BANK OF CANADA
BANQUE DU CANADA

2020 QUARTERLY FINANCIAL REPORT

DYNAMIC.
ENGAGED.
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June 30, 2020, Unaudited

Contents

Context of the Quarterly Financial Report

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

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

Bank Management is responsible for the preparation of this report, which was approved by the Audit and Finance Committee of the Board of Directors on August 18, 2020.

This Quarterly Financial Report should be read in conjunction with the condensed interim financial statements included in this report and with the Bank's Annual Report for 2019. The Annual Report includes a Management Discussion and Analysis (MD&A) for the year ended December 31, 2019. Disclosures and information in the 2019 Annual Report and the MD&A apply to the current quarter unless otherwise updated in this quarterly report.

COVID-19: What the Bank is doing

During the second quarter of 2020, the Bank acted in several ways to support the economy and financial system[1]. The Bank expanded on the measures that were introduced during the first quarter and remains ready to take any and all actions it can to protect the economic and financial well-being of Canadians during this difficult time.

Support to key financial markets

The Bank is intervening to support key financial markets to ensure they continue functioning properly. Because key financial markets have become strained since the start of the pandemic, the Bank has introduced several programs to increase liquidity in core funding markets. In addition to the Canada Mortgage Bond Purchase Program (CMBP), the Provincial Money Market Purchase Program (PMMP) and the Bankers' Acceptance Purchase Facility (BAPF), which were introduced in the first quarter of 2020, the Bank deployed the following measures during the second quarter of 2020:

- The Commercial Paper Purchase Program (CPPP) was established to support the flow of credit to the economy by alleviating strains in Canada's commercial paper markets, a key source of short-term financing to support ongoing needs of a wide range of firms and public authorities.
- The Corporate Bond Purchase Program (CBPP) was introduced to support the liquidity and proper functioning of the corporate debt market.
- The Provincial Bond Purchase Program (PBPP) supplements the Provincial Money Market Purchase Program that was introduced in the first quarter of 2020. The aim of both these programs is to maintain well-functioning provincial funding markets.
- The Government of Canada Bond Purchase Program (GBPP) was established to address strains in the Government of Canada bond market (including the real-return bond market) and to enhance the effectiveness of other actions the Bank has taken to support core funding markets. More recently, as market conditions improved, the focus of the GBPP has shifted to supporting the resumption of growth in output and employment.

These interventions increase the size of the Bank's balance sheet as they involve acquiring financial assets.

Liquidity for individual financial institutions

In addition to the Standing Term Liquidity Facility (STLF) and the expansion of the duration of SPRAs, which were introduced in the first quarter of 2020, the Bank introduced the Contingent Term Repo Facility (CTRF) during the second quarter of 2020. The CTRF is the Bank of Canada's standing repo facility to counter any severe market-wide liquidity stresses and support the stability of the Canadian financial system.

1 Refer to COVID-19: Actions to Support the Economy and Financial System for more details on the Bank's measures.

Managing the balance sheet

Financial position

(in millions of Canadian dollars)

As at	June 30, 2020	December 31, 2019	June 30, 2019
Assets			
Cash and foreign deposits	7.8	6.4	17.3
Loans and receivables	205,796.1	15,521.9	10,226.8
Investments	321,638.9	103,346.9	105,599.1
Capital assets	694.0	700.9	701.6
Other assets	60.4	66.7	43.1
Total assets	**528,197.2**	**119,642.8**	**116,587.9**
Liabilities and equity			
Bank notes in circulation	100,065.7	93,094.3	90,373.5
Deposits	426,479.4	25,243.3	25,115.2
Derivatives - Indemnity agreements with the Government of Canada	450.7	-	-
Other liabilities	619.2	774.9	570.4
Equity	582.2	530.3	528.8
Total liabilities and equity	**528,197.2**	**119,642.8**	**116,587.9**

The Bank's holdings of financial assets are typically driven by its role as the exclusive issuer of Canadian bank notes, where issuing bank notes creates a liability for the Bank. However, changes to the Bank's balance sheet during the first six months of 2020 largely result from activities undertaken as part of the Bank's financial system function. Starting in March 2020, the Bank implemented several measures to provide liquidity to support the efficient functioning of the Canadian financial system. These measures resulted in a significant increase in the balance sheet. On the asset side, the Bank expanded the range of instruments it acquires to respond to the demand for liquidity in the markets. For example, the Bank continued to increase securities purchased under resale agreements (SPRAs) and the Standing Term Liquidity Facility to provide liquidity to financial institutions. The Bank also started purchasing provincial debt instruments, commercial paper and corporate bonds. On the liability side, these purchases resulted in a significant increase in deposits.

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

Assets

Summary of assets

(in millions of Canadian dollars)

As at	June 30, 2020	December 31, 2019	Variance $	Variance %
Cash and foreign deposits	7.8	6.4	1.4	22
Loans and receivables				
Securities purchased under resale agreements	205,185.5	15,516.5	189,669.0	1,222
Advances to members of Payments Canada	606.2	-	606.2	-
Other receivables	4.4	5.4	(1.0)	(19)
	205,796.1	**15,521.9**	**190,274.2**	**1,226**
Investments				
Government of Canada treasury bills	129,525.6	23,367.4	106,158.2	454
Government of Canada bonds—carried at amortized cost	86,424.0	79,030.5	7,393.5	9
Government of Canada bonds—carried at fair value through profit and loss	81,517.0	-	81,517.0	-
Canada Mortgage Bonds	7,447.9	510.7	6,937.2	1,358
Other bonds*	4,822.7	-	4,822.7	-
Securities lending—provincial bonds	445.7	-	445.7	-
Other securities†	10,965.8	-	10,965.8	-
Shares in the Bank for International Settlements	490.2	438.3	51.9	12
	321,638.9	**103,346.9**	**218,292.0**	**211**
Capital assets‡	694.0	700.9	(6.9)	(1)
Other assets	60.4	66.7	(6.3)	(9)
Total assets	**528,197.2**	**119,642.8**	**408,554.4**	**341**

* Includes *Provincial bonds* and *Corporate bonds*

† Includes *Provincial money market securities*, *Bankers' acceptances* and *Commercial paper*

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

The Bank's total assets more than quadrupled over the first six months of 2020 to $528,197.2 million as at June 30, 2020. This significant increase reflects the impact of the Bank's interventions to respond to the economic turmoil during the COVID-19 pandemic.

Loans and receivables is composed primarily of SPRAs totalling $205,185.5 million as at June 30, 2020 ($15,516.5 million as at December 31, 2019). SPRAs are high-quality assets temporarily acquired through the repo market, in line with the Bank's framework for market operations and liquidity provision. These operations are normally conducted to manage the Bank's balance sheet, promote the orderly functioning of Canadian financial markets and offset seasonal fluctuations in the demand for bank notes. Since March 2020, the Bank increased SPRAs by extending terms, by expanding the size and the frequency of the transactions and by expanding eligible collateral as a measure to increase liquidity in the Canadian financial system.

Investments more than tripled to $321,638.9 million as at June 30, 2020. This increase was a result of the following movements within the Bank's holdings:

- Government of Canada treasury bills increased by over $100,000.0 million to $129,525.6 million as at June 30, 2020. Purchases of Government of Canada treasury bills are typically based on the Bank's balance sheet needs. The increase also reflects the growth in Government of Canada issuances and the Bank's increased purchases[2].

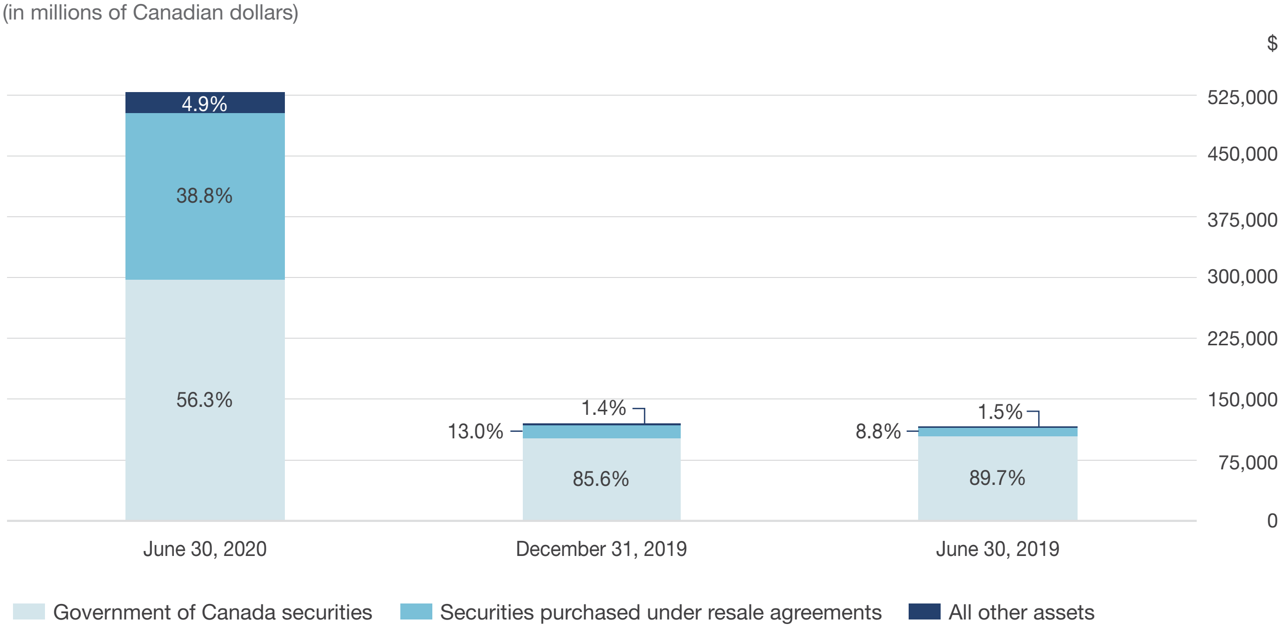
2 In April 2020, the Bank increased its purchases of treasury bills from 25 percent to 40 percent of issuances from the Government of Canada. In July 2020, it subsequently reduced its purchases to 20 percent.

