



BANK OF CANADA
BANQUE DU CANADA

Registered Pension Plan

Annual Report 2006



Bank of Canada
Registered
Pension Plan

www.bankofcanada.ca

<i>Plan Highlights</i>	1
<i>Message from the Chair</i>	2
<i>Pension Administration</i>	4
<i>Pension Assets and Investments</i>	6
<i>Actuarial Status of the Plan</i>	9
<i>Financial Statements</i>	10
<i>Glossary</i>	24

For pension or post-retirement questions and requests, contact the Bank of Canada Benefits and Pension Administration Centre:



08:00 to 18:00 (Eastern Time)
Monday to Friday



active employees: 1 888 903-3308
retirees: 1 888 588-6111



bank-banque-canada@mercer.com



The Bank of Canada Benefits and Pension
Administration Centre
Mercer Human Resource Consulting
1981 McGill College Avenue
Suite 800
Montréal, Quebec
H3A 3T5

For payroll questions, customer service complaints, or to request pension-related information, contact HR Centre:



10:00 to 16:00 (Eastern Time)
Monday to Friday



7766 (internal), 1 613 782-7766 (Ottawa), or
1 866 404-7766



hrcentre@bankofcanada.ca



HR Centre
Bank of Canada
12th Floor, West Tower
234 Wellington Street
Ottawa, Ontario
K1A 0G9

**Thank you to everyone who was involved
in the production of this year's annual report.**

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

PLAN HIGHLIGHTS

Your Plan at a Glance

- The Pension Plan had 3,039 members at the end of 2006 (Figure 1).
- Payments from the Pension Trust Fund over the past three years have remained stable (Figure 2).
- The Fund's net assets were \$952.4 million at the end of 2006 (Figure 3).
- On a going-concern basis, the funding status of the Plan was an actuarial surplus of \$128.4 million as at 31 December 2006¹ (Figure 4).
- On a solvency basis, the funding status of the Plan was an actuarial surplus of \$152.1 million as at 31 December 2006¹ (Figure 4).
- The Fund's rate of return was 13.3 per cent in 2006, in line with its benchmark, which also returned 13.3 per cent² (Figure 6, page 8).

1. The actuarial surplus figures are projections only. An actuarial valuation was not performed this year.

2. The Fund's benchmark is a combination of equity and fixed-income market indexes weighted in accordance with the Fund's Statement of Investment Policies and Procedures.

Figure 2
Payments from the Fund in 2006
(\$ millions)

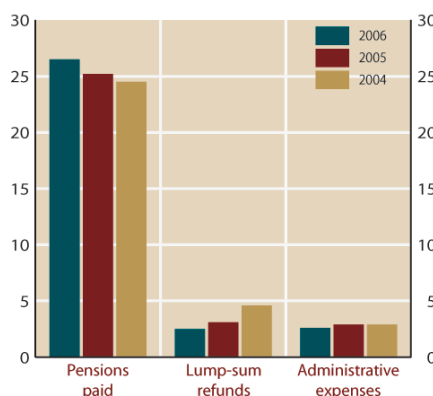


Figure 3
Net Assets of the Fund 2002-2006
(\$ millions)

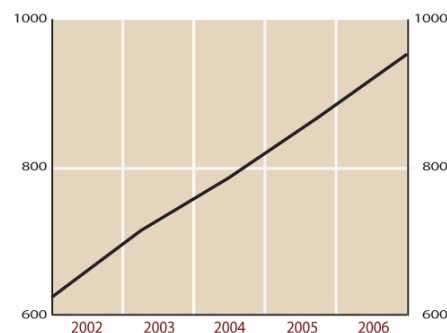


Figure 1
Membership
(as at 31 December 2006)

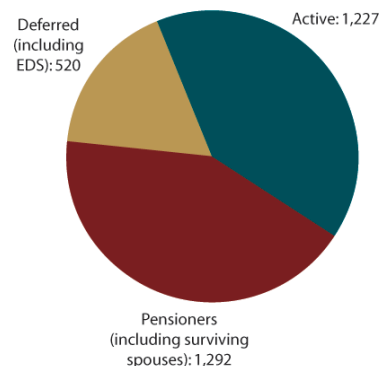
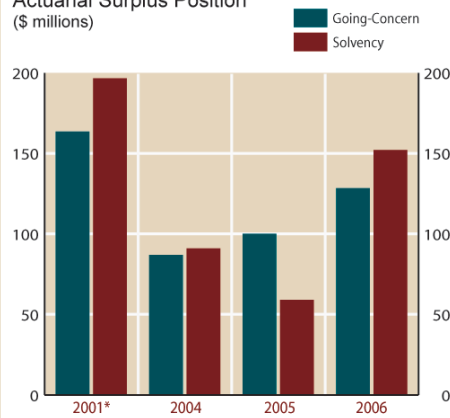


Figure 4
Actuarial Surplus Position
(\$ millions)



* 2001 results updated to reflect 2002 pension improvements

THE BANK REMAINS COMMITTED TO MANAGING ITS PENSION PLAN IN A MANNER THAT MEETS THE HIGHEST GOVERNANCE AND FIDUCIARY STANDARDS.



MESSAGE FROM THE CHAIR

About this Report

On behalf of the Pension Committee, I am pleased to present the Bank of Canada *Registered Pension Plan Annual Report* for 2006. As was the case last year, this year's report focuses on new or updated information. We will continue to use our newsletter, *Pension News*, as a vehicle to keep you current with your Plan.

