, with the remaining liabilities (deposits of members of Payments Canada, SSRAs and other financial liabilities) due within 12 months. The Bank is also exposed to liquidity risk through its guarantee of the LVTS, as discussed in the Bank's Annual Report for 2019.

Historical experience has shown that bank notes in circulation provide a stable source of long-term funding for the Bank. In the event of an unexpected redemption of bank notes or a significant withdrawal from the Government of Canada's deposit for the prudential liquidity-management plan, the Bank can settle the obligation by means of several tools, including the sale of highly liquid investments backing those liabilities.

The Bank is the ultimate source of liquid funds to the Canadian financial system and has the power and operational ability to create Canadian-dollar liquidity in unlimited amounts at any time. This power is exercised within the Bank's commitment to keeping inflation low, stable and predictable.

The following table presents a maturity analysis of the Bank's financial assets and liabilities. The balances in this table do not correspond to the balances in the statement of financial position because the table presents all cash flows on an undiscounted basis.

As at September 30, 2020	Due on demand	Within 90 days	Within 4 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets						
Cash and foreign deposits	6.8	-	-	-	-	6.8
Loans and receivables	-	15,035.5	127,935.2	27,657.7	-	170,628.4
Investments						
Government of Canada treasury bills	-	51,860.0	41,855.0	-	-	93,715.0
Government of Canada bonds at amortized cost	-	2,170.1	13,368.9	54,728.3	36,686.8	106,954.1
Government of Canada bonds at FVTPL		2,820.2	18,059.3	87,290.8	42,442.4	150,612.7
Canada Mortgage Bonds	-	68.8	128.9	4,751.3	4,667.0	9,616.0
Provincial money market securities	-	3,861.2	3,231.8	-	-	7,093.0
Real-return bonds	-	29.3	29.3	515.6	1,989.2	2,563.4
Provincial bonds	-	258.4	1,621.8	5,177.9	3,404.9	10,463.0
Corporate bonds	-	3.3	27.9	131.3	-	162.5
Shares in the BIS*	505.5	-	-	-	-	505.5
	512.3	76,106.8	206,258.1	180,252.9	89,190.3	552,320.4
Financial liabilities						
Bank notes in circulation	102,984.1	-	-	-	-	102,984.1
Deposits						
Government of Canada	81,766.4	-	-	-	-	81,766.4
Members of Payments Canada	-	337,194.8	-	-	-	337,194.8
Other deposits	8,389.9	-	-	-	-	8,389.9
Securities sold under repurchase agreements	-	532.1	-	-	-	532.1
Other financial liabilities	-	671.3	-	-	-	671.3
	193,140.4	338,398.2	-	-	-	531,538.6
Net maturity difference	(192,628.1)	(262,291.4)	206,258.1	180,252.9	89,190.3	20,781.8

* The Bank's investment in BIS shares has no fixed maturity.

Cash flows associated with the indemnity agreements are paid monthly after disposition of related securities. Where securities are held to maturity, there are no cash flows associated with the indemnity agreements. As at September 30, 2020, the Bank had not disposed of any securities related to the indemnity agreements; therefore, no indemnity agreement cash flows are presented above.

The table below presents the comparative maturity analysis as at December 31, 2019.

As at December 31, 2019	Due on demand	Within 90 days	Within 4 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets						
Cash and foreign deposits	6.4	-	-	-	-	**6.4**
Loans and receivables	-	15,538.2	-	-	-	**15,538.2**
Investments						
Government of Canada treasury bills	-	10,625.0	12,875.0	-	-	**23,500.0**
Government of Canada bonds	-	6,169.2	11,101.5	41,356.8	32,938.4	**91,565.9**
Canada Mortgage Bonds	-	-	13.6	544.5	-	**558.1**
Shares in the BIS*	438.3	-	-	-	-	**438.3**
	444.7	**32,332.4**	**23,990.1**	**41,901.3**	**32,938.4**	**131,606.9**
Financial liabilities						
Bank notes in circulation	93,094.3	-	-	-	-	**93,094.3**
Deposits						
Government of Canada	21,765.6	-	-	-	-	**21,765.6**
Members of Payments Canada	-	249.5	-	-	-	**249.5**
Other deposits	3,228.2		-	-	-	**3,228.2**
Other financial liabilities	-	487.1	-	-	-	**487.1**
	118,088.1	**736.6**	**-**	**-**	**-**	**118,824.7**
Net maturity difference	**(117,643.4)**	**31,595.8**	**23,990.1**	**41,901.3**	**32,938.4**	**12,782.2**

* The Bank's investment in BIS shares has no fixed maturity.

