BANK OF CANADA
BANQUE DU CANADA

QUARTERLY FINANCIAL REPORT 2018

DYNAMIC.
ENGAGED.
TRUSTED.

March 31, 2018, Unaudited

Contents

Context of the Quarterly Financial Report

The Bank of Canada (the Bank) 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. 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 is committed to keeping Canadians informed about its policies, activities and operations.

This discussion has been prepared in accordance with section 131.1 of the *Financial Administration Act* and follows the guidance outlined in the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board of Canada Secretariat.

Management is responsible for the preparation of this report, which was approved on May 17, 2018, by the Audit and Finance Committee of the Board of Directors.

The Quarterly Financial Report should be read in conjunction with the condensed interim financial statements included in this report and with the Bank's Annual Report for 2017. The Annual Report includes a Management Discussion and Analysis (MD&A) for the year ended December 31, 2017. Disclosures and information in the 2017 Annual Report and the MD&A apply to the current quarter unless otherwise updated in this quarterly report.

Managing the balance sheet

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

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

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

Financial position
As at (in millions of Canadian dollars)

	March 31, 2018	December 31, 2017
Assets		
Cash and foreign deposits	**15.3**	14.6
Loans and receivables	**7,914.3**	9,483.0
Investments	**100,357.8**	100,861.0
Capital assets[a]	**606.4**	609.1
Other assets	**159.0**	132.6
Total assets	**109,052.8**	**111,100.3**
Liabilities and equity		
Bank notes in circulation	**82,961.2**	85,855.9
Deposits	**24,996.1**	24,228.8
Other liabilities	**580.4**	520.0
Equity	**515.1**	495.6
Total liabilities and equity	**109,052.8**	**111,100.3**

a. Includes *Property and equipment* and *Intangible assets*

Assets

The Bank's total assets decreased by $2,047.5 million (or 2 per cent) since December 31, 2017. This decrease predominantly reflects the impact of seasonal fluctuations in demand for bank notes[1] on the Bank's holdings of financial assets (as described in the discussion on *Managing the balance sheet).*

Included in *Loans and receivables* were SPRAs totalling $7,905.2 million as at March 31, 2018 ($9,478.5 million as at December 31, 2017), which represents a decrease of $1,573.3 million (or 17 per cent) from December 31, 2017. SPRAs are high-quality assets temporarily acquired through the repurchase market, in line with the Bank's framework for financial market operations. To offset the peak in seasonal demand for bank notes, operations increased at the end of 2017.

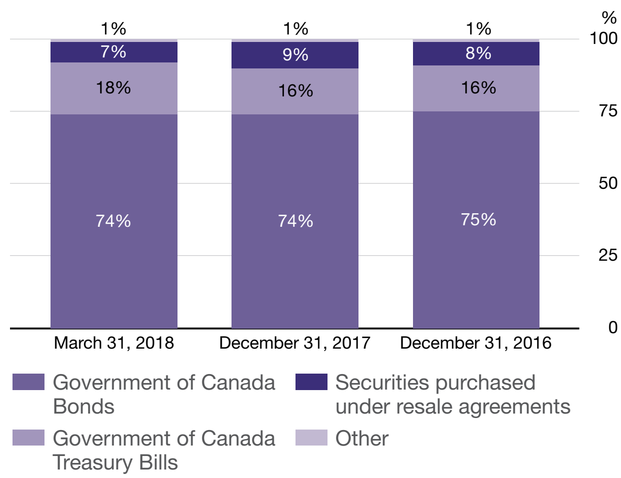
The Bank's investments have decreased by $503.2 million (or 0.5 per cent) since December 31, 2017, amounting to $100,357.8 million as at March 31, 2018 ($100,861.0 as at December 31, 2017). This decrease is a result of the following movements within the Bank's holdings:

- *Government of Canada bonds* were $80,664.8 million as at March 31, 2018 ($82,087.0 as at December 31, 2017), representing a decrease of $1,422.2 million (or 2 per cent) from year-end 2017. The decrease is the result of lower purchases over maturities, primarily reflecting the impact of the gradual reduction of the Bank's minimum purchase amount of nominal bonds at auctions from 20 per cent to 13 per cent initiated in 2015.[2]
- *Government of Canada treasury bills* were $19,269.9 million as at March 31, 2018, an increase of $899.5 million (or 5 per cent) from year-end 2017,[3] predominantly as a result of higher volumes of purchases over maturities. Purchases of Government of Canada treasury bills are based on the Bank's balance sheet needs.
- The remaining change in investments was an increase of $19.5 million (or 5 per cent) in the fair value of the Bank's investment in shares of the Bank for International Settlements (BIS), which was largely driven by a favourable movement in the foreign exchange rate.

Overall, *Capital assets* have remained stable since December 31, 2017. Additions to capital assets made during the quarter were driven mainly by the Bank's medium-term plan (MTP) resiliency initiatives, including cyber security and business recovery enhancements.

Other assets includes the net defined-benefit asset related to the Bank of Canada Pension Plan (the Bank's registered pension plan). The net defined-benefit asset increased by $18.8 million (or 17 per cent) compared with December 31, 2017, primarily due to a 10-basis-point increase in the discount rate[4] used to measure the related defined-benefit obligation, which was partially offset by negative asset returns in the first quarter of 2018.

Asset profile



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

2 The Bank of Canada made the following changes in the Bank's minimum purchase amount of nominal bonds at auctions: October 1, 2015, reduced to 15 per cent from 20 per cent; February 3, 2017, further reduced to 14 per cent; and December 21, 2017, further reduced to 13 per cent.

3 Following the adoption of International Financial Reporting Standard (IFRS) 9 *Financial instruments* on January 1, 2018, Government of Canada treasury bills are now being measured at amortized cost rather than at fair value through other comprehensive income. The opening adjustment on January 1, 2018, represented an increase in the carrying value of Government of Canada treasury bills of $9.7 million. See Note 2 to the condensed interim financial statements for further information.

4 The net defined-benefit asset is measured using the discount rate in effect as at the period-end. The discount rate as at March 31, 2018, was 3.6 per cent (3.5 per cent as at December 31, 2017).

Liabilities

The Bank's total liabilities decreased by $2,067.0 million (or 2 per cent) since December 31, 2017, generally driven by decreases in *bank notes in circulation*.

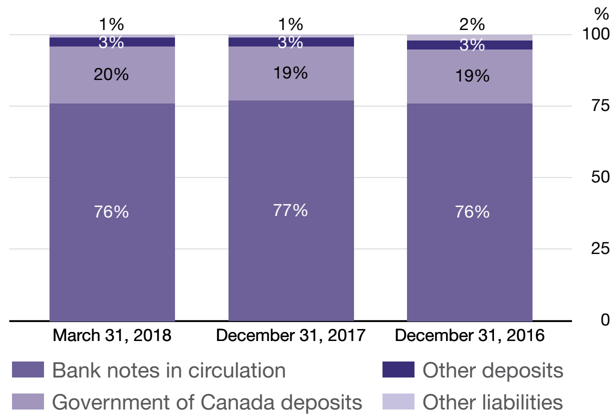
Bank notes in circulation represents approximately 76 per cent (77 per cent as at December 31, 2017) of the Bank's *total liabilities and equity*. Currency remains an essential means of undertaking transactions in Canada. The value of *bank notes in circulation* has decreased by $2,894.7 million (or 3 per cent) since December 31, 2017, driven largely by seasonal variations in demand.

The second-largest liability on the balance sheet consists of deposits held for the Government of Canada and other financial institutions. The main components of the *Deposits* liability are $20,000.0 million ($20,000.0 million as at December 31, 2017) held for the government's prudential liquidity-management plan and $1,832.0 million held for the government's operational balance ($1,454.2 million as at December 31, 2017). The Government of Canada operational balance increased by $377.8 million compared with year-end 2017; this portion of the deposit is dependent on the cash needs of the Government of Canada, and fluctuations that occur are a result of decisions related to cash-flow management.

