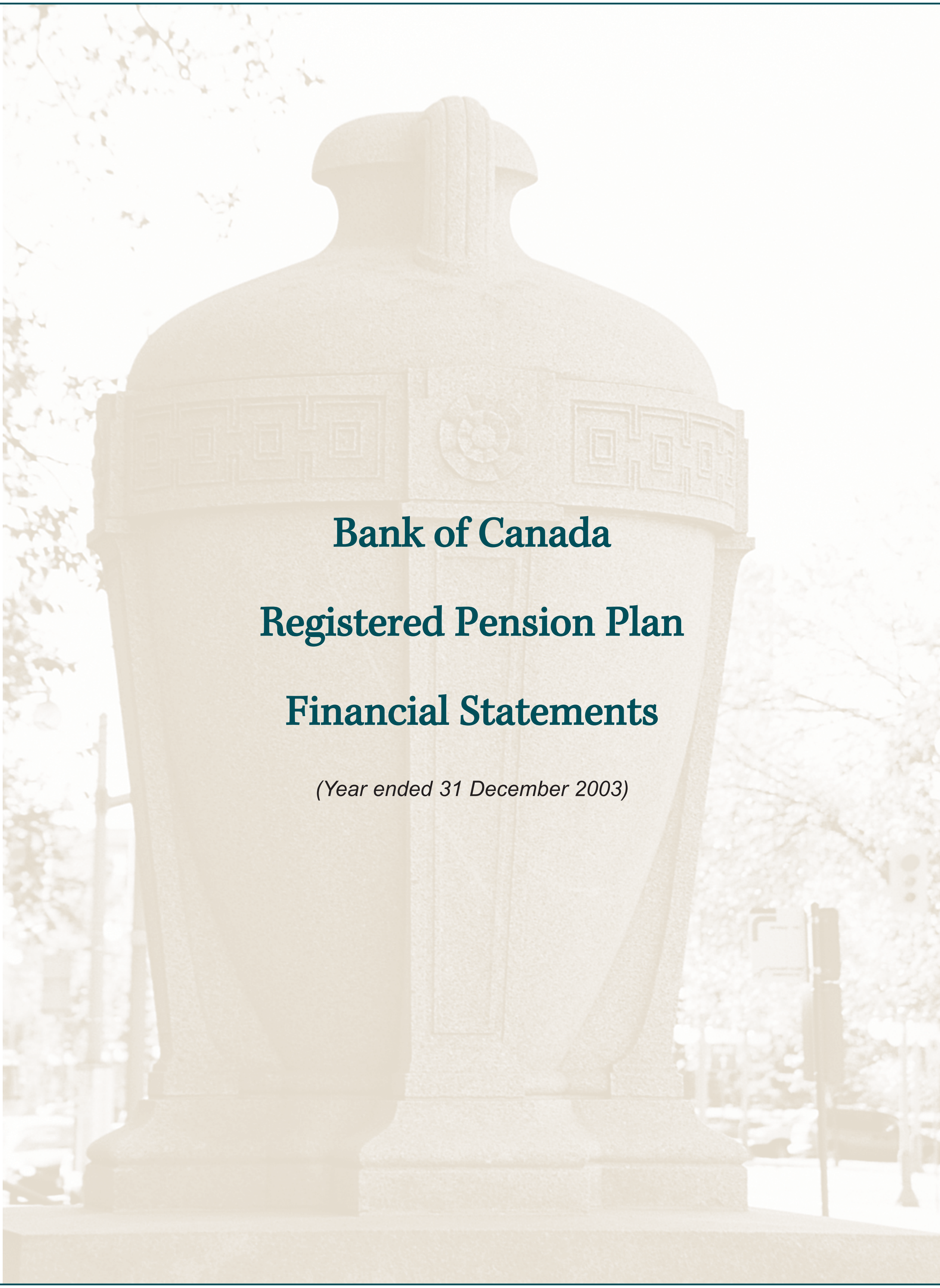

Bank of Canada

Registered Pension Plan

Financial Statements

(Year ended 31 December 2003)

FINANCIAL REPORTING RESPONSIBILITY

The accompanying Financial Statements of the Bank of Canada Registered Pension Plan (the Plan) have been prepared by 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
Chair, Pension Committee

S Vokey

Sheila Vokey, CA
Chief Accountant and Member, Pension Committee

5 March 2004

Actuary's opinion

Ottawa
March 5, 2004

Mercer Human Resource Consulting was retained by the Bank of Canada to perform an actuarial assessment of the going-concern assets and liabilities of the Registered Pension Plan as of December 31, 2003, 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 December 31, 2003, as a going concern. While the actuarial assumptions used to estimate liabilities 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 actuarial assets and liabilities was based on:

- an extrapolation to December 31, 2003 of the results of our January 1, 2002 actuarial valuation of the Plan's going concern liabilities,
- pension fund data provided by the Bank of Canada as of December 31, 2003,
- 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 and are considered management's best estimate of these events.

