CONDENSED INTERIM FINANCIAL STATEMENTS

June 30, 2023

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 23, 2023

Condensed interim statement of financial position (unaudited)

(in millions of Canadian dollars)

As at	Note	June 30, 2023	December 31, 2022
Assets			
Cash and foreign deposits	3	13	14
Loans and receivables	3, 4	4	5
Investments	3, 4		
Government of Canada bonds—carried at amortized cost		94,672	108,750
Government of Canada bonds—carried at fair value through profit and loss (FVTPL)		196,578	232,357
Canada Mortgage Bonds		8,052	8,102
Other bonds		8,970	9,018
Securities lent or sold under repurchase agreements		18,798	19,501
Shares in the Bank for International Settlements (BIS)		490	478
		327,560	**378,206**
Derivatives—indemnity agreements with the Government of Canada	3, 4	28,834	31,346
Capital assets	5		
Property and equipment		518	522
Intangible assets		103	105
Right-of-use leased assets		42	44
		663	**671**
Other assets	6	432	468
Total assets		**357,506**	**410,710**
Liabilities and deficiency			
Bank notes in circulation	3	117,712	119,726
Deposits	3, 4, 7		
Government of Canada		42,953	66,845
Members of Payments Canada		171,013	196,092
Other deposits		10,944	10,396
		224,910	**273,333**
Securities sold under repurchase agreements	3, 4	17,726	17,396
Other liabilities	3, 8	296	352
Total liabilities		**360,644**	**410,807**
Deficiency	10	(3,138)	(97)
Total liabilities and deficiency		**357,506**	**410,710**

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 (loss) and comprehensive income (loss) (unaudited)

(in millions of Canadian dollars)

		For the three-month period ended June 30		For the six-month period ended June 30	
	Note	2023	2022	2023	2022
Income (loss) before operating expenses					
Interest revenue					
Investments—carried at amortized cost		406	460	823	917
Investments—carried at FVTPL		603	699	1,155	1,292
Securities purchased under resale agreements		-	4	-	21
		1,009	**1,163**	**1,978**	**2,230**
Interest expense					
Deposits		(2,165)	(740)	(4,331)	(1,099)
Other		(174)	(102)	(327)	(123)
Net interest income (expense)		**(1,330)**	**321**	**(2,680)**	**1,008**
Dividend revenue		5	4	5	4
Other revenue		2	2	4	5
Total income (loss) before operating expenses		**(1,323)**	**327**	**(2,671)**	**1,017**
Operating expenses					
Staff costs		88	95	176	189
Bank note research, production and processing		11	16	14	29
Premises costs		8	6	16	13
Technology and telecommunications		25	28	53	51
Depreciation and amortization		18	19	36	38
Other operating expenses		19	19	36	33
Total operating expenses		**169**	**183**	**331**	**353**
Net income (loss)		**(1,492)**	**144**	**(3,002)**	**664**
Other comprehensive income (loss)					
Remeasurements of the net defined-benefit liability/asset	9	(16)	140	(51)	368
Change in fair value of BIS shares		2	(3)	12	(11)
Total other comprehensive income (loss)		**(14)**	**137**	**(39)**	**357**
Comprehensive income (loss)		**(1,506)**	**281**	**(3,041)**	**1,021**

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

Condensed interim statement of changes in equity (deficiency) (unaudited)

For the three-month period ended June 30

(in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Actuarial gains reserve	Accumulated deficit	Total
Balance as at April 1, 2023		5	-	100	450	409	(2,596)	(1,632)
Comprehensive income (loss) for the period								
Net income (loss)		-	-	-	-	-	(1,492)	(1,492)
Remeasurements of the net defined-benefit liability/asset	9	-	-	-	-	(16)	-	(16)
Change in fair value of BIS shares		-	-	-	2	-	-	2
		-	-	-	2	(16)	(1,492)	(1,506)
Surplus for the Receiver General for Canada		-	-	-	-	-	-	-
Balance as at June 30, 2023		5	-	100	452	393	(4,088)	(3,138)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Actuarial gains reserve	Retained earnings	Total
Balance as at April 1, 2022		5	25	100	427	271	-	828
Comprehensive income (loss) for the period								
Net income (loss)		-	-	-	-	-	144	144
Remeasurements of the net defined-benefit liability/asset	9	-	-	-	-	140	-	140
Change in fair value of BIS shares		-	-	-	(3)	-	-	(3)
		-	-	-	(3)	140	144	281
Surplus for the Receiver General for Canada		-	-	-	-	-	(144)	(144)
Balance as at June 30, 2022		5	25	100	424	411	-	965