- Government of Canada bonds (carried at amortized cost and at fair value through profit and loss combined) more than doubled to $167,941.0 million as at June 30, 2020. This growth reflects the increase in Government of Canada bond issuances[3]. It also reflects the launch of the GBPP, which also includes purchases of real-return bonds in the secondary market.
- Canada Mortgage Bonds (CMBs) increased to $7,447.9 million as at June 30, 2020. Purchases of these bonds are normally conducted in the primary market on a non-competitive basis. However, in March, the Bank also started acquiring CMBs in the secondary market through a competitive tender process to support the CMB market.
- The Bank started purchasing corporate bonds and provincial bonds as part of the CBPP and the PBPP. The launch of these programs resulted in an increase of $4,822.7 million to the assets as at June 30, 2020.
- In the second quarter of 2020, with the operationalization of the PBPP, the Bank began operating a securities-lending program to support the liquidity of provincial bonds in the securities financing markets with the securities purchased under the PBPP. These transactions are fully collateralized by securities. As at June 30, 2020, the Bank's investments included $445.7 million of loaned provincial bonds.
- The Bank also started acquiring bankers' acceptances, provincial money market securities and commercial paper as part of the BAPF, PMMP and CPPP programs in 2020. The introduction of these programs resulted in an increase of $10,965.8 million as at June 30, 2020.
- The value of the Bank's investment in shares of the Bank for International Settlements (BIS) increased by 12 percent to $490.2 million as at June 30, 2020. The growth in BIS equity resulted in an increase of $34.3 million, while fluctuations in the Special Drawing Rights exchange rate also resulted in an increase of $17.6 million.

Capital assets has marginally decreased by $6.9 million to $694.0 million as at June 30, 2020. This change results from $30.6 million of amortization and depreciation during the first half of the year, which was offset by $23.7 million of ongoing investments in the resilience initiatives of the Bank's medium-term plan (MTP), including enhancements to cyber security and business recovery as well as investments in evergreening initiatives and the Agency Operation Centres Modernization Program.

Asset profile

(in millions of Canadian dollars)



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

Other assets decreased by 9 percent to $60.4 million as at June 30, 2020. This decrease over the first six months of the year is primarily due to the net defined-benefit asset, which turned into a liability position following a decrease of 40 basis points in the discount rate since December 31, 2019. This resulted in a $34.1 million decrease in *Other assets*. Offsetting this decrease is the recognition of a $21.2 million asset related to the remittances to the Receiver General for Canada.

Liabilities

Summary of liabilities

(in millions of Canadian dollars)

As at	June 30, 2020	December 31, 2019	Variance $	Variance %
Bank notes in circulation	100,065.7	93,094.3	6,971.4	7
Deposits				
Government of Canada	146,572.5	21,765.6	124,806.9	573
Members of Payments Canada	269,227.8	249.5	268,978.3	107,807
Other deposits	10,679.1	3,228.2	7,450.9	231
	426,479.4	25,243.3	401,236.1	1,589
Derivatives - Indemnity agreements with the Government of Canada	450.7	-	450.7	-
Other liabilities	619.2	774.9	(155.7)	(20)
Total liabilities	527,615.0	119,112.5	408,502.5	343

The Bank's total liabilities have increased by more than $400,000.0 million to $527,615.0 million since December 31, 2019. This increase was driven by increases in deposits.

Bank notes in circulation increased by 7 percent to $100,065.7 million as at June 30, 2020, driven by seasonal variations in demand and by higher demand for bank notes since the start of the pandemic.

Deposits now represents the largest liability on the balance sheet. This change in the composition of the liabilities results directly from measures the Bank implemented starting in March 2020 to support the Canadian economy and financial system. Deposits increased to $426,479.4 million as at June 30, 2020, and consist of the following:

- Government of Canada deposits totaling $126,572.5 million held for the government's operational balance ($1,765.6 million as at December 31, 2019) and $20,000.0 million held for the government's prudential liquidity-management plan ($20,000.0 million as at December 31, 2019). The operational balance fluctuates based on the cash requirements of the Government of Canada, which increased significantly during the first two quarters of 2020 in response to the COVID-19 pandemic.
- Deposits by members of Payments Canada of $269,227.8 million as at June 30, 2020 ($249.5 million as at December 31, 2019). This increase results from the Bank injecting increased liquidity into the various markets. Although these deposits normally represent the target for the minimum daily level of settlement balances to support the smooth operation of the Canadian payments system, the Bank adjusted its operating framework for the implementation of monetary policy in March 2020. As a result, the Bank has not been targeting a specific level of daily settlement balances.
- Other deposits, which more than tripled to $10,679.1 million as at June 30, 2020 ($3,228.2 million as at December 31, 2019). This consists of deposits from central banks and other financial institutions, over which the Bank does not exercise control, as well as unclaimed balances remitted to the Bank in accordance with governing legislation.

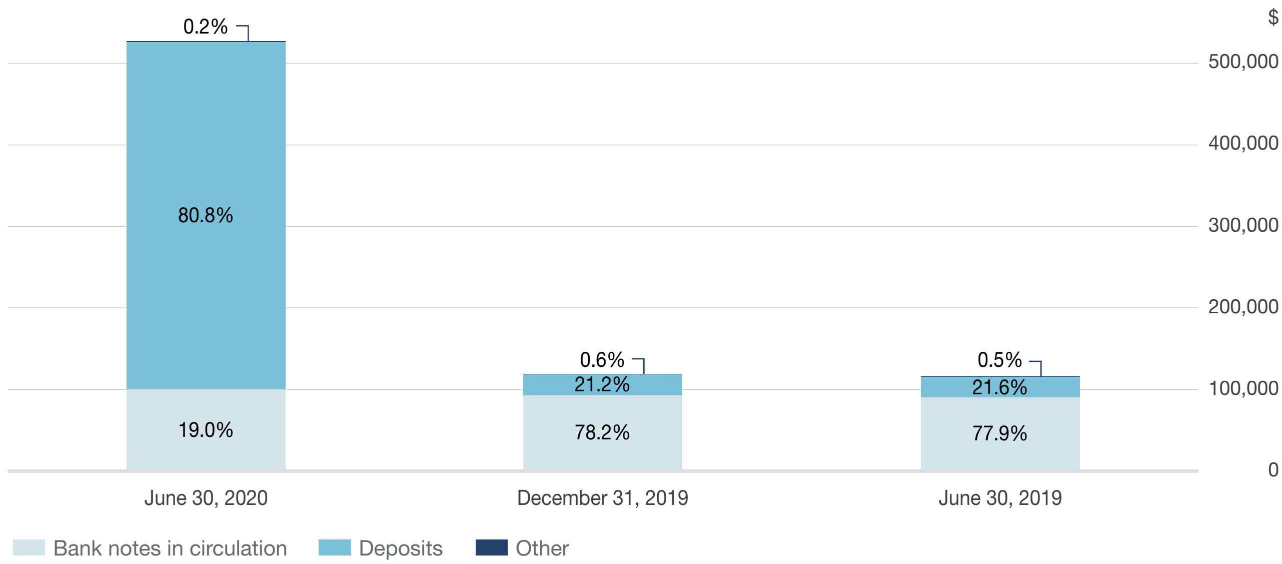
Derivatives - Indemnity agreements with the Government of Canada refers to the indemnification agreements that were put in place during the second quarter to allow the Bank to support the Government of Canada, provincial and corporate bond markets. Losses resulting from the sale of assets within the GBPP, CBPP and PBPP programs will be indemnified by the Government of Canada, whereas gains on disposal will be remitted. The $450.7 million balance represents the fair value of the derivative associated with the net unrealized gains on these assets as at June 30, 2020.

Other liabilities decreased by 20 percent to $619.2 million as at June 30, 2020, primarily as a result of the following changes:

- The surplus payable to the Receiver General for Canada resulted in a $368.3 million decrease compared with December 31, 2019.
- Liabilities related to the Bank's defined-benefit plans include those related to the Bank of Canada Supplementary Pension Arrangement and unfunded post-employment defined-benefit plans. These liabilities increased by $210.4 million (or 73 percent) to $498.2 million as at June 30, 2020 ($287.8 million as at December 31, 2019), primarily reflecting decreases in the discount rates[4] used to measure the defined-benefit obligations.

Liability profile

(in millions of Canadian dollars)



Equity

Summary of equity

(in millions of Canadian dollars)

As at	June 30, 2020	December 31, 2019	Variance $	Variance %
Share capital	5.0	5.0	-	-
Statutory reserve	25.0	25.0	-	-
Special reserve	100.0	100.0	-	-
Investment revaluation reserve	452.2	400.3	51.9	13
Retained earnings	-	-	-	-
Total equity	582.2	530.3	51.9	10

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

4 The defined-benefit obligation component of the net defined-benefit liability is measured using the discount rates in effect for each defined benefit plan as at the period-end. The rates as at June 30, 2020, ranged from 2.3 to 2.9 percent (2.9 to 3.2 percent as at December 31, 2019). See Note 11 to the condensed interim financial statements for more information.

