Bank of Canada
Registered
Pension Plan

Registered
Pension Plan
Annual Report
2005

Keeping You Current

The contribution of the following departments and/or sections was essential to the production of this report:

Currency Museum (photography)
Distribution
Document and Office Services
Editorial Services
Executive and Legal Services
Financial Markets
Financial Services
Graphics Services
Human Resources
Internal Communications
Translation Services

Thanks are also due to the executive administrative assistants for their ongoing support.

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

PLAN HIGHLIGHTS

Your Plan at a Glance

- The Pension Plan had 3,076 members at the end of 2005 (Figure 1).
- Payments from the Pension Trust Fund over the past two years have remained stable (Figure 2).
- The total market value of Fund assets was $866.3 million at the end of 2005 (Figure 3).
- On a going-concern basis, the funded status of the Plan was an actuarial surplus of $100.1 million as at 31 December 2005[1] (Figure 4).
- On a solvency basis, the funded status of the Plan was an actuarial surplus of $59.1 million as at 31 December 2005[1] (Figure 4).
- The Fund's rate of return was 13.6 per cent in 2005, slightly ahead of its benchmark, which returned 13.5 per cent[2] (Figure 6, page 8).

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

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

Figure 2
Payments from the Fund in 2005
($ millions)

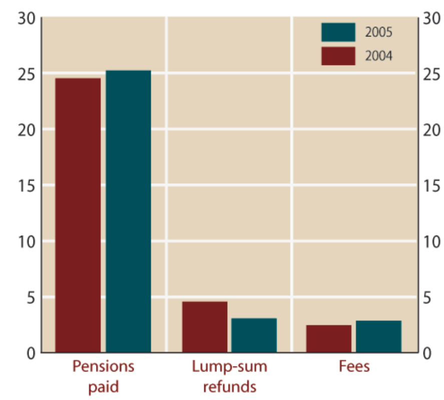


Figure 3
Fund Assets 2000-2005
($ millions)

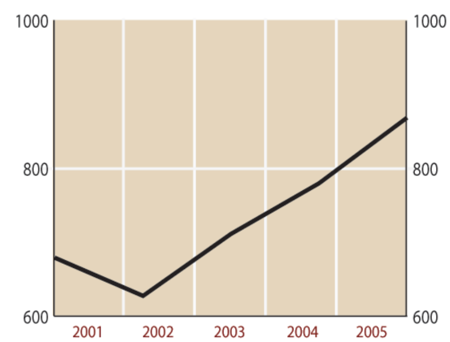


Figure 1
Membership
(as at 31 December 2005)

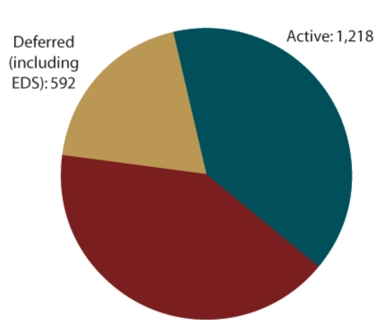
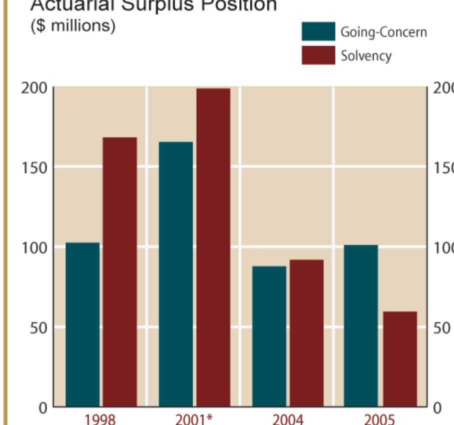
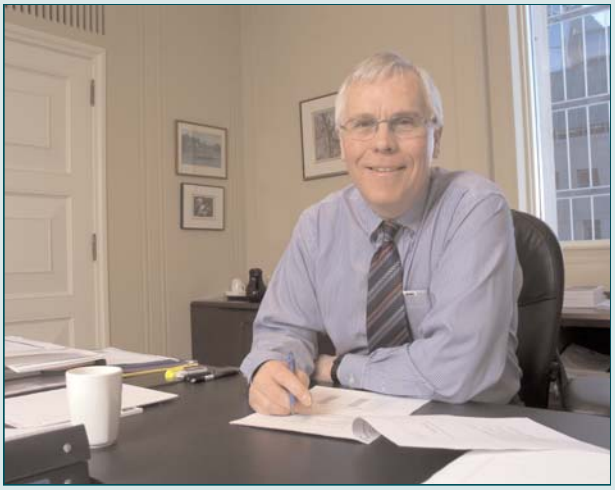


Figure 4
Actuarial Surplus Position
($ millions)



* 2001 results updated to reflect 2002 pension improvements



". . . KEEPING STAFF AND PENSIONERS INFORMED ABOUT THE BANK'S PENSION PLAN."