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

JP Raymond

François Lemire

Jean-Paul Raymond
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

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

Mercer Human Resource Consulting

Deloitte.

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Fax: (613) 236-2195
www.deloitte.ca

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 at December 31, 2003 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Pension Committee. 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 significant estimates made by the Pension Committee, 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 December 31, 2003 and the changes in net assets available for benefits and accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

5 March 2004

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

As at 31 December 2003

	2003	2002
Assets		
Investments (note 3)	**$ 711,569,534**	$ 622,355,513
Accrued investment income	**2,860,266**	3,045,800
Accounts receivable	**2,832**	31,020
Accrued employees contributions	**50,000**	25,200
	714,482,632	625,457,533
Liabilities		
Accounts payable and accrued liabilities	**596,035**	924,359
Net assets available for benefits	**713,886,597**	624,533,174
Actuarial asset value adjustment	**(544,000)**	65,064,443
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**713,342,597**	689,597,617
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS (note 4)	**557,904,878**	538,525,729
FUNDING EXCESS	**$ 155,437,719**	$ 151,071,888

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

W. P. Jenkins

Paul Jenkins
Chair, Pension Committee

S Vokey

Sheila Vokey, CA
Chief Accountant and Member, Pension Committee

James S. Hinds

James S. Hinds,
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 2003

	2003	2002
Increase in assets		
Investment income	**$ 24,430,661**	$ 27,920,110
Current-year change in fair value of investments (note 3)	**88,686,751**	(62,837,322)
	113,117,412	(34,917,212)
Employees' contributions—current services	**4,312,306**	4,002,461
Employees' contributions—past services	**301,213**	262,774
Transfers from other plans	**171,363**	335,254
	4,784,882	4,600,489
	117,902,294	(30,316,723)
Decrease in assets		
Benefits paid	**23,280,059**	20,754,962
Refunds and transfers	**2,070,479**	1,232,984
Administrative expenses (note 5)	**3,198,333**	2,165,675
	28,548,871	24,153,621
Net increase (decrease) in net assets	**89,353,423**	(54,470,344)
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	**624,533,174**	679,003,518
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	**$ 713,886,597**	$ 624,5 33,174

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year ended 31 December 2003

	2003	**2002**
Increase in accrued pension benefits		
Benefits earned	**$ 14,245,111**	$ 13,497,989
Interest cost	**32,353,772**	30,974,686
Amendment to Plan	**-**	27,600,000
Changes in income tax regulation	**4,625,892**	-
	51,224,775	72,072,675
Decrease in accrued pension benefits		
Benefits paid	**23,280,059**	20,754,962
Refunds and transfers	**2,070,479**	1,232,984
Amendment to Plan	**3,124,492**	-
Experience gain	**3,370,596**	-
	31,845,626	21,987,946
Net increase in actuarial value of accrued pension benefits	**19,379,149**	50,084,729
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS BEGINNING OF YEAR	**538,525,729**	488,441,000
ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS END OF YEAR	**$ 557,904,878**	$ 538,525,729

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

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 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 made on 1 January 2002. These valuations are made 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) ($39,900 in 2003 and $39,100 in 2002) 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 January 1st 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 requirement of the Plan or the benefit security of individual Plan members.

b) Investments

Investments are recorded as of the trade date and are stated at fair value (see note 3). Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Cost represents the original cost less write-downs 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 liabilities 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 4).

h) Actuarial value of net assets available for benefits

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

3. INVESTMENTS

a) The Plan invests in money market instruments, bonds, equities, price-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 and losses on hedges. Investment income includes interest and dividends earned during the year, as well as income from real estate.

2003 INVESTMENTS

	Fair value	Cost	Current-year change in fair value of investments	Investment income	Total return
Money market instruments					
Cash and short-term investment	$ 9,638,836	$ 9,638,979	$ (141)	$ 353,689	$ 353,548
Bonds					
Provincial	109,171,500	100,573,023	1,245,729	6,292,193	7,537,922
Municipal	25,345,445	22,841,176	(14,497)	1,915,572	1,901,075
Corporate	60,975,195	54,620,955	1,514,687	4,110,023	5,624,710
	195,492,140	178,035,154	2,745,919	12,317,788	15,063,707
Equities					
Canadian trust funds	202,118,947	205,134,556	42,926,813	2,943,302	45,870,115
Foreign trust funds	221,949,426	180,954,044	38,569,238	4,621,980	43,191,218
	424,068,373	386,088,600	81,496,051	7,565,282	89,061,333
Price-index-linked assets					
Canadian marketable bonds	54,296,260	46,303,215	3,861,354	1,995,341	5,856,695
Mortgages	14,978,858	14,978,858	-	1,093,134	1,093,134
	69,275,118	61,282,073	3,861,354	3,088,475	6,949,829
Real estate funds	13,095,067	10,061,140	583,568	1,105,427	1,688,995
TOTAL	$ 711,569,534	$ 645,105,946	$ 88,686,751	$ 24,430,661	$ 113,117,412