The Bank can operate safely with a low capital base because its balance sheet is not exposed to significant risks, as described in Note 7 to the financial statements in the Bank's Annual Report for 2019 and in Note 4 of the condensed interim financial statements for June 30, 2020. Of note, unlike some other countries, Canada does not hold its foreign reserves at the central bank.[5]

The Bank acquired several new assets in the first six months of 2020. Although some of these assets may involve greater financial and volatility risks, overall the Bank's asset portfolio has a low credit risk because it still consists primarily of bonds and treasury bills issued or fully guaranteed by the Government of Canada.[6] As explained earlier, the bonds acquired under the GBPP, CBPP and PBPP are risk-free. The Bank also entered into agreements with the Government of Canada that indemnify the Bank in the event that credit losses are incurred on securities purchased under the PMMP or under the CPPP. Other financial assets, such as advances to members of Payments Canada and SPRAs, are transacted on a fully collateralized basis (see Note 4 to the condensed interim financial statements for further information on the collateral held).

The largest reserve held by the Bank is the investment revaluation reserve, which represents the unrealized fair value gains in the Bank's investment in the BIS. Fair value changes in the Bank's investment in the BIS are reported in *Other comprehensive income*, and the net unrealized fair value gains are accumulated in the investment revaluation reserve within Equity, which totalled $452.2 million as at June 30, 2020 ($400.3 million as at December 31, 2019).

Results of operations

Results of operations

(in millions of Canadian dollars)

For the three-month period ended June 30	2020	2019	2018
Total income	681.4	466.8	405.4
Total expenses	(156.8)	(143.7)	(136.0)
Net income	**524.6**	**323.1**	**269.4**
Other comprehensive income (loss)	(258.6)	(132.2)	68.3
Comprehensive income	**266.0**	**190.9**	**337.7**

Results of operations

(in millions of Canadian dollars)

For the six-month period ended June 30	2020	2019	2018
Total income	1,170.5	925.6	792.5
Total expenses	(299.0)	(270.1)	(267.1)
Net income	**871.5**	**655.5**	**525.4**
Other comprehensive income (loss)	(165.8)	(229.7)	111.9
Comprehensive income	**705.7**	**425.8**	**637.3**

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

6 The Bank's credit risk is being continuously monitored because the Bank is acquiring assets that may not have the same risk profile as Government of Canada securities.

Income

Total income

(in millions of Canadian dollars)

For the three-month period ended June 30	2020	2019	Variance $	Variance %
Interest revenue				
Investments	633.2	517.8	115.4	22
Securities purchased under resale agreements	252.8	44.7	208.1	466
Other sources	7.4	0.2	7.2	3,600
	893.4	**562.7**	**330.7**	**59**
Interest expense	**(213.3)**	**(101.8)**	**(111.5)**	**110**
Net interest revenue	**680.1**	**460.9**	**219.2**	**48**
Dividend revenue	**-**	**4.2**	**(4.2)**	**(100)**
Other revenue	**1.3**	**1.7**	**(0.4)**	**(24)**
Total income	**681.4**	**466.8**	**214.6**	**46**

Total income

(in millions of Canadian dollars)

For the six-month period ended June 30	2020	2019	Variance $	Variance %
Interest revenue				
Investments	1,153.7	1,034.5	119.2	12
Securities purchased under resale agreements	317.8	87.7	230.1	262
Other sources	7.6	0.4	7.2	1,800
	1,479.1	**1,122.6**	**356.5**	**32**
Interest expense	**(311.6)**	**(204.6)**	**(107.0)**	**52**
Net interest revenue	**1,167.5**	**918.0**	**249.5**	**27**
Dividend revenue	**-**	**4.2**	**(4.2)**	**(100)**
Other revenue	**3.0**	**3.4**	**(0.4)**	**(12)**
Total income	**1,170.5**	**925.6**	**244.9**	**26**

Total income for the second quarter of 2020 was $681.4 million, an increase of 46 percent compared with the same period in 2019. On a year-to-date basis, total income was $1,170.5 million, an increase of $244.9 million (or 26 percent) compared with the same period in 2019.The Bank's total income is driven by current market conditions, their impact on the interest-bearing assets and liabilities held on the Bank's balance sheet, and the volume and blend of these assets and liabilities. The first two quarters of 2020 have seen a significant increase in both the assets and the liabilities on the Bank's balance sheet. Since the Bank's portfolio of assets bearing interest is higher, the Bank earned more interest revenue. Although the increase in the deposits is in line with the increase in the assets, the interest rates applicable to the deposits were lower than the yield that the Bank earns on its assets. These interest rates were also lower than they were in the same period in 2019. The Bank lowered its policy interest rate from 1.75 to 0.25 percent during March 2020, which resulted in a lower interest rate environment.

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

The Bank's primary source of interest revenue is interest earned on its investments in Government of Canada securities. In the second quarter of 2020, the Bank recorded $633.2 million in revenue from interest—an increase of 22 percent over the same period in 2019. On a year-to-date basis, total revenue from interest was $1,153.7 million, an increase of $119.2 million (or 12 percent) compared with the same period in 2019. The increase was primarily the result of revenue from incremental interest earned on investments acquired since March 2020.

In the second quarter of 2020, interest earned on SPRAs was $252.8 million, representing an increase of more than $200.0 million compared with the same period in 2019. On a year-to-date basis, the Bank recorded $317.8 million in interest earned on SPRAs, representing an increase of $230.1 million (or 262 percent). This was driven by higher holdings as a result of the Bank's interventions to provide liquidity support to financial institutions, offset by lower yields throughout the first two quarters of the year. The Bank also earns interest revenue on its cash and foreign deposits and on advances to members of Payments Canada.

Income is reported net of the interest paid on deposits held by the Bank on behalf of the Government of Canada, members of Payments Canada and some other financial institutions. In the second quarter of 2020, this amounted to $213.3 million—an increase of 110 percent over the same period in 2019. On a year-to-date basis, interest paid on deposits increased by $107.0 million (or 52 percent). The increase resulted primarily from an increase in the amount of deposits the Bank pays interest on. This was offset by the reduction in the Bank's policy interest rate.

The BIS did not declare a dividend in 2020. As a result, the Bank did not record any dividend revenue in 2020. The Bank's revenue from its remaining sources was $3.0 million for the first six months of 2020 ($3.4 million for the first six months of 2019) and included safekeeping and custodial fees.

Expenses

Total expenses
(in millions of Canadian dollars)

			Variance	
For the three-month period ended June 30	2020	2019	$	%
Staff costs	80.6	71.5	9.1	13
Bank note research, production and processing	12.3	14.5	(2.2)	(15)
Premises costs	6.7	7.0	(0.3)	(4)
Technology and telecommunications	23.8	17.9	5.9	33
Depreciation and amortization	15.0	13.4	1.6	12
Other operating expenses	18.4	19.4	(1.0)	(5)
Total expenses	**156.8**	**143.7**	**13.1**	**9**

Total expenses
(in millions of Canadian dollars)

			Variance	
For the six-month period ended June 30	2020	2019	$	%
Staff costs	160.8	142.4	18.4	13
Bank note research, production and processing	14.8	17.1	(2.3)	(13)
Premises costs	13.3	13.7	(0.4)	(3)
Technology and telecommunications	45.4	33.9	11.5	34
Depreciation and amortization	30.6	26.4	4.2	16
Other operating expenses	34.1	36.6	(2.5)	(7)
Total expenses	**299.0**	**270.1**	**28.9**	**11**

Total expenses for the second quarter and first half of the year are $13.1 million and $28.9 million (or 9 percent and 11 percent) higher, respectively, over the comparable three- and six-month periods in 2019. This primarily reflects increases in staff costs and in expenditures on MTP resilience initiatives, including enhancements to cyber security and business recovery.

Staff costs increased by 13 percent for both the three- and six-month periods compared with the same periods in 2019 as a result of the following changes:

- $7.9 million (or 9 percent) increase in salary costs, from $91.0 million to $98.9 million, resulting from the annual compensation adjustment and strategic initiatives positions being filled.
- $10.5 million (or 20 percent) increase in benefit costs, from $51.4 million to $61.9 million, associated with the Bank's defined-benefit plans. The increase in benefit costs results mainly from the discount rates used for their calculation.[7]

Bank note research, production and processing costs were $2.2 million (or 15 percent) lower in the quarter and $2.3 million (or 13 percent) lower year-to-date compared with the same periods in the previous year. This is due primarily to production of bank notes being lower than last year. The timing of bank note production varies from one year to the next based on the annual production plan.

Premises costs were $0.3 million (or 4 percent) lower in the second quarter of 2020 and $0.4 million (or 3 percent) lower in the first half of 2020 compared with the same periods in 2019. This is due primarily to lower building repairs costs and lower equipment and furniture costs.