Other deposits of $2,913.8 million as at March 31, 2018 ($2,274.3 million as at December 31, 2017), consist of deposits from central banks and other financial institutions, and unclaimed balances remitted to the Bank in accordance with governing legislation. The increase of $639.5 million (or 28 per cent) from the previous year-end was mainly due to the timing of deposits made by central banks and other financial institutions over which the Bank does not exercise control. Also included in *Deposits* was $250.3 million ($500.3 million as at December 31, 2017) held for members of Payments Canada to support the smooth operation of the Canadian payments system. The decrease from year-end 2017 directly results from the Bank's decision to reduce the target for the minimum daily level of settlement balances to $250 million, which was announced on March 22, 2018.

Other liabilities were $580.4 million as at March 31, 2018 ($520.0 million as at December 31, 2017), an increase of $60.4 million (or 12 per cent) from year-end 2017. These liabilities consisted mainly of the surplus payable to the Receiver General for Canada and the net defined-benefit liabilities for the Bank's employee benefit plans, including the liability for the Bank of Canada Supplementary Pension Arrangement and unfunded post-employment defined-benefit plans.

Liability profile



Changes in the surplus payable to the Receiver General for Canada are the result of the timing of cash payments to the Receiver General for Canada. Net income of the Bank, less any allocations to reserves, is paid to the Receiver General for Canada. For the three-month period ended March 31, 2018, the Bank transferred cash payments of $204.2 million ($468.8 million for the three-month period ended March 31, 2017). As at March 31, 2018, the surplus payable was $289.8 million ($204.2 million as at December 31, 2017).

Liabilities related to the Bank's defined-benefit plans were $240.3 million as at March 31, 2018, representing a decrease of $2.4 million (or 1 per cent) from year-end 2017. Decreases in the liabilities primarily reflect increases in the discount rates[5] used to measure the defined-benefit obligations, partially offset by negative asset returns on plan assets.

Managing equity

The Bank of Canada operates safely with a low capital base relative to its assets. The Bank's primary equity includes $5 million of authorized share capital and a $25 million statutory reserve.

The Bank can operate safely with a low capital base because its balance sheet is not exposed to significant foreign currency risk or fluctuations in the price of gold holdings that are often held by other central banks.

5 The net defined-benefit liability is measured using the discount rates in effect for each plan as at the period-end. The rates as at March 31, 2018, ranged from 3.2 to 3.6 per cent (3.1 to 3.5 per cent as at December 31, 2017).

Summary of equity

As at (in millions of Canadian dollars)

	March 31, 2018	December 31, 2017
Share capital	5.0	5.0
Statutory reserve	25.0	25.0
Special reserve	100.0	100.0
Investment revaluation reserve[a]	385.1	365.6
Total	**515.1**	**495.6**

a. The investment revaluation reserve was previously known as the available-for-sale reserve. See Note 2 to the condensed interim financial statements for further information on the Bank's transition to IFRS 9 *Financial instruments* on January 1, 2018.

Results of operations

For the three-month period ended March 31 (in millions of Canadian dollars)

	2018	2017
Interest revenue	461.5	399.2
Interest expense	(76.2)	(31.2)
Other revenue	1.8	1.8
Total income	387.1	369.8
Total expenses	(131.1)	(110.7)
Net income	**256.0**	**259.1**
Other comprehensive income	43.6	20.6
Comprehensive income	**299.6**	**279.7**

Canada's foreign reserves are held by the Exchange Fund Account and not by the Bank. The Bank is exposed to currency risk primarily through its holdings of shares in the BIS. Given the small size of the Bank's net foreign currency exposure relative to its total assets, currency risk is not considered significant.

In addition, the Bank's asset portfolio has a low credit risk, since it consists primarily of bonds and treasury bills issued by the Government of Canada. Furthermore, the holdings in Government of Canada bonds and treasury bills are not subject to fair value accounting and are measured at amortized cost due to the nature of their cash flows and because they are acquired with the intention to be held until maturity. Other financial assets, such as advances and loans related to repurchase agreements, are transacted on a fully collateralized basis (see Note 3 to the condensed interim *financial statements* for further information on the quality of collateral held).

The Bank also holds a special reserve of $100 million to offset potential unrealized valuation losses due to changes in the fair value of the Bank's investments portfolio. There has been no change in the reserve since its inception.

The largest reserve held by the Bank is the investment revaluation reserve, previously known as the available-for-sale reserve, which represents the net 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 related net unrealized fair value gains are accumulated in the investment revaluation reserve within *Equity*. As at March 31, 2018, this reserve totalled $385.1 million ($365.6 million as at December 31, 2017).

Income

Total income for the first quarter of 2018 was $387.1 million, an increase of $17.3 million (or 5 per cent) compared with the same period in 2017.

The income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage"; it provides a constant and stable source of funding for the Bank's operations.

The Bank's primary source of revenue is *interest earned on* Government of Canada securities, which fluctuates with market conditions. In the first quarter of 2018, the

Bank recorded $435.9 million in interest revenue from treasury bills and bonds—an increase of $46.2 million (or 12 per cent) from the same period in 2017. The increase is a result of higher yields on newly acquired bonds and treasury bills, and higher overall holdings from the comparable period in 2017. Acquisitions of treasury bills and bonds are made at current market rates and affect the yield profile of the portfolio as older instruments reach maturity.

In the first quarter of 2018, interest earned on securities purchased under resale agreements was $25.5 million ($9.4 million in the first quarter of 2017), an increase of $16.1 million (or 171 per cent) from the same period in 2017. This increase was driven predominantly by higher overall yields in the first quarter of 2018.

Income is reported net of the interest paid on deposits held at the Bank by the Government of Canada, members of Payments Canada and other financial institutions, which amounted to $76.2 million in the first quarter 2018 ($31.2 million in the first quarter of 2017), representing an increase of $45.0 million (or 144 per cent). Interest rates paid on deposits is based on market-related rates, which increased compared with the same period in the previous year.

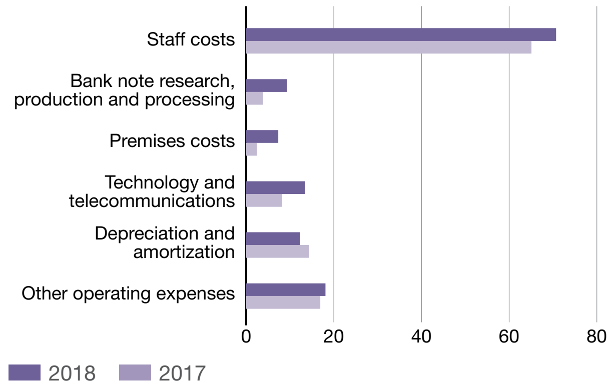
The Bank's revenue from its remaining sources was $1.8 million for the first quarter of 2018 ($1.8 million for the first quarter of 2017) and included safekeeping and custodial fees.

Expenses

Operating expenses were in line with expectations for the first quarter of 2018. The increase over the same period in the previous year of $20.4 million (or 18 per cent), primarily reflected increases in costs for staffing, production of bank notes and expenditures on MTP resiliency initiatives.

Staff costs increased by $5.6 million (or 9 per cent) in the first quarter of 2018 compared with the same period in 2017. The increase is primarily driven by higher benefits costs associated with the Bank's defined-benefit plans and increased staffing to support MTP initiatives. The increase in benefits costs is primarily driven by the lower discount rates used for their calculation.[6]

Expenses
(in millions of Canadian dollars)
For the three-month period ended March 31



Costs associated with bank note production were $5.5 million (or 145 per cent) higher than in the same period in the previous year as a result of higher volumes of bank notes received from the printer. The timing of the bank note production plan varies from one year to the next.

Technology and telecommunications expenses were $5.2 million (or 63 per cent) higher than in the comparable period in 2017. This increase was mostly the result of the Bank's continued focus on strengthening its business continuity posture through investment in cyber security and business resiliency initiatives.