2002 INVESTMENTS

	Fair value	Cost	Current year change in fair value of investments	Investment income	Total return
Money Market instruments					
Cash and short-term investments	$ 6,438,604	$ 6,438,607	$ 57	$ 180,449	$ 180,506
Bond					
Provincial	116,325,736	102,128,042	5,033,659	7,765,348	12,799,007
Municipal	29,708,921	26,984,323	843,719	1,571,743	2,415,462
Corporate	55,964,914	51,775,290	134,196	4,926,603	5,060,799
	201,999,571	180,887,655	6,011,574	14,263,694	20,275,268
Equities					
Canadian trust funds	165,248,832	210,993,297	(22,345,516)	2,678,303	(19,667,213)
Foreign trust funds	166,877,913	146,360,351	(51,758,113)	6,406,764	(45,351,349)
	332,126,745	357,353,648	(74,103,629)	9,085,067	(65,018,562)
Price-index-linked assets					
Canadian marketable bonds	48,279,390	42,053,351	4,331,216	2,159,390	6,490,606
Mortgages	15,386,164	15,386,164	-	1,194,103	1,194,103
	63,665,554	57,439,515	4,331,216	3,353,493	7,684,709
Real estate funds	18,125,039	14,719,165	923,460	1,037,407	1,960,867
TOTAL	$ 622,355,513	$ 616,838,590	$ (62,837,322)	$ 27,920,110	$ (34,917,212)

b) Determination of fair values

i) Money market instruments

Cash and short-term investments, which consist mainly of treasury bills, are valued at cost, which approximates fair value.

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

Bonds consist mainly of 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.

Price-index-linked assets consist mainly of Government of Canada Real Return Bonds and index-linked mortgages guaranteed by the Canada Mortgage and Housing Corporation. Investments are valued using published market quotes and values provided by the mortgage sponsors.

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 2003, a 1 per cent increase in the nominal interest rate would result in a decline in the value of the Plan's fixed-income securities of about 5.4 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 2003, 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. Note that the Income Tax Act limits foreign investments to a maximum of 30 per cent of the value of the Plan's total cost.

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 2003 is presented below.

	2003			2002
	Foreign currency exposure	**Net foreign currency hedge**	**Net foreign currency exposure**	**Net foreign currency exposure**
Foreign trust funds				
U.S. dollars	$ 117,959,411	$ 111,110,050	$ 6,849,361	$ (8,031,654)
Pound sterling	27,986,351	26,597,200	1,389,151	(772,005)
Japanese yen	13,540,185	13,093,780	446,405	669,430
Euros	32,366,562	30,935,800	1,430,762	(249,112)
Swiss francs	8,185,878	8,038,417	147,461	176
Australian dollars	3,285,904	3,998,730	(712,826)	-
Other currencies	17,340,066	-	17,340,066	13,894,727
Total	$ 220,664,357	$ 193,773,977	$ 26,890,380	$ (5,511,562)

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 2003, the Plan's investments included loaned securities with a fair value of $23,734,756 ($28,410,905 in 2002). The fair value of collateral received in respect of these loans was $25,472,948 ($30,437,079 in 2002).

4. ACCRUED PENSION BENEFITS

Under the Pension Benefits Standards Act, actuarial valuations are required at least every three years. An actuarial valuation was made as of 1 January 2002 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:

	2003	2002
Asset rate of return	6%	6%
Discount rate	6%	6%
Salary-escalation rate	4% + merit	4% + merit
Inflation rate	2%	2%

5. ADMINISTRATIVE EXPENSES

	2003	2002
Investment management fees	$ 1,030,950	$ 1,037,055
Audit and actuarial fees	42,453	118,272
Other administration fees	2,124,930	1,010,348
Total	$ 3,198,333	$ 2,165,675

6. COMPARATIVE FIGURES

The financial statements of the Registered Pension Plan as at 31 December 2002 and for the year then ended were fund financial statements and therefore did not include the actuarial value of the net assets and the accrued pension benefits. The 2002 financial statements were audited by other auditors who expressed an opinion without reservation on those statements in their report dated 21 February 2003.