Please take time to read about the administration, investment, and actuarial status of the Plan. An overview of the Plan's status is provided in the Plan Highlights (page 1), and details are presented in the Financial Statements at the end of this report.

Governance

Good governance continues to be a priority. To help ensure that we remain current with the issues facing pension plan administrators in Canada, we hold an annual training session for Committee members. This year, one focus

of the training was on pension plan issues from a legal perspective. We also reviewed approaches to measuring the investment performance of pension funds.

Litigation Update

A group of pensioners commenced a class action against the Bank in 2004 with respect to the payment of pension administration expenses out of the Bank's Pension Fund. Upon a motion by the Bank, the Ontario Superior Court of Justice issued an order in February 2006 that disallowed the plaintiffs' claims for direct payment to them. The court also declared that the action should not proceed as a class action but rather as a representative action. The plaintiffs subsequently appealed this decision, and the Ontario Court of Appeal confirmed in March 2007 that the plaintiffs' claim for the direct payment of damages is disallowed. The Court of Appeal also ruled that the action may proceed to a determination by the Superior Court of Justice of whether it should be certified

as a class action. The Court of Appeal is now considering the issue of which party should pay the costs associated with the Bank's motion and the plaintiffs' appeal of the motion.

What's New

To improve customer service, the Bank transferred the administration of the Pension Plan from Mercer's Toronto office to its Montréal office. Since that transfer in April 2006, I am happy to say that we have heard from many internal staff members that the level of client service has improved. We will continue to monitor your level of satisfaction with the service you receive from the Bank of Canada Benefits and Pension Administration Centre and will report back to you through *Pension News*. Don't forget that the November 2006 issue of *Pension News* included information on the service levels that you can expect.

In addition, the Pension Fund Investment Committee has been busy reviewing and realigning the Fund's investment management practices. You can read about the resulting changes on pages 6 and 7.

In 2007, in keeping with best practices, we will conduct an audit of pensions that are currently being paid. The objective of the audit is to ensure that only those entitled to pensions are receiving them. To that end, retirees will receive—if they have not already done so—a letter as part of the audit process.

Later this year, we will also distribute a questionnaire soliciting your feedback on the communications you receive about your Pension Plan, including this report. When

you get the questionnaire, please take a few minutes to complete it. As in the past, we will use the information to ensure that our communications continue to meet your needs.

I would like to take this opportunity to express my appreciation to members of the Pension Committee, Pension Administration Committee, and Pension Fund Investment Committee for providing effective Plan governance, as well as to Human Resources staff and to those who contributed to this year's report. I particularly want to recognize the contributions made in the past by Jim Hinds, a member of the Pension Committee. Sadly, Jim passed away shortly after leaving the Pension Committee and the Bank's Board of Directors.

Keeping You Informed

You will receive the next issue of *Pension News* this autumn. We will continue to use the newsletter to keep you up to date on pension-related issues. You will also have recently received information about some technical amendments to your Pension Plan bylaws.

I hope you find this year's *Annual Report* informative. No matter which stage you are at in your career, it is important that you understand your Pension Plan.



Paul Jenkins
Senior Deputy Governor and
Chair, Pension Committee

PENSION ADMINISTRATION

The Bank's Pension Plan is administered by the Pension Committee and the two committees that report to it—the Pension Administration Committee (PAC) and the Pension Fund Investment Committee (PFIC). Among other responsibilities, together they provide effective decision making and regular monitoring of investments, costs of service providers, and the performance of investment managers against the Investment Management Agreements.

Administrative Expenses

Administrative expenses comprise administrative and consultant services provided by external suppliers; salaries of four internal, full-time staff; and management and custodian fees paid to external managers and the custodian (CIBC Mellon) to direct the investment of the Fund and to hold Fund assets (Table 1).

The Bank takes considerable care to ensure that only reasonable costs directly attributable to services that benefit Plan members are charged to the Fund.

Table 1
Pension Fund Administrative Expenses
(\$ thousands)

	2004	2005	2006
Investment management and custodian fees	1,275	1,411	1,663
Pension administration fees	588	678	449
Other administration fees	598	788	520
Total expenses	2,461	2,877	2,632
Net assets	785,448	866,273	952,422
Expenses as a % of total fund assets	0.313%	0.332%	0.276%

While annual administrative expenses are subject to varying activities in any given year, we continue to reduce expenses as a percentage of total fund assets, and to manage them in a prudent manner. As shown in Table 1, total expenses paid from the Fund in 2006, which include asset management and plan administration, amounted to 0.276 per cent of total Fund assets, or 27.6 basis points. This represents an 8.5 per cent decrease in total expenses paid from the Fund in 2005.

Investment management and custodian fees

Investment management and custodian fees increased in 2006, partly as a result of outsourcing the performance measurement of the portfolio to Mellon Analytical Solutions. Another factor that contributed to rising fees is the increasing value of Fund holdings, since investment management and custodian fees represent a percentage of assets under management. As well, the fixed-income portfolio was outsourced late in 2005, and the associated fees began to be incurred in 2006. We expect these increased fees to be more than offset by the return on investment.

Pension administration fees

Fees related specifically to pension administration decreased 33.8 per cent. This decrease can be attributed to a lower volume of retirements, reciprocal and portability transfers, and tighter management. Please note, however, that these fees can easily fluctuate depending on member utilization.

Other administration fees

These fees include the cost of audit, actuarial valuation, projects and initiatives, and the salaries of full-time internal staff. Fees decreased

in 2006 predominantly because there was no triennial actuarial valuation.