MESSAGE FROM THE CHAIR

About this Report

On behalf of the Pension Committee, I am pleased to present the Bank of Canada *Registered Pension Plan Annual Report* for 2005.

The report's theme, **Keeping You Current**, reinforces the Bank's ongoing commitment to keeping staff and pensioners informed about the Bank's Pension Plan.

Based on your feedback, this year's report focuses on new or updated Plan information. I invite you to read about the administration, investment, and actuarial status of the Plan in the pages that follow. A summary is provided in the Plan Highlights (page 1), and details are presented in the Financial Statements, included at the end of this report.

General information about the Plan, member services, and governance is available in the 2004 *Registered Pension Plan Annual Report* and on the Bank's intranet, Banque Centrale. We can also send this information to you upon request. Find out more on page 24.

Litigation

A group of pensioners commenced a class action against the Bank in 2004 with respect to the payment of pension administration expenses out of the Bank's Pension Fund. The Ontario Superior Court of Justice recently issued a decision which disallowed the plaintiffs' claims for direct payments to them and declared that the action should not proceed as a class action but rather as a representative action. The plaintiffs have filed a Notice of Appeal.

A Word about Governance

Our governance structure is now three years strong. As always, meeting service standards and benchmark returns through focused decision making is a key objective.

I would like to express my appreciation to members of the Pension Committee, the Pension Fund Investment Committee, and the Pension Administration Committee for their part in providing effective Plan governance, as well as to HR staff and to those who contributed to this year's report.

On that note, I would like to welcome Dr. David Barnard, who joined the Board of Directors and Pension Committee in February 2005. Dr. Barnard brings valuable experience to the committee as we continue to fulfill our pension obligations and review Fund performance in a timely, transparent, and accountable manner.

Keeping You Current

I believe that the Bank offers its members an excellent Pension Plan. And we are always exploring ways of enhancing Plan services, streamlining administration, and remaining responsive to the needs of today's workforce.

In 2005, for example, we introduced an opt-out provision that allows new regular employees to delay enrolment in the Plan for up to the first five years of employment with the Bank.

In an effort to keep you current on pension news, both inside and outside of the Bank, we plan to launch a newsletter later this year. It will feature articles on pension-related issues of interest to active members and pensioners. Look for your copy this autumn.

I hope that you find this year's *Annual Report* informative. The Bank, as always, is committed to meeting its pension payment obligations.

W. P. Jenkins

Paul Jenkins
Senior Deputy Governor and
Chair, Pension Committee

PENSION ADMINISTRATION

The Bank's Pension Plan is administered by the Pension Committee and its two subcommittees—the Pension Administration Committee and the Pension Fund Investment Committee. Together, they provide for effective decision making and regular monitoring of investments and costs of service providers.

Administrative Expenses

Administrative and consultant services provided by external suppliers are paid from the Pension Trust Fund, as are the salaries of four internal, full-time staff. In addition, management and custodial fees are paid to external managers to direct the investment of the Fund (Table 1).

While annual administrative expenses continue to be subject to varying activities in any given year, the trend in this regard appears to be stabilizing as we work to contain costs.

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

Table 1
Expenses Paid from the Fund
($ thousands)

	2003	2004	2005
Investment management and custodian fees	1,031	1,275	1,411
Pension administration fees	715	588	678
Other administration fees	1,452	598	788
Total	3,198	2,461	2,877

Investment management fees

Investment management and custodian fees increased in 2005, partly as a result of outsourcing the management of a portfolio of long-term bonds in July 2005. Another factor contributing to rising fees is the increasing value of Fund holdings, since investment management and custodian fees represent a percentage of assets under management.

Pension administration fees

Fees related to pension administration increased 15 per cent in 2005. This increase can be attributed to a nearly 40 per cent increase in the volume of transactions such as buyback, retirement, and termination calculations.