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

Condensed interim statement of changes in equity (deficiency) (unaudited)

For the six-month period ended June 30

(in millions of Canadian dollars)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Actuarial gains reserve	Accumulated deficit	Total
Balance as at January 1, 2023		5	-	100	440	444	(1,086)	(97)
Comprehensive income (loss) for the period								
Net income (loss)		-	-	-	-	-	(3,002)	(3,002)
Remeasurements of the net defined-benefit liability/asset	9	-	-	-	-	(51)	-	(51)
Change in fair value of BIS shares		-	-	-	12	-	-	12
		-	-	-	12	(51)	(3,002)	(3,041)
Surplus for the Receiver General for Canada		-	-	-	-	-	-	-
Balance as at June 30, 2023		5	-	100	452	393	(4,088)	(3,138)

	Note	Share capital	Statutory reserve	Special reserve	Investment revaluation reserve	Actuarial gains reserve	Retained earnings	Total
Balance as at January 1, 2022		5	25	100	435	43	-	608
Comprehensive income (loss) for the period								
Net income (loss)		-	-	-	-	-	664	664
Remeasurements of the net defined-benefit liability/asset	9	-	-	-	-	368	-	368
Change in fair value of BIS shares		-	-	-	(11)	-	-	(11)
		-	-	-	(11)	368	664	1,021
Surplus for the Receiver General for Canada		-	-	-	-	-	(664)	(664)
Balance as at June 30, 2022		5	25	100	424	411	-	965

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	
	2023	2022	2023	2022
Cash flows from operating activities				
Interest received	2,274	2,554	3,129	3,596
Dividends received	5	4	5	4
Other revenue received	2	1	6	6
Interest paid	(2,342)	(842)	(4,680)	(1,218)
Payments to or on behalf of employees and to suppliers	(149)	(147)	(343)	(329)
Net decrease in deposits	(28,568)	(37,014)	(48,423)	(47,588)
Acquisition of securities purchased under resale agreements	(1)	(65)	(12)	(2,059)
Proceeds from maturity of securities purchased under resale agreements	1	15,027	12	24,851
Net proceeds from securities sold under repurchase agreements	2,241	1,865	330	2,314
Purchases of Government of Canada bonds—carried at FVTPL	-	(1,883)	-	(10,313)
Proceeds from maturity of Government of Canada bonds—carried at FVTPL	16,081	10,769	36,806	20,219
Proceeds from maturity of other bonds	689	1,737	1,015	3,239
Proceeds from disposal of other bonds	-	-	-	2
Net cash used in operating activities	(9,767)	(7,994)	(12,155)	(7,276)
Cash flows from investing activities				
Net maturities of Government of Canada treasury bills	-	-	-	1,492
Purchases of Government of Canada bonds	-	(805)	-	(4,272)
Proceeds from maturity of Government of Canada bonds	6,765	4,908	14,199	9,201
Additions of property and equipment	(12)	(3)	(17)	(8)
Additions of intangible assets	(6)	(5)	(11)	(10)
Net cash provided by investing activities	6,747	4,095	14,171	6,403
Cash flows from financing activities				
Net increase (decrease) in bank notes in circulation	3,021	3,900	(2,014)	1,482
Remittance of surplus to the Receiver General for Canada	-	-	-	(605)
Payments of lease liabilities	(2)	(1)	(3)	(2)
Net cash provided by (used in) financing activities	3,019	3,899	(2,017)	875
Increase (decrease) in cash and foreign deposits	(1)	-	(1)	2
Cash and foreign deposits, beginning of period	14	9	14	7
Cash and foreign deposits, end of period	13	9	13	9

(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, 2023

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, it 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 five 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.
- **Retail payments supervision**: The Bank supervises payment service providers to build confidence in the safety and reliability of their services and protect users from specific risks.

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 in the primary market. The Bank also uses part of these proceeds to execute its responsibilities for its monetary policy and financial system functions. To support monetary policy through 2020–2022, the Bank purchased bonds in the secondary market funded by an increase in settlement balances.