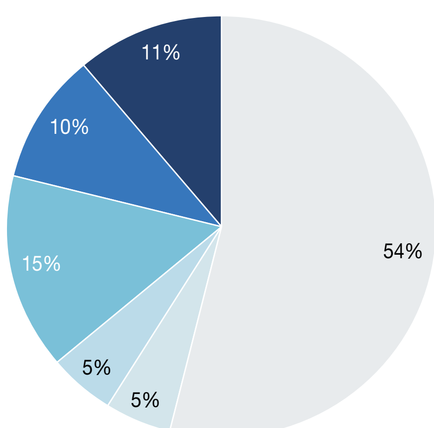
Technology and telecommunications expenses were $5.9 million (or 33 percent) higher in the second quarter of 2020 and $11.5 million (or 34 percent) higher for the first half of 2020 compared with the same periods in 2019. This increase was driven by the Bank's continued focus on strengthening its business continuity posture by investing in cyber security and business resilience initiatives.

Depreciation and amortization expenses were $1.6 million (or 12 percent) higher in the second quarter of 2020 and $4.2 million (or 16 percent) higher for the first half of 2020 compared with the same periods in 2019. The increase was largely the result of new assets being amortized in 2020.

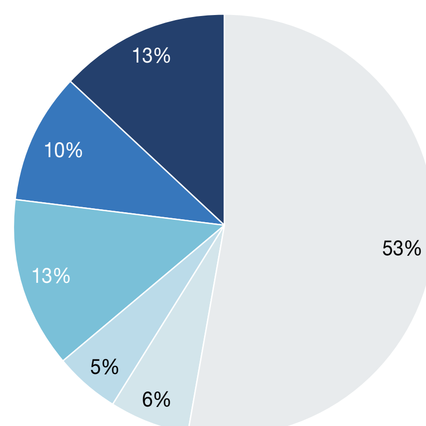
Other operating expenses represented 12 percent of the Bank's total expenses for the second quarter of 2020 and 11 percent for the first half of the year (13 percent for both periods in 2019) and is mostly composed of purchased services in support of the Bank's operations.

Composition of expenses

For the six-month period ended June 30, 2020



For the six-month period ended June 30, 2019



- Staff costs
- Bank note research, production and processing
- Premises costs
- Technology and telecommunications
- Depreciation and amortization
- Other operating expenses

7 Benefit costs for a given period are based on the discount rate as at December 31 of the preceding year (e.g., the rate at December 31, 2019, was used to calculate the benefit expenses for 2020). Discount rates and related benefit costs share an inverse relationship; as rates decrease, benefit expenses increase (and vice versa). The discount rates used for the calculation of the pension benefit plans and other benefit plan expenses decreased by an average of 80 basis points between 2020 (2.9 to 3.2 percent) and 2019 (3.5 to 4.0 percent). This decrease will result in increased benefit costs for 2020, all else being equal.

Other comprehensive income

Other comprehensive income
(in millions of Canadian dollars)

For the three-month period ended June 30	2020	2019	Variance $	Variance %
Remeasurements of the net defined-benefit liability/asset	(258.2)	(133.9)	(124.3)	93
Change in fair value of BIS shares	(0.4)	1.7	(2.1)	(124)
Other comprehensive income (loss)	**(258.6)**	**(132.2)**	**(126.4)**	**96**

Other comprehensive income
(in millions of Canadian dollars)

For the six-month period ended June 30	2020	2019	Variance $	Variance %
Remeasurements of the net defined-benefit liability/asset	(217.7)	(233.2)	15.5	(7)
Change in fair value of BIS shares	51.9	3.5	48.4	1,383
Other comprehensive income (loss)	**(165.8)**	**(229.7)**	**63.9**	**(28)**

Other comprehensive income for the second quarter of 2020 was a loss of $258.6 million. It consists of remeasurement losses of $258.2 million on the Bank's net defined-benefit plan liabilities and of a $0.4 million decrease in the fair value of the Bank's investment in the BIS.

Remeasurements pertaining to the Bank's defined-benefit plans are affected primarily by changes in the discount rate used to determine the related defined-benefit obligations and by the return on plan assets, where funded. The remeasurement losses recorded in the second quarter of 2020 were mostly the result of a decrease of 100 basis points in the discount rates[8] used to value the Bank's defined-benefit plan obligations.

Surplus for the Receiver General for Canada

The Bank's operations are not constrained by its cash flows or by its holdings of liquid assets. The net income of the Bank, less any allocation to reserves, is considered ascertained surplus (surplus). It was $266.4 million in the second quarter of 2020 ($189.2 million in the second quarter of 2019) and $653.8 million for the first half of the year ($422.3 million for the same period in 2019). In accordance with the requirements of section 27 of the *Bank of Canada Act*, the Bank remits its surplus to the Receiver General for Canada and does not hold retained earnings.

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

Further information on the Bank's remittance agreement with the Minister of Finance is provided in Note 12 to the condensed interim financial statements.

8 The net defined-benefit liabilities are measured using the discount rate in effect as at the period-end. The rate applicable to the net defined-benefit liabilities as at June 30, 2020, ranged from 2.3 to 2.9 percent (2.9 to 3.2 percent as at December 31, 2019). See Note 11 to the condensed interim financial statements for more information.

Looking ahead

The Bank’s 2020 Plan

(in millions of Canadian dollars)

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

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

The year 2020 represents the second year of the Bank’s 2019–21 MTP, *Leading in the New Era*. The Bank’s financial management framework is designed to enable decision making related to the allocation of resources to achieve the Bank’s objectives and mitigate risks in a prudent fiscal manner. The framework balances the need to be fiscally responsible in the public sector environment and the need to invest in our people and tools.[9]

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

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

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

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

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

In 2020, the Bank expects to incur $65 million in capital expenditures (included in strategic investment program expenditures), which predominantly reflect the Bank’s continued investment in cyber security and resilience initiatives.

9 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.

Operational highlights and changes

The following describes any significant changes in personnel, operations and programs that have occurred since March 31, 2020.

Governing Council and Board of Directors

On May 1, 2020, the Bank announced that Tiff Macklem was appointed Governor of the Bank of Canada for a seven-year term, effective June 3, 2020. Mr. Macklem succeeded Stephen S. Poloz, who left the Bank of Canada on June 2, 2020.

Operations and programs

Subsequent to the end of the quarter, on July 27, 2020, the Bank introduced the Securities Repo Operations (SROs) to foster the well-functioning of the Government of Canada securities market. The SROs will provide a temporary source of Government of Canada nominal bonds and treasury bills to primary dealers to support liquidity in the securities financing markets. The Bank's SROs will make a portion of its holdings of these securities available on an overnight basis through repurchase operations. At the same time, the Bank suspended its Securities Lending Program.

Risk analysis

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

CONDENSED INTERIM FINANCIAL STATEMENTS

June 30, 2020

Glossary of abbreviations

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

Management responsibility

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

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

Tiff Macklem,
Governor

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

Ottawa, Canada
August 18, 2020

Condensed interim statement of financial position (unaudited)

(in millions of Canadian dollars)

As at	Note	June 30, 2020	December 31, 2019
Assets			
Cash and foreign deposits	3	7.8	6.4
Loans and receivables	3, 4		
Securities purchased under resale agreements		205,185.5	15,516.5
Advances to members of Payments Canada		606.2	-
Other receivables		4.4	5.4
		205,796.1	**15,521.9**
Investments	3, 4		
Government of Canada treasury bills		129,525.6	23,367.4
Government of Canada bonds—carried at amortized cost		86,424.0	79,030.5
Government of Canada bonds—carried at fair value through profit and loss		81,517.0	-
Canada Mortgage Bonds		7,447.9	510.7
Other bonds		4,822.7	-
Securities lending—provincial bonds		445.7	-
Other securities		10,965.8	-
Shares in the Bank for International Settlements (BIS)		490.2	438.3
		321,638.9	**103,346.9**
Capital assets			
Property and equipment	5	578.4	590.6
Intangible assets	6	67.0	59.4
Right-of-use leased assets	7	48.6	50.9
		694.0	**700.9**
Other assets	8	**60.4**	**66.7**
Total assets		**528,197.2**	**119,642.8**
Liabilities and equity			
Bank notes in circulation	3	**100,065.7**	**93,094.3**
Deposits	3, 4, 9		
Government of Canada		146,572.5	21,765.6
Members of Payments Canada		269,227.8	249.5
Other deposits		10,679.1	3,228.2
		426,479.4	**25,243.3**
Derivatives - Indemnity agreements with the Government of Canada	3, 4	450.7	-
Other liabilities	3, 10	619.2	774.9
Total liabilities		**527,615.0**	**119,112.5**
Equity	12	**582.2**	530.3
Subsequent events	14		
Total liabilities and equity		**528,197.2**	**119,642.8**

Tiff Macklem,
Governor

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

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

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

(in millions of Canadian dollars)

	Note	For the three-month period ended June 30		For the six-month period ended June 30	
	Note	2020	2019	2020	2019
Income					
Interest revenue					
Investments—carried at amortized cost		585.5	517.8	1,106.0	1,034.5
Investments—carried at fair value through profit and loss		47.7	-	47.7	-
Securities purchased under resale agreements		252.8	44.7	317.8	87.7
Other sources		7.4	0.2	7.6	0.4
		893.4	**562.7**	**1,479.1**	**1,122.6**
Interest expense					
Deposits		(204.7)	(101.7)	(303.0)	(204.5)
Other		(8.6)	(0.1)	(8.6)	(0.1)
Net interest revenue		**680.1**	**460.9**	**1,167.5**	**918.0**
Dividend revenue		-	4.2	-	4.2
Other revenue		1.3	1.7	3.0	3.4
Total income		**681.4**	**466.8**	**1,170.5**	**925.6**
Expenses					
Staff costs		80.6	71.5	160.8	142.4
Bank note research, production and processing		12.3	14.5	14.8	17.1
Premises costs		6.7	7.0	13.3	13.7
Technology and telecommunications		23.8	17.9	45.4	33.9
Depreciation and amortization		15.0	13.4	30.6	26.4
Other operating expenses		18.4	19.4	34.1	36.6
Total expenses		**156.8**	**143.7**	**299.0**	**270.1**
Net income		**524.6**	**323.1**	**871.5**	**655.5**
Other comprehensive income (loss)					
Remeasurements of the net defined-benefit liability/asset	11	(258.2)	(133.9)	(217.7)	(233.2)
Change in fair value of BIS shares	3	(0.4)	1.7	51.9	3.5
Other comprehensive income (loss)		**(258.6)**	(132.2)	**(165.8)**	(229.7)
Comprehensive income		**266.0**	**190.9**	**705.7**	**425.8**