Pension Plan Administration Services

In April 2006, responsibility for the provision of Pension Plan administrative services on behalf of the Bank was transferred from Mercer's Toronto office to its Montréal office. Initial indications are that the Montréal office is providing Plan members with improved client service. You can keep us up to date on your level of satisfaction with Mercer by completing the telephone survey that is included at the end of every call to them. We will report on the accuracy, quality, and timeliness of member dealings with Mercer Montréal and share the results with you in the autumn 2007 issue of *Pension News*.

Pensioner Audit

In keeping with best practices for pension administration governance and on the advice of the Plan's external auditors, Deloitte &

Touche, a decision was made to conduct an audit of pensions that are currently being paid. The objective of this audit is to ensure that only pensioners or surviving spouses who are entitled to receive a pension are, in fact, receiving one. Retirees will receive—if they have not already done so—a letter asking them to confirm, by their signature and that of a witness, that they are the rightful recipient of the pension.

Communications

Plans are still under way to update the pension pages on Banque Centrale, and we continue to explore the feasibility of introducing a password-protected section to the site that would be available to retirees.

Please make sure that you keep us informed about any changes to your personal information. We need to know where to send your Pension Plan-related information.

PENSION ASSETS AND INVESTMENTS

Asset/Liability Management

As was stated in previous annual reports, the Pension Trust Fund's investment activities are undertaken within an asset/liability management framework that involves assessing the Fund's future financial position based on the projected values of its assets and liabilities. The projected value of assets is based on the Fund's current asset allocation and manager structure. The projected value of liabilities is based on regular updates provided by the Plan's actuary. A proxy of the Fund's liabilities is used to simulate the current market value of the liabilities.

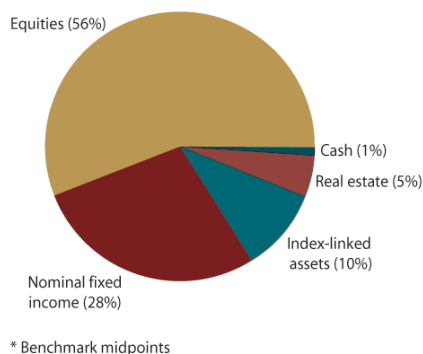
Asset Mix

The Fund's portfolio is invested in a diversified mix of assets. This approach is taken to achieve an appropriate balance between the Fund's long-term investment objectives and risk-management objectives. Diversification helps enhance the portfolio's performance, because different asset classes perform differently from year to year.

In 2006, the portfolio consisted of five main asset categories: equities, nominal fixed income, index-linked assets, real estate, and cash (Figure 5). The Plan's Statement of Investment Policy and Procedures sets out broad ranges (bands) for the percentage of assets to be invested in each category. The Pension Committee establishes narrower bands.

Over the past year, the investment strategy has been to improve the expected return of the Fund by using more active management than in the past. Consequently, the PFIC has looked at ways of modestly increasing the level of active management in the portfolio. Information about active management was included in the November 2006 issue of *Pension News*.

Figure 5
The Five Main Asset Categories
in the Fund's Portfolio, 2006*
(as at 31 December 2006)



Investment Approach

The Fund's investment performance is assessed over short-term horizons against the performance of a benchmark portfolio. This benchmark performance is based on the market index for each of the asset categories in the Fund, held at the midpoint for each of the Fund's five bands.

Because the value of individual assets varies over time, the actual percentage of the Fund's assets in each of the categories may vary from the benchmark weightings. The PFIC meets monthly to review these fluctuations and rebalance the portfolio, if necessary, to ensure that asset holdings remain within the permissible bands.

The information that follows provides an overview of the current status of these asset categories as well as any planned changes for 2007. Please refer to previous annual reports for additional details about the composition and management of the asset categories.

Equities

In 2006, the strategy for Canadian equity investments was changed from a largely passive approach—in which external managers are chosen to target the benchmark index at the lowest possible deviation—to an active approach—in which external managers are chosen for their ability to generate higher expected returns against the benchmark at a modest level of increased risk.

Prior to 2006, investments in small-capitalization stocks had been undertaken in an active manner, but investments in large and medium-sized capitalization stocks (which represent a very large share of the Fund's Canadian equity position) were managed passively. Under the new strategy, starting in 2007, all investments in Canadian equities will be undertaken by external managers on an active basis.

The strategy for investments in non-Canadian equities remained unchanged in 2006. The U.S. equities were managed passively against a broad U.S. equity index. In addition, investments in foreign equities outside of the United States were managed actively against a benchmark that represents the largest developed equity markets in the world outside Canada and the United States. A thorough review of the investment strategy for non-Canadian equities is planned for 2007.

Since 2005, the Fund's foreign equity investments have been partially hedged to foreign exchange movements.

Nominal fixed income

Most of the Fund's fixed-income investments are managed externally using a passive indexed approach that is benchmarked by the Scotia

Capital long-bond index. A small portion of the bond portfolio is managed internally to fulfill possible liquidity needs and to implement risk-management strategies to mitigate duration risk in the portfolio. After the duration extension undertaken in 2005, the portfolio allocation was kept at about that level for most of 2006.

Index-linked assets

The financial characteristics of index-linked assets are closely aligned with the indexed pensions paid to Plan beneficiaries. These assets are purchased directly by the Fund. Given the relatively low liquidity of these assets, they are not traded on a regular or frequent basis.

Real estate

During 2006, the Fund's real estate holdings increased from their 2005 level, and additional investments are expected over 2007. This slow progression to reach the Fund's objective is caused mainly by the asset class's relatively low liquidity and by valuation considerations.