Premises costs were higher by $4.9 million (or 204 per cent) over the comparable period in 2017. The premises costs in the first quarter of 2017 were affected favourably by an $8.1 million reduction in the Bank's provisions related to the temporary space used during the Head Office Renewal Program. When normalized for the above, premises costs for the first quarter of 2018 decreased by $3.2 million (or 31 per cent) following the Bank's move back to the renewed Head Office in the first quarter of 2017, resulting in lower rental expenses.

6 Benefits expenses are based on the discount rate as at December 31 of the preceding year. The discount rates used for the calculation of the pension benefit plans and other benefit plans expenses decreased by an average of 40 basis points between the measurement dates as follows:

	2018	2017
Pension benefit plans	3.50%	3.90%
Other benefit plans	3.44%	3.84%

Depreciation and amortization decreased by $2.0 million (or 14 per cent) over the same period in 2017. In line with the Bank's return to its renewed head office in the first quarter of 2017, assets relating to the temporary space were fully depreciated as at March 31, 2017.

Consistent with 2017, *Other operating expenses* represented 14 per cent of the Bank's total operating expenses for the first quarter of 2018 (15 per cent for the same period in 2017). These costs increased by $1.2 million (or 7 per cent) compared with the same period in 2017.

Other comprehensive income

Other comprehensive income for the first quarter *was $43.6 million (*$20.6 million for the first quarter of 2017). It consisted of remeasurement gains of $24.1 million on the Bank's net defined-benefit plan asset and liabilities and a $19.5 million increase in the fair value of Bank's investment in the BIS, as described in the discussion on *Managing equity*.

Remeasurements pertaining to the Bank's defined-benefit plans are primarily affected by the return on plan assets, where funded, and by changes in the discount rate used to determine the related defined-benefit obligations. The remeasurement gains recorded in first quarter of 2018 were mostly the result of increases in the discount rates[7] used to value the Bank's defined-benefit plans, partially offset by negative asset returns on the Bank's pension plans.

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, since income is predictable and exceeds expenses. The net income of the Bank, less any allocation to reserves, is considered ascertained surplus (surplus), which was $280.1 million for the first quarter of 2018. In accordance with the requirements of section 27 of the *Bank of Canada Act*, the Bank remits its surplus to the Receiver General for Canada and does not hold retained earnings.

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements with consideration given to the volatility arising from fair value changes and remeasurements, which are recorded in other comprehensive income. This agreement allows the Bank to withhold from its remittance to the Receiver General 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 withheld cumulative net unrealized non-cash losses is added to the remittance.

During the first quarter of 2018, the Bank released $24.1 million ($9.2 million during the first quarter of 2017) from its previously withheld remittances of surplus to the Receiver General for Canada, and as at March 31, 2018, $122.2 million in withheld remittances was outstanding ($156.0 million as at December 31, 2017).

Looking ahead to 2018

The Bank's forecasts for its operations do not include projections of net income and financial position. Such projections would require assumptions about interest rates, which could be interpreted as a signal of future monetary policy.

The Bank's 2018 Plan
(in millions of Canadian dollars)

	2018 budget		2017 actuals	
	$	%	$	%
MTP expenditures	406	61	401	72
Bank note production	53	8	51	9
Non-current deferred employee benefits	31	5	18	3
Strategic investment programs	174	26	88	16
Total expenditures[a]	**664**	**100**	**558**	**100**

a. Includes operational and capital expenditures

7 The net defined-benefit asset and liabilities are measured using the discount rate in effect as at the period-end. The rate applicable to the net defined-benefit asset as at March 31, 2018, was 3.6 per cent (3.5 per cent as at December 31, 2017). The rates applicable to the net-defined benefit liabilities as at March 31, 2018, ranged from 3.2 to 3.6 per cent (3.1 to 3.5 per cent as at December 31, 2017).

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

Initiatives committed to in the current MTP will continue to launch or progress in 2018 and into the next MTP for multi-year programs. The projected cumulative average growth over the life of the MTP remains aligned with our commitment of 2 per cent.

The Bank remains focused on strengthening its business continuity posture and, consequently, continues to expect capital expenditures of $74.9 million in 2018 ($54.1 million for the year ended December 31, 2017), which predominantly reflect the Bank's continued investment in cyber security and business resiliency initiatives.

Operational highlights and changes

The following describes any significant changes in personnel, operations and programs that have occurred since December 31, 2017.

Governing Council and Board of Directors

Mr. Alan Borger resigned from the Board of Directors, effective March 26, 2018. There were no other changes to members of the Board of Directors and Governing Council during the quarter.

Operations and programs

Significant operational and program changes during the first quarter of 2018 are as follows:

- On January 17, 2018, the Bank announced that it was raising its target for the overnight rate to 1 ¼ per cent. The Bank Rate was correspondingly raised to 1 ½ per cent and the deposit rate to 1 per cent.
- On February 27, 2018, the Bank of Canada published additional information on the federal government's 2018 budget initiative to seek the authority to remove legal tender status from Canadian bank notes. Having this authority would match the authority the government currently has for coins issued by the Royal Canadian Mint. The Bank of Canada supports this initiative because it can help the Bank ensure that bank notes used by Canadians are current, in good condition, easy to use and difficult to counterfeit.
- As stated in Budget 2018, if this power is granted by Parliament, the government's intention is to remove legal tender status from the $1, $2, $25, $500 and $1,000 bank notes. Removing legal tender status from these older notes is expected to have little impact on most Canadians, as these denominations have not been produced in decades and are rarely used in transactions. Importantly, removal of legal tender status does not mean these notes will lose their face value; the Bank of Canada will continue to honour them.
- On March 22, 2018, the Bank announced a reduction of the target for the minimum daily level of settlement balances to $250 million, from $500 million. Various indicators of the overnight interest rate had been slightly, but persistently, below the Bank's target for the overnight rate. This measure was designed to counter the persistent trend and to reinforce the Bank's target for the overnight rate by encouraging market participants to trade overnight balances with each other at levels closer to the target rate.

Risk analysis

The Risk Management section of the Management Discussion and Analysis (MD&A) for the year ended December 31, 2017, outlines the Bank's risk management framework and risk profile and reviews the key areas of risk—strategic risk, financial risk and operational risk.

The financial risks are discussed further in the notes to the December 31, 2017, Financial Statements, which are included in the Bank's *Annual Report* for 2017.

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

CONDENSED INTERIM FINANCIAL STATEMENTS

March 31, 2018

Glossary of abbreviations

AFS	available-for-sale	**IMF**	International Monetary Fund
BIS	Bank for International Settlements	**ITA**	*Income Tax Act*
CPA Canada	Chartered Professional Accountants of Canada	**LVTS**	Large Value Transfer System
FVOCI	fair value through other comprehensive income	**OCI**	other comprehensive income
FVTPL	fair value through profit or loss	**PSAS**	Public Sector Accounting Standards
HTM	held-to-maturity	**SDR**	Special Drawing Rights
IAS	International Accounting Standard	**SIPP**	Statement of Investment Policies and Procedures
IASB	International Accounting Standards Board	**SPRA**	securities purchased under resale agreements
IFRS	International Financial Reporting Standards	**SSRA**	securities sold under repurchase agreements
ECL	expected credit loss		

Management responsibility

Management of the Bank of Canada (the Bank) is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting* (IAS 34), and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in the *Quarterly Financial Report* is consistent, where appropriate, with the condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Bank, as at the date of and for the periods presented in the condensed interim financial statements.