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

Condensed interim statement of changes in equity (unaudited)

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

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at April 1, 2020		5.0	25.0	100.0	452.6	-	582.6
Comprehensive income for the period							
Net income		-	-	-	-	524.6	524.6
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	(258.2)	(258.2)
Change in fair value of BIS shares	3	-	-	-	(0.4)	-	(0.4)
		-	-	-	(0.4)	266.4	266.0
Surplus for the Receiver General for Canada		-	-	-	-	(266.4)	(266.4)
Balance as at June 30, 2020		5.0	25.0	100.0	452.2	-	582.2

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at April 1, 2019		5.0	25.0	100.0	397.1	-	527.1
Comprehensive income for the period							
Net income		-	-	-	-	323.1	323.1
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	(133.9)	(133.9)
Change in fair value of BIS shares	3	-	-	-	1.7	-	1.7
		-	-	-	1.7	189.2	190.9
Surplus for the Receiver General for Canada		-	-	-	-	(189.2)	(189.2)
Balance as at June 30, 2019		5.0	25.0	100.0	398.8	-	528.8

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

Condensed interim statement of changes in equity (unaudited)

For the six-month period ended June 30 (in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at January 1, 2020		5.0	25.0	100.0	400.3	-	530.3
Comprehensive income for the period							
Net income		-	-	-	-	871.5	871.5
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	(217.7)	(217.7)
Change in fair value of BIS shares	3	-	-	-	51.9	-	51.9
		-	-	-	51.9	653.8	705.7
Surplus for the Receiver General for Canada		-	-	-	-	(653.8)	(653.8)
Balance as at June 30, 2020		5.0	25.0	100.0	452.2	-	582.2

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Retained earnings	Total
Balance as at January 1, 2019		5.0	25.0	100.0	395.3	-	525.3
Comprehensive income for the period							
Net income		-	-	-	-	655.5	655.5
Remeasurements of the net defined-benefit liability/asset	11	-	-	-	-	(233.2)	(233.2)
Change in fair value of BIS shares	3	-	-	-	3.5	-	3.5
		-	-	-	3.5	422.3	425.8
Surplus for the Receiver General for Canada		-	-	-	-	(422.3)	(422.3)
Balance as at June 30, 2019		5.0	25.0	100.0	398.8	-	528.8

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

Condensed interim statement of cash flows (unaudited)

(in millions of Canadian dollars)

	For the three-month period ended June 30		For the six-month period ended June 30	
	2020	2019	2020	2019
Cash flows from operating activities				
Interest received	1,149.9	752.1	1,549.8	1,108.3
Other revenue received	1.1	1.7	4.9	4.8
Interest paid	(202.9)	(101.9)	(301.0)	(202.5)
Payments to or on behalf of employees and to suppliers	(109.2)	(106.5)	(245.9)	(243.7)
Net increase (decrease) in deposits	324,591.0	(1,598.1)	401,236.1	309.0
Acquisition of securities purchased under resale agreements—overnight repo	-	(1,500.0)	(15,450.2)	(3,000.0)
Proceeds from maturity of securities purchased under resale agreements—overnight repo	-	1,500.0	15,450.2	3,000.0
Acquisition of securities purchased under resale agreements—term repo	(178,419.6)	-	(232,705.7)	-
Proceeds from maturity of securities purchased under resale agreements—term repo	27,102.1	-	27,752.4	-
Proceeds from securities sold under repurchase agreements	-	1,500.0	-	1,500.0
Repayments of securities sold under repurchase agreements	-	(1,500.0)	-	(1,500.0)
Advances repaid from (made to) members of Payments Canada	8,294.7	-	(605.3)	-
Purchases of Canada Mortgage Bonds	(5,556.5)	-	(6,468.9)	-
Purchases of Government of Canada bonds—carried at FVTPL	(81,337.9)	-	(81,337.9)	-
Purchases of other bonds	(5,263.3)	-	(5,263.3)	-
Purchase of other securities	(43,281.2)	-	(58,835.8)	-
Proceeds from maturity of other securities	47,654.9	-	47,884.8	-
Acquisition of securities purchased under the Contingent Term Repo Facility	(291.8)	-	(291.8)	-
Proceeds from maturity of securities purchased under the Contingent Term Repo Facility	291.8	-	291.8	-
Net cash provided by (used in) operating activities	**94,623.1**	**(1,052.7)**	**92,664.2**	**975.9**
Cash flows from investing activities				
Acquisition of securities purchased under resale agreements—term repo	(890.3)	(23,201.3)	(33,228.6)	(48,475.9)
Proceeds from maturity of securities purchased under resale agreements—term repo	12,002.7	22,994.7	48,725.8	48,933.8
Net purchases of Government of Canada treasury bills	(103,748.2)	(1,870.4)	(106,151.6)	(1,762.3)
Purchases of Government of Canada bonds	(11,219.8)	(3,849.9)	(15,610.2)	(6,869.3)
Proceeds from maturity of Government of Canada bonds	2,263.0	3,458.0	8,200.0	7,838.0
Purchases of Canada Mortgage Bonds	(0.4)	-	(499.7)	(262.8)
Additions of property and equipment	(5.2)	(10.3)	(11.0)	(18.1)
Additions of intangible assets	(5.9)	(4.5)	(12.7)	(10.1)
Net cash used in investing activities	**(101,604.1)**	**(2,483.7)**	**(98,588.0)**	**(626.7)**
Cash flows from financing activities				
Net increase in bank notes in circulation	8,026.6	3,838.1	6,971.4	180.4
Remittance of surplus to the Receiver General for Canada	(1,043.3)	(300.0)	(1,043.3)	(525.9)
Payments of lease liabilities	(0.7)	(2.0)	(3.0)	(2.7)
Net cash provided by (used in) financing activities	**6,982.6**	**3,536.1**	**5,925.1**	**(348.2)**
Effect of exchange rate changes on foreign currency	(0.2)	(0.3)	0.1	(0.7)
Increase (decrease) in cash and foreign deposits	**1.4**	**(0.6)**	**1.4**	**0.3**
Cash and foreign deposits, beginning of period	6.4	17.9	6.4	17.0
Cash and foreign deposits, end of period	**7.8**	**17.3**	**7.8**	**17.3**

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

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

For the six-month period ended June 30, 2020

1. The business of the Bank of Canada

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

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

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

The Bank's mandate under the *Bank of Canada Act* is to promote the economic and financial welfare of Canada. The Bank's activities and operations are undertaken in support of this mandate and not with the objective of generating revenue or profits. The Bank's four core areas of responsibility are the following:

- **Monetary policy**: The Bank conducts monetary policy to preserve the value of money by keeping inflation low, stable and predictable.
- **Financial system**: The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.
- **Funds management**: The Bank provides funds management services for the Government of Canada, the Bank itself and other clients. The Bank is the fiscal agent for the government, providing treasury-management services and administering and advising on the public debt and foreign exchange reserves.
- **Currency**: The Bank designs, issues and distributes Canada's bank notes, oversees the note distribution system and ensures a supply of quality bank notes that are readily accepted and secure against counterfeiting.

The corporate administration function supports the management of the Bank's human resources, operations and strategic initiatives as well as the stewardship of financial, physical, information and technology assets.

The Bank has the exclusive right to issue Canadian bank notes, and the face value of these bank notes is a significant liability on the Bank's balance sheet. The Bank invests part of the proceeds from issuing bank notes into Government of Canada securities and Canada Mortgage Bonds acquired on a non-competitive basis on the primary market. The Bank also uses part of these proceeds to execute its responsibilities for its monetary policy and financial system functions. In the second quarter of 2020, as part of the Bank's continued response to help support the financial system in the face of the 2020 COVID-19 pandemic, the Bank introduced the Contingent Term Repo Facility, the Corporate Bond Purchase Program, the Provincial Bond Purchase Program, the Commercial Paper Purchase Program and the Government of Canada Bond Purchase Program.

The interest income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as seigniorage and is typically the Bank's primary source of revenue. It provides a stable and constant source of funding for the Bank's operations, which enables the Bank to function independently of government appropriations. A portion of 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

Compliance with International Financial Reporting Standards

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34), as issued by the International Accounting Standards Board. These condensed interim financial statements do not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the Bank's audited financial statements for the year ended December 31, 2019. When necessary, the condensed interim financial statements include amounts based on informed estimates and the judgment of management. The results of operations for the interim period reported are not necessarily indicative of results expected for the year.

The Audit and Finance Committee of the Board of Directors approved the condensed interim financial statements on August 18, 2020.