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. Seigniorage provides a stable and constant source of funding for the Bank's operations, which enables the Bank to function independently of government appropriations. When the Bank generates net income, it makes a remittance to the Receiver General for Canada in accordance with the requirements of the *Bank of Canada Act* and the *Budget Implementation Act, 2023*, *No.1*, as described in Note 10.

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, 2022. 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 23, 2023.

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 its 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*. Also in this role, 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 condensed interim financial statements of the Bank, except for the costs incurred by the Bank to fulfill its fiscal-agent role, as discussed in Note 11.

The Bank provides securities safekeeping and other custodial services 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 condensed interim financial statements because they are not assets or income of the Bank.

Measurement base

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

- financial instruments classified (or designated) and measured at fair value through profit or loss (FVTPL);
- the Bank's shares in the Bank for International Settlements (BIS), which are designated and 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 condensed interim 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. The Bank may issue securities purchased under resale agreements (SPRAs) 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, 2022.

Certain accounting policies require judgments and estimates, some of which relate to uncertain matters. Changes in the judgments and estimates in the critical accounting policies discussed in the Bank's 2022 annual financial statements could have a material impact on the financial results. Significant judgment and estimates are used in the measurement of financial instruments (Note 3) and employee benefits (Note 9). No significant changes have occurred with respect to the Bank's critical accounting estimates since the 2022 annual financial statements.

3. Financial instruments

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

Financial instruments as at June 30, 2023	Classification and subsequent measurement	Carrying value	Fair value
Financial assets			
Cash and foreign deposits	Amortized cost	13	*
Loans and receivables	Amortized cost	4	*
Investments			
Government of Canada bonds—primary market	Amortized cost	94,672	87,186
Government of Canada bonds—secondary market			
Government of Canada bonds	FVTPL	192,334	192,334
Real return bonds	FVTPL	4,244	4,244
		196,578	**196,578**
Canada Mortgage Bonds	Amortized cost	8,052	7,324
Other bonds			
Provincial bonds	FVTPL	8,867	8,867
Corporate bonds	FVTPL	103	103
		8,970	**8,970**
Securities lent or sold under repurchase agreements			
Provincial bonds lent	FVTPL	1,057	1,057
Government of Canada bonds—secondary market	FVTPL	17,741	17,741
		18,798	**18,798**
Shares in the Bank for International Settlements	FVOCI	490	490
		327,560	**319,346**
Derivatives—indemnity agreements with the Government of Canada	FVTPL	28,834	28,834
Financial liabilities			
Bank notes in circulation	Face value	117,712	*
Deposits	Amortized cost	224,910	*
Securities sold under repurchase agreements	Amortized cost	17,726	*
Other financial liabilities	Amortized cost	97	*

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

Fair value hierarchy

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 as a result of inactive markets (e.g., market participant assumptions)

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

Supporting information

Fair value hierarchy

The following table shows the Bank's financial assets carried at fair value, classified in accordance with the hierarchy described above.

	Level 1	Level 2	Level 3	Total
As at June 30, 2023				
Government of Canada bonds—secondary market	-	192,334	-	**192,334**
Real return bonds	-	4,244	-	**4,244**
Provincial bonds	-	8,867	-	**8,867**
Corporate bonds	-	103	-	**103**
Securities lent or sold under repurchase agreements				
Government of Canada bonds—secondary market	-	17,741	-	**17,741**
Provincial bonds	-	1,057	-	**1,057**
Shares in the Bank for International Settlements	-	-	490	**490**
Total	**-**	**224,346**	**490**	**224,836**

The table below presents the comparative fair value as at December 31, 2022.

	Level 1	Level 2	Level 3	Total
As at December 31, 2022				
Government of Canada bonds—secondary market	-	228,048	-	228,048
Real return bonds	-	4,309	-	4,309
Provincial bonds	-	8,894	-	8,894
Corporate bonds	-	124	-	124
Securities lent or sold under repurchase agreements				
Government of Canada bonds—secondary market	-	17,239	-	17,239
Provincial bonds	-	2,078	-	2,078
Shares in the Bank for International Settlements	-	-	478	478
Total	**-**	**260,692**	**478**	**261,170**

The following table shows the transfers that occurred between levels of the fair value hierarchy during the three- and six-month periods. The transfers from Level 1 to Level 2 in the three-month period ended June 30, 2023, is a result of a decrease in market activity.