Cash

A small amount of the Fund's assets are maintained in the form of cash to meet the Fund's ongoing liquidity needs.

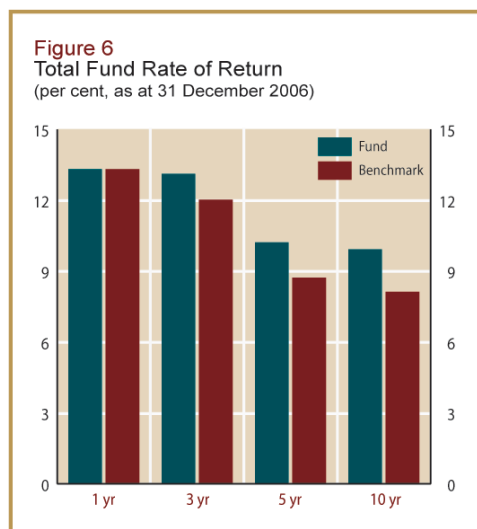
Performance of the Fund

The one-year return, ending on 31 December 2006, was 13.3 per cent. This was in line with the return of the policy benchmark, which was also 13.3 per cent. As Figure 6 shows, the rates of return for three, five, and ten years all exceed the benchmark figures.

The Fund's return remains above the long-term investment objective, which is to achieve the actuarial target rate of return. Following the

1 January 2005 actuarial valuation, the rate was set for three years at inflation plus 3.5 per cent net of expenses (approximately 30 basis points).

Since benefits payable under the Plan are indexed to keep pace with inflation each year, the target rate is measured after the effects of inflation and net of expenses.



Supplementary Trust Fund

In 1992, a Supplementary Pension Arrangement (SPA) was introduced to supplement the maximum pension prescribed for registered pension plans by the Canada Revenue Agency. Additional information can be found in section 2.1.1 of Bylaw 18.

The SPA is fully indexed, and while it is not governed by the investment regulations of the Pension Benefits Standards Act, a separate trust

fund—the Supplementary Trust Fund (STF)—has been established to support it.

The STF's assets are held in two accounts. One account is under the direct control of the Pension Committee and the PFIC, and is referred to as the “investable portion” of the STF. The other is in the form of a non-interest-bearing deposit at the Canada Revenue Agency, and it is held as a form of tax. It consists of a 50 per cent share of the Bank and employee contributions to the STF and 50 per cent of the income of STF investments. The Pension Committee and the PFIC do not control this account. However, the tax held in this account is refundable, and it is returned to us when distributions are made out of the STF to beneficiaries.

Although the STF's return and diversification objectives have been managed in a manner similar to that of the Pension Trust Fund, important differences exist. The relatively small size of the STF and the past variability of cash inflows and outflows have required a relatively large cash position. As well, given the required contributions to the Canada Revenue Agency account, the allocation of STF assets is geared to minimize the receipt of current income and the realization of capital gains in favour of unrealized capital gains. From that perspective, investments are oriented to equities and are managed according to a strategy of low turnover.

ACTUARIAL STATUS OF THE PLAN

The Bank continues to request that the Plan's actuary conduct surplus projections in years when no actuarial valuation is scheduled. Tables 2 and 3 show that the Bank of Canada Registered Pension Plan remains in a surplus position on both valuation bases.

Table 2
Going-Concern Basis
(\$ millions)

	2001**	2004**	31 Dec. 2005	31 Dec. 2006
Assets*	676.6	739.6	778.8	835.1
Liabilities	513.1	652.6	678.7	706.7
Surplus	163.5	87.0	100.1	128.4
Ratio of assets to liabilities	132%	113%	115%	118%

*Actuarial values (smoothed)

**2001 and 2004 figures are consistent with the triennial actuarial valuation.

The going-concern basis assumes that the Plan will continue indefinitely. Therefore, the actuary must determine the Fund liabilities for the service accrued to date, based on projected final average earnings, and determine whether there are sufficient assets to meet those liabilities. The Bank's actuary uses a five-year actuarially smoothed value of the assets.

As indicated in Table 2, the Plan's actuarial surplus on a going-concern basis has increased slightly since last year, owing mainly to asset appreciation.

Table 3
Solvency Basis
(\$ millions)

	2001**	2004**	31 Dec. 2005	31 Dec. 2006
Assets*	679.0	776.2	866.3	952.4
Liabilities	482.4	685.2	807.2	800.3
Surplus	196.6	91.0	59.1	152.1
Ratio of assets to liabilities	141%	113%	107%	119%

*Market values

**2001 and 2004 figures are consistent with the triennial actuarial valuation.

The solvency basis assumes that the Plan will be wound up on the valuation date. The solvency surplus is calculated using the market value of assets, and the solvency liability (accrued pension benefits up to and including the valuation date) is determined using a prescribed methodology and a set of assumptions.

At the end of 2006, the solvency ratio increased to 119 per cent from 107 per cent at the end of 2005. This increase is predominantly due to the good return generated on assets and a slight increase in the market discount rate used to value the solvency pension liabilities.

Historical volatility in the solvency liabilities highlights the ultrasensitivity of the solvency basis calculation to changes in the discount rate as compared with the more stable nature of the going-concern basis calculation.

Financial Statements

Financial reporting responsibility	11
Actuary's opinion	12
Auditors' report	13
Statements	14
Notes	17



FINANCIAL REPORTING RESPONSIBILITY

The accompanying Financial Statements of the Bank of Canada Registered Pension Plan (the Plan) have been prepared by the Bank's management in accordance with Canadian generally accepted accounting principles and contain certain items that reflect estimates and judgment of management. The integrity and reliability of the data in these financial statements are management's responsibility.