Fiscal agent and custodial activities

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

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

Measurement base

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

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

Functional and presentation currency

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

Seasonality

The total value of bank notes in circulation fluctuates throughout the year as a function of the seasonal demand for bank notes. Such demand is typically at its lowest level in the first quarter and peaks in the second and fourth quarters around holiday periods. In addition to the regular term repo program, the Bank may issue securities purchased under resale agreements to offset the increased bank note liability during periods of high seasonal demand.

Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those disclosed in the Bank's financial statements for the year ended December 31, 2019. For new instruments introduced in the period, the significant accounting policies adopted in the period are disclosed below.

Financial assets designated at fair value through profit and loss

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

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

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

Derivatives - Indemnity agreements with the Government of Canada

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

Financial Guarantee Contracts- Indemnity agreements with the Government of Canada

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

Key accounting judgments, estimates and assumptions

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

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

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

3. Financial instruments

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

Financial instrument	Classification and subsequent measurement	Carrying value	Fair value
Financial assets			
Cash and foreign deposits	Amortized cost	**7.8**	*
Loans and receivables			
Securities purchased under resale agreements	Amortized cost	205,185.5	*
Advances to members of Payments Canada	Amortized cost	606.2	*
Other receivables	Amortized cost	4.4	*
		205,796.1	*
Investments			
Government of Canada treasury bills	Amortized cost	129,525.6	129,598.1
Government of Canada bonds—primary market	Amortized cost	86,424.0	94,941.8
Government of Canada bonds—secondary market			
Government of Canada bonds	FVTPL	80,234.0	80,234.0
Real-return bonds	FVTPL	1,283.0	1,283.0
		81,517.0	81,517.0
Canada Mortgage Bonds	Amortized cost	7,447.9	7,551.3
Other bonds			
Provincial bonds	FVTPL	4,684.0	4,684.0
Corporate bonds	FVTPL	138.7	138.7
		4,822.7	4,822.7
Securities lending—provincial bonds	FVTPL	445.7	445.7
Other securities			
Provincial money market securities	Amortized cost	7,629.5	7,632.9
Bankers' acceptances	Amortized cost	1,709.5	1,709.8
Commercial paper	Amortized cost	1,626.8	1,626.8
		10,965.8	10,969.5
Shares in the Bank for International Settlements	FVOCI	490.2	490.2
		321,638.9	**330,336.3**
Financial liabilities			
Bank notes in circulation	Face value	**100,065.7**	*
Deposits	Amortized cost	**426,479.4**	*
Derivatives - Indemnity agreements with the Government of Canada	FVTPL	**450.7**	**450.7**
Other liabilities	Amortized cost	**619.2**	*

* Approximates carrying value due to their nature as short-term

Financial instruments introduced during the quarter

In response to the economic impacts of the pandemic, the Bank has undertaken a number of actions to support the Canadian economy and financial system, including establishing several asset purchase programs to increase liquidity in core funding markets. In addition to the Provincial Money Market Purchase Program, the Bankers' Acceptance Purchase Facility, the Standing Term Liquidity Facility and the expansion of the duration of SPRAs, which were all introduced in the first quarter of 2020, the Bank deployed further measures during the second quarter of 2020. Further details on the financial instruments implemented in the quarter ended June 30, 2020, are provided below. Information on measures implemented after June 30, 2020, are described in Note 14.

Loans and receivables

Contingent Term Repo Facility

On April 3, 2020, the Bank activated the Contingent Term Repo Facility (CTRF) effective April 6, 2020. The CTRF is the Bank's standing repo facility designed to counter any severe market-wide liquidity stresses and to support the stability of the Canadian financial system. The CTRF offers Canadian-dollar funding for a one-month term to eligible counterparties on a standing, bilateral basis against securities issued or guaranteed by the Government of Canada or a provincial government. The program will remain active for a period of 12 months. Up to the reporting date, the Bank had not incurred any credit losses related to this facility.

Investments

Government of Canada Bond Purchase Program

On March 27, 2020, the Bank launched the GBPP to purchase Government of Canada securities in the secondary market, effective April 1, 2020. This program was established to address strains in the Government of Canada bond market (including the real-return bond market) and to enhance the effectiveness of all other actions taken so far.

Securities purchased under the GBPP are managed by collecting contractual cash flows and through sale. The Bank has made the irrevocable election to designate these securities as being measured at fair value through profit or loss. In addition, the Bank entered into an agreement with the Government of Canada effective April 1, 2020, indemnifying the Bank in the event that any losses are incurred on disposition of securities purchased under the GBPP. Any gains on disposal will be remitted to the Government of Canada under the terms of the same agreement. The program will be adjusted as conditions warrant but will continue until the economic recovery is well underway. From April 1, 2020, up to the end of the period, the Bank had not realized any gains or incurred any losses on disposal of securities purchased under this program.

Provincial Bond Purchase Program

On May 7, 2020, the Bank introduced the PBPP to further support the liquidity and efficiency of provincial government funding markets. This program will supplement the PMMP, which was implemented in the first quarter of the year. The PBPP will purchase eligible securities in the secondary market. Eligible securities are made up of Canadian-dollar-denominated bonds issued by all provinces and fully guaranteed provincial agencies with remaining terms to maturity of up to 10 years. The program will be capped at $50 billion and will remain active for a period of 12 months.

Securities purchased under the PBPP are managed by collecting contractual cash flows and through sale. The Bank has made the irrevocable election to designate these securities as being measured at fair value through profit or loss. In addition, the Bank entered into an agreement with the Government of Canada effective May 7, 2020, that indemnifies the Bank against any realized losses beyond amortized cost upon disposal and any realized credit losses for securities under the PBPP. Any gains on disposal will be remitted to the Government of Canada under the terms of the same agreement. Up to the reporting date, the Bank has not realized any gains or incurred any losses on disposal or credit losses on securities purchased under this program.

Corporate Bond Purchase Program

On May 26, 2020, the Bank introduced the CBPP to support the liquidity and proper functioning of the corporate debt market by purchasing bonds through a tender process in the secondary market. The CBPP will be capped at $10 billion and will be restricted to senior secured and unsecured bonds originated by Canadian incorporated companies with a remaining maturity of up to five years and a minimum credit rating of BBB or equivalent. Floating-rate notes and sinking-fund bonds are not eligible. Debt issued by deposit-taking institutions will be excluded because those institutions have access to other Bank of Canada support facilities. The program will operate for a period of 12 months from May 26, 2020, to May 25, 2021.

Securities purchased under the CBPP are managed by collecting contractual cash flows and through sale. The Bank has made the irrevocable election to designate these securities as being measured at fair value through profit or loss. In addition, the Bank entered into an agreement with the Government of Canada effective May 26, 2020, that indemnifies the Bank against any realized losses beyond amortized cost upon disposal and in the event of any realized credit losses for the CBPP securities. Any gains on disposal will be remitted to the Government of Canada under the terms of the same agreement. Up to the reporting date, the Bank has not realized any gains or incurred any losses on disposal or credit losses on securities purchased under this program.

Commercial Paper Purchase Program

On March 27, 2020, the Bank announced the Commercial Paper Purchase Program (CPPP) to support the continuous functioning of financial markets. This program aims to help support the flow of credit to the economy by alleviating strains in Canada's commercial paper markets. Beginning April 2, 2020, the Bank conducted primary and secondary market purchases of commercial paper, including asset-backed commercial paper, issued by Canadian firms, municipalities and provincial agencies for terms of up to three months and with a minimum short-term credit rating of R-1.

Securities purchased under the CPPP are managed by collecting contractual cash flows. At the same time, on March 27, 2020, the Bank entered into an agreement with the Government of Canada that indemnifies the Bank in the event that any credit losses are incurred on securities purchased under the CPPP. The program will remain active for a period of 12 months.

Fair value of financial instruments

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

Level 1

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

Level 2

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

Level 3

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

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

Transfers may occur between levels of the fair value hierarchy as a result of changes in market activity or the availability of quoted market prices or observable inputs. The Bank's policy is to record transfers of assets and liabilities between the different levels of the fair value hierarchy using the fair values as at the end of each reporting period. Transfers from level 1 to level 2 occurred in the second quarter of 2020 for Government of Canada bonds at amortized cost totalling $88.6 million due to market activity.

Below are the valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy. There were no changes to valuation methods during the period.

Shares in the Bank for International Settlements (BIS shares)

Significant unobservable inputs (Level 3). Estimated as 70 percent of the Bank's interest in the net asset value of the BIS at the reporting date. This is consistent with the methodology applied by the BIS for all share repurchases since the 1970s and was further endorsed in a decision by the International Court at The Hague relating to a share repurchase by the BIS in 2001 (the last share repurchase conducted by the BIS). The Bank expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates.

