BANK OF CANADA

Registered Pension Plan Annual Report 2003

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Message from the Chair

Pension Committee Chair,
Senior Deputy Governor Paul Jenkins

On behalf of the members of the Pension Committee, I am pleased to present the Bank of Canada *Registered Pension Plan Annual Report* for 2003, the first comprehensive report on the Plan intended for all its members.

This report is an initiative of the Pension Committee, a committee created by the Board of Directors to oversee all aspects of the administration of the Plan and the investment of the Fund's assets. The Pension Committee works with two subcommittees—the Pension Fund Investment Committee and the Pension Administration Committee—to help integrate the Plan's activities. This integration of activities will support a more efficient operation by focusing attention on meeting the Plan's objectives, providing a means of improving service, and encouraging two-way communication.

The *Annual Report* is a major step towards more full and open communication with all plan members. We are enclosing a form that members can use to comment on this report and to express their views on communication regarding the Plan or its administration. In addition, we encourage you to comment on these matters at any time throughout the year.

The performance of the Fund rebounded along with equity markets this past year. The Fund's annual return was 17.9 per cent. This followed two years of negative returns, which occurred in two of the worst years for equity markets in post-war history. The asset mix of the Fund is structured with such market volatility in mind, and the performance of the Fund over time has exceeded its long-term objective.

This solid, long-term performance is reflected in the funded position of the Fund. On an actuarial, going-concern basis, the Fund is in a surplus position of $155 million, representing a funding ratio of 1.28. This is the basis used to report to the Office of the Superintendent of Financial Institutions on the funding requirements of the Plan. The Bank also measures the surplus on an accounting basis, which is reported in the Bank of Canada's Financial Statements. On that basis, the surplus is considerably smaller at $79 million. Whichever measure is used, the Plan is well positioned to continue to pay the promised future benefits.

During the course of 2003, major improvements were made to the Plan's level of benefits. One such improvement, which applied to most members, increased the amount of the pension benefit available after the age of 65. Another applied to the survivors of members who retired before 1987, bringing their survivor benefits to a level comparable with the benefits of those who retired after that date. Verifying the data required to implement these changes was a very time-consuming and labour-intensive effort, which took more than a year to complete. In the end, approximately 3,000 active, retired, and deferred members received notification of the effect these improvements had on their benefits. Altogether, the improvements increased the accrued pension liabilities to Plan members by approximately $27 million.

The Pension Committee was formally constituted on 1 December 2003 when an agreement with our new corporate trustee was signed. Prior to that, the investments of the Fund were overseen by a Trustee Committee. I would like to thank all those who served on that committee for the excellent stewardship of the Fund's assets in the past. Today, I and my fellow members on the Pension Committee are proud to be responsible for administering your Pension Plan. We are building on a strong base, and we are looking forward to ensuring that your pension promise is secure and that the service provided is of a high standard.

W. P. Jenkins

About the Bank of Canada Registered Pension Plan

Design

The Bank of Canada Registered Pension Plan (hereafter, the Plan) is a contributory defined-benefit plan. Retired members receive benefits based on a formula using 2 per cent of the best five-year average salary for each year of credited service up to a maximum of 35 years. The benefits are indexed at retirement and then adjusted annually in accordance with the consumer price index. Benefits and contributions are integrated with the Canada and Quebec Pension Plans. The Plan provides benefits to eligible survivors in the event of a member's death. Members leaving the Plan before retirement age are entitled to termination values or to deferred pensions. The Plan provides for unreduced pension benefits after age 60, or after age 55 if the member has 30 or more years of credited service at the time of retirement.

Objective

The objective of the Plan is to provide benefits to its members in accordance with Bylaw 15 of the Bank of Canada Act. The assets are managed in a manner intended to safeguard the delivery of those benefits over the long term. The investment policy is set out in the Bank of Canada's Statement of Investment Policy and Procedures, which is reviewed and approved by the Bank's Board of Directors each year.