In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively. Internal controls are reviewed and evaluated by internal audit programs, which are subject to scrutiny by the external auditors.

The Pension Committee is responsible for the administration of the Plan and has overall responsibility for the financial information presented in the Financial Statements. The Pension Committee meets with management and with the external auditors to review the scope of the audit, to review their findings, and to satisfy themselves that their responsibilities have been properly discharged. In addition, Mercer Human Resource Consulting Limited, a firm of consulting actuaries, conducts a formal actuarial valuation of the Plan at least every three years, as required under the Pension Benefits Standards Act.

Deloitte & Touche LLP, the Plan's external auditors, appointed by the Pension Committee, has conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and procedures as they consider necessary to express an opinion in their report to the Pension Committee. The external auditors have full, unrestricted access to the Pension Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.



Paul Jenkins
Senior Deputy Governor and Chair, Pension Committee



Sheila Vokey, CA
Chief Accountant and Member, Pension Committee

9 March 2007

ACTUARY'S OPINION

Mercer Human Resource Consulting Limited was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and accrued pension benefits of the Bank of Canada Registered Pension Plan as of 31 December 2006 for inclusion in the Plan's financial statements.

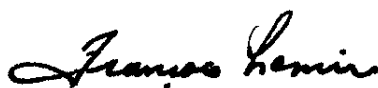
The objective of the financial statements is to fairly present the financial position of the Plan as of 31 December 2006 on a going-concern basis. While the actuarial assumptions used to estimate accrued pension benefits for the Plan's financial statements represent management's best estimate of future 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.

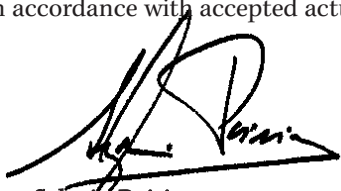
Our assessment of the Plan's going-concern assets and accrued pension benefits was based on:

- the results of our 1 January 2005 actuarial valuation and extrapolation to 31 December 2006 of the Plan's going-concern liabilities,
- pension fund data provided by the Bank of Canada as of 31 December 2006,
- 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 Limited and are considered management's best estimate of these events.

We have tested the membership and pension fund data 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 the extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation and extrapolation performed in accordance with accepted actuarial practice.



François Lemire
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries



Sylvain Poirier
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer Human Resource Consulting Limited

Ottawa, Canada
9 March 2007

AUDITORS' REPORT

To the Bank of Canada Pension Committee

We have audited the statement of net assets available for benefits, accrued pension benefits, and funding excess of the Bank of Canada Registered Pension Plan as of 31 December 2006 and the statements of changes in net assets available for benefits and of changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits, and funding excess of the Bank of Canada Registered Pension Plan as at 31 December 2006 and the changes in net assets available for benefits and accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



DELOITTE & TOUCHE LLP
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
9 March 2007

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

As at 31 December 2006

	2006	2005
Assets		
Investments (note 3)	\$ 952,195,871	\$ 864,830,356
Accrued investment income	547,611	1,806,117
Accrued employees' contributions	<u>97,000</u>	<u>74,000</u>
	<u>952,840,482</u>	<u>866,710,473</u>
Liabilities		
Accounts payable and accrued liabilities	<u>418,400</u>	<u>437,534</u>
Net assets available for benefits	952,422,082	866,272,939
Actuarial Asset Value Adjustment (note 4)	<u>(117,339,468)</u>	<u>(87,515,473)</u>
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	835,082,614	778,757,466
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS (note 5)	<u>706,682,148</u>	<u>678,692,579</u>
FUNDING EXCESS	<u><u>\$ 128,400,466</u></u>	<u><u>\$ 100,064,887</u></u>

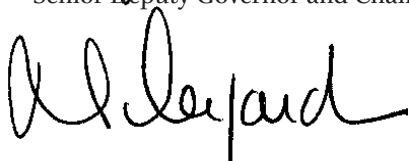
On behalf of the Board of Directors of the Bank of Canada and the Pension Committee



Paul Jenkins
Senior Deputy Governor and Chair, Pension Committee



Sheila Vokey, CA
Chief Accountant and Member, Pension Committee



Jean-Guy Desjardins
Member, Board of Directors of the Bank of Canada and Pension Committee

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2006

	<u>2006</u>	<u>2005</u>
Increase in assets		
Investment income	\$ 27,952,117	\$ 33,823,320
Current-year change in fair value of investments (note 3)	<u>83,873,266</u>	<u>72,513,330</u>
	<u>111,825,383</u>	<u>106,336,650</u>
Employees' contributions—current services	5,059,408	4,753,973
Employees' contributions—past services	278,469	324,770
Transfers from other plans	<u>637,637</u>	<u>609,606</u>
	<u>5,975,514</u>	<u>5,688,349</u>
	<u>117,800,897</u>	<u>112,024,999</u>
Decrease in assets		
Benefits paid	26,496,641	25,187,398
Refunds and transfers	2,523,653	3,135,275
Administrative expenses (note 6)	<u>2,631,460</u>	<u>2,877,379</u>
	<u>31,651,754</u>	<u>31,200,052</u>
Net increase in net assets	86,149,143	80,824,947
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	<u>866,272,939</u>	<u>785,447,992</u>
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	<u><u>\$ 952,422,082</u></u>	<u><u>\$ 866,272,939</u></u>