	For the three-month period ended June 30, 2023		For the six-month period ended June 30, 2023	
	Level 2 to Level 1	Level 1 to Level 2	Level 2 to Level 1	Level 1 to Level 2
Government of Canada bonds—secondary market	-	209,509	212,704	209,509
Real return bonds	-	3,762	3,828	3,762
Provincial bonds	-	6,793	6,975	6,793
Corporate bonds	-	-	-	-
Total	**-**	**220,064**	**223,507**	**220,064**

The table below presents the comparative figures for the three- and six-month periods in 2022.

	For the three-month period ended June 30, 2022		For the six-month-period ended June 30, 2022	
	Level 2 to Level 1	Level 1 to Level 2	Level 2 to Level 1	Level 1 to Level 2
Government of Canada bonds—secondary market	1,936	145,618	1,936	147,741
Real return bonds	-	706	714	1,244
Provincial bonds	-	7,124	827	11,033
Corporate bonds	-	-	-	14
Total	**1,936**	**153,448**	**3,477**	**160,032**

Derivatives—indemnity agreements with the Government of Canada

	Related asset		Derivatives—indemnity agreements with the Government of Canada	Derivative asset position	Derivative liability position
	Amortized cost	Fair value	Fair value	Fair value	Fair value
Government of Canada bonds—secondary market	242,072	214,319	27,753	27,753	-
Provincial bonds	11,002	9,924	1,078	1,078	-
Corporate bonds	106	103	3	3	-
Balance as at June 30, 2023	**253,180**	**224,346**	**28,834**	**28,834**	**-**

The table below presents the comparative values as at December 31, 2022.

	Related asset		Derivatives—indemnity agreements with the Government of Canada	Derivative asset position	Derivative liability position
	Amortized cost	Fair value	Fair value	Fair value	Fair value
Government of Canada bonds—secondary market	279,783	249,596	30,187	30,187	-
Provincial bonds	12,126	10,972	1,154	1,154	-
Corporate bonds	129	124	5	5	-
Balance as at December 31, 2022	**292,038**	**260,692**	**31,346**	**31,346**	-

Net unrealized losses (gains) on financial instruments carried at FVTPL

	For the three-month period ended June 30		For the six-month period ended June 30	
	2023	2022	2023	2022
Government of Canada bonds—secondary market	2,413	9,870	(2,434)	23,992
Provincial bonds	139	315	(76)	878
Corporate bonds	(1)	1	(2)	5
Derivatives—indemnity agreements	(2,551)	(10,186)	2,512	(24,875)
Total	-	-	-	-

Net unrealized gains and losses arising from financial instruments carried at FVTPL during the quarter are equal to the change in fair value of the derivatives shown in the tables above. Realized gains and losses for the three- and six-month periods were $nil (nil for the three- and six-month periods ended June 30, 2022).

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, 2022. The ECL model, under IFRS 9, applies to all financial assets not measured at FVTPL or FVOCI.

The Bank's debt instruments at amortized cost consist of Canadian sovereign debt, provincial debt that is fully indemnified by the Government of Canada for any credit loss, and fully collateralized instruments with an equivalent credit rating of A- or higher.

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 had not recorded any ECLs on these instruments as at June 30, 2023 ($nil at December 31, 2022) because the amount was deemed not to be significant. By its nature, the ECL estimate is subject to measurement uncertainty. The Bank will continue to review its judgments and assumptions to assess whether the ECL estimate has changed. There were no past due or impaired amounts as at June 30, 2023 ($nil at December 31, 2022).

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 risks. 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 in the form of SPRAs and loans of securities, if any. 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 the execution of foreign currency contracts, consistent with the disclosures in the 2022 annual financial statements.

Concentration of credit risk

The Bank's investment portfolio represents 92% of the carrying value of its total assets (92% as at December 31, 2022). The credit risk associated with this portfolio is low. This is because the Bank's 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.

For SPRAs, collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements, both of 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 securities pledged. The Bank monitors collateral positions regularly and requires counterparties to pledge additional collateral as risk increases.

As at June 30, 2023, the Bank's investments included securities lent or sold under repurchase agreements in the form of loaned provincial bonds with a fair market value of $1,057 million ($2,078 million as at December 31, 2022). The fair value of collateral held totalled $1,110 million, representing 105% of fair value of the securities loaned ($2,184 million as at December 31, 2022, representing 105%).