Derivatives - Indemnity agreements with the Government of Canada

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

Cash and foreign deposits, SPRAs, advances to members of Payments Canada, other receivables, deposits and financial liabilities

Carrying amount (approximation to fair value due to their nature as short-term or due on demand)

Government of Canada treasury bills, Government of Canada bonds, Canada Mortgage Bonds, provincial money market securities, bankers' acceptances, commercial paper, real-return bonds, provincial bonds, securities lending—provincial bonds and corporate bonds

Market prices derived from observable inputs (Level 1 and Level 2)

Supporting information

Fair value hierarchy

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

	Level 1	Level 2	Level 3	Fair value	Carrying value
As at June 30, 2020					
Government of Canada treasury bills	129,598.1	-	-	**129,598.1**	**129,525.6**
Government of Canada bonds—primary market	94,770.6	171.2	-	**94,941.8**	**86,424.0**
Government of Canada bonds—secondary market	79,139.4	1,094.6	-	**80,234.0**	**80,234.0**
Real-return bonds	1,283.0	-	-	**1,283.0**	**1,283.0**
Canada Mortgage Bonds	7,551.3	-	-	**7,551.3**	**7,447.9**
Provincial bonds	-	4,684.0	-	**4,684.0**	**4,684.0**
Corporate bonds	-	138.7	-	**138.7**	**138.7**
Securities lending—provincial bonds	-	445.7	-	**445.7**	**445.7**
Provincial money market securities	-	7,632.9	-	**7,632.9**	**7,629.5**
Bankers' acceptances	-	1,709.8	-	**1,709.8**	**1,709.5**
Commercial paper	-	1,626.8	-	**1,626.8**	**1,626.8**
Shares in the Bank for International Settlements	-	-	490.2	**490.2**	**490.2**
Total	**312,342.4**	**17,503.7**	**490.2**	**330,336.3**	**321,638.9**

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

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

BIS shares

	For the three-month period ended June 30		For the six-month period ended June 30	
	2020	2019	2020	2019
Opening balance at beginning of period	490.6	435.1	438.3	433.3
Change in fair value recorded through other comprehensive income (OCI)	3.6	9.7	34.3	21.3
Change due to Special Drawing Rights exchange differences recorded through OCI	(4.0)	(8.0)	17.6	(17.8)
Closing balance at end of period	**490.2**	**436.8**	**490.2**	**436.8**

Derivatives - Indemnity agreements with the Government of Canada

	June 30, 2020			December 31, 2019		
	Related asset		Derivatives - Indemnity agreements with the Government of Canada	Related asset		Derivatives - Indemnity agreements with the Government of Canada
	Amortized cost	Fair value	Fair value	Amortized cost	Fair value	Fair value
Government of Canada Bond Purchase Program	81,092.7	81,517.0	(424.3)	-	-	-
Provincial Bond Purchase Program	5,103.9	5,129.7	(25.8)	-	-	-
Corporate Bond Purchase Program	138.1	138.7	(0.6)	-	-	-
Balance at end of period	**86,334.7**	**86,785.4**	**(450.7)**	**-**	**-**	**-**

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

	For the three-month period ended June 30		For the six-month period ended June 30	
	2020	2019	2020	2019
Government of Canada Bond Purchase Program	424.3	-	424.3	-
Provincial Bond Purchase Program	25.8	-	25.8	-
Corporate Bond Purchase Program	0.6	-	0.6	-
Indemnity agreements	(450.7)	-	(450.7)	-
Total	-	-	-	-

Investments

The Bank 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. As at June 30, 2020, the Bank was not engaged in any Government of Canada securities-lending activities ($nil at December 31, 2019). In the second quarter of 2020, with the operationalization of the PBPP, the Bank also began operating a securities-lending program to support the liquidity of provincial bonds in the securities financing markets with the securities purchased under the PBPP. These transactions are fully collateralized by securities. As at June 30, 2020, the Bank's investments included loaned provincial bonds with a fair market value of $445.7 million ($nil at December 31, 2019). The fair value of collateral held totalled $469.0 million, representing 105.2 per cent of fair value of the securities loaned.

Expected credit losses

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

Debt instruments at amortized cost

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

All of the Bank's financial assets subject to impairment assessments are Stage 1 and are considered to have low credit risk. There were no transfers of financial instruments between stages during the reporting period. The Bank did not record any ECLs on these instruments as at June 30, 2020 ($nil at December 31, 2019) because the amount was deemed not to be significant. There are no past due or impaired amounts as at June 30, 2020 ($nil at December 31, 2019).

Financial guarantees

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

4. Financial risk management

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

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

The following is a description of those risks and how the Bank manages its exposure to them.

Credit risk

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

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

Concentration of credit risk

The Bank's investment portfolio represents 61 percent of the carrying value of its total assets (86 percent as at December 31, 2019). The credit risk associated with the Bank's investment portfolio is low because the securities held are primarily direct obligations of the Government of Canada or are fully guaranteed by the Government of Canada, which holds a credit rating of AAA with most credit agencies and has no history of default.

SPRAs represent 39 percent of the carrying value of the Bank's total assets (13 percent as at December 31, 2019). In the unlikely event of a counterparty default, collateral can be liquidated to offset credit exposure. Collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements, which are available on its website. Strict eligibility criteria are set for all collateral, and the credit quality of collateral is managed through a set of restrictions based on asset type, term to maturity and credit attributes, including ratings of the collateral pledged.

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

As at	June 30, 2020		December 31, 2019	
	$	%	$	%
Securities issued or guaranteed by the Government of Canada	1,793.9	0.8	2,993.2	18.7
Securities issued or guaranteed by a provincial government	50,544.7	23.5	12,552.0	78.4
Securities guaranteed by Crown corporations of the Government of Canada	5,836.6	2.7	460.3	2.9
Securities issued by a municipality	419.8	0.2	-	-
Other public sector securities	2,475.5	1.1	-	-
Corporate debt securities	139,669.5	64.9	-	-
Asset-backed commercial paper	14,537.0	6.8	-	-
Total fair value of collateral pledged to the Bank	**215,277.0**	**100.0**	**16,005.5**	**100.0**
Carrying value of collateralized securities	**205,185.5**	**100.0**	**15,516.5**	**100.0**
Collateral as a percentage of carrying value		**104.9**		**103.2**

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

As at	June 30, 2020		December 31, 2019	
	$	%	$	%
Non-mortgage loan portfolios	506.9	51.6	-	-
Mortgage loan portfolios	475.6	48.4	-	-
Total fair value of collateral pledged to the Bank	**982.5**	**100.0**	-	-
Carrying value of advances to members of Payments Canada	**606.2**	**100.0**	-	-
Collateral as a percentage of carrying value		**162.1**		-

Market risk

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

Interest rate risk

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

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

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

For the six-month period ended June 30	2020	2019
Interest expense on Government of Canada deposits	162.9 / (162.9)	57.9 / (57.9)
Interest expense on members of Payments Canada deposits	262.3 / (262.3)	0.7 / (0.7)
Interest revenue on real-return bonds	0.2 / (0.2)	- / -

Currency risk

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

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

Other price risk

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

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

In Q2-2020, with the operationalization of the GBPP, CBPP and PBPP, the Bank began holding securities at fair value through profit or loss, exposing itself to fluctuations in market prices. However, all securities measured at FVTPL are fully indemnified for gains and losses beyond amortised cost. Therefore, the Bank bears no net price risk related to the securities.

Liquidity risk

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

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

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

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

As at June 30, 2020	Due on demand	Within 90 days	Within 4-12 Months	1 to 5 years	More than 5 years	Total
Financial assets						
Cash and foreign deposits	7.8	-	-	-	-	7.8
Loans and receivables	-	36,375.2	139,513.6	30,684.3	-	206,573.1
Investments						
Government of Canada treasury bills	-	71,785.0	57,915.0	-	-	129,700.0
Government of Canada bonds at amortized cost	-	6,224.7	10,892.3	47,545.2	35,718.1	100,380.3
Government of Canada bonds at FVTPL	-	4,703.9	11,105.0	47,122.2	23,277.6	86,208.7
Canada Mortgage Bonds	-	24.4	138.0	4,149.4	3,555.5	7,867.3
Provincial money market securities	-	4,158.6	3,481.1	-	-	7,639.7
Bankers' acceptances	-	1,710.0	-	-	-	1,710.0
Commercial paper	-	1,627.4	-	-	-	1,627.4
Real-return bonds	-	-	29.0	255.0	983.9	1,267.9
Provincial bonds	-	40.7	536.8	2,766.9	2,091.8	5,436.2
Corporate bonds	-	0.7	26.3	118.4	-	145.4
Shares in BIS*	490.2	-	-	-	-	490.2
	498.0	126,650.6	223,637.1	132,641.4	65,626.9	549,054.0
Financial liabilities						
Bank notes in circulation	100,065.7	-	-	-	-	100,065.7
Deposits						
Government of Canada	146,572.5	-	-	-	-	146,572.5
Members of Payments Canada	-	269,227.8	-	-	-	269,227.8
Other deposits	10,679.1	-	-	-	-	10,679.1
Other financial liabilities	-	121.0	-	-	-	121.0
	257,317.3	269,348.8	-	-	-	526,666.1
Net maturity difference	(256,819.3)	(142,698.2)	223,637.1	132,641.4	65,626.9	22,387.9

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

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

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

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

5. Property and equipment

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

Carrying amount of property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
Cost				
Balances as at December 31, 2019	**575.4**	**164.4**	**84.8**	**824.6**
Additions	1.2	8.1	1.7	**11.0**
Disposals	-	-	-	**-**
Transfers to other asset categories	-	-	-	**-**
Balances as at June 30, 2020	**576.6**	**172.5**	**86.5**	**835.6**
Accumulated depreciation				
Balances as at December 31, 2019	**(139.7)**	**(62.2)**	**(32.1)**	**(234.0)**
Depreciation expense	(8.9)	(11.4)	(2.9)	**(23.2)**
Disposals	-	-	-	**-**
Transfers to other asset categories	-	-	-	**-**
Balances as at June 30, 2020	**(148.6)**	**(73.6)**	**(35.0)**	**(257.2)**
Carrying amounts				
Balances as at December 31, 2019	**435.7**	**102.2**	**52.7**	**590.6**
Balances as at June 30, 2020	**428.0**	**98.9**	**51.5**	**578.4**