Regulatory authorities

The Bank of Canada Registered Pension Plan is registered with the Office of the Superintendent of Financial Institutions (OSFI) for the purposes of the federal Pension Benefits Standards Act (PBSA), 1985, which regulates its funding, investment policy, and operations. It is also registered with the Canada Revenue Agency (CRA) for purposes of the Income Tax Act, which regulates the maximum permissible benefits payable from a tax-sheltered pension arrangement.

The Trust Fund

The assets used to pay pension benefits and expenses are held in a Trust Fund (hereafter, the Fund). The Fund is vested in a trustee and may only be invested in assets permitted by the PBSA and the Income Tax Act.

Investment objective

The investment objective is to achieve or exceed a target rate of return over the long run that will allow the Fund to pay current and future benefits. That target rate is currently 4 per cent per annum after inflation and net of expenses. The target rate must be measured after the effects of inflation because the benefits paid out under the Plan are increased to keep pace with inflation each year.

When measuring the Fund's performance, it is appropriate to take the long-term view because the Fund must achieve its target rate of return over an extended period. This long-term view helps determine the type of assets in which the Fund invests as well as the approach taken towards investment. Both of these topics are discussed in a later section.

Funding Status

The funding status of a pension plan is the measure that pension regulators use to determine its long-term financial viability. The Bank of Canada Registered Pension Plan is required by law to file with OSFI, every three years, a funding valuation performed by an independent actuary. The current assets, their projected earnings, and future contributions are all calculated and then compared with the calculation of the future benefits that the Plan must pay out. If that comparison shows a funding deficit, additional contributions must be made over a specified time frame to restore the Plan to a fully funded position.

The funding status is reported to OSFI in two ways: on a going-concern basis and on a solvency basis. The extracts from the Financial Statements of the Bank of Canada Registered Pension Plan appearing at the end of this report are reported on the going-concern basis. In addition, a third measure of the surplus or deficit position, the accounting basis, is reported in the Financial Statements of the Bank of Canada. Each perspective serves a specific purpose; each operates under different assumptions and uses different calculation methods; and each produces different results. No matter which measure is used, the Plan currently enjoys a surplus.

Going concern: The long view

Considering the Plan as a going concern means taking a very long view of its performance. Future liabilities are calculated over at least 50 years and take into account benefits for current pensioners, as well as the forecast needs of young employees who will work a full career at the Bank and then enjoy a long retirement. The rate used to value the future benefits is the long-term target rate that the Plan's managers expect to achieve over time. The value of the assets is not their current market value, but rather a "smoothed" value based on the results of the most recent five years.

Solvency: The "here and now" snapshot

In contrast, looking at the Plan in terms of its solvency means taking a snapshot of it in time and measuring its performance as though it was going to be wound up immediately. Future liabilities would consist of both the benefits to be paid to pensioners and the benefits accrued to date by current employees. Assets in the Plan's solvency surplus are measured in terms of their current market value.

Accounting: Comparing plans with standard measures

The third measure of the Plan, often called the accounting or expensing basis, is reported in the Bank of Canada's Financial Statements, as presented in the Bank of Canada's *Annual Report*. One of the main goals of this approach is to permit different plans to be compared using standard measures. So, with this method, assets are measured at market value, and liabilities are discounted using a market bond rate, as prescribed by the Canadian Institute of Chartered Accountants.

Tables 1 and 2 show the results of the last four actuarial valuations filed with OSFI, as well as those of the 2003 extrapolation, in terms of the going-concern and solvency methods of calculation. In both cases, assets and liabilities show a fairly steady increase over time, and the funding surplus shows considerable fluctuation over the past 11 years. However, after jumping sharply in the valuation for the period ending 1998, the funding surplus has been maintained at a high level through 2003, despite the difficult equity markets experienced in 2000, 2001, and 2002.