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 risk that the fair value or future cash flows of a financial instrument will fluctuate 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. 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, including Government of Canada deposits, which ceased accruing interest effective May 16, 2022.

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 the Government of Canada, those of members of Payments Canada, other deposits and real return bonds. This represents substantially all the Bank's interest rate risk exposure.

For the six-month period ended June 30	2023	2022
Interest expense on Government of Canada deposits	69 / (-)	111 / (111)
Interest expense on deposits from members of Payments Canada	231 / (231)	281 / (281)
Interest expense on other deposits	13 / (13)	14 / (14)
Interest revenue on real return bonds	6 / (6)	6 / (6)

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. These shares 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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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. The fair value of these shares is estimated based on the net asset value of the BIS, less a discount of 30%. Accordingly, the fair value fluctuations of these shares reflect movements in the net asset value of the BIS and exchange rates.

The securities held at FVTPL expose the Bank to fluctuations in market prices. However, all these securities are fully indemnified for realized losses beyond amortized cost, while realized gains are fully remitted back to the Government of Canada. Fluctuations in market prices for the FVTPL instruments are offset by equivalent fair value fluctuations of the derivatives. 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 due on demand include bank notes in circulation and Government of Canada deposits, with the remaining liabilities (deposits of members of Payments Canada, securities sold under repurchase agreements and other financial liabilities) due within 90 days.

Bank notes in circulation provide a stable source of long-term funding for the Bank. 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. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

As at June 30, 2023	Due on demand	Within 90 days	Within 4 to 12 months	Within 1 to 5 years	In more than 5 years	Total
Financial assets						
Cash and foreign deposits	13	-	-	-	-	**13**
Loans and receivables	-	4	-	-	-	**4**
Investments						
Government of Canada bonds at amortized cost	-	8,018	14,852	35,921	49,755	**108,546**
Government of Canada bonds at FVTPL		25,603	34,757	94,140	102,381	**256,881**
Real return bonds	-	-	108	1,167	3,834	**5,109**
Canada Mortgage Bonds	-	591	1,901	3,810	2,012	**8,314**
Provincial bonds	-	710	1,499	5,110	4,176	**11,495**
Corporate bonds	-	20	55	33	-	**108**
Shares in BIS*	490	-	-	-	-	**490**
	503	**34,946**	**53,172**	**140,181**	**162,158**	**390,960**
Financial liabilities						
Bank notes in circulation	117,712	-	-	-	-	**117,712**
Deposits						
Government of Canada	42,953	-	-	-	-	**42,953**
Members of Payments Canada	-	171,013	-	-	-	**171,013**
Other deposits	10,943	-	-	-	-	**10,943**
Securities sold under repurchase agreements	-	17,726	-	-	-	**17,726**
Other financial liabilities	-	97	-	-	-	**97**
	171,608	**188,836**	-	-	-	**360,444**
Net maturity difference	**(171,105)**	**(153,890)**	**53,172**	**140,181**	**162,158**	**30,516**

* The Bank's investment in shares in the Bank for International Settlements has no fixed maturity.

Cash flows associated with the indemnity agreements are settled monthly after disposition of related securities. Where securities are held to maturity, no cash flows are associated with the indemnity agreements. As at June 30, 2023, the Bank had not disposed of any securities related to the indemnity agreements that had not been settled, and, therefore, no indemnity agreement cash flows are presented above ($nil as at December 31, 2022).

The table below presents the comparative maturity analysis as at December 31, 2022.

As at December 31, 2022	Due on demand	Within 90 days	Within 4 to 12 months	Within 1 to 5 years	In more than 5 years	Total
Financial assets						
Cash and foreign deposits	14	-	-	-	-	**14**
Loans and receivables	-	6	-	-	-	**6**
Investments						
Government of Canada bonds at amortized cost	-	7,621	18,220	45,711	52,039	**123,591**
Government of Canada bonds at FVTPL	-	21,289	46,802	117,467	110,072	**295,630**
Real return bonds	-	-	107	1,164	3,807	**5,078**
Canada Mortgage Bonds	-	32	1,464	3,697	3,212	**8,405**
Provincial bonds	-	384	1,698	6,165	4,434	**12,681**
Corporate bonds	-	13	44	74	-	**131**
Shares in BIS*	478	-	-	-	-	**478**
	492	**29,345**	**68,335**	**174,278**	**173,564**	**446,014**
Financial liabilities						
Bank notes in circulation	119,726	-	-	-	-	**119,726**
Deposits						
Government of Canada	66,845	-	-	-	-	**66,845**
Members of Payments Canada	-	196,092	-	-	-	**196,092**
Other deposits	10,396	-	-	-	-	**10,396**
Securities sold under repurchase agreements	-	17,396	-	-	-	**17,396**
Other financial liabilities	-	154	-	-	-	**154**
	196,967	**213,642**	**-**	**-**	**-**	**410,609**
Net maturity difference	**(196,475)**	**(184,297)**	**68,335**	**174,278**	**173,564**	**35,405**