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December 2006

	<u>2006</u>	<u>2005</u>
Increase in accrued pension benefits		
Benefits earned	\$ 19,567,920	\$ 18,407,129
Interest cost	<u>37,441,943</u>	<u>35,972,072</u>
	<u>57,009,863</u>	<u>54,379,201</u>
 Decrease in accrued pension benefits		
Benefits paid	26,496,641	25,187,398
Refunds and transfers	<u>2,523,653</u>	<u>3,135,275</u>
	<u>29,020,294</u>	<u>28,322,673</u>
 Net increase in actuarial value of accrued pension benefits	 27,989,569	 26,056,528
 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS BEGINNING OF YEAR	 <u>678,692,579</u>	 <u>652,636,051</u>
 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS END OF YEAR	 <u><u>\$ 706,682,148</u></u>	 <u><u>\$ 678,692,579</u></u>

 (See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1. DESCRIPTION OF THE REGISTERED PENSION PLAN

The following description of the Bank of Canada Registered Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the text of the Plan (Bank Bylaw 15) as amended.

a) General

The Plan was established under the provisions of the Bank of Canada Act, 1934, and has remained in accordance with the Act as subsequently amended. Responsibility for administration and investment of the Plan resides with the Pension Committee, including adherence to the guidelines established in the Statement of Investment Policy and Procedures that is approved annually by the Bank's Board of Directors.

The Plan is a contributory defined-benefit pension plan covering substantially all employees of the Bank of Canada. The Plan provides for service pensions, survivors' pensions, and refunds occasioned by termination of employment or death. The Plan's registration number with the Office of the Superintendent of Financial Institutions is 55116.

The Plan is a Registered Pension Trust as defined in the Income Tax Act and, consequently, is not subject to income taxes. The Plan's registration number for income tax purposes is 0349233.

In 1992, a Supplementary Pension Arrangement (SPA) was introduced to supplement the pensions of those employees who contribute above the maximum prescribed for registered pension plans by Canada Revenue Agency. A separate trust fund has been established to support the SPA and, therefore, the net assets available for benefits and the accrued pension benefits are not included in these financial statements.

b) Benefits

A lifetime service pension is available to Plan members based on the number of years of credited service, the average salary of the five highest-paid continuous years of service, and the member's age at retirement.

Death benefits are available on the death of an active member or of a retired member. The benefits may take the form of a refund of the contributions plus interest or a survivor pension.

Upon termination of employment, a Plan member has the option of taking a deferred pension for service rendered or of taking the commuted value of the pension benefit.

c) Funding policy

Contributions to the Plan are determined by actuarial valuations that are made every three years. The most recent actuarial valuation of the Plan for funding purposes was performed on 1 January 2005. These valuations are performed in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. Employees are required to contribute to the Plan each year, to a maximum of 35 years of credited service, a percentage of their pensionable salary, which is 5.7 per cent up to the year's maximum pensionable earnings (YMPE) (\$42,100 in 2006 and \$41,100 in 2005) and 7.5 per cent of salary in excess of the YMPE.

d) Indexation

Pension benefits are indexed to reflect the changes in the consumer price index on the date that payment begins and each 1 January thereafter.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles on the going-concern basis and present the financial position of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

b) Investments

Investments are recorded as of the trade date and are stated at fair value (see note 3). Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Cost represents the original cost less writedowns to reflect other than temporary declines in fair value.

c) Accrual of income

Interest income, dividends, and contributions are recognized on an accrual basis.

d) Current-year change in fair value of investments

The current-year change in fair value of investments is the difference between the fair value and the cost of investments at the beginning and end of each year, adjusted for realized gains and losses during the year.

e) Foreign currency translation and forward currency agreements

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transactions. Forward currency agreements are measured at fair value as at the reporting date. Gains and losses from translation and forward currency agreements are included in the current-year change in the fair value of investments.

f) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimated.

g) Accrued pension benefits

Accrued pension benefits are based on an actuarial valuation prepared by a firm of independent actuaries. The accrued pension benefits in the inter-valuation periods are determined by extrapolating the results of the previous formal valuation that had been performed using the projected-benefit method prorated on service and management's estimate of future events affecting the Plan (note 5).

h) Actuarial value of net assets available for benefits

The actuarial value of assets available for benefits has been determined based on the market value of assets as at 31 December for each year adjusted to average out gains and losses resulting from the difference between the actual return on Plan assets and management's target rate of return. The annual excess (shortfall) of investment earnings, realized and unrealized capital gains over the target investment return, is amortized over five years.

3. INVESTMENTS

a) General

The Plan invests in money market instruments, bonds, equities, index-linked assets, and real estate in accordance with its policy of asset diversification. The following table shows the fair value and the cost of the investments at year-end, as well as the current-year change in fair value of investments and related income. Foreign trust funds are recorded net of unrealized gains/(losses) on hedges of \$(1,963,685) (\$63,498 in 2005). Investment income includes interest and dividends earned during the year, as well as income from real estate.