Table 1

Going-Concern Basis
(All figures in millions of dollars as of 31 December)

	1992	1995	1998	2001	2003
Assets	290.7	397.5	539.4	676.6	713.3
Liabilities	289.1	389.8	437.9	488.4	557.9
Surplus	1.6	7.7	101.5	188.2	155.4
Surplus as percentage of liabilities	0.6	2.0	23.2	38.5	27.9

Table 2

Solvency Basis
(All figures in millions of dollars as of 31 December)

	1992	1995	1998	2001	2003
Assets	291.2	422.3	582.0	679.0	710.2
Liabilities	280.5	357.2	415.5	440.8	586.0
Surplus	10.7	63.1	166.5	238.2	124.2
Surplus as percentage of liabilities	3.8	17.7	40.1	54.0	21.2

Table 3 shows Plan results determined from the accounting viewpoint and based on an extrapolation of certain demographic assumptions. Because this measure has been required in the Bank's Financial Statements for the last several years, the results for each of the last three years are available.

Table 3

Accounting Basis
(All figures in millions of dollars as of 31 December)

	2001	2002	2003
Assets	679.0	626.0	710.2
Liabilities	467.0	581.7	631.6
Surplus	212.0	44.3	78.6
Surplus as percentage of liabilities	45.4	7.6	12.4

No one measure is the "best" measure. Each provides a different perspective, and each has its strengths and weaknesses. For a complete picture of the Plan's financial position, it is important to consider all of these measures together.

For example, at the end of 2003, the liabilities measured on the accounting basis were $74 million higher than the liabilities measured on the going-concern basis. This difference occurred because the discount rate used to measure the liabilities was much lower on the accounting basis than on the going-concern basis.

No matter which measure is used, the message that emerges is clear: our Plan remains in a solid position.

The Assets of the Pension Fund and the Investment Approach

Asset mix

A diversified asset mix has been established for the Pension Fund to achieve several goals. First, there is the long-term investment goal of 4 per cent per annum after expenses and after inflation. As well, because different asset classes perform differently from year to year, the mix is intended to lower the risk of variations from the portfolio's expected return—in other words, to contribute to the stability of the Fund's returns. In addition to the existing statutory and regulatory requirements, risk-control guidelines are in place to ensure the quality of individual investments.

There are five main asset categories in the portfolio: equities, nominal bonds, price-index-linked assets, real estate, and cash. The Statement of Investment Policy and Procedures sets out broad ranges for the percentage of assets to be invested in each category. The Internal Investment Guidelines establish narrower bands. At the end of 2003, the midpoints of the five bands were: 56 per cent for equities, 28 per cent for nominal bonds, 10 per cent for price-index-linked assets, 5 per cent for real estate, and 1 per cent for cash.

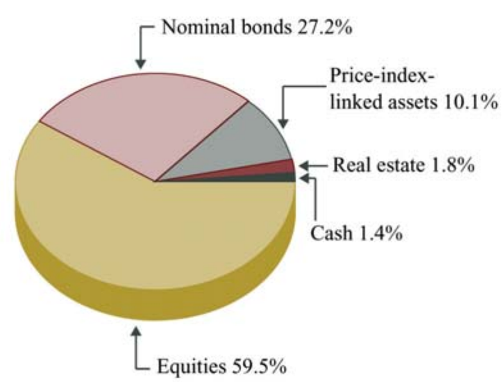
Investment approach

In addition to its long-term objectives, the Fund's investment performance is assessed over the short term against the performance of a benchmark portfolio. The benchmark portfolio is composed of the same asset categories as the Fund's portfolio. Each benchmark category is given a weight equal to the midpoint of the Fund's five bands. The performance of each benchmark category is measured by the performance of a market index.

Because the value of individual assets may vary over time, the actual percentage of the Fund's assets in each category may also vary from the benchmark weightings. Actual asset holdings are formally reviewed at least once a month and compared with the benchmark weightings. Appropriate investment action is taken by the Pension Fund Investment Committee (PFIC) to ensure that asset holdings are maintained within the permissible bands, but the PFIC may permit the holdings in an asset category to deviate from the midpoints. This is one way that Fund management can add value compared with the benchmark.

At the end of 2003, of the five main asset categories, holdings of equities were above their midpoint allocation, while nominal bonds and real estate were below. More details on the investment approach for each asset category are presented below.

Figure 1: Weightings of Major Asset Categories (as of 31 December 2003)



Equities

The equity investments of the Pension Fund cover a wide range of the eligible equity universe, including large-, medium-, and small-capitalization Canadian stocks, as well as U.S. and other foreign stocks.