* The Bank's investment in shares in the Bank for International Settlements has no fixed maturity.

5. Capital assets

Capital assets consists of property and equipment, intangible assets and right-of-use leased assets. The changes to the balance for the period are as follows:

	Property and equipment	Intangible assets	Right-of-use leased assets	Total
Cost				
Balances as at December 31, 2021	**814**	**190**	**59**	**1,063**
Additions	37	19	4	60
Disposals	(7)	(4)	-	(11)
Transfers to other asset categories	-	-	-	-
Balances as at December 31, 2022	**844**	**205**	**63**	**1,112**
Additions	17	11	-	28
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at June 30, 2023	861	216	63	1,140
Accumulated depreciation / amortization				
Balances as at December 31, 2021	**(285)**	**(78)**	**(14)**	**(377)**
Depreciation and amortization expense	(44)	(24)	(5)	(73)
Disposals	7	2	-	9
Transfers to other asset categories	-	-	-	-
Balances as at December 31, 2022	**(322)**	**(100)**	**(19)**	**(441)**
Depreciation and amortization expense	(21)	(13)	(2)	(36)
Disposals	-	-	-	-
Transfers to other asset categories	-	-	-	-
Balances as at June 30, 2023	(343)	(113)	(21)	(477)
Carrying amounts				
Balances as at December 31, 2022	**522**	**105**	**44**	**671**
Balances as at June 30, 2023	518	103	42	663

As at June 30, 2023, the Bank had total commitments outstanding of $21 million for property and equipment and $7 million for intangible assets ($22 million and $8 million, respectively, as at December 31, 2022).

6. 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, 2023	December 31, 2022
Bank note inventory		12	14
Net defined-benefit asset	9	381	418
All other assets		39	36
Total other assets		432	468

7. Deposits

Deposits is composed of deposits by the Government of Canada, members of Payments Canada and others.

Deposits from the Government of Canada consist of $22,953 million for operational balances and $20,000 million held for the prudential liquidity-management plan ($46,845 million and $20,000 million, respectively, at December 31, 2022).

Other deposits is composed of deposits from financial market infrastructure institutions, other central banks, government institutions and foreign official institutions as well as unclaimed balances. Some of the deposits are interest-bearing depending on the agreement between the Bank and the depositor. All balances are due on demand.

8. Other liabilities

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

Composition of other liabilities

As at	Note	June 30, 2023	December 31, 2022
Surplus payable to the Receiver General for Canada		-	-
Net defined-benefit liability	9		
Pension benefit plans		2	4
Other benefit plans		153	146
Lease liabilities		44	47
All other liabilities		97	155
Total other liabilities		**296**	**352**

Surplus payable to the Receiver General for Canada

The following table reconciles the opening and closing balances, if any, 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*, the *Budget Implementation Act, 2023, No. 1* and the Bank's remittance agreement with the Minister of Finance.

	For the three-month period ended June 30		For the six-month period ended June 30	
	2023	2022	2023	2022
Surplus payable at beginning of period	-	520	-	605
Surplus for the Receiver General for Canada	-	144	-	664
Remittance of surplus to the Receiver General for Canada	-	-	-	(605)
Surplus payable at end of period	-	**664**	-	**664**

9. Employee benefits

The changes to the net defined-benefit asset (liability) for the six-month and yearly periods are as follows:

	Pension benefit plans (funded)		Other benefit plans (unfunded)	
	For the six-month period ended June 30, 2023	For the year ended December 31, 2022	For the six-month period ended June 30, 2023	For the year ended December 31, 2022
Opening balance at beginning of period	414	91	(146)	(203)
Bank contributions	20	62	-	-
Current service cost	(18)	(78)	(2)	(6)
Net interest income (cost)	10	-	(4)	(6)
Administration costs	(2)	(3)	-	-
Net benefit payments and transfers	-	-	5	7
Remeasurement gains (losses)	(45)	342	(6)	62
Closing balance at end of period	**379**	**414**	**(153)**	**(146)**
Net defined-benefit asset	381	418	-	-
Net defined-benefit liability	(2)	(4)	(153)	(146)
Net defined-benefit asset (liability)	**379**	**414**	**(153)**	**(146)**