Other administration fees

These fees increased in 2005, owing mainly to the triennial valuation, which occurred in 2005. The cost of this service to the Plan was approximately $100,000. The increase also reflects last year's addition of two full-time pension staff.

Pension Administration

Mercer Human Resource Consulting performs Pension Plan administrative services on behalf of the Bank.

Last year, the Bank initiated discussions with Mercer to address issues related to customer service. In January 2006, we began the process of transferring our administration to Mercer's Montréal office from Toronto. The transition is scheduled for completion by the end of April 2006. We anticipate improved client service, including superior bilingual service.

Communications

Based on your feedback, we have streamlined this year's report to include only new Plan information. And, as mentioned, we will supplement your yearly report with a general-interest newsletter. Look for your first issue in the autumn of 2006.

Plans are also under way to update the pension pages on Banque Centrale in the coming year.

Contact HR Centre: 1 613 782-7766 (Ottawa) / 1 866 404-7766 / hrcentre@bankofcanada.ca

PENSION ASSETS AND INVESTMENT APPROACH

Asset/Liability Management

The investment activity of the Fund is evaluated within an asset/liability management framework that involves making projections of the Fund's future financial position. The suitability of various investment policies is assessed with regard to the Fund's projected assets and liabilities.

During 2005, the Pension Fund Investment Committee (PFIC) undertook further analysis of the appropriateness of the assets held and the manager structure being used in the context of the asset/liability management of the Fund.

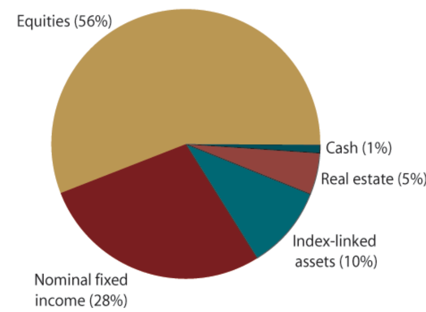
The Fund's pension obligations were simulated using updated information obtained from the 1 January 2005 actuarial valuation. The appropriateness of the asset allocation and manager structure was assessed relative to the simulated proxy of the obligations using historical rates of return and risk assumptions for various asset classes and managers.

In general, this analysis showed that the Fund's current allocation remains in line with the actuarial rate of return and market investment objectives. It was also concluded that the use of active external managers for the Fund has enhanced the Fund's performance. The PFIC continues to look for ways of improving the asset/liability management of the Fund to achieve an appropriate risk-adjusted return performance.

Asset Mix

The Pension Trust Fund's portfolio is invested in a diversified mix of assets. The purpose of this approach is twofold: to achieve the long-term investment objective and to lower the risks to the Fund in pursuing this objective. Diversification helps enhance the portfolio's performance, because different asset classes perform differently from year to year. On average, diversification decreases the variations in the portfolio's expected return, thus contributing to the stability of total Fund returns.

Figure 5
The Five Main Asset Categories in the Fund's Portfolio, 2005*
(as at 31 December 2005)



* Benchmark midpoints

In addition to statutory and regulatory requirements, risk-control guidelines ensure the quality of individual investments.

In 2005, the portfolio consisted of five main asset categories: equities, nominal fixed income, index-linked assets, real estate, and cash (Figure 5). The Plan's Statement of Investment Policy and Procedures sets out broad ranges for the percentage of assets to be invested in each category. The Pension Committee establishes narrower bands. At the end of 2005, the midpoints of the five bands were: 56 per cent for equities, 28 per cent for nominal fixed income, 10 per cent for index-linked assets, 5 per cent for real estate, and 1 per cent for cash.

Investment Approach

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

Market index

An aggregate value produced by combining into a specific "basket" several investment vehicles, such as stocks, that are considered to be representative of the price changes for the overall market for those investments. Indices are useful for investors to track market changes over time and as a benchmark to measure and assess performance.

Because the value of individual assets varies over time, the actual percentage of the Fund's assets in each of the categories may vary from the benchmark weightings. To manage these movements, actual asset holdings are formally reviewed by the PFIC at least once a month and are then compared with the benchmark weightings. Appropriate investment action is taken to rebalance asset holdings and ensure these are maintained within permissible bands.