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
May 17, 2018

Condensed interim statement of financial position (unaudited)

(in millions of Canadian dollars)

As at	Note	March 31, 2018	December 31, 2017
Assets			
Cash and foreign deposits		15.3	14.6
Loans and receivables	3		
Securities purchased under resale agreements		7,905.2	9,478.5
Other receivables		9.1	4.5
		7,914.3	**9,483.0**
Investments	3		
Government of Canada treasury bills		19,269.9	18,370.4
Government of Canada bonds		80,664.8	82,087.0
Other investments		423.1	403.6
		100,357.8	**100,861.0**
Property and equipment	4	565.9	569.0
Intangible assets	5	40.5	40.1
Other assets	6	159.0	132.6
Total assets		109,052.8	111,100.3
Liabilities and equity			
Bank notes in circulation		**82,961.2**	85,855.9
Deposits	7		
Government of Canada		21,832.0	21,454.2
Members of Payments Canada		250.3	500.3
Other deposits		2,913.8	2,274.3
		24,996.1	**24,228.8**
Other liabilities	8	580.4	520.0
Total liabilities		108,537.7	110,604.7
Equity	10	515.1	495.6
Total liabilities and equity		109,052.8	111,100.3

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

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

Condensed interim statement of net income and comprehensive income (unaudited)

For the three-month period ended March 31 (in millions of Canadian dollars)

	Note	2018	2017
Income			
Interest revenue			
Investments		435.9	389.7
Securities purchased under resale agreements		25.5	9.4
Other sources		0.1	0.1
		461.5	**399.2**
Interest expense			
Deposits		(76.2)	(31.2)
Net interest revenue		**385.3**	**368.0**
Other revenue		1.8	1.8
Total income		**387.1**	**369.8**
Expenses			
Staff costs		70.7	65.1
Bank note research, production and processing		9.3	3.8
Premises costs		7.3	2.4
Technology and telecommunications		13.4	8.2
Depreciation and amortization		12.3	14.3
Other operating expenses		18.1	16.9
Total expenses		**131.1**	**110.7**
Net income		**256.0**	**259.1**
Other comprehensive income			
Items that will not be reclassified to net income			
Remeasurements of the net defined-benefit liability/asset	9	24.1	9.4
Change in fair value of BIS shares	2, 3	19.5	n.a.
Items that may subsequently be reclassified to net income			
Change in fair value of available-for-sale financial assets	2	n.a.	11.2
Other comprehensive income		**43.6**	**20.6**
Comprehensive income		**299.6**	**279.7**

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

Condensed interim statement of changes in equity (unaudited)

For the three-month period ended March 31 (in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at January 1, 2018 (as restated)	2	5.0	25.0	100.0	365.6	-	**495.6**
Comprehensive income for the period							
Net income		-	-	-	-	256.0	**256.0**
Remeasurements of the net defined-benefit liability/asset	9	-	-	-	-	24.1	**24.1**
Change in fair value of BIS shares	3	-	-	-	19.5	-	19.5
		-	-	-	**19.5**	**280.1**	**299.6**
Surplus for the Receiver General for Canada		-	-	-	-	(280.1)	**(280.1)**
Balance as at March 31, 2018		**5.0**	**25.0**	**100.0**	**385.1**	**-**	**515.1**

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

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

Condensed interim statement of cash flows (unaudited)

For the three-month period ended March 31 (in millions of Canadian dollars)

	2018	2017
Cash flows from operating activities		
Interest received	271.5	260.8
Other revenue received	2.0	0.9
Interest paid	(76.5)	(31.4)
Payments to or on behalf of employees and to suppliers and to members of Payments Canada	(150.5)	(163.0)
Net increase in deposits	767.3	2,454.1
Acquisition of securities purchased under resale agreements—overnight repo	(2,890.0)	(1,500.0)
Proceeds from maturity of securities purchased under resale agreements—overnight repo	2,890.0	1,500.0
Proceeds from securities sold under repurchase agreements	8,150.1	2,800.0
Repayments of securities sold under repurchase agreements	(8,150.1)	(4,300.0)
Net cash provided by operating activities	**813.8**	**1,021.4**
Cash flows from investing activities		
Net decrease (increase) in Government of Canada treasury bills	(870.1)	178.5
Purchases of Government of Canada bonds	(3,732.7)	(4,657.1)
Proceeds from maturity of Government of Canada bonds	5,325.0	5,345.0
Acquisition of securities purchased under resale agreements—term repo	(22,093.1)	(17,916.9)
Proceeds from maturity of securities purchased under resale agreements—term repo	23,666.6	19,196.0
Additions of property and equipment	(7.5)	(11.7)
Additions of intangible assets	(2.8)	(2.3)
Net cash provided by investing activities	**2,285.4**	**2,131.5**
Cash flows from financing activities		
Net decrease in bank notes in circulation	(2,894.7)	(2,684.6)
Remittance of surplus to the Receiver General for Canada	(204.2)	(468.8)
Net cash used in financing activities	**(3,098.9)**	**(3,153.4)**
Effect of exchange rate changes on foreign currency	0.4	(0.1)
Increase (decrease) in cash and foreign deposits	**0.7**	**(0.6)**
Cash and foreign deposits, beginning of period	14.6	19.3
Cash and foreign deposits, end of period	**15.3**	**18.7**

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

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

For the period ended March 31, 2018

1. The business of the Bank of Canada

The Bank of Canada (the Bank) is the nation's central bank. The Bank is a corporation established under the *Bank of Canada Act*, is wholly owned by the Government of Canada and is exempt from income taxes. The Bank does not offer banking services to the public.

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

The Bank conforms to the financial reporting requirements of the *Bank of Canada Act* as prescribed in the Bank's bylaws, which require that the Bank's financial statements be prepared in accordance with Generally Accepted Accounting Principles as set out in the *Chartered Professional Accountants of Canada (CPA Canada) Handbook*. Consistent with CPA Canada guidance, the Bank is a government business enterprise as defined by the Canadian Public Sector Accounting Standards (PSAS) and, as such, adheres to the standards applicable to publicly accountable enterprises. In compliance with this requirement, 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 the most significant liability on the Bank's balance sheet. The Bank invests the proceeds from the issuance of bank notes into Government of Canada securities, which are acquired on a non-competitive basis. These assets enable the Bank to execute its responsibilities for the monetary policy and financial system functions.

Interest income derived from Government of Canada securities is the Bank's primary source of revenue. The income generated from the Government of Canada treasury bills and Government of Canada bonds that back the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage." It provides a stable and constant source of funding for the Bank's operations, which enables the Bank to function independently of government appropriations. A portion of this revenue is used to fund the Bank's operations and reserves, and the remaining net income is remitted to the Receiver General for Canada in accordance with the requirements of the *Bank of Canada Act*.

2. Basis of preparation

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34), as issued by the International Accounting Standards Board (IASB). These condensed interim financial statements do not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the Bank's audited financial statements for the year ended December 31, 2017. 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 May 17, 2018.

Fiscal-agent and custodial activities

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the Government of Canada) and the Department of Finance Canada. In this fiscal-agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas, consistent with the requirements of section 24 of the *Bank of Canada Act*. The Bank does not bear the risks and rewards as part of its role as fiscal agent. The assets, liabilities, expenditures and revenues relating to this support are the Government of Canada's and are not included in the financial statements of the Bank.

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

Measurement base

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

- financial instruments classified and measured at amortized cost, using the effective interest method;
- financial instruments classified and measured at fair value through profit or loss (FVTPL);
- the Bank's shares in the Bank for International Settlements (BIS shares), which are measured at fair value through other comprehensive income (FVOCI); and
- the net defined-benefit liability/asset of employee benefit plans, which is recognized as the net of the fair value of plan assets and the present value of the defined-benefit obligations.

Functional and presentation currency

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

Seasonality

The total value of bank notes in circulation fluctuates throughout the year as a function of the seasonal demand for bank notes. Bank notes in circulation are at their lowest level at the end of the first quarter, while demand peaks in the second and fourth quarters around holiday periods. In addition to the regular term repo program, the Bank may issue term purchase 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, 2017, except for those impacted by the new standards that became effective on January 1, 2018, as discussed in the "Changes to IFRS" section below.

Key accounting judgments, estimates and assumptions

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

The Bank based its assumptions and estimates on information that was available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change, however, in response to market fluctuations or circumstances that are beyond the control of the Bank. In such cases, the impact will be recognized in the financial statements of a future period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates are used in the measurement of financial instruments (Note 3) and employee benefits (Note 9).

Changes to IFRS

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) relates to the recognition of revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.