Projects in progress				
Included in *Carrying amounts* at June 30, 2020	0.2	26.3	10.1	**36.6**
Commitments at June 30, 2020	9.9	4.0	-	**13.9**

6. Intangible assets

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

Carrying amount of intangible assets

	Internally generated software	Other software	Total
Cost			
Balances as at December 31, 2019	**78.0**	**92.3**	**170.3**
Additions	11.9	0.8	**12.7**
Disposals	-	-	-
Transfers to other asset categories	17.7	(17.7)	-
Balances as at June 30, 2020	**107.6**	**75.4**	**183.0**
Accumulated amortization			
Balances as at December 31, 2019	(51.1)	(59.8)	**(110.9)**
Amortization expense	(1.6)	(3.5)	**(5.1)**
Disposals	-	-	-
Transfers to other asset categories	-	-	-
Balances as at June 30, 2020	**(52.7)**	**(63.3)**	**(116.0)**
Carrying amounts			
Balances as at December 31, 2019	**26.9**	**32.5**	**59.4**
Balances as at June 30, 2020	**54.9**	**12.1**	**67.0**

Projects in progress			
Included in *Carrying amounts* at June 30, 2020	41.9	1.4	43.3
Commitments at June 30, 2020	4.6	1.5	6.1

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

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

Carrying value of right-of-use leased assets

	Data centres	Offices	Other	Total
Cost				
Balances as at December 31, 2019	**36.1**	**16.6**	**2.7**	**55.4**
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at June 30, 2020	36.1	16.6	2.7	55.4
Accumulated depreciation				
Balances as at December 31, 2019	**(3.1)**	**(1.1)**	**(0.3)**	**(4.5)**
Depreciation expense	(1.5)	(0.6)	(0.2)	**(2.3)**
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at June 30, 2020	(4.6)	(1.7)	(0.5)	(6.8)
Carrying amounts				
Balances as at December 31, 2019	**33.0**	**15.5**	**2.4**	**50.9**
Balances as at June 30, 2020	31.5	14.9	2.2	48.6

Carrying value of lease liabilities

	Data centres	Offices	Other	Total
Balances as at December 31, 2019	**33.8**	**16.0**	**0.8**	**50.6**
Finance charges	0.3	0.2	-	**0.5**
New lease liabilities	-	-	-	-
Lease payments	(2.3)	(0.6)	(0.1)	**(3.0)**
Other adjustments	-	-	-	-
Balances as at June 30, 2020	31.8	15.6	0.7	48.1

8. Other assets

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

Composition of other assets

As at	Note	June 30, 2020	December 31, 2019
Bank note inventory		11.8	8.5
Net defined-benefit asset	11	-	34.1
Prepaid remittance to the Receiver General for Canada	10	21.2	-
Other non-financial assets		27.4	24.1
Total other assets		60.4	**66.7**

9. Deposits

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

Deposits from the Government of Canada consist of $126,572.5 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,765.6 million and $20,000.0 million, respectively, at December 31, 2019).

10. Other liabilities

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

Composition of other liabilities

As at	Note	June 30, 2020	December 31, 2019
Surplus payable to the Receiver General for Canada		-	368.3
Net defined-benefit liability	11		
Pension benefit plans		294.4	97.3
Other benefit plans		203.8	190.5
Lease liabilities	7	48.1	50.6
All other liabilities		72.9	68.2
Total other liabilities		**619.2**	**774.9**

The following table reconciles the opening and closing balances of the *Surplus payable to the Receiver General for Canada*, which is based on the requirements of section 27 of the *Bank of Canada Act* and the Bank's remittance agreement with the Minister of Finance as described in Note 12.

	For the three-month period ended June 30		For the six-month period ended June 30	
	2020	2019	2020	2019
Surplus payable at beginning of period	755.7	233.1	368.3	225.9
Surplus for the Receiver General for Canada	266.4	189.2	653.8	422.3
Remittance of surplus to the Receiver General for Canada	(1,043.3)	(300.0)	(1,043.3)	(525.9)
(Prepaid remittance) surplus payable at end of period	**(21.2)**	**122.3**	**(21.2)**	**122.3**

11. Employee benefits

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

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
	For the six-month period ended June 30, 2020	For the year ended December 31, 2019	For the six-month period ended June 30, 2020	For the year ended December 31, 2019
Fair value of plan assets (liabilities)				
Opening balance at beginning of period	(63.2)	83.3	(190.5)	(160.9)
Bank contributions	6.9	7.5	-	-
Current service cost	(29.3)	(43.5)	(2.8)	(4.7)
Net interest cost	(2.0)	1.0	(3.0)	(6.3)
Administration costs	(1.5)	(3.0)	-	-
Net benefit payments and transfers	-	-	5.6	7.8
Remeasurement losses	(205.3)	(108.5)	(13.1)	(26.4)
Closing balance at end of period	(294.4)	(63.2)	(203.8)	(190.5)
Net defined-benefit asset	-	34.1	-	-
Net defined-benefit liability	(294.4)	(97.3)	(203.8)	(190.5)
Net defined-benefit liability	(294.4)	(63.2)	(203.8)	(190.5)

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

As at	June 30, 2020	December 31, 2019
Fair value of plan assets	2,046.7	2,038.6
Defined-benefit obligation	2,341.1	2,101.8
Net defined-benefit liability	(294.4)	(63.2)

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

	For the three-month period ended June 30		For the six-month period ended June 30	
	2020	2019	2020	2019
Expenses				
Pension benefit plans	16.6	10.5	32.9	21.1
Other benefit plans	4.1	3.0	6.5	6.2
Total benefit plan expenses	20.7	13.5	39.4	27.3

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
For the three-month period ended	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Contributions				
Employer contributions	5.4	1.6	-	-
Employee contributions	4.2	3.6	-	-
Total contributions	9.6	5.2	-	-

For the six-month period ended	Pension benefit plans (funded) June 30, 2020	June 30, 2019	Other benefit plans (unfunded) June 30, 2020	June 30, 2019
Contributions				
Employer contributions	6.9	3.3	-	-
Employee contributions	10.8	10.0	-	-
Total contributions	**17.7**	**13.3**	-	-

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	June 30, 2020	December 31, 2019
Discount rate		
Pension benefit plans	2.80%	3.20%
Other benefit plans	2.30 – 2.90%	2.90–3.20%

The Bank recorded remeasurement losses during the six-month period ended June 30, 2020, of $217.7 million (remeasurement losses of $233.2 million for the six-month period ended June 30, 2019). The remeasurement losses recorded during the six-month period ended June 30, 2020, are mainly the result of the decrease in the discount rate used to value the obligations, partially offset by positive asset returns.

12. Equity

The Bank manages its capital to ensure compliance with the *Bank of Canada Act*. There were no other externally imposed capital requirements at the end of the reporting period.

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

As at	June 30, 2020	December 31, 2019
Share capital	5.0	5.0
Statutory reserve	25.0	25.0
Special reserve	100.0	100.0
Investment revaluation reserve	452.2	400.3
Retained earnings	-	-
Total equity	**582.2**	**530.3**

Share capital

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

Statutory reserve

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

Special reserve

Following an amendment to section 27.1 of the *Bank of Canada Act*, the special reserve was created in 2007 to offset potential unrealized valuation losses due to changes in the fair value of the Bank's investments portfolio. An initial amount of $100.0 million was established at that time and the reserve is subject to a ceiling of $400.0 million.

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

Investment revaluation reserve

The investment revaluation reserve represents the net unrealized fair value gains of the Bank's financial assets classified and measured at FVOCI, which consist solely of the Bank's investment in the BIS. The total reserve was $452.2 million as at June 30, 2020 ($400.3 million as at December 31, 2019).

Retained earnings

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

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

During the six-month period ended June 30, 2020, the Bank withheld $217.7 million (withheld $233.2 million from its remittances in the six-month period in 2019), and as at June 30, 2020, $406.0 million in withheld remittances was outstanding ($188.3 million as at December 31, 2019).

13. Related parties

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

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

The Bank is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. To achieve its monetary policy objectives, the Bank maintains a position of structural and functional independence from the Government of Canada through its ability to fund its own operations without external assistance, and through its management and governance.

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 *Related Party Disclosures* (IAS 24).

The Bank also provides funds management, fiscal agent and banking services to the Government of Canada, as mandated by the *Bank of Canada Act*, and does not recover the costs of these services.

The Bank provides management, investment and administrative support to the Pension Plan and recovers the cost of these services.

14. Subsequent events

On July 27, 2020, the bank introduced the Securities Repo Operations (SROs) to foster the well-functioning of the Government of Canada securities market. The SROs will provide a temporary source of Government of Canada nominal bonds and treasury bills to primary dealers to support liquidity in the securities financing markets. The Bank's SROs will make a portion of its holdings of these securities available on an overnight basis through repurchase operations. At the same time, the Bank suspended its Securities Lending Program. Details of the securities repurchase operations are published on the Bank's website.

15. Comparative figures

Certain comparative figures have been adjusted to conform to the current period's presentation. For the comparative Condensed Interim Statement of Cash Flows, $111.3 million was adjusted from *Net purchases of Government of Canada treasury bills* within investing activities to *Interest received* within operating activities for the six-month period ended June 30, 2019 ($48.6 million was adjusted from *Net purchases of Government of Canada treasury bills* to *Interest received* for the three-month period ended June 30, 2019).