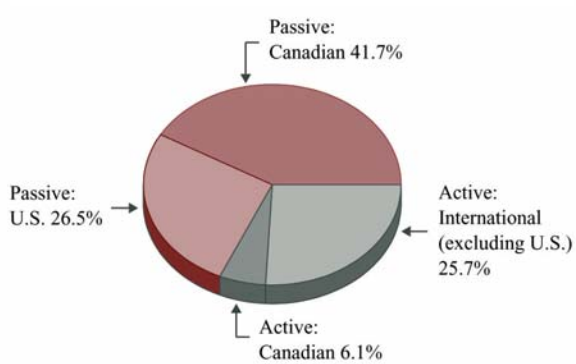
The investment strategy is for equity investments in large- and medium-capitalization stocks in Canadian and U.S. stock markets to be managed in a passive manner against a market index. In 2003, approximately

70 per cent of the equity portfolio was managed this way. Foreign equities outside the United States and small-capitalization stocks in Canada are managed actively, based on the belief that managers in these areas can add value compared with the index.

At the end of 2003, equity holdings were divided more or less evenly between Canadian and foreign equities. Foreign equities were almost evenly split between U.S. and non-North American international equities. Foreign equities are hedged to lessen the risk of foreign currency movements against the Canadian dollar.

All equity investments are managed externally.

Figure 2: Details of Equity Investments (as of 31 December 2003)



Nominal bonds

The nominal bond portfolio is invested chiefly in provincial, municipal, and corporate bonds. The investment strategy pays close attention to possible relative movements in credit spreads between sectors, issuers, and specific issues. The portfolio's performance is compared with the Scotia Capital Market Universe bond index.

In recent years, trading in the portfolio has become more active because of the need to rebalance transactions more frequently between bonds and equities. This has led to increased investment in larger, more liquid, provincial bond issues.

Price-index-linked assets

More than half the holdings in this asset class are in the form of Government of Canada Real Return Bonds. Other holdings include index-linked mortgages guaranteed by CMHC. Generally, these investments are regarded as permanent core holdings of the Fund aligned with the indexed pensions paid to Plan beneficiaries.

Real estate

The Fund's holdings consist of investments in closed-end pooled funds. In this type of arrangement, external managers are given the discretion to create and manage a diversified portfolio of commercial, industrial, and office real estate across different regions. This allows the Fund to participate in the real estate asset class while minimizing the administrative burden of doing so.

Cash

The Fund also maintains a level of liquidity in the form of deposits, Canada treasury bills, or other forms of money market instruments sufficient to meet anticipated payments and investment commitments.

Performance of the Fund

Reflecting improved conditions in capital markets, all asset categories in the Fund yielded positive rates of return during 2003. The one-year return, ending on 31 December 2003, was 17.9 per cent. The Fund outperformed the benchmark portfolio by 110 basis points. Other comparative returns over various time horizons are shown in Tables 4 and 5. The Fund has outperformed the benchmark over most of the ten-year period.

Table 4

Total Rate of Return on Pension Fund (per cent)

	1 yr	3 yr	5 yr	10 yr
Fund	17.9	3.4	7.3	9.7
Benchmark	16.8	1.6	5.8	8.5
Inflation + 4%	6.8	6.5	6.4	5.6

As noted earlier, the long-term investment objective is to achieve or surpass the target rate, currently inflation plus 4 per cent net of expenses, over the long term. The Fund's ten-year rates of return at various times in the recent past are recorded in Table 5.

Table 5
Ten-Year Rates of Return on Pension Fund (per cent, ending at 31 December each year)

	1992-2002	1990-2000	1988-1998	1986-1996	1983-1993
Fund	11.1	12.7	11.2	10.7	11.6
Inflation + 4%	5.8	6.0	6.5	7.1	8.0

As Table 5 shows, in each of the ten-year periods presented above, the Fund has met or exceeded its current long-term investment objective.