The adoption of IFRS 15 did not have a significant impact to the Bank, as substantially all the Bank's revenues are generated by financial instruments within the scope of IFRS 9 *Financial Instruments*.

IFRS 9 Financial Instruments (IFRS 9)

Effective January 1, 2018, the Bank has applied IFRS 9 *Financial Instruments* (IFRS 9) and the related amendments to the other IFRSs in accordance with the transition provisions set out in IFRS 9.

IFRS 9 eliminates the existing financial asset categories and adopts a principles-based approach to the classification of financial assets, which is driven by a financial instrument's cash-flow characteristics and the business model in which it is held.

IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at FVTPL. The model has three stages:

(i) on initial recognition, 12-month expected credit losses (ECL) are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset;

(ii) if credit risk increases significantly from initial recognition, lifetime ECLs are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset; and

(iii) when a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

Finally, IFRS 9 includes a new hedge accounting model, together with corresponding disclosures about risk management activities for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant changes apply to those entities that hedge non-financial risk.

With regards to the Bank's financial statements, the adoption of IFRS 9 has resulted in changes to the Bank's accounting policies for the classification and measurement of financial instruments, and the impairment of financial assets. IFRS 9 also significantly amends other standards relating to financial instruments, such as IFRS 7 *Financial Instruments: Disclosures* (IFRS 7). The changes to hedge accounting are not applicable to the Bank, as the Bank does not engage in hedging activities.

The Bank's revised accounting policies for financial instruments are discussed in Note 3.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures since the impact of the adoption is not significant to the Bank's financial statements. As such, the accounting policies for prior period financial statements are consistent with those disclosed in the Bank's financial statements for the year ended December 31, 2017. Any adjustments to the carrying amounts of financial instruments at the date of transition were recognized in the opening retained earnings and other reserves of the current period. For note disclosures, the amendments to IFRS 7 have also been applied to the current period only and were primarily descriptive in nature.

The impact of the transition to IFRS 9 is discussed in the following section.

Transition to IFRS 9

IFRS 9 introduces new requirements for financial instrument classification and measurement, impairment of financial assets, and general hedge accounting. As such, the Bank assessed its existing financial assets and liabilities against the requirements of IFRS 9 as of the date of initial application, January 1, 2018.

Summary of impact to the financial statements

Area	Impact
Classification and measurement	Financial instruments were assessed under the classification and measurement requirements of IFRS 9. Reclassification of financial instruments into the IFRS 9 categories had no overall impact on their respective classification or measurement basis, except for cash and foreign deposits and Government of Canada treasury bills. Cash and foreign deposits were previously classified as FVTPL and are now recorded at amortized cost. Government of Canada treasury bills were previously classified as available-for-sale and measured at FVOCI and are now recorded at amortized cost.
Impairment	Financial assets were assessed for impairment under the IFRS 9 ECL model, which had no significant impact on the Bank's financial statements.
General hedge accounting	This is not applicable to the Bank's operations as the Bank does not engage in hedging activities.

Changes to the accounting of the Bank's financial instruments

Assessment of financial instruments held at transition

Management assessed the financial instruments held by the Bank in accordance with IFRS 9 as at the date of initial application. Management then classified the instruments into the appropriate categories based on the Bank's business model for the instruments and the nature of each instrument's cash flows. The following table reconciles the carrying amounts of financial instruments from their previous measurement categories in accordance with IAS 39 to their new measurement categories on transition to IFRS 9 effective January 1, 2018.

		Measurement category		Carrying amount		
	Ref	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	Difference due to change in measurement category
Financial assets						
Cash and foreign deposits	A	FVTPL	Amortized cost	14.6	14.6	-
Securities purchased under resale agreements	B	Loans and receivables: Amortized cost	Amortized cost	9,478.5	9,478.5	-
Other receivables	B	Loans and receivables: Amortized cost	Amortized cost	4.5	4.5	-
Government of Canada treasury bills	C	Available-for-sale: FVOCI	Amortized cost	18,370.4	18,380.1	9.7
Government of Canada bonds	B	Held-to-maturity: Amortized cost	Amortized cost	82,087.0	82,087.0	-
BIS shares (sole component of *Other investments*)	D	Available-for-sale: FVOCI	Designated FVOCI	403.6	403.6	-
Financial liabilities						
Bank notes in circulation	E	Face value	Face value	85,855.9	85,855.9	-
Deposits	E	Amortized cost	Amortized cost	24,228.8	24,228.8	-
Other liabilities	E	Amortized cost	Amortized cost	520.0	520.0	-
Total difference due to change in measurement category						**9.7**

The application of the new classification and measurement requirements of IFRS 9 led to the following impacts to financial instruments held by the Bank on January 1, 2018, as explained below.

(A) Change in classification from FVTPL to amortized cost

Cash and foreign deposits have been reclassified to amortized cost. The Bank's business model is to hold cash and foreign deposits for cash flow purposes, and the cash flows represent solely payments of principal and interest. There is no impact to the Bank's financial position, net income or other comprehensive income as a result of this change.

(B) Change in classification of retired categories with no change in measurement

The following debt instruments have been reclassified to new categories with no changes to their measurement basis under IFRS 9, as their previous categories under IAS 39 were retired:

- Debt instruments previously classified as loans and receivables per IAS 39 categorization are now classified and measured at amortized cost.
- Debt instruments previously classified as held-to-maturity per IAS 39 categorization are now classified and measured at amortized cost.

(C) Change in classification from available-for-sale to amortized cost

Government of Canada treasury bills were reclassified from available-for-sale and measured at FVOCI to classified and measured at amortized cost. The Bank's intention is to hold these investments for the collection of contractual cash flows, and the cash flows represent solely payments of principal and interest.

The impact of the transition to the carrying value of the Government of Canada treasury bills is an increase of $9.7 million at January 1, 2018, and a corresponding increase of $9.7 million to retained earnings. This amount was reclassified from *Retained earnings* to *Surplus payable to Receiver General for Canada* on January 1, 2018, per the Bank's remittance agreement with the Minister of Finance in accordance with section 27 of the *Bank of Canada Act*. As a result, the balance of the *Surplus payable to Receiver General for Canada* of $204.2 million as at December 31, 2017, was increased to $213.9 million as at January 1, 2018.

(D) Designation of equity instruments as FVOCI

The Bank's investment in BIS shares, which is the sole component of *Other investments*, were previously classified as available-for-sale equity instruments and are now classified as equity instruments irrevocably designated as FVOCI, since the Bank's business model is to hold these shares to enable its participation as a member of the BIS. The changes in fair value of such instruments will no longer be reclassified to *Net income* if disposed of, and the instruments will no longer be assessed for impairment.

There was no difference between their previous carrying amount and their revised carrying amount, and there is no impact to the Bank's financial position, net income or other comprehensive income. The change in fair value of these assets will be reclassified within the Condensed Interim Statement of Net Income and Comprehensive Income from *Items that may subsequently be reclassified to net income* to *Items that will not be reclassified to net income*. The change in fair value on these assets continues to be accumulated as part of *Equity*, in the *Investments revaluation reserve*, formerly the *Available-for-sale reserve* under IAS 39.

(E) No change in classification or measurement

There were no changes to classification or measurement for any of the Bank's financial liabilities held on transition, and there was no impact on the Bank's financial position, net income or other comprehensive income.

Reconciliation of impairment allowance balances at transition

On the date of initial application of January 1, 2018, the Bank's existing financial assets were assessed for impairment in accordance the requirements of IFRS 9 as discussed in Note 3.

The Bank had no impairment allowances recorded in accordance with IAS 39's incurred loss model at December 31, 2017, and has no impairment allowances recorded in accordance with IFRS 9's expected loss model at January 1, 2018, since it was determined that the allowance would be negligible given the nature of the Bank's financial assets.

Impact to the financial statements

The summary financial statements presented below show the changes resulting from the transition to IFRS 9.