Equities

The Fund's equity investments cover a wide range of the eligible equity universe, including Canadian stocks, as well as U.S. and other foreign stocks. At the end of 2005, equity holdings were divided more or less evenly between Canadian and foreign equities. All of the equity investments are managed externally by portfolio managers who are monitored on a regular basis and formally reviewed annually by the PFIC.

The investment strategy for equity investments in large- and medium-capitalization stocks in Canadian and U.S. stock markets is managed in a passive manner according to a market index. In 2005, approximately 70 per cent of the equity portfolio was managed in this manner. In keeping with the view that managers in certain other sectors can significantly add value against the index, foreign equities outside of the United States and small-capitalization Canadian stocks are managed actively.

Active investment management

Seeks returns in excess of a specified benchmark. It commands higher fees than passive management.

Passive, or indexed, investment management

Mirrors a market index and does not attempt to outperform the market.

Prior to 2005, foreign equity was fully hedged into Canadian dollars. Beginning in 2005, the policy was adjusted to a 50 per cent hedge. The change in currency hedging policy was based on historical evidence that, over long-term horizons, such as those under which the Fund operates, returns from international investments resulting from a hedged policy and an unhedged policy tend to be broadly similar. However, returns between the two policies can differ significantly over the short term. By adopting a 50 per cent hedge, the expected long-term return performance of the Fund is maintained, while, in the short-term, volatility caused by movements in foreign exchange markets is expected to decrease.

Currency hedging

The use of currency contracts, such as forwards or futures, to reduce foreign exchange risk by locking in the exchange rate of the currency of a foreign investment relative to the currency in which the fund is denominated.

Nominal fixed income

During most of 2005, the nominal fixed-income portfolio was chiefly invested in three segments: provincial, municipal, and corporate issues. Traditionally, the investment strategy seeks to add value through credit exposure, paying close attention to possible relative movements in credit spreads between sectors, issuers, and specific issues. The portfolio's performance is compared with the Scotia Capital Market Universe Bond Index.

The role of the nominal fixed-income portfolio undergoes regular review. From an asset/liability perspective, extending the duration of the bond portfolio to more closely match part of the outstanding liabilities can mitigate some of the risks faced by the Fund. This type of action can, in turn, allow for additional risk to be incorporated in other areas of the portfolio in order to enhance returns.

Fixed-income duration

The measure of the price sensitivity of a fixed-income security, such as a bond, to a 1 percentage point movement in interest rates. The calculation of duration is based on the weighted average of the present values for all the security's cash flows. This calculation is stated in years, but is lower than the security's maturity because it takes into account the security's interest payments. The duration and maturity are identical for a zero-coupon bond.

As a result of a review of this portfolio at the end of 2005, the duration of fixed-income investments was extended. This extension was implemented by hiring an external fixed-income manager with a mandate indexed to the Scotia Capital long-term bond index. A small portion of the bond portfolio continues to be managed internally to fulfill possible liquidity needs and to implement risk-management strategies to mitigate duration risk in the portfolio.

Index-linked assets

About 80 per cent of the holdings in this asset class are in the form of index-linked Government of Canada bonds (Real Return Bonds). Other holdings include inflation index-linked mortgages guaranteed by the Canada Mortgage and Housing Corporation.

Generally, these investments are regarded as permanent core holdings of the Fund, aligned with the indexed pensions paid to Plan beneficiaries. For this reason, these assets are not traded on a regular or frequent basis.

In December 2005, an error was discovered in the valuation convention used for the Real Return Bonds. For a number of years, the inflation indexation component in the value of the bonds was not included, thereby underestimating the fair market value of the holdings. This error has been corrected, with a resulting upward adjustment to the value of the portfolio of $9.2 million at the end of 2004.

The Plan's actuaries and auditors were consulted with respect to the implications of the mispricing for the market value of the Pension Fund assets. Plan members were duly notified of this error early in 2006.

Note that the appropriate valuation has been reflected in the 2005 Financial Statements. (Please refer to the "Actuarial Status of the Plan" on page 9 and to Note 3 of the "Financial Statements").

A change was also made to the valuation for the Fund's index-linked mortgages. The prices used now reflect a fair market valuation, rather than the book value previously reported. This change in valuation results in an upward revision to the portfolio of approximately $2 million at the end of 2005. (Please refer to Note 4 of the "Financial Statements").

