FINANCIAL STATEMENTS

(Year Ended 31 December 2006)

BANK OF CANADA

FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with Canadian generally accepted accounting principles and contain certain items that reflect best estimates and judgment of management. The integrity and reliability of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the *Annual Report* is consistent with the financial statements.

In support of its responsibility for the integrity and reliability of these financial statements and for the accounting system from which they are derived, management has developed and maintains a system of internal controls 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. The Bank has an internal Audit Department, whose functions include reviewing internal controls, including accounting and financial controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and exercises this responsibility through the Audit Committee of the Board. The Audit Committee is composed of members who are neither officers nor employees of the Bank and who are financially literate. The Audit Committee is therefore qualified to review the Bank's annual financial statements and to recommend their approval by the Board of Directors. The Audit Committee meets with management, the Chief Internal Auditor, and the Bank's external auditors who are appointed by Order-in-Council. The Audit Committee has established processes to evaluate the independence of the Bank's external auditors and reviews all services provided by them. The Audit Committee has a duty to review the adoption of, and changes in, accounting principles and procedures that have a material effect on the financial statements, and to review and assess key management judgments and estimates material to the reported financial information.

These financial statements have been audited by the Bank's external auditors, Ernst & Young LLP and PricewaterhouseCoopers LLP, and their report is presented herein. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

D.A. Dodge, Governor

S. Vokey, CA, Chief Accountant

Ottawa, Canada

BANK OF CANADA

AUDITORS' REPORT

To the Minister of Finance, registered shareholder of the Bank of Canada

We have audited the balance sheet of the Bank of Canada as at 31 December 2006 and the statement of revenue and expense 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 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 financial position of the Bank as at 31 December 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at 31 December 2005 and for the year then ended were audited by Ernst & Young LLP and Deloitte & Touche LLP who expressed an opinion without reservation in their report dated 20 January 2006.

Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Ottawa, Canada
22 January 2007

BANK OF CANADA

STATEMENT OF REVENUE AND EXPENSE
Year ended 31 December 2006
(Millions of dollars)

	2006	2005
REVENUE		
Revenue from investments, net of interest paid on deposits of $71.5 million ($43.9 million in 2005)	**2,159.6**	1,978.3
EXPENSE by function (notes 1 and 3)		
Monetary policy	**65.6**	60.6
Currency	**122.9**	113.7
Financial system	**35.5**	34.1
Funds management	**92.6**	92.7
Retail debt services recovery	**(53.1)**	(55.2)
Funds management net of retail debt recovery	**39.5**	37.5
	263.5	245.9
NET REVENUE FOR ACCOUNT OF THE RECEIVER GENERAL FOR CANADA	**1,896.1**	1,732.4

(See accompanying notes to the financial statements.)

BANK OF CANADA

BALANCE SHEET

As at 31 December 2006
(Millions of dollars)

	2006	2005
ASSETS		
Deposits in foreign currencies		
U.S. dollars	**1.4**	84.6
Other currencies	**1.7**	3.5
	3.1	88.1
Advances to members of the Canadian Payments Association	**12.0**	–
Investments (note 4)		
Treasury bills of Canada	**18,120.7**	16,384.6
Other securities issued or guaranteed by Canada maturing within three years	**10,971.8**	10,337.1
Other securities issued or guaranteed by Canada maturing after three years	**19,175.1**	19,689.3
Other investments	**38.0**	38.0
	48,305.6	46,449.0
Bank premises (note 5)	**133.8**	136.6
Other assets		
Securities purchased under resale agreements	**2,853.8**	1,297.1
All other assets (note 6)	**317.2**	349.5
	3,171.0	1,646.6
	51,625.5	48,320.3

(See accompanying notes to the financial statements.)

	2006	2005
LIABILITIES AND CAPITAL		
Bank notes in circulation (note 7)	**48,762.2**	46,077.9
Deposits		
Government of Canada	**2,228.1**	911.1
Banks	**9.2**	32.8
Other members of the Canadian Payments Association	**2.6**	17.1
Other deposits	**443.9**	422.4
	2,683.8	1,383.4
Other liabilities		
Securities sold under repurchase agreements	–	684.3
All other liabilities	**149.5**	144.7
	149.5	829.0
	51,595.5	48,290.3
Capital		
Share capital (note 8)	**5.0**	5.0
Statutory reserve (note 9)	**25.0**	25.0
	30.0	30.0
	51,625.5	48,320.3

D.A. Dodge, Governor

S. Vokey, CA, Chief Accountant

On behalf of the Board

M. L. O'Brien, FCA,
Chair, Audit Committee

J.-G. Desjardins, LScCom, CFA,
Chair, Planning and Budget Committee

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2006
(Amounts in the notes to the financial statements are in millions of dollars, unless otherwise stated.)