Impact to opening financial statements as at date of initial application—January 1, 2018

The total impact of these changes to the Bank's opening financial statements as at January 1, 2018, following the December 31, 2017, year-end is as follows:

Partial statement of financial position

	Ref	December 31, 2017	Effect of transition to IFRS 9	January 1, 2018
Assets				
Investments				
Government of Canada treasury bills		18,370.4	9.7	18,380.1
Total assets		**18,370.4**	**9.7**	**18,380.1**
Liabilities and equity				
Other liabilities	A	520.0	9.7	529.7
Total liabilities		**520.0**	**9.7**	**529.7**
Equity	B	495.6	-	495.6
Total liabilities and equity		**1,015.6**	**9.7**	**1,025.3**

(A) Other liabilities includes the Surplus payable to the Receiver General for Canada, which contains the cumulative withholdings of unrealized losses in accordance with the Bank's remittance agreement with the Minister of Finance (Note 10).

Cumulative withholdings of unrealized losses as at December 31, 2017	156.0
Withholdings of unrealized losses on treasury bills as at December 31, 2017 (see (b) below)	(9.7)
Cumulative withholdings as at January 1, 2018	**146.3**

With the elimination of withholdings on transition related to Government of Canada treasury bills, the amount becomes remittable to the Receiver General for Canada and is therefore included in *Other liabilities* as *Surplus payable to the Receiver General for Canada*.

(B) The $9.7 million impact of the reclassification of Government of Canada treasury bills results in an equivalent increase to retained earnings. However, the impact to retained earnings flows immediately to the surplus payable for the Receiver General for Canada in accordance with the Bank's remittance agreement with the Minister of Finance, as stipulated by section 27 of the *Bank of Canada Act*. As a result, the balance of the *Surplus Payable to Receiver General for Canada* of $204.2 million as at December 31, 2017, was increased to $213.9 million as at January 1, 2018.

3. Financial instruments

The Bank's financial instruments consist of the following:

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

Bank notes in circulation, the net defined-benefit liability/asset for pension benefit plans and other employee benefit plans, and lease contracts are excluded from this note. There were no changes to accounting policies following the adoption of IFRS 9 for bank notes in circulation and lease contracts, and, as a result, these policies are consistent with those disclosed in the notes to the 2017 year-end financial statements. The required disclosures for the net defined-benefit liability/asset for pension benefit plans and other employee benefit plans are discussed in Note 10.

Accounting policy

Recognition

The Bank accounts for all financial instruments using settlement-date accounting. Financial assets and liabilities are recorded when the Bank becomes party to the contractual provisions of the instruments.

Initial recognition

Financial instruments are initially recognized at fair value plus transaction costs, if any, except for financial assets classified as FVTPL, in which case transaction costs are recognized immediately in net income. See the "Supporting information" section for details on how the Bank determines the fair value of its financial instruments. Subsequent to initial recognition, an ECL assessment is performed for financial assets measured at amortized cost, and any ECLs are recognized in *Net income*.

Derecognition

The Bank derecognizes a financial asset when it considers that substantially all the risks and rewards of the asset have been transferred or when the contractual rights to the cash flows of the financial asset expire. The Bank does not derecognize collateral pledged by the Bank under standard repurchase agreements and securities lending transactions, as the Bank retains substantially all risks and rewards on the basis of the predetermined repurchase price. The Bank derecognizes financial liabilities when the Bank's obligations are discharged, are cancelled or expire.

Classification

Financial instruments are classified into one of the following categories based on their nature and business purpose:

- Financial assets
  - cash and cash equivalents at amortized cost
  - debt instruments at amortized cost
  - equity instruments at FVOCI

- Financial liabilities
  - financial liabilities at amortized cost

Financial instrument categories	Bank's business model	Cash flow characteristics
Financial assets		
Cash and cash equivalents at amortized cost ▪ Cash and foreign deposits	Collect contractual cash flows; hold for cash flow management purposes	Solely payments of principal and interest
Debt instruments at amortized cost ▪ SPRAs ▪ Advances to members of Payments Canada ▪ Other receivables ▪ Government of Canada treasury bills ▪ Government of Canada bonds	Collect contractual cash flows	Solely payments of principal and interest
Equity instruments at FVOCI ▪ BIS shares	Do not hold for trading;[1] held as part of the Bank's functions as a central bank	Dividend payments
Financial liabilities		
Financial liabilities at amortized cost ▪ Deposits ▪ SSRAs ▪ Other liabilities	Pay contractual cash flows	N/A

1 A financial instrument is considered held for trading if it has been acquired for the purpose of selling it in the near term, it is part of a portfolio of identified financial instruments that is managed for trading purposes, or it is a derivative.

Measurement

Subsequent to initial recognition and on derecognition, financial instruments are accounted for based on their classification as described in the table below.

Financial instrument categories	Subsequent measurement	Derecognition
Financial assets		
Cash and cash equivalents at amortized cost ▪ Cash and foreign deposits **Debt instruments at amortized cost** ▪ SPRAs ▪ Advances to members of Payments Canada ▪ Other receivables ▪ Government of Canada treasury bills ▪ Government of Canada bonds	Amortized cost using the effective interest method,[1] less any ECLs. ECLs and any subsequent reversals are recognized in net income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, unless a financial asset has become credit-impaired, in which case interest revenue is calculated by applying the effective interest rate to its amortized cost net of the ECL provision.	The difference between the financial asset's carrying amount and the sum of the consideration received and receivable is recognized in net income.

Financial instrument categories	Subsequent measurement	Derecognition
Financial assets		
Equity instruments at FVOCI ▪ BIS shares	FVOCI. Unrealized changes in the fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve in *Equity*. Dividends are recognized in net income when they represent a return on equity and not a return of invested capital to shareholders.	The cumulative unrealized gain or loss previously recognized in other comprehensive income is not reclassified from *Equity* to net income.
Financial liabilities		
Financial liabilities at amortized cost ▪ Deposits ▪ SSRAs ▪ Other liabilities	Amortized cost using effective interest method.[1]	The difference between the financial liability's carrying amount and the sum of the consideration paid and payable (including any non-cash assets transferred or liabilities assumed) is recognized in net income.

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

Impairment

The Bank calculates a loss allowance for ECLs on investments in debt instruments that are measured at amortized cost, and on foreign currency swap facility commitments and the LVTS guarantee. The amount of ECLs, if any, is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Bank recognizes 12-month ECLs for financial instruments unless there has been a significant increase in credit risk since initial recognition, in which case lifetime ECLs are recognized.

Write-off policy

The Bank writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures. Any recoveries made are recognized in net income.

Accounting estimates and judgments

Impairment

Judgment is required when determining if there is objective evidence that impairment exists and, if so, the appropriate amount of ECLs to recognize. The measurement of ECLs reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date regarding past events, current conditions and forecasts of future economic conditions.

Significant judgments required for measuring ECLs include the following:

- determining criteria for assessing what constitutes a significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECLs;
- establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECLs.

Financial assets are categorized into the following three stages depending on their assessed credit risk:

Stage 1	Financial assets are categorized as Stage 1 when first recognized. The Bank records an allowance for 12-month ECLs in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset.
Stage 2	Financial assets are categorized as Stage 2 when they have experienced a significant increase in credit risk since initial recognition. The Bank records an allowance for lifetime ECLs, and interest revenue is calculated on the gross carrying amount of the asset.
Stage 3	Financial assets are categorized as Stage 3 when they are considered credit-impaired. The Bank records an allowance for lifetime ECLs, and interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

Key concepts

The Bank uses the following key concepts in assessing impairment considerations on its financial assets:

Default	For internal credit risk management purposes, the Bank considers a financial asset in default and therefore Stage 3 (credit-impaired) for ECL calculations in accordance with the contractual terms of the financial asset. The Bank considers treasury and interbank balances in default when the required intraday payments are not settled by the close of business, as outlined in the individual agreements. As a part of a qualitative assessment of a counterparty's credit risk, the Bank also considers a variety of instances that may indicate unlikeliness to pay. In certain cases, the Bank may consider an event as a significant increase in credit risk as opposed to a true default, as discussed further in the "significant increase in credit risk" definition. When such events occur, the Bank carefully considers whether the event should result in treating the counterparty as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events that would be considered include ▪ internal assessment of the counterparty indicating default or near-default; ▪ the counterparty experiencing unusual liquidity constraints; ▪ the counterparty having other past-due liabilities; ▪ a significant decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral; and ▪ counterparty's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

Cure

It is the Bank's policy to consider a financial asset as "cured" and therefore reclassified out of Stage 3 when none of the default criteria has been present for a reasonable period given the nature of the instrument and surrounding circumstances. The decision whether to classify a financial asset as Stage 2 or Stage 1 once cured depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk since initial recognition.