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

As at	June 30, 2023	December 31, 2022
Fair value of plan assets	2,295	2,215
Defined-benefit obligation	(1,916)	(1,801)
Net defined-benefit asset	**379**	**414**

Expenses for the employee benefit plans are presented in the table below:

	For the three-month period ended June 30		For the six-month period ended June 30	
	2023	2022	2023	2022
Expenses				
Pension benefit plans	5	20	10	39
Other benefit plans	3	2	6	4
Total benefit plan expenses	**8**	**22**	**16**	**43**

Contributions for the pension benefit plans are presented in the table below:

	For the three-month period ended June 30		For the six-month period ended June 30	
	2023	2022	2023	2022
Contributions				
Employer contributions	2	14	20	33
Employee contributions	7	6	15	13
Total contributions	**9**	**20**	**35**	**46**

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, 2023	December 31, 2022
Discount rate		
Pension benefit plans	4.80%	5.10%
Other benefit plans	4.80–5.00%	5.08%

The Bank recorded remeasurement losses of $51 million during the six-month period ended June 30, 2023 (remeasurement gains of $368 million for the six-month period ended June 30, 2022). The losses are mainly the result of the decrease in the discount rate used to value the obligations.

10. Deficiency

The Bank manages its capital to ensure compliance with the *Bank of Canada Act* and with the *Budget Implementation Act 2023, No. 1*. There were no other externally imposed capital requirements at the end of the reporting period.

The Bank's deficiency is composed of the following elements:

As at	June 30, 2023	December 31, 2022
Share capital	5	5
Statutory reserve	-	-
Special reserve	100	100
Investment revaluation reserve	452	440
Actuarial gains reserve	393	444
Accumulated deficit	(4,088)	(1,086)
Total deficiency	**(3,138)**	**(97)**

Share capital

The authorized capital of the Bank is $5 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 is accumulated out of net income until it reaches the stipulated maximum amount of $25 million, consistent with the requirement of section 27 of the *Bank of Canada Act*. In 2022 the statutory reserve was reduced to $nil, partially offsetting net losses in the period. If the Bank's reserve fund is less than the paid-up capital, one-third of surplus income is to be allocated to the reserve fund, and the residual amount is to be paid to the Receiver General. Where the reserve fund is not less than the paid-up capital, one-fifth of the surplus income is to be allocated to the reserve fund until that fund reaches an amount five times that of the paid-up capital, and the residual amount is to be paid to the Receiver General.

Special reserve

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

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

Investment revaluation reserve

The investment revaluation reserve 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.

Actuarial gains reserve

The actuarial gains reserve was established in 2010 upon the Bank's transition to IFRS and accumulates the net actuarial gains and losses recognized on the Bank's post-employment defined-benefit plans subsequent to transition. As at June 30, 2023, the actuarial gains reserve had a balance of $393 million ($444 million as at December 31, 2022).

Accumulated deficit

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*. However, the *Budget Implementation Act 2023, No. 1* temporarily requires the Bank to apply any of its ascertained surplus to the accumulated deficit until the earlier of the following events occurs: either the accumulated deficit is equal to zero, or the ascertained surplus applied to the accumulated deficit is equal to the losses that the Bank incurred from the purchase of securities as part of the Government of Canada Bond Purchase Program.

Changes to the ascertained surplus payable to the Receiver General for Canada are presented in Note 8. Despite the losses in 2022 and 2023, the mandate of the Bank of Canada allows for sufficient cashflows to continue operations and meet its obligations. As at June 30, 2023, the Bank had an accumulated deficit balance of $4,088 million ($1,086 million as at December 31, 2022).

The Bank withholds from its remittance to the Receiver General for Canada, per the remittance agreement with the Minister of Finance, 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. As at June 30, 2023, no balance in withheld remittances was outstanding to the Receiver General for Canada ($nil as at December 31, 2022).

11. Related parties

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

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

Government of Canada

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 condensed interim 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 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.

Bank of Canada Pension Plan

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