1. The business of the Bank

The Bank of Canada's responsibilities focus on the goals of low and stable inflation, a safe and secure currency, financial stability, and the efficient management of government funds and public debt. These responsibilities are carried out as part of the broad functions described below. Expenses in the *Statement of revenue and expense* are reported on the basis of these four corporate functions as derived through the Bank's allocation model.

Monetary policy

Contributes to solid economic performance and rising living standards for Canadians by keeping inflation low, stable, and predictable.

Currency

Designs, produces, and distributes Canada's bank notes, focusing on counterfeit deterrence through research on security features, public education, and partnership with law enforcement; replaces and destroys worn notes.

Financial system

Promotes a safe, sound, and efficient financial system, both within Canada and internationally.

Funds management

Provides high-quality, effective, and efficient funds-management services: for the government, as its fiscal agent including the delivery of retail debt services; for the Bank; and for other clients. The Bank recovers the cost of retail debt services from the Canada Investment and Savings Agency.

In accordance with the Bank of Canada Act, the net revenue of the Bank is remitted to the Receiver General for Canada.

2. Significant accounting policies

The financial statements of the Bank are in accordance with Canadian generally accepted accounting principles (GAAP) and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's bylaws. A cash-flow statement has not been prepared, since the liquidity and cash position of the Bank and other cash-flow information regarding the Bank's activities may be derived from the *Statement of revenue and expense* and the *Balance sheet*.

The significant accounting policies of the Bank are:

a) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to the financial statements. These estimates, mostly in the area of pension and other employee future benefits, are based on management's best knowledge of current events. Actual results may differ from those estimates.

b) Revenues and expenses

Revenues and expenses are accounted for on an accrual basis.

c) Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to its eligible employees. The Bank accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs and the obligations of the plans are actuarially determined using the projected benefit method and using management's best estimate of the expected investment performance of the plans, salary escalation, retirement ages of employees, and expected health care costs.

The benefit plan expense (income) for the year consists of the current service cost, the interest cost, the expected return on plan assets, and the amortization of unrecognized past service costs, actuarial losses (gains), as well as the transitional obligation (asset). Calculation of the expected return on assets for the year is based on the market value of plan assets using a market-related value approach. The market-related value of plan assets is determined using a methodology where the difference between the actual and expected return on the market value of plan assets is amortized over five years.

The excess of the net accumulated actuarial loss (gain) over 10 per cent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service lifetime (EARSL) of plan members. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the EARSL at the date of amendments.

On 1 January 2000, the Bank adopted the new accounting standard on employee future benefits using the prospective application method. The initial transitional balances are amortized on a straight-line basis over the EARSL, as at the date of adoption. The EARSL has been determined to be 11 years (12 years for the period 2002–04) for the pension plans and for the long-service benefit program, 14 years for the post-retirement health care plan, and 7 years for post-employment benefits plans.

d) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the balance sheet dates.

Investment income is translated at the rate in effect at the date of the transaction. The resulting gains and losses are included in the *Statement of revenue and expense*.

e) Advances

Advances to members of the Canadian Payments Association are liquidity loans that are fully collateralized and generally overnight in duration. The Bank charges interest on advances under the Large Value Transfer System (LVTS) at the Bank Rate.

f) Investments

Securities, consisting mainly of Government of Canada treasury bills and bonds, are held for investment purposes. These investments are recorded at cost and are adjusted for amortization of purchase discounts and premiums using the constant-yield method for treasury bills and bankers' acceptances and the straight-line method for bonds. The amortization, as well as gains and losses on disposition, is included in the *Statement of revenue and expense* as revenue.

g) Securities Lending Program

The Bank operates a Securities Lending Program to support the liquidity of Government of Canada securities by providing a secondary and temporary source of these securities to the market. These securities-lending transactions are fully collateralized and are generally overnight in duration. The securities loaned continue to be accounted for as investment assets. Lending fees charged by the Bank on these transactions are included in revenue at the date of the transaction.