Plan Administration

An array of services

A central part of administering the Plan involves sending pension payments to retirees and survivors. But the Bank provides a host of other services to members: calculations of pensions for different departure dates; transfers of service earned with another employer; buyback of service; transfer of a pension entitlement to a new employer; the annual indexing of benefit payments; and the change in pension amount that occurs at age 65, when the bridge pension ceases to be paid. And, of course, both employees and pensioners can contact the call centre to enquire about every aspect of the pension bylaws. Table 6 shows the volume of some of the more frequent transactions in 2003.

Table 6
Volume of Transactions

Type of transaction	No. of transactions during 2003
Retirements or terminations	191
Buyback of service and transfers in or out	190
Estimation of benefits	115
Death settlements	44
Pension transactions for separation or divorce	19

Outsourcing administration

In 2002, the Bank outsourced much of the pension administration to Mercer Human Resource Consulting in order to keep up with the increasing demands of administering the Plan. An important objective for the Bank in engaging an outside firm is to provide consistent and high standards of quality and timeliness for pension services.

The initial phase of outsourcing meant that the Bank had to transfer extensive pension data files to Mercer and build procedures for exchanging information between the two parties. These initial arrangements added to administrative costs in 2002 and 2003. With the set-up now largely complete, the Bank has turned its attention to monitoring the service provided to members to ensure that it meets the Bank's objectives for quality and timeliness.

Monitoring services and establishing administrative objectives

As a first step during 2003, the Bank began to establish norms for the time required to perform certain key transactions and to measure the accuracy and quality of the transactions. The first service measured was the call centre, where standards for response time have been implemented and are being monitored. Standards for other services will be introduced in 2004, and performance will be monitored against those standards.

Implementing the improved benefits

In 2003, the Bank completed a one-time administrative effort necessary to implement the improvements to the defined benefits that were announced in 2002. Active, deferred, and retired members received letters notifying them of how they would be affected by the changes as well as letters providing detailed tax information. In preparing the letters, it was necessary to review data files extending back many years. In some cases, the process involved collecting missing data and, in others, correcting data. The administrative work associated with this process was one of the largest projects ever carried out for the Plan.

Administrative expenses

Beginning in 2002, the Bank adopted the common practice of paying, from the Fund, for certain administrative and consultant services provided by outside suppliers. These fees are in addition to management and brokerage fees paid to outside managers to direct the investments of the Fund. Total fees are shown in the table below.

Table 7

	2003	2002
Investment-management fees	$1,030,950	$1,037,055
Audit and actuarial fees	42,453	118,272
Other administrative fees	2,124,930	1,010,348
Total	$3,198,333	$2,165,675

These expenses include approximately $200,000 in 2002 and $850,000 in 2003 for the implementation of improvements to benefits. Excluding these one-time charges, the cost paid from the Fund, divided by the year-end assets, was equal to 30 basis points. This ratio is less than the median expense ratio for funds of the size of the Bank of Canada Registered Pension Plan as reported by SEI (a performance measurement firm). The Bank uses considerable care to ensure that only costs associated with services that benefit Plan members are charged to the Fund.

Governance

The Bank of Canada Act gives the Board of Directors the authority to establish a Pension Fund. In keeping with this authority, the Board has adopted Bylaw 15, setting out the benefits, contribution levels, and terms and conditions of the Bank's Registered Pension Plan. When the Board establishes amendments affecting these general terms, it acts as the Plan Sponsor. The Board also acts as the Administrator by overseeing the investment of the Fund and the overall administration of the Plan.

In 2003, the Board created the Pension Committee and delegated to it the major responsibilities for the administration of the Plan. The new Pension Committee consists of the Senior Deputy Governor as chair, three Board members, and three senior Bank officers. The duties of the Committee are set out in its terms of reference and include overseeing communication, funding, the administration of benefits, the performance of the investment managers, and the selection of actuaries, accountants, and other advisers. The Committee also recommends changes to the Statement of Investment Policy and Procedures for Board approval each year.