Real estate

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

The implementation of a real estate investment strategy poses special challenges. The liquidity of the asset class is much lower than that of other assets in the Fund. It thus takes longer to complete this strategy. In addition, the availability of property at attractive prices can vary significantly.

In light of these considerations, the Fund's 2005 real estate holdings were at the low end of the band of the target range. Following an analysis of possible investments, an additional $21 million was committed to this asset class. Consequently, the amount of real estate invested in the portfolio is expected to increase over 2006 and 2007 as these commitments are deployed by external managers.

Cash

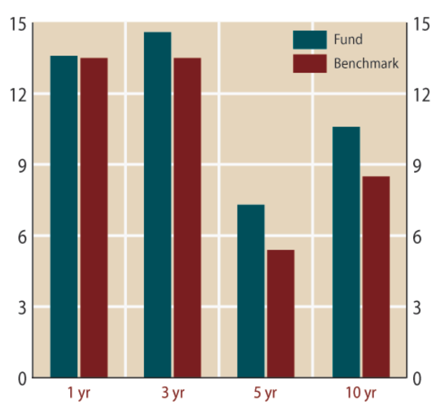
The Fund also maintains a level of liquidity in the form of deposits, Government of Canada treasury bills, or other forms of money market instruments sufficient to meet anticipated payments and investment commitments. During 2005, the Fund maintained cash at its midpoint allocation.

Performance of the Fund

All asset categories held in the Fund yielded positive rates of return during 2005. The one-year return, ending on 31 December 2005, was 13.6 per cent, exceeding the return on the benchmark portfolio of 13.5 per cent (Figure 6).

As noted, the long-term investment objective of the Fund is to achieve the actuarial target rate of return. Following the 1 January 2005 actuarial valuation, the rate was set for three years at inflation plus 3.5 percentage points net of expenses (approximately 25 basis points).

Figure 6
Total Fund Rate of Return
(per cent, as at 31 December 2005)



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

Supplementary Trust Fund

In 1992, a Supplementary Pension Arrangement (SPA) was introduced to supplement the pensions of those employees who contribute above the maximum prescribed for registered pension plans by the Canada Revenue Agency. A separate trust fund has been established to support the SPA.

The PFIC directs the management of the Supplementary Trust Fund (STF) investment portfolio. The STF's assets are held in two accounts. One account is under the direct control of the Pension Committee and the PFIC, and is referred to as the "investable portion" of the STF. The other is in the form of a non-interest-bearing deposit at the Canada Revenue Agency. It consists of a 50 per cent share of the Bank and employee contributions to the STF and 50 per cent of the income of STF investments. The Pension Committee and the PFIC do not control this account.

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

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ACTUARIAL STATUS OF THE PLAN

The Office of the Superintendent of Financial Institutions (OSFI), the federal pension plan regulator, has initiated semi-annual solvency projection calculations using estimated asset values for all plans under its purview.

The Bank has asked the Plan's actuaries to conduct parallel calculations using actual Plan asset values. These projections will take place in years where no actuarial valuation is scheduled. Tables 2 and 3 show that the Bank of Canada Registered Pension Plan remains in a surplus position on all valuation bases.

Table 2
Going-Concern Basis
($ millions)

	2001**	2004**	31 Dec. 2005
Assets*	676.6	739.6	778.8
Liabilities	513.1	652.6	678.7
Surplus	**163.5**	**87.0**	**100.1**
Ratio of assets to liabilities	**131.9%**	**113.3%**	**114.7%**

*Actuarial values (smoothed)
**2001 and 2004 figures are consistent with the triennial actuarial valuation.

The going-concern basis assumes that the Plan will continue indefinitely. Therefore, the actuaries must predict the Fund liabilities and determine whether there are sufficient assets to meet those liabilities. The Plan's actuaries use a five-year actuarially smoothed value of the assets.

As indicated by the relatively stable ratio in Table 2, the Plan's actuarial surplus has remained steady since the last valuation.

Table 3
Solvency Basis
($ millions)

	2001**	2004**	31 Dec. 2005
Assets*	679.0	776.2	866.3
Liabilities	482.4	685.2	807.2
Surplus	**196.6**	**91.0**	**59.1**
Ratio of assets to liabilities	**140.8%**	**113.3%**	**107.3%**

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

The solvency basis assumes that the Plan will be wound up on the valuation date. The solvency surplus is calculated using the market value of assets and the solvency liability is determined using a prescribed methodology and assumptions.