Credit-impaired

A financial asset is deemed credit-impaired when one or more events with a detrimental impact on its estimated future cash flows has occurred. Such events could include but are not limited to

- significant financial difficulty of the counterparty;
- a breach of contract, such as a default or past-due event;
- the lenders of the counterparty have granted a concession to the counterparty for economic or contractual reasons relating to the counterparty's financial difficulty that the lender would not otherwise consider;
- the likelihood [or probability] that the counterparty will enter bankruptcy or other financial reorganization; or
- the dissolution of an active market for that financial asset due to financial difficulties.

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting date with the risk as at the date of initial recognition. The Bank considers many factors when assessing a financial asset for a significant increase in credit risk, including

- an actual or expected significant deterioration in the financial asset's credit rating;
- significant deterioration in external market indicators of credit risk for a financial asset (e.g., a significant increase in the credit spread, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the counterparty's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty; or
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the counterparty that results in a significant decrease in the counterparty's ability to meet its debt obligations.

In certain cases, the Bank may consider that events identified in the definition of default are a significant increase in credit risk as opposed to a true default. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's counterparties operate, and consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate.

	The Bank assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date and monitoring activities do not indicate the presence of a trigger event.
Low credit risk	A financial asset is determined to have low credit risk if ▪ the financial asset has a low risk of default; ▪ the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term; and ▪ adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfill its contractual cash flow obligations. The Bank considers a financial asset to have low credit risk when its credit worthiness is judged to be "investment grade," which the Bank broadly defines as equivalent to BBB or higher.

Expected credit loss approach and assessment

Debt instruments

For debt instruments, ECLs are estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

The Bank's debt instruments consist solely of sovereign debt, or instruments that are fully collateralized by collateral with an equivalent credit rating of A- or higher. In assessing ECLs on these instruments, the Bank has applied the low-risk practical expedient available under IFRS 9 due to their high credit quality. The Bank corroborates external credit ratings on Canadian sovereign debt with an internal analysis performed annually, with quarterly updates. The Bank also performs continuous monitoring of relevant economic and financial developments. The Bank has assessed the ECLs for these instruments as negligible.

The Bank did not record any ECLs on its financial instruments as at March 31, 2018 ($nil at January 1, 2018). There are no significant past due or impaired amounts as at March 31, 2018 ($nil at March 31, 2017, and January 1, 2018). In addition, no impairment was recognized as at December 31, 2017, under IAS 39.

Financial guarantees and loan commitments

This category includes the Bank's foreign currency swap facility commitments and the LVTS guarantee. For guarantees and commitments made by the Bank that are not currently in use but there is a clear indication that use can reasonably be expected within the next 12 months, the Bank would assess the guarantee or commitment for any impairment on a case-by-case basis based on expected drawings.

As at March 31, 2018, none of the Bank's financial guarantees and commitments was in use, nor does the Bank expect that any will be used within the next 12 months ($nil at December 31, 2017, under IAS 39, and $nil at January 1, 2018, under IFRS 9).

For a financial guarantee contract, since the Bank is required to make payments only in the event of a default by the counterparty in accordance with the terms of the instrument that is guaranteed, the ECL allowance would be calculated as the expected payments to reimburse the holder for a credit loss that it incurs, less any amounts that the Bank expects to receive from the holder, the counterparty or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan, and the cash flows that the Bank expects to receive if the loan is drawn down.

Fair value of financial instruments

Judgment is also required in estimating the fair values of financial instruments. Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in a current arm's-length transaction between knowledgeable, willing parties.

Financial instruments measured at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities, which represent actual and regularly occurring arm's-length market transactions

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

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

The fair value hierarchy requires the use of observable market inputs wherever such inputs exist. In measuring fair value, a financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered.

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

Financial instruments carried at fair value	Valuation method
BIS shares	Significant unobservable inputs (Level 3) Estimated as 70 per cent 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.

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

Supporting information

Loans and receivables

Securities purchased under resale agreements are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. The duration of securities purchased under resale agreements generally ranges from 1 to 90 business days.

The fair value of collateral held against securities purchased under resale agreements at the end of the reporting period is presented below.

	March 31, 2018		December 31, 2017	
As at	$	%	$	%
Securities issued or guaranteed by the Government of Canada	842.1	10.1	2,414.9	24.5
Securities issued or guaranteed by a provincial government	7,521.4	89.9	7,444.0	75.5
Total fair value of collateral pledged to the Bank	**8,363.5**	**100.0**	**9,858.9**	**100.0**
Carrying value of advances to members of Payments Canada	-	-	-	-
Carrying value of SPRAs	7,905.2	100.0	9,478.5	100.0
Carrying value of collateralized securities at period-end	**7,905.2**	**100.0**	**9,478.5**	**100.0**
Collateral as a percentage of carrying value at period-end		**106.0**		**104.0**

As at March 31, 2018, there were no advances to members of Payments Canada ($nil at December 31, 2017).

Investments

The Bank also operates a securities-lending program to support the liquidity of Government of Canada securities by providing the market with a secondary and temporary source of these securities. These transactions are fully collateralized by securities and are generally one business day in duration. As at March 31, 2018, there were no loaned securities in the Bank's investments ($nil at December 31, 2017).

Impairment

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

Financial instruments carried at fair value

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

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair value measurements:

For the three-month period ended March 31	2018	2017
Opening balance at beginning of period	403.6	395.0
Change in fair value recorded through *Other comprehensive income*	19.5	11.4
Closing balance at end of period	**423.1**	**406.4**

As discussed in Note 2, the Bank's investment in Government of Canada treasury bills was reclassified from FVOCI to amortized cost on January 1, 2018. If the Government of Canada treasury bills had not been reclassified, an unrealized loss of $1.7 million would have been recorded in *Other comprehensive income* for the three-month period ended March 31, 2018.

Financial instruments not carried at fair value

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

	Level 1	Level 2	Level 3	Total
As at March 31, 2018				
Government of Canada treasury bills	19,268.2	-	-	**19,268.2**
Government of Canada bonds	82,729.5	-	-	**82,729.5**
Total	**101,997.7**	**-**	**-**	**101,997.7**
As at December 31, 2017				
Government of Canada treasury bills	18,370.4	-	-	**18,370.4**
Government of Canada bonds	84,405.6	-	-	**84,405.6**
Total	**102,776.0**	**-**	**-**	**102,776.0**

The fair value of all other financial instruments approximates their carrying value.