h) Bank premises

Bank premises, consisting of land, buildings, computer hardware/software, and other equipment, are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer hardware/software	3 to 7 years
Other equipment	5 to 15 years

Projects in progress are not amortized until the asset is put into use.

i) Securities purchased under resale agreements

Securities purchased under resale agreements are reverse repo-type transactions in which the Bank purchases Government of Canada securities from designated counterparties with an agreement to sell them back at a predetermined price on an agreed transaction date. These agreements are treated as collateralized lending transactions and are recorded on the balance sheet at the amounts at which the securities were originally acquired plus accrued interest.

j) Deposits

The liabilities within this category are Canadian-dollar demand deposits. The Bank pays interest on the deposits for the Government of Canada, banks, and other financial institutions at market-related rates. Interest paid on deposits is included in the *Statement of revenue and expense*.

k) Securities sold under repurchase agreements

Securities sold under repurchase agreements are repo-type transactions in which the Bank sells Government of Canada securities to designated counterparties with an agreement to buy them back at a predetermined price on an agreed transaction date. These agreements are treated as collateralized borrowing transactions and are recorded on the balance sheet at the amounts at which the securities were originally sold plus accrued interest.

l) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

m) Future accounting changes

The Canadian Institute of Chartered Accountants (CICA) issued two new accounting standards for the recognition and measurement of financial instruments that will impact the Bank: Section 1530, Comprehensive Income; and Section 3855, Financial Instruments—Recognition and Measurement. The Bank will apply the CICA's new accounting requirements effective 1 January 2007.

Section 1530 introduces a new component to equity entitled *Comprehensive income* to record unrealized gains and losses resulting from the change in fair value of assets that are classified as available-for-sale. Realized gains and losses would be recognized in the *Statement of revenue and expense*.

Upon initial adoption of the new Section 3855, the Bank will be required to classify its financial assets as held-for-trading (HFT), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables (L&R). It is expected that, commencing in 2007, the *Treasury bills* and the *Other investments* portfolios will be classified as AFS while the *Other securities issued or guaranteed by Canada* portfolio will be classified as HTM.

3. Expense by class of expenditure

	2006	2005
Salaries	**92.9**	89.5
Benefits and other staff expenses	**53.2**	43.2
Currency costs	**57.6**	55.4
Premises maintenance	**23.3**	21.1
Services and supplies	**82.8**	84.0
Amortization	**16.3**	17.2
	326.1	310.4
Recoveries		
Retail debt services	**(53.1)**	(55.2)
Other	**(9.5)**	(9.3)
	263.5	245.9

Retail debt services are recovered from the Canada Investment and Savings Agency. Other recoveries represent the fees charged by the Bank for a variety of services.

4. Investments

The Bank invests in treasury bills and bonds issued by the Government of Canada. These holdings are distributed to broadly resemble the structure of the Government of Canada domestic debt outstanding and are typically held to maturity. The amortized book values of these investments approximate their par values.

There were no securities loaned under the Securities Lending Program as at 31 December 2006.

The Bank also holds 9,441 shares in the Bank for International Settlements (BIS) in order to participate in the BIS and in international initiatives generally.

Credit risk

The portfolio is essentially free of credit risk because the securities held are direct obligations of the Government of Canada, the Bank's shareholder. Advances to Members of the Canadian Payments Association and securities purchased under resale agreements do not pose material credit risk for the Bank because they are collateralized transactions fully backed by high-quality Canadian-dollar-denominated securities. The credit quality of collateral is managed through a set of exposure limits tied to credit ratings of the collateral and term to maturity.

Interest rate risk

The Bank is exposed to interest rate risk arising from fluctuations in interest rates on treasury bills and bonds issued by the Government of Canada. Since the Bank's revenues greatly exceed expenses, changes in interest rates would not affect the ability of the Bank to fulfill its obligations. Fluctuations in fair value of the instrument resulting from changes in interest rates are not reflected in the Bank's revenue since the investments are typically held to maturity. The Bank does not use derivative instruments to reduce its exposure to interest rate risk.

Fair values

The fair values of the securities presented below are based on quoted market prices. The amortized cost of all other financial instruments held by the Bank (assets or liabilities including accounts payable, securities purchased under resale agreements, and securities sold under repurchase agreements) approximates the fair value, given their short-term nature.

The BIS shares are not traded; however, based on recent share issues, their fair value is estimated as being 70 per cent of the Bank's interest in the BIS shareholder's equity, which is denominated in special drawing rights (SDRs).