At the end of 2005, the solvency ratio fell to 107 per cent from 113 per cent at the end of 2004. This decrease is predominantly due to a lower market discount rate used to value the pension liabilities, as well as the change in methodology used by the Canadian Institute of Actuaries to calculate commuted values, which took effect in February 2005. These changes have increased solvency liabilities by approximately 13 per cent.

This increase in liabilities was partially mitigated by the $9.2 million positive adjustment to the fair market value of Real Return Bonds and $2 million for the indexed-linked mortgages (see page 19).

Financial Statements

FINANCIAL REPORTING RESPONSIBILITY

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

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

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

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

W. P. Jenkins

Paul Jenkins
Senior Deputy Governor and Chair, Pension Committee

S Vokey

Sheila Vokey, CA
Chief Accountant and Member, Pension Committee

14 March 2006

ACTUARY'S OPINION

Mercer Human Resource Consulting Limited was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and accrued pension benefits of the Bank of Canada Registered Pension Plan as of 31 December 2005 for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of 31 December 2005 on a going-concern basis. While the actuarial assumptions used to estimate accrued pension benefits for the Plan's financial statements represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

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

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

- the results of our 1 January 2005 actuarial valuation and extrapolation to 31 December 2005 of the Plan's going-concern liabilities,
- pension fund data provided by the Bank of Canada as of 31 December 2005,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer Human Resource Consulting Limited and are considered management's best estimate of these events.

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

François Lemire

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

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

Mercer Human Resource Consulting Limited

Ottawa, Canada
14 March 2006

AUDITORS' REPORT

To the Bank of Canada Pension Committee

We have audited the statement of net assets available for benefits, accrued pension benefits, and funding excess of the Bank of Canada Registered Pension Plan as of 31 December 2005 and the statements of changes in net assets available for benefits and of changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits, and funding excess of the Bank of Canada Registered Pension Plan as at 31 December 2005 and the changes in net assets available for benefits and accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

Ottawa, Canada
14 March 2006

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

As at 31 December 2005

	2005	**2004 restated (note 3)**
Assets		
Investments (note 4)	**$ 864,830,356**	$ 782,876,876
Accrued investment income	**1,806,117**	2,798,746
Accrued employees' contributions	**74,000**	89,000
	866,710,473	785,764,622
Liabilities		
Accounts payable and accrued liabilities	**437,534**	316,630
Net assets available for benefits	**866,272,939**	785,447,992
Actuarial asset value adjustment (note 5)	**(87,515,473)**	(36,156,557)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**778,757,466**	749,291,435
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS (note 6)	**678,692,579**	652,636,051
FUNDING EXCESS	**$ 100,064,887**	$ 96,655,384

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

Paul Jenkins
Senior Deputy Governor and Chair, Pension Committee

Sheila Vokey, CA
Chief Accountant and Member, Pension Committee

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

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2005

	2005	2004 restated (note 3)
Increase in assets		
Investment income	**$ 33,823,320**	$ 24,882,585
Current-year change in fair value of investments (note 4)	**72,513,330**	60,937,860
	106,336,650	85,820,445
Employees' contributions—current services	**4,753,973**	4,681,003
Employees' contributions—past services	**324,770**	249,928
Transfers from other plans	**609,606**	2,612,544
	5,688,349	7,543,475
	112,024,999	93,363,920
Decrease in assets		
Benefits paid	**25,187,398**	24,475,055
Refunds and transfers	**3,135,275**	4,643,284
Administrative expenses (note 7)	**2,877,379**	2,460,626
	31,200,052	31,578,965
Net increase in net assets	**80,824,947**	61,784,955
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR (restated - note 3)	**785,447,992**	723,663,037
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	**$ 866,272,939**	$ 785,447,992

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December 2005

	2005	2004
Increase in accrued pension benefits		
Benefits earned	**$ 18,407,129**	$ 17,807,101
Interest cost	**35,972,072**	33,442,864
Experience loss	**-**	28,305,634
Change in assumptions	**-**	41,670,679
Change in income tax regulations	**-**	2,623,234
	54,379,201	123,849,512
Decrease in accrued pension benefits		
Benefits paid	**25,187,398**	24,475,055
Refunds and transfers	**3,135,275**	4,643,284
	28,322,673	29,118,339
Net increase in actuarial value of accrued pension benefits	**26,056,528**	94,731,173
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS BEGINNING OF YEAR	**652,636,051**	557,904,878
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS END OF YEAR	**$ 678,692,579**	$ 652,636,051