4. Property and equipment

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

Carrying value of property and equipment

2018	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2017	578.5	82.4	81.9	**742.8**
Additions	-	6.8	0.7	**7.5**
Disposals	(3.5)	-	(0.6)	**(4.1)**
Transfers to other asset categories	-	-	-	**-**
Balances as at March 31, 2018	**575.0**	**89.2**	**82.0**	**746.2**
Depreciation				
Balances as at December 31, 2017	(106.1)	(34.0)	(33.7)	**(173.8)**
Depreciation expense	(4.7)	(3.3)	(1.8)	**(9.8)**
Disposals	2.7	-	0.6	**3.3**
Transfers to other asset categories	-	-	-	**-**
Balances as at March 31, 2018	**(108.1)**	**(37.3)**	**(34.9)**	**(180.3)**
Carrying amounts				
Balances as at December 31, 2017	472.4	48.4	48.2	**569.0**
Balances as at March 31, 2018	**466.9**	**51.9**	**47.1**	**565.9**

2018	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress				
Included in *Carrying amounts* at March 31, 2018	-	10.6	2.4	**13.0**
Commitments at March 31, 2018	2.6	3.8	1.3	**7.7**

2017	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2016	560.8	68.8	113.8	**743.4**
Additions	21.2	11.4	10.4	**43.0**
Disposals	(2.9)	(1.0)	(37.0)	**(40.9)**
Transfers to other asset categories	(0.6)	3.2	(5.3)	**(2.7)**
Balances as at December 31, 2017	**578.5**	**82.4**	**81.9**	**742.8**
Depreciation				
Balances as at December 31, 2016	(90.3)	(23.1)	(59.3)	**(172.7)**
Depreciation expense	(18.7)	(11.6)	(11.3)	**(41.6)**
Disposals	2.9	0.7	36.9	**40.5**
Transfers to other asset categories	-	-	-	**-**
Balances as at December 31, 2017	**(106.1)**	**(34.0)**	**(33.7)**	**(173.8)**
Carrying amounts				
Balances as at December 31, 2016	470.5	45.7	54.5	**570.7**
Balances as at December 31, 2017	**472.4**	**48.4**	**48.2**	**569.0**

2017	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress				
Included in *Carrying amounts* at December 31, 2017	-	3.8	3.1	**6.9**
Commitments at December 31, 2017	0.9	13.6	1.1	**15.6**

5. Intangible assets

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

Carrying value of intangible assets

2018	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2017	58.7	71.6	130.3
Additions	1.1	1.7	2.8
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances as at March 31, 2018	**59.8**	**73.3**	**133.1**
Depreciation			
Balances as at December 31, 2017	(44.7)	(45.5)	(90.2)
Depreciation expense	(0.7)	(1.7)	(2.4)
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances as at March 31, 2018	(45.4)	(47.2)	(92.6)
Carrying amounts			
Balances as at December 31, 2017	14.0	26.1	40.1
Balances as at March 31, 2018	**14.4**	**26.1**	**40.5**

2018	Internally generated software	Other software	Total
Projects in progress			
Included in *Carrying amounts* at March 31, 2018	8.8	4.4	13.2
Commitments at March 31, 2018	1.8	0.4	2.2

2017	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2016	53.4	63.1	**116.5**
Additions	5.3	5.8	**11.1**
Disposals	-	-	**-**
Transfers to other asset categories	-	2.7	**2.7**
Balances as at December 31, 2017	**58.7**	**71.6**	**130.3**
Depreciation			
Balances as at December 31, 2016	(42.5)	(37.8)	**(80.3)**
Depreciation expense	(2.2)	(7.7)	**(9.9)**
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances as at December 31, 2017	**(44.7)**	**(45.5)**	**(90.2)**
Carrying amounts			
Balances as at December 31, 2016	10.9	25.3	**36.2**
Balances as at December 31, 2017	**14.0**	**26.1**	**40.1**

2017	Internally generated software	Other software	Total
Projects in progress			
Included in *Carrying amounts* at December 31, 2017	7.7	3.7	**11.4**
Commitments at December 31, 2017	1.2	3.1	**4.3**

6. Other assets

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

Composition of other assets

As at	Note	March 31, 2018	December 31, 2017
Bank note inventory		13.4	7.2
Net defined-benefit asset	9	127.8	109.0
All other assets		17.8	16.4
Total other assets		**159.0**	**132.6**

7. Deposits

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

Deposits from the Government of Canada were $21,832.0 million as at March 31, 2018 ($21,454.2 million as at December 31, 2017). They consisted of $1,832.0 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,454.2 million and $20,000.0 million, respectively, at December 31, 2017).

The Bank's policies on classifying and measuring financial instruments are discussed in Note 3.

8. Other liabilities

Other liabilities is composed of the following items:

As at	Note	March 31, 2018	December 31, 2017
Surplus payable to the Receiver General for Canada	2	**289.8**	204.2
Net defined-benefit liability	9		
Pension benefit plans		**64.5**	64.4
Other benefit plans		**175.8**	178.3
All other liabilities and provisions		**50.3**	73.1
Total other liabilities		**580.4**	**520.0**

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 10.

For the three-month period ended March 31	Note	2018	2017
Opening balance at beginning of period (as restated)	2	**213.9**	468.8
Remittance of surplus to the Receiver General for Canada		**(204.2)**	(468.8)
Surplus for the Receiver General for Canada		**280.1**	268.3
Closing balance at end of period		**289.8**	**268.3**

All other liabilities and provisions consists of provisions, a finance lease obligation, accounts payable and accrued liabilities.

9. Employee benefits

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

	Pension benefit plans		Other benefit plans	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Opening balance at beginning of period	**44.6**	93.0	**(178.3)**	(172.0)
Bank contributions	**12.0**	29.6	**-**	-
Current service cost	**(13.9)**	(42.2)	**(1.3)**	(5.3)
Net interest cost	**-**	2.9	**(1.4)**	(7.5)
Administration costs	**(0.5)**	(2.1)	**-**	-
Net benefit payments and transfers	**-**	-	**2.2**	7.5
Remeasurement gains (losses)	**21.1**	(36.6)	**3.0**	(1.0)
Closing balance at end of period	**63.3**	**44.6**	**(175.8)**	**(178.3)**
Net defined-benefit asset	**127.8**	109.0	**-**	-
Net defined-benefit liability	**(64.5)**	(64.4)	**(175.8)**	(178.3)
Net defined-benefit asset (liability)	**63.3**	**44.6**	**(175.8)**	**(178.3)**

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

For the three-month period ended March 31	2018	2017
Expenses		
Pension benefit plans	14.4	10.3
Other benefit plans	2.7	2.9
Total benefit plan expenses	**17.1**	**13.2**

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
For the three-month period ended	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Contributions				
Employer contributions	12.0	8.5	-	-
Employee contributions	3.9	3.4	-	-
Total contributions	**15.9**	**11.9**	-	-

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	March 31, 2018	December 31, 2017
Discount rate		
Pension benefit plans	3.6%	3.5%
Other benefit plans	3.2–3.6%	3.1–3.5%

The Bank recorded remeasurement gains on the net defined-benefit liability/asset during the three-month period ended March 31, 2018, of $24.1 million (remeasurement gains of $9.4 million for the three-month period ended March 31, 2017). The remeasurement gains recorded during the three-month period ended March 31, 2018, are mainly the result of the increase in the discount rate used to value the obligations, partially offset by negative asset returns.

10. 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.

Share capital

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

Statutory reserve

The statutory reserve was accumulated out of net income until it reached the stipulated maximum amount of $25.0 million in 1955, consistent with the requirement of section 27 of the *Bank of Canada Act*.

Special reserve

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

The amount held in the special reserve is reviewed regularly for appropriateness using value-at-risk analysis and scenario-based stress tests and may be amended, pursuant to a resolution passed by the Board of Directors.

Investment revaluation reserve

The investment revaluation reserve (previously the available-for-sale reserve under IAS 39, as discussed in Note 2) represents the net unrealized fair-value gains of each of the Bank's financial assets classified and measured at FVOCI, as shown below.

As at	March 31, 2018	December 31, 2017
Government of Canada treasury bills	n.a.	-
BIS shares	385.1	365.6
Total reserve	**385.1**	**365.6**

Retained earnings

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

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements with consideration given to the volatility arising from fair value changes and remeasurements, which are recorded in other comprehensive income. This agreement allows the Bank to withhold 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, from its remittance to the Receiver General. Any decrease in withheld cumulative net unrealized non-cash losses is added to the remittance.

During the three-month period ended March 31, 2018, the Bank released $24.1 million ($9.2 million in 2017) from its previously withheld remittances, and as at March 31, 2018, $122.2 million in withheld remittances was outstanding ($156.0 million as at December 31, 2017, and $146.3 million as at January 1, 2018, as a result of the transition to IFRS 9 as described in Note 2).

11. 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 include 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 Bank of Canada Pension Plan and recovers the cost of these services.