The Committee meets at least four times a year and establishes overall objectives for the administration of the Plan. The Committee has created two subcommittees—the Pension Fund Investment Committee and the Pension Administration Committee—and has delegated to them the responsibility for many day-to-day duties. The Committee has also engaged a full-time Pension Plan Director to help it with governance matters and to coordinate its work plan through the two subcommittees. The work plan of the Pension Committee in 2004 includes a focus on investing Fund assets with a close regard to the composition of the liabilities, a communication policy, and standards for the provision of services.

Pension Committee (left to right): Seated: Terri Cugno (Pension Plan Director) with members: Sheryl Kennedy, Sheila Vokey, James Hinds. Standing: Jean-Guy Desjardins, Paul Jenkins (Chair), Paul Dicks, Mark Jewett.

Pension Administration Committee (left to right): Seated: Janice Gabie, Frances Boire-Carrière, Sheila Vokey, Jacqueline Bourque. Standing: Terri Cugno, Sheila Niven.

Pension Fund Investment Committee (left to right): Seated: Terri Cugno, George Pickering. Standing: Jacobo De Leon, Ron Morrow, Miville Tremblay.

Financial Report

Included in this section are statements extracted from the Financial Statements of the Bank of Canada Registered Pension Plan. Also included is the Actuary's Opinion extracted from the Financial Statements as well as an opinion from the Auditor commenting on the statements in this report. The full audited Financial Statements, including the notes to the statements, are available upon request and are also on the Bank's Web site.

An actuarial valuation was made as of 1 January 2002 by Mercer Human Resource Consulting Limited, a firm of consulting actuaries, and was extrapolated to 31 December 2002 and 2003. Assets have been determined using the year-end estimated market value adjusted to smooth out gains and losses over a five-year period. The valuation of the accrued pension benefits was prepared using the actuarial going-concern basis and was determined by projecting benefits using economic and demographic assumptions and by using a discount rate of 4 per cent after inflation and expenses.

The statements relate to the Registered Pension Plan only. The Bank has also created a Supplementary Pension Arrangement to pay certain benefits beyond the limits a person is permitted to earn in a registered plan according to the Income Tax Act. The value of the accrued benefits under this Arrangement are fairly modest at about $30 million (compared with a value of approximately $550 million for the accrued pension benefits under the Registered Pension Plan). There is no requirement to submit information concerning the Arrangement to OSFI, and the assets and liabilities of the Arrangement are not included in the statements in this report nor in the Financial Statements of the Registered Pension Plan.

Actuary's opinion

Ottawa
March 5, 2004

Mercer Human Resource Consulting was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and liabilities of the Registered Pension Plan as of December 31, 2003, for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2003, as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan's recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

Our assessment of the Plan's actuarial assets and liabilities was based on:

- an extrapolation to December 31, 2003 of the results of our January 1, 2002 actuarial valuation of the Plan's going concern liabilities,
- pension fund data provided by the Bank of Canada as of December 31, 2003,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer Human Resource Consulting and are considered management's best estimate of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the assumptions and methods employed in the valuation and extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.

Jean-Paul Raymond

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

François Lemire

Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer Human Resource Consulting

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To the Members

The accompanying summarized statement of net assets available for benefits, accrued pension benefits and funding excess and the statements of changes in net assets available for benefits and changes in accrued pension benefits are derived from the complete Financial Statements of Bank of Canada Registered Pension Plan (the "Plan") as at 31 December 2003 and for the year then ended on which we expressed an opinion without reservation in our report dated 5 March 2004. The fair summarization of the complete financial statements is the responsibility of the Pension Committee. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete financial statements in accordance with the criteria described in the Guideline referred to above.

These financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the Plan's net assets available for benefits, accrued pension benefits and funding excess and the changes in net assets available for benefits and changes in accrued pension benefits, reference should be made to the related complete financial statements.