2006 INVESTMENTS					
	Fair value	Cost	Current-year change in fair value of investments	Investment income	Total return
Money market instruments					
Cash and short-term investment	\$ 2,718,115	\$ 2,718,527	\$ 329	\$ 255,437	\$ 255,766
Bonds					
Provincial	49,057,820	49,487,137	(2,143,887)	4,182,821	2,038,934
Fixed income fund	212,162,307	202,273,887	2,340,402	7,120,077	9,460,479
	<u>261,220,127</u>	<u>251,761,024</u>	<u>196,515</u>	<u>11,302,898</u>	<u>11,499,413</u>
Equities					
Canadian equity funds	267,163,045	272,271,630	40,903,102	4,178,851	45,081,953
Foreign equity funds	300,605,475	212,549,242	42,533,392	7,940,481	50,473,873
	<u>567,768,520</u>	<u>484,820,872</u>	<u>83,436,494</u>	<u>12,119,332</u>	<u>95,555,826</u>
Index-linked assets					
Government of Canada	65,797,560	48,049,420	(3,526,083)	1,575,424	(1,950,659)
Corporate	3,217,268	1,957,809	(119,428)	124,989	5,561
Mortgages	15,633,302	13,709,985	(185,814)	1,019,538	833,724
	<u>84,648,130</u>	<u>63,717,214</u>	<u>(3,831,325)</u>	<u>2,719,951</u>	<u>(1,111,374)</u>
Real estate funds	<u>35,840,979</u>	<u>28,642,516</u>	<u>4,071,254</u>	<u>1,554,499</u>	<u>5,625,753</u>
Total	<u>\$ 952,195,871</u>	<u>\$ 831,660,153</u>	<u>\$ 83,873,267</u>	<u>\$ 27,952,117</u>	<u>\$ 111,825,384</u>

2005 INVESTMENTS

	Fair value	Cost	Current-year change in fair value of investments	Investment income	Total return
Money market instruments					
Cash and short-term investment	\$ 2,039,355	\$ 2,040,096	\$ (684)	\$ 230,366	\$ 229,682
Bonds					
Government of Canada	80,423,780	79,641,486	787,911	38,716	826,627
Provincial	121,389,041	111,412,024	3,039,382	5,991,005	9,030,387
Municipal	4,711,400	4,204,787	(555,282)	1,500,103	944,821
Corporate	29,774,941	29,199,178	(143,217)	3,898,990	3,755,773
	<u>236,299,162</u>	<u>224,457,475</u>	<u>3,128,794</u>	<u>11,428,814</u>	<u>14,557,608</u>
Equities					
Canadian equity funds	249,989,410	244,107,953	48,737,870	2,240,545	50,978,415
Foreign equity funds	263,232,488	217,404,416	5,235,389	16,403,367	21,638,756
	<u>513,221,898</u>	<u>461,512,369</u>	<u>53,973,259</u>	<u>18,643,912</u>	<u>72,617,171</u>
Index-linked assets					
Government of Canada	69,533,422	48,259,199	9,729,504	1,746,205	11,475,709
Corporate	3,358,338	1,979,452	302,486	144,632	447,118
Mortgages	16,310,953	14,201,821	2,109,133	1,001,353	3,110,486
	<u>89,202,713</u>	<u>64,440,472</u>	<u>12,141,123</u>	<u>2,892,190</u>	<u>15,033,313</u>
Real estate funds	<u>24,067,228</u>	<u>20,940,019</u>	<u>3,270,838</u>	<u>628,038</u>	<u>3,898,876</u>
Total	<u>\$ 864,830,356</u>	<u>\$ 773,390,431</u>	<u>\$ 72,513,330</u>	<u>\$ 33,823,320</u>	<u>\$ 106,336,650</u>

b) Determination of fair values

i) Money market instruments

Money market instruments consist of cash and treasury bills, which are valued using published market quotations.

ii) Bonds, equities, index-linked assets, and real estate

Bonds consist mainly of an investment in a pooled fund, consisting of Government of Canada, provincial, municipal, and corporate bonds, managed by an external manager. Investment valuations are received from the manager and verified using published market quotations.

Equity investments consist mainly of Canadian and foreign equity pooled funds managed by external managers. Investment valuations are received from the various external managers and are verified using published market quotes.

Index-linked assets consist mainly of Government of Canada bonds, corporate bonds, and mortgages guaranteed by the Canada Mortgage and Housing Corporation. Investments are valued using published market quotations and values provided by a mortgage valuator.

Real estate investments consist mainly of diversified pooled funds of commercial, industrial, and office real estate in several major centres across Canada. They are recorded at estimated fair value and are subject to independent appraisals on a regular basis.

c) Investment risk

The Plan's Statement of Investment Policies and Procedures provides for a diversified asset mix to achieve the long-term investment objective and to control the level of risk. The diversification of assets serves to lower the variations in the expected return performance of the portfolio.

The Plan's performance is subject to a number of risks, which are managed using various tools and techniques. Some of these risks are discussed below.

i) Interest rate risk

Interest rate risk refers to the adverse consequences of changes in interest rate on the Plan's cash flows, investment income, and financial position.

The value of the Plan's assets, particularly the fixed-income allocation, is affected by changes in the nominal interest rate. As at 31 December 2006, a 1 percentage point increase in the nominal interest rate would result in a decline in the value of the Plan's fixed-income securities of about 15.0 per cent.

Accrued pension benefits are sensitive to changes in inflation and to salary escalation rates. Changes in these parameters, as well as in interest rates, will have a different effect on the values of the assets and pension benefits, leading to mismatch risk. Given the nature of pension benefits and the differences in the timing and amount of cash flows related to the Plan's assets and pension benefits, such risks cannot be eliminated, but they are managed through the funding and investment policy of the Plan.

ii) Credit risk

a) Credit risk is the risk that a borrower or counterparty will fail to meet its contractual obligations in accordance with agreed terms and cause the other party to incur a financial loss.