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

1. DESCRIPTION OF THE REGISTERED PENSION PLAN

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

a) General

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

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

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

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

b) Benefits

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

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

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

c) Funding policy

Contributions to the Plan are determined by actuarial valuations that are made every three years. The most recent actuarial valuation of the Plan for funding purposes was performed on 1 January 2005. These valuations are performed in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans. Employees are required to contribute to the Plan each year, to a maximum of 35 years of credited service, a percentage of their pensionable salary, which is 5.7 per cent up to the year's maximum pensionable earnings (YMPE) ($41,100 in 2005 and $40,500 in 2004) and 7.5 per cent of salary in excess of the YMPE.

d) Indexation

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

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

b) Investments

Investments are recorded as of the trade date and are stated at fair value (see note 4). Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Cost represents the original cost less writedowns to reflect other than temporary declines in fair value.

c) Accrual of income

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

d) Current-year change in fair value of investments

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

e) Foreign currency translation and forward currency agreements

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

f) Measurement uncertainty

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

g) Accrued pension benefits

Accrued pension benefits are based on an actuarial valuation prepared by a firm of independent actuaries. The accrued pension benefits in the inter-valuation periods are determined by extrapolating the results of the previous formal valuation that had been performed using the projected-benefit method prorated on service and management's estimate of future events affecting the Plan (note 6).

h) Actuarial value of net assets available for benefits

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

3. PRIOR-PERIOD ADJUSTMENT

The valuation of the index-linked Government of Canada bonds held in the Fund was understated owing to an inappropriate pricing methodology. A correction has been applied on a retroactive basis and, accordingly, certain comparative figures have been restated.

For the year 2004, the correction resulted in:

- an increase in *Net assets available for benefits beginning of year* of $9,776,440;
- a decrease in *Current-year change in fair value of investments* and in *Net increase in net assets* of $556,975;
- an increase in *Net assets available for benefits end of year* and in *Investments* of $9,219,465;
- an increase in *Actuarial asset value adjustment* of $451,443;
- an increase in *Actuarial value of net assets available for benefits* and in *Funding excess* of $9,670,908.

4. INVESTMENTS

a) General

The Plan invests in money market instruments, bonds, equities, index-linked assets, and real estate in accordance with its policy of asset diversification. The following table shows the fair value and the cost of the investments at year-end, as well as the current-year change in fair value of investments and related income. Foreign trust funds are recorded net of unrealized gains/(losses) on hedges of $63,498 ($(4,690,766) in 2004). Investment income includes interest and dividends earned during the year, as well as income from real estate.

2005 INVESTMENTS

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

2004 INVESTMENTS
restated
(note 3)

	Fair value	Cost	Current-year change in fair value of investments	Investment income	Total return
Money market instruments					
Cash and short-term investment	$ 8,664,478	$ 8,664,535	$ 87	$ 245,549	$ 245,636
Bonds					
Provincial	110,724,427	101,005,078	1,170,353	5,955,503	7,125,856
Municipal	25,326,387	22,698,635	123,483	1,528,444	1,651,927
Corporate	74,608,580	69,359,508	26,420	4,255,435	4,281,855
	210,659,394	193,063,221	1,320,256	11,739,382	13,059,638
Equities					
Canadian trust funds	229,510,995	209,358,992	26,045,808	2,846,239	28,892,047
Foreign trust funds	232,394,980	187,292,582	23,736,644	6,212,855	29,949,499
	461,905,975	396,651,574	49,782,452	9,059,094	58,841,546
Index-linked assets					
Government of Canada	69,184,279	49,710,692	8,792,597	2,081,608	10,874,205
Corporate	3,076,400	2,000,000	349,305	-	349,305
Mortgages	14,706,060	14,706,060	-	1,082,133	1,082,133
	86,966,739	66,416,752	9,141,902	3,163,741	12,305,643
Real estate funds	14,680,290	11,017,553	693,163	674,819	1,367,982
TOTAL	$ 782,876,876	$ 675,813,635	$ 60,937,860	$ 24,882,585	$ 85,820,445

b) Determination of fair values

i) Money market instruments

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

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

Bonds consist mainly of Government of Canada, provincial, municipal, and corporate bonds and are valued using published market quotations.