Deloitte & Touche LLP

Chartered Accountants

5 March 2004

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS, AND FUNDING EXCESS

As at 31 December 2003

	2003	2002
Assets		
Investments	**$ 711,569,534**	$ 622,355,513
Other accrued assets	**2,913,098**	3,102,020
	714,482,632	625,457,533
Liabilities		
Accounts payable and accrued liabilities	**596,035**	924,359
Net assets available for benefits	**713,886,597**	624,533,174
Actuarial asset value adjustment	**(544,000)**	65,064,443
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**713,342,597**	689,597,617
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS	**557,904,878**	538,525,729
FUNDING EXCESS	**$ 155,437,719**	$ 151,071,888

This first statement for the Registered Pension Plan is a summary that shows the change in net assets, the value of the accrued benefits, and the funding excess. Net assets increased largely because of the Fund's strong performance in 2003. Also of note in this statement is the reduction in 2003 in the *Actuarial asset value adjustment*, the adjustment that "smooths" gains and losses from previous years. The adjustment declined from $65.1 million in 2002 to negative $0.5 million in 2003. This means that at the end of 2003, the "smoothed" value and the market value were approximately the same, since there are almost no net unrecognized gains or losses from previous years required to adjust the market value.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2003

	2003	2002
Increase in assets		
Investment income	**$ 24,430,661**	$ 27,920,110
Current year change in fair value of investments	**88,686,751**	(62,837,322)
	113,117,412	(34,917,212)
Employees' contributions	**4,613,519**	4,265,235
Transfers from other plans	**171,363**	335,254
	4,784,882	4,600,489
	117,902,294	(30,316,723)
Decrease in assets		
Benefits paid	**23,280,059**	20,754,962
Refunds and transfers	**2,070,479**	1,232,984
Administrative expenses	**3,198,333**	2,165,675
	28,548,871	24,153,621
Net increase (decrease) in net assets	**89,353,423**	(54,470,344)
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	**624,533,174**	679,003,518
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	**$ 713,886,597**	$ 624,533,174

The second statement shows details of the change in net assets available for benefits. As already noted, the large increase in the *fair value of investments* is related to the strong investment performance of the Fund. Another item increasing assets is *Employees' contributions*. There is no corresponding contribution from the Bank of Canada in 2002 and 2003. Under the provisions of the Income Tax Act, the Bank is prohibited from contributing to the Fund while the funding surplus exceeds 10 per cent of liabilities.

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December 2003

	2003	2002
Increase in accrued pension benefits		
Benefits earned	**$ 14,245,111**	$ 13,497,989
Interest cost	**32,353,772**	30,974,686
Amendment to Plan	**-**	27,600,000
Changes in income tax regulation	**4,625,892**	-
	51,224,775	72,072,675
Decrease in accrued pension benefits		
Benefits paid	**23,280,059**	20,754,962
Refunds and transfers	**2,070,479**	1,232,984
Amendment to Plan	**3,124,492**	-
Experience gain	**3,370,596**	-
	31,845,626	21,987,946
Net increase in actuarial value of accrued pension benefits	**19,379,149**	50,084,729
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS BEGINNING OF YEAR	**538,525,729**	488,441,000
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS END OF YEAR	**$ 557,904,878**	$ 538,525,729

The third statement shows details of the change in the value of accrued benefits. Of particular note is the increase in accrued pension benefits of $27.6 million in 2002 representing an estimate of the value of the amendment to improve the pension benefits. Upon completion of data verification, this number was revised in 2003 to $26.8 million, and $2.1 million of the total was allocated by the Bank's actuaries to the Supplementary Pension Arrangement. These two adjustments account for the $3.1 million decrease in accrued pension benefits in 2003 under "Amendment to Plan."

Contact Information

Please use the following phone numbers or e-mail address to obtain additional copies of this report:
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or
compensation@bankofcanada.ca

An electronic version may be accessed on the Bank of Canada's Web site at www.bankofcanada.ca under the section titled "About the Bank."

Please note that, after 27 May 2004, the contact phone numbers and the e-mail address will change to:
1-866-404-7766
or 613-782-7766 in Ottawa
or
hrcentre@bankofcanada.ca

A copy of the Financial Statements and notes of the Bank of Canada Registered Pension Plan may also be obtained using the above contact addresses. An electronic version can be accessed on the Bank of Canada's Web site.

We encourage you to fill out the enclosed questionnaire and return it to us in the envelope provided. Let us know throughout the year how we can improve the provision of services and communication regarding your Pension Plan.