The Plan's credit risk is managed by setting maximum limits on exposure to various fixed-income issuers and securities held in the bond portfolio, as well as by setting minimum credit-rating requirements for holdings in the bond portfolio.

Credit risk in derivative contracts is limited by entering into contracts with creditworthy counterparties and by setting limits on the allowable amount of exposure to each of these counterparties.

In the equity portfolio, various concentration limits have been established to limit the concentration of equities in particular corporate sectors.

b) Concentration of credit risk exists when a significant proportion of the portfolio is invested in the securities of individual issuers, which tend to react similarly to economic, political, or other conditions. As at 31 December 2006, the Plan's most significant concentration of credit risk is with the Canadian and provincial governments.

iii) Foreign currency and exposure risk

Foreign currency exposure arises from the Plan's holdings of investments denominated in foreign currency. At the present, the market value of these investments can represent up to 32 per cent of the Plan's asset, with a midpoint target of 29 per cent.

To further limit the foreign exchange risk arising from this exposure, the Plan has entered into off-balance sheet commitments in the form of foreign exchange forward contracts for the sale of various currencies for the purpose of hedging assets denominated in a foreign currency. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the hedged positions as at 31 December 2006 is presented below.

	2006			2005
	Foreign currency exposure	Net foreign currency hedge	Net foreign currency exposure	Net foreign currency exposure
Foreign equity funds				
U.S. dollars	\$ 153,531,954	\$ 78,836,775	\$ 74,695,179	\$ 61,645,875
Euros	44,697,966	21,302,400	23,395,566	20,907,639
Pound sterling	38,526,915	18,000,000	20,526,915	17,702,642
Japanese yen	15,523,421	7,492,507	8,030,913	8,860,415
Swiss francs	11,961,984	5,759,816	6,202,168	5,474,605
Australian dollars	3,045,242	1,518,100	1,527,142	1,603,384
Other currencies	35,281,678	-	35,281,679	30,070,902
Total Canadian dollars	<u>\$ 302,569,160</u>	<u>\$ 132,909,598</u>	<u>\$ 169,659,562</u>	<u>\$ 146,265,462</u>

iv) Securities lending

The Plan lends securities as a means of generating incremental income or of supporting the normal practice with regard to investment strategies. Securities are loaned only against collateral representing at least 105 per cent of the value of the securities. As at 31 December 2006, the Plan's investments included loaned securities with a fair value of \$11,422,087 (\$24,236,397 in 2005). The fair value of collateral received in respect of these loans was \$12,307,385 (\$25,768,136 in 2005).

4. ACTUARIAL ASSET VALUE ADJUSTMENT

The following table summarizes the composition of the actuarial asset value adjustment.

	Unamortized (gains)/losses 2006	Actuarial asset value adjustment Unamortized (gains)/losses to be recognized in					Unamortized (gains)/losses 2005
		2007	2008	2009	2010		
2002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,200,948	
2003	(14,829,196)	(14,829,196)	-	-	-	(29,658,390)	
2004	(16,234,913)	(8,117,457)	(8,117,456)	-	-	(24,352,370)	
2005	(36,529,245)	(12,176,415)	(12,176,415)	(12,176,415)	-	(48,705,661)	
2006	(49,746,114)	(12,436,529)	(12,436,529)	(12,436,528)	(12,436,528)	-	
	<u>\$ (117,339,468)</u>	<u>\$ (47,559,597)</u>	<u>\$ (32,730,400)</u>	<u>\$ (24,612,943)</u>	<u>\$ (12,436,528)</u>	<u>\$ (87,515,473)</u>	

5. ACCRUED PENSION BENEFITS

Under the Pension Benefits Standards Act, actuarial valuations are required at least every three years. An actuarial valuation was performed as of 1 January 2005 by Mercer Human Resource Consulting Limited, a firm of consulting actuaries. The assumptions used to determine the actuarial value of accrued pension benefits were developed by referencing to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation are:

	2006	2005
Asset rate of return	5.50%	5.50%
Interest rate	5.50%	5.50%
Salary-escalation rate	3.50% + merit	3.50% + merit
Inflation rate	2.00%	2.00%

6. ADMINISTRATIVE EXPENSES

	<u>2006</u>	<u>2005</u>
Investment management fees	\$ 1,662,528	\$ 1,411,091
Pension administration fees	448,674	677,759
Audit and actuarial fees	22,688	134,663
Other administration fees	<u>497,570</u>	<u>653,866</u>
Total	<u>\$ 2,631,460</u>	<u>\$ 2,877,379</u>

Glossary



Basis points: One basis point is equal to 1/100th of one per cent. This type of measurement is used to more clearly describe small changes in a financial instrument.

Going concern: An assessment that looks at the long view (typically, at least 50 years) of the performance of a pension plan.

Governance: The structure and processes for overseeing, managing, and administering a pension to ensure the fiduciary and other obligations of the plan are met.¹

Pension fund: The assets of the pension plan, which are held separate and apart from the other assets of the sponsor.¹

Plan members: Both current and former employees entitled to benefits under the plan.¹

Proxy: A measured variable that is used to infer the value of a variable of interest.

Service provider: A provider of services or advice required by the plan administrator in the operation of the pension plan.¹

Solvency: An assessment that provides a snapshot of a pension plan at a given point in time, and a measurement of the plan's performance as though it were going to be wound up immediately.

1. Taken from the Canadian Association of Pension Supervisory Authorities, *Guideline No. 4, Pension Plan Governance Guidelines and Self-Assessment Questionnaire* (2004), available at <http://www.capsa-acor.org>.