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

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

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

c) Investment risk

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

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

i) Interest rate risk

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

The value of the Plan's assets, particularly the fixed-income allocation, is affected by changes in the nominal interest rate. As at 31 December 2005, a 1 percentage point increase in the nominal interest rate would result in a decline in the value of the Plan's fixed-income securities of about 15.0 per cent.

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

ii) Credit risk

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

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

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

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

b) Concentration of credit risk exists when a significant proportion of the portfolio is invested in the securities of individual issuers, which tend to react similarly to economic, political, or other conditions. As at 31 December 2005, the Plan's most significant concentration of credit risk is with the Canadian and provincial governments.

iii) Foreign currency and exposure risk

Foreign currency exposure arises from the Plan's holdings of investments denominated in foreign currency. Such risk is managed by limiting these investments to, at most, a market value representing 35 per cent of the Plan's assets; moreover, a narrower band with a midpoint of 29 per cent has been set to further limit the maximum amount of foreign currency risk.

To further limit the foreign exchange risk arising from this exposure, the Plan has entered into off-statement commitments in the form of foreign exchange contracts for the sale of various currencies for the purpose of hedging assets denominated in a foreign currency. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the hedged positions as at 31 December 2005 is presented below.

	2005			2004
	Foreign currency exposure	Net foreign currency hedge	Net foreign currency exposure	Net foreign currency exposure
Foreign trust funds				
U.S. dollars	$ 133,146,115	$ 71,500,240	$ 61,645,875	$ 4,170,427
Euros	37,323,399	16,415,760	20,907,639	3,397,977
Pound sterling	33,846,642	16,144,000	17,702,642	1,034,349
Japanese yen	15,691,811	6,831,395	8,860,415	2,552,456
Swiss francs	9,927,758	4,453,153	5,474,605	815,150
Australian dollars	3,162,364	1,558,980	1,603,384	(497,259)
Other currencies	30,070,901	-	30,070,902	17,324,918
Total Canadian dollars	$ 263,168,990	$ 116,903,528	$ 146,265,462	$ 28,798,018

iv) Securities lending

The Plan lends securities as a means of generating incremental income or of supporting the normal practice with regard to investment strategies. Securities are loaned only against collateral representing at least 105 per cent of the value of the securities. As at 31 December 2005, the Plan's investments included loaned securities with a fair value of $24,236,397 ($19,897,997 in 2004). The fair value of collateral received in respect of these loans was $25,768,136 ($21,225,910 in 2004).

5. ACTUARIAL ASSET VALUE ADJUSTMENT

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

	Actuarial asset value adjustment restated (note 3)					
	Unamortized (gains)/losses	Unamortized (gains)/losses to be recognized in				Unamortized (gains)/losses
	2005	2006	2007	2008	2009	2004
2001	$ -	$ -	$ -	$ -	$ -	$ 10,398,960
2002	15,200,948	15,200,948	-	-	-	30,401,896
2003	(29,658,392)	(14,829,196)	(14,829,196)	-	-	(44,487,587)
2004	(24,352,370)	(8,117,456)	(8,117,457)	(8,117,457)	-	(32,469,826)
2005	(48,705,659)	(12,176,414)	(12,176,415)	(12,176,415)	(12,176,415)	-
	$ (87,515,473)	$ (19,922,118)	$ (35,123,068)	$ (20,293,872)	$ (12,176,415)	$ (36,156,557)

6. ACCRUED PENSION BENEFITS

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

	2005	2004
Asset rate of return	5.50%	5.50%
Interest rate	5.50%	5.50%
Salary-escalation rate	3.50% + merit	3.50% + merit
Inflation rate	2.00%	2.00%

7. ADMINISTRATIVE EXPENSES

	2005	2004
Investment management fees	$ 1,411,091	$ 1,274,606
Pension administration fees	677,759	588,418
Audit and actuarial fees	134,663	9,024
Other administration fees	653,866	588,578
Total	$ 2,877,379	$ 2,460,626

8. COMPARATIVE FIGURES

Certain of the 2004 comparative figures have been reclassified to conform to the current year's presentation.

Contact Information

Mercer

Contact Mercer for pension or post-retirement questions and requests:

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HR Centre

Contact the HR Centre for payroll questions, customer service complaints, or to request pension-related information:

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