5. 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

	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2019	**575.4**	**164.4**	**84.8**	**824.6**
Additions	2.3	13.1	2.6	**18.0**
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at September 30, 2020	**577.7**	**177.5**	**87.4**	**842.6**
Accumulated depreciation				
Balances as at December 31, 2019	**(139.7)**	**(62.2)**	**(32.1)**	**(234.0)**
Depreciation expense	(13.4)	(17.4)	(4.2)	**(35.0)**
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at September 30, 2020	**(153.1)**	**(79.6)**	**(36.3)**	**(269.0)**
Carrying amounts				
Balances as at December 31, 2019	**435.7**	**102.2**	**52.7**	**590.6**
Balances as at September 30, 2020	**424.6**	**97.9**	**51.1**	**573.6**

Projects in progress				
Included in *Carrying amounts* at September 30, 2020	0.1	18.5	10.9	**29.5**
Commitments at September 30, 2020	6.8	2.7	3.4	**12.9**

6. 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 developed internally or acquired externally.

Carrying amount of intangible assets

	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2019	**78.0**	**92.3**	**170.3**
Additions	18.9	0.9	**19.8**
Disposals	-	(5.5)	**(5.5)**
Transfers to other asset categories	17.7	(17.7)	-
Balances as at September 30, 2020	**114.6**	**70.0**	**184.6**
Accumulated amortization			
Balances as at December 31, 2019	**(51.1)**	**(59.8)**	**(110.9)**
Amortization expense	(2.8)	(4.6)	**(7.4)**
Disposals	-	5.5	**5.5**
Transfers to other asset categories	-	-	-
Balances as at September 30, 2020	**(53.9)**	**(58.9)**	**(112.8)**
Carrying amounts			
Balances as at December 31, 2019	**26.9**	**32.5**	**59.4**
Balances as at September 30, 2020	**60.7**	**11.1**	**71.8**

Projects in progress			
Included in *Carrying amounts* at September 30, 2020	32.3	0.1	32.4
Commitments at September 30, 2020	6.9	1.7	8.6

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

The Bank's leases consist primarily 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).

Carrying value of right-of-use leased assets

	Data centres	Offices	Other	Total
Cost				
Balances as at December 31, 2019	**36.1**	**16.6**	**2.7**	**55.4**
Additions	-	-	-	-
Disposals	(0.1)	(0.9)	-	(1.0)
Transfers to other asset categories	-	-	-	-
Balances as at September 30, 2020	36.0	15.7	2.7	54.4
Accumulated depreciation				
Balances as at December 31, 2019	**(3.1)**	**(1.1)**	**(0.3)**	**(4.5)**
Depreciation expense	(2.3)	(0.9)	(0.2)	**(3.4)**
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at September 30, 2020	(5.4)	(2.0)	(0.5)	(7.9)
Carrying amounts				
Balances as at December 31, 2019	**33.0**	**15.5**	**2.4**	**50.9**
Balances as at September 30, 2020	30.6	13.7	2.2	46.5

Carrying value of lease liabilities

	Data centres	Offices	Other	Total
Balances as at December 31, 2019	**33.8**	**16.0**	**0.8**	**50.6**
Finance charges	0.6	0.3	-	**0.9**
New lease liabilities	-	-	-	-
Lease payments	(2.8)	(0.8)	(0.2)	**(3.8)**
Other adjustments	(0.1)	(0.9)	-	**(1.0)**
Balances as at September 30, 2020	31.5	14.6	0.6	46.7

8. Other assets

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

Composition of other assets

As at	Note	September 30, 2020	December 31, 2019
Bank note inventory		7.7	8.5
Net defined-benefit asset	11	-	34.1
Other non-financial assets		25.2	24.1
Total other assets		32.9	66.7

9. Deposits

Deposits is composed of deposits by the Government of Canada, members of Payments Canada and other financial institutions, and 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 consist of $61,766.4 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,765.6 million and $20,000.0 million, respectively, at December 31, 2019).

10. Other liabilities

Other liabilities consists of surplus payable to the Receiver General for Canada, the net defined-benefit liability for both the pension benefit plans and the other employee benefit plans, the lease liabilities and all other liabilities, which consists of accounts payable, accrued liabilities and provisions.

Composition of other liabilities

As at	Note	September 30, 2020	December 31, 2019
Surplus payable to the Receiver General for Canada		550.9	368.3
Net defined-benefit liability	11		
Pension benefit plans		283.8	97.3
Other benefit plans		205.2	190.5
Lease liabilities	7	46.7	50.6
All other liabilities		73.7	68.2
Total other liabilities		**1,160.3**	**774.9**

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 12.