	2006			2005		
Securities	Amortized cost	Fair value	Average yield per cent	Amortized cost	Fair value	Average yield per cent
Treasury bills of Canada	**18,120.7**	**18,122.7**	**4.2**	16,384.6	16,365.2	3.2
Other securities issued or guaranteed by Canada maturing within 3 years	**10,971.8**	**11,108.4**	**5.0**	10,337.1	10,534.9	5.1
Other securities issued or guaranteed by Canada maturing after 3 years but not over 5 years	**6,639.0**	**6,982.0**	**5.4**	5,768.0	6,024.4	5.1
Other securities issued or guaranteed by Canada maturing after 5 years but not over 10 years	**6,438.9**	**6,774.7**	**5.0**	8,127.9	8,802.2	5.4
Other securities issued or guaranteed by Canada maturing after 10 years	**6,097.2**	**7,563.8**	**5.8**	5,793.4	7,379.3	5.9
	48,267.6	**50,551.6**		46,411.0	49,106.0	
Shares in the Bank for International Settlements	**38.0**	**254.4**		38.0	226.0	
	48,305.6	**50,806.0**		46,449.0	49,332.0	

5. Bank premises

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land and buildings	**183.5**	**94.0**	**89.5**	181.6	89.5	92.1
Computer hardware/ software	**61.7**	**47.6**	**14.1**	63.8	45.9	17.9
Other equipment	**139.0**	**114.5**	**24.5**	137.6	111.6	26.0
	384.2	**256.1**	**128.1**	383.0	247.0	136.0
Projects in progress	**5.7**	**–**	**5.7**	0.6	–	0.6
	389.9	**256.1**	**133.8**	383.6	247.0	136.6

Projects in progress in 2006 consist of upgrades to the Bank's computer infrastructure.

6. All other assets

This category includes accrued interest on Canadian investments of $211.9 million ($227.5 million in 2005). It also includes the pension accrued benefit asset of $70.6 million ($81.0 million in 2005).

7. Bank notes in circulation

In accordance with the Bank of Canada Act, the Bank has the sole authority to issue bank notes for circulation in Canada.

A breakdown by denomination is presented below.

	2006	2005
$5	**994.3**	920.8
$10	**1,060.8**	1,039.0
$20	**15,027.7**	14,312.4
$50	**6,924.1**	6,524.2
$100	**23,005.2**	21,421.3
Other bank notes	**1,750.1**	1,860.2
	48,762.2	46,077.9

Other bank notes include denominations that are no longer issued but remain as legal tender.

8. Share capital

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

9. Statutory reserve

The statutory reserve was established in accordance with the Bank of Canada Act. It was accumulated out of net revenue until it reached the stipulated maximum amount of $25.0 million in 1955.

10. Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to its eligible employees.

The pension plans provide benefits under a Registered Pension Plan and a Supplementary Pension Arrangement. Pension calculation is based mainly on years of service and average pensionable income and is generally applicable from the first day of employment. The pension is indexed to reflect changes in the consumer price index on the date payments begin and each 1 January thereafter.

The Bank sponsors post-retirement health, dental, and life insurance benefits, as well as post-employment self-insured Long-Term Disability and continuation of benefits to disabled employees. The Bank also sponsors a long-service benefit program for employees hired before 1 January 2003.

The Bank measures its accrued benefits obligations and fair value of plan assets for accounting purposes as at 31 December of each year. The most recent actuarial valuation for funding purposes of the Registered Pension Plan was done as of 1 January 2005, and the next required valuation will be as of 1 January 2008.

The total cash payment for employee future benefits for 2006 was \$10.4 million (\$8.8 million in 2005), consisting of \$4.7 million (\$4.2 million in 2005) in cash contributed by the Bank to its funded pension plans and \$5.7 million (\$4.6 million in 2005) in cash payments directly to beneficiaries for its unfunded other benefits plans.

Information about the employee benefit plans is presented in the tables below.

Plan assets, benefit obligation, and plan status

	Pension benefit plans[1]		Other benefit plans	
	2006	**2005**	**2006**	**2005**
Plan assets				
Fair value of plan assets at beginning of year	**893.5**	799.4	**–**	–
Bank's contributions	**4.7**	4.2	**–**	–
Employees' contributions	**6.3**	6.1	**–**	–
Benefit payments and transfers	**(30.3)**	(28.8)	**–**	–
Actual return on plan assets	**110.7**	112.6	**–**	–
Fair value of plan assets at year-end[2]	**984.9**	893.5	**–**	–
Benefit obligation				
Benefit obligation at beginning of year	**887.2**	715.2	**151.1**	126.2
Current service cost	**28.7**	22.1	**6.1**	4.7
Interest cost	**38.1**	37.7	**6.4**	6.5
Benefit payments and transfers	**(30.3)**	(28.8)	**(5.7)**	(4.6)
Actuarial loss	**0.1**	141.0	**2.2**	18.3
Benefit obligation at year-end	**923.8**	887.2	**160.1**	151.1
Plan status				
Excess (deficiency) of fair value of plan assets over benefit obligation at year-end	**61.1**	6.3	**(160.1)**	(151.1)
Unamortized net transitional obligation (asset)	**(64.6)**	(75.5)	**18.8**	22.2
Unamortized cost of amendments	**17.2**	19.5	**2.0**	3.0
Unamortized net actuarial loss	**56.9**	130.7	**41.3**	41.6
Accrued benefit asset (liability)	**70.6**	81.0	**(98.0)**	(84.3)

1. For the Supplementary Pension Arrangement, in which the accrued benefit obligation exceeds plan assets, the accrued benefit obligation and fair value of plan assets totalled $51.0 million ($48.0 million in 2005) and $32.5 million ($26.7 million in 2005), respectively.
2. The assets of the pension benefit plans were composed as follows: 59 per cent equities, 26 per cent bonds; 9 per cent real return investments; 3 per cent real estate assets; and 3 per cent short-term securities and cash (58 per cent, 27 per cent, 10 per cent, 3 per cent, and 2 per cent, respectively, in 2005).

The accrued benefit asset for the defined-benefit pension plans is included in the balance sheet category *All other assets*. The total accrued benefit liability for the other benefits plans is included in the balance sheet category *All other liabilities*.

Benefit plan expense

	Pension benefit plans		Other benefit plans	
	2006	**2005**	**2006**	**2005**
Current service cost, net of employees' contributions	**22.4**	16.1	**6.1**	4.7
Interest cost	**38.1**	37.7	**6.4**	6.5
Actual return on plan assets	**(110.7)**	(112.6)	**–**	–
Actuarial loss	**0.1**	141.0	**2.2**	18.3
Benefit plan expense (income), before adjustments to recognize the long-term nature of employee future benefit costs	**(50.1)**	82.2	**14.7**	29.5
Adjustments				
Difference between expected return and actual return on plan assets for the year	**67.7**	71.8	**–**	–
Difference between amortization of past service costs for the year and actual plan amendments for the year	**2.3**	2.3	**1.0**	1.0
Difference between amortization of actuarial loss for the year and actual loss on accrued benefit obligation for the year	**8.3**	(135.8)	**(0.1)**	(16.8)
Amortization of transitional obligation (asset)	**(12.9)**	(12.6)	**3.5**	3.5
Benefit plan expense recognized in the year	**15.3**	7.9	**19.1**	17.2

Significant assumptions

The significant assumptions used are as follows (on a weighted-average basis).

	Pension benefit plans		Other benefit plans	
	2006	2005	2006	2005
Accrued benefit obligation as at 31 December				
Discount rate	**4.25%**	4.25%	**4.25%**	4.15%
Rate of compensation increase	**3.50% +merit**	3.50% +merit	**3.50% +merit**	3.50% +merit
Benefit plan expense for year ended 31 December				
Discount rate	**4.25%**	5.00%	**4.20%**	4.80%
Expected rate of return on assets	**5.50%**	5.50%	**–**	–
Rate of compensation increase	**3.50% +merit**	3.50% +merit	**3.50% +merit**	3.50% +merit
Assumed health care cost trend				
Initial health care cost trend rate			**8.20%**	8.25%
Health care cost trend rate declines to			**4.75%**	4.80%
Year that the rate reaches the ultimate trend rate			**2016**	2015

2006 sensitivity of key assumptions

	Change in obligation	Change in expense
Impact of 0.25 per cent increase/decrease in assumptions		
Pension benefit plans		
Change in discount rate	**(39.9) / 42.6**	**(4.6) / 4.9**
Change in the long-term rate of return on plan assets	**0/0**	**(2.0) / 2.0**
Other benefit plans		
Change in discount rate	**(6.5) / 7.0**	**(0.2) / 0.2**
Impact of 1.00 per cent increase/decrease in assumptions		
Other benefit plans		
Change in the assumed health care cost trend rates	**22.3 / (16.8)**	**1.8 / (1.3)**

11. Commitments, contingencies, and guarantees

a) Operations

The Bank has a long-term contract with an outside service provider for retail debt services, expiring in 2011. As at 31 December 2006, fixed payments totalling $70.7 million remained, plus a variable component based on the volume of transactions. The Bank recovers the cost of retail debt services from the Canada Investment and Savings Agency.

The Bank occupies leased premises in Halifax, Montréal, Toronto, Calgary, and Vancouver. As at 31 December 2006, the future minimum payments are $3.4 million for rent, real estate taxes and building operations. The expiry dates vary for each lease, from October 2007 to August 2014.

Minimum annual payments for long-term commitments

	Outsourced services	Leased space	Total
2007	**18.2**	**1.2**	**19.4**
2008	**17.1**	**0.6**	**17.7**
2009	**16.2**	**0.3**	**16.5**
2010	**15.4**	**0.3**	**15.7**
2011	**3.8**	**0.3**	**4.1**
Thereafter	**–**	**0.7**	**0.7**
	70.7	**3.4**	**74.1**

b) Foreign currency contracts

The Bank is a participant in foreign currency swap facilities with the U.S. Federal Reserve for US$2 billion, the Banco de México for Can$1 billion, and with the Exchange Fund Account of the Government of Canada. There were no drawings under any of those facilities in 2006 or 2005 and, therefore, there were no commitments outstanding as at 31 December 2006.

c) Investment contracts

Sale investment contracts outstanding as at 31 December 2006, of $2,853.8 million, at an interest rate of 4.23 per cent under special purchase and resale agreements, were settled by 8 January 2007 ($1,297.1 at the end of 2005 at an interest rate of 3.21 per cent).

No purchase investment contracts were outstanding as at 31 December 2006 ($684.3 million at the end of 2005, at an interest rate of 3.25 per cent).

d) Contingency

The 9,441 shares in the BIS have a nominal value of 5,000 special drawing rights (SDRs) of which 25 per cent, i.e., SDR1,250, is paid up. The balance of SDR3,750 is callable at three months' notice by decision of the BIS Board of Directors. The Canadian equivalent of this contingent liability was $62.1 million at 31 December 2006, based on prevailing exchange rates.

e) Legal proceedings

In 2004, legal proceedings were initiated against the Bank relating to the Bank of Canada Registered Pension Plan. Since the Bank's legal counsel is of the view that the plaintiff's claims for compensation do not have a sound legal basis, management does not expect the outcome of the proceedings to have a material effect on the financial position or operations of the Bank.

f) Guarantees

In the normal course of operations, the Bank enters into certain guarantees, which are described below.

Large Value Transfer System (LVTS) Guarantee

The LVTS is a large-value payment system, owned and operated by the Canadian Payments Association. The system's risk control features, which include caps on net debit positions and collateral to secure the use of overdraft credit, are sufficient to permit the system to obtain the necessary liquidity to settle in the event of the failure of the single LVTS participant having the largest possible net amount owing. The Bank guarantees to provide this liquidity, and in the event of the single participant failure, the liquidity loan will be fully collateralized. In the extremely unlikely event that there were defaults by more than one participant during the LVTS operating day, in an aggregate amount in excess of the largest possible net amount owing by a single participant, there would not likely be enough collateral to secure the amount of liquidity that the Bank would need to provide to settle the system. This might result in the Bank having unsecured claims on the defaulting participants in excess of the amount of collateral pledged to the Bank to cover the liquidity loans. The Bank would have the right, as an unsecured creditor, to recover any amount of its liquidity loan that was unpaid. The amount potentially at risk under this guarantee is not determinable, since the guarantee would be called upon only if a series of extremely low probability events were to occur. No amount has ever been provided for in the liabilities of the Bank, and no amount has ever been paid under this guarantee.

Other Indemnification Agreements

In the normal course of operations, the Bank provides indemnification agreements with various counterparties in transactions such as service agreements, software licences, leases, and purchases of goods. Under these agreements, the Bank agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Bank in relation to the agreement. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such counterparties.

12. Comparative figures

Certain of the 2005 comparative figures have been reclassified to conform to the current