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2020	2019	2020	2019
Surplus payable (prepaid remittance) at beginning of period	(21.2)	122.3	368.3	225.9
Surplus for the Receiver General for Canada	572.1	325.0	1,225.9	747.3
Remittance of surplus to the Receiver General for Canada	-	(200.0)	(1,043.3)	(725.9)
Surplus payable at end of period	**550.9**	**247.3**	**550.9**	**247.3**

11. Employee benefits

The changes to the net defined-benefit liability for the period are as follows:

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
	For the nine-month period ended September 30, 2020	For the year ended December 31, 2019	For the nine-month period ended September 30, 2020	For the year ended December 31, 2019
Fair value of plan assets (liabilities)				
Opening balance at beginning of period	(63.2)	83.3	(190.5)	(160.9)
Bank contributions	15.9	7.5	-	-
Current service cost	(48.1)	(43.5)	(4.2)	(4.7)
Net interest cost	(3.7)	1.0	(4.5)	(6.3)
Administration costs	(2.1)	(3.0)	-	-
Net benefit payments and transfers	-	-	7.3	7.8
Remeasurement losses	(182.6)	(108.5)	(13.3)	(26.4)
Closing balance at end of period	(283.8)	(63.2)	(205.2)	(190.5)
Net defined-benefit asset	-	34.1	-	-
Net defined-benefit liability	(283.8)	(97.3)	(205.2)	(190.5)
Net defined-benefit liability	(283.8)	(63.2)	(205.2)	(190.5)

The composition of the Pension Plan net defined-benefit liability is presented in the table below:

As at	September 30, 2020	December 31, 2019
Fair value of plan assets	2,085.5	2,038.6
Defined-benefit obligation	2,369.3	2,101.8
Net defined-benefit liability	(283.8)	(63.2)

Expenses and contributions for the employee benefit plans are presented in the tables below:

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2020	2019	2020	2019
Expenses				
Pension benefit plans	20.9	12.3	53.9	33.4
Other benefit plans	3.1	2.8	9.6	9.0
Total benefit plan expenses	24.0	15.1	63.5	42.4

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
For the three-month period ended	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Contributions				
Employer contributions	9.0	1.8	-	-
Employee contributions	5.0	5.9	-	-
Total contributions	14.0	7.7	-	-

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
For the nine-month period ended	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Contributions				
Employer contributions	15.9	5.6	-	-
Employee contributions	15.8	15.4	-	-
Total contributions	31.7	21.0	-	-

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, 2020	December 31, 2019
Discount rate		
Pension benefit plans	2.80%	3.20%
Other benefit plans	2.20–2.90%	2.90–3.20%

The Bank recorded remeasurement losses during the nine-month period ended September 30, 2020, of $195.1 million (remeasurement losses of $238.6 million for the nine-month period ended September 30, 2019). The remeasurement losses recorded during the nine-month period ended September 30, 2020, are mainly the result of the decrease in the discount rate used to value the obligations, partially offset by positive asset returns.

12. 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, 2020	December 31, 2019
Share capital	5.0	5.0
Statutory reserve	25.0	25.0
Special reserve	100.0	100.0
Investment revaluation reserve	467.5	400.3
Retained earnings	-	-
Total equity	597.5	530.3

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 investment portfolio. An initial amount of $100.0 million was established at that time and the reserve is subject to a ceiling of $400.0 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 $467.5 million as at September 30, 2020 ($400.3 million as at December 31, 2019).

Retained earnings

The net income of the Bank, less any allocation to reserves, is considered ascertained surplus and is transferred to the Receiver General for Canada, consistent with the requirement of section 27 of the *Bank of Canada Act*.

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements with consideration given to the volatility arising from fair value changes and remeasurements, which are recorded in OCI. 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 remeasurements 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, 2020, the Bank withheld $195.1 million (withheld $238.6 million from its remittances in the nine-month period in 2019), and as at September 30, 2020, $383.4 million in withheld remittances was outstanding ($188.3 million as at December 31, 2019).

13. 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 International Accounting Standard 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 Pension Plan and recovers the cost of these services.

14. Subsequent events

On October 15, 2020, it was announced that the BAPF will be discontinued after the last scheduled operation on October 26, 2020. Similarly, the Canada Mortgage Bond Purchase Program will be discontinued with the last operations scheduled for the week of October 26, 2020. This decision was made as overall financial market conditions have continued to improve in Canada, and the use of these facilities has declined significantly.

The Bank will continue to monitor market conditions and may further revise its programs if warranted. Any discontinued facilities can be restarted if necessary.

15. Comparative figures

Certain comparative figures have been adjusted to conform to the current period's presentation. For the comparative Condensed Interim Statement of Cash Flows, $133.4 million was adjusted from *Net purchases of Government of Canada treasury bills* within investing activities to *Interest received* within operating activities for the nine-month period ended September 30, 2019 ($22.1 million was adjusted from *Net purchases of Government of Canada treasury bills* to *Interest received* for the three-month period ended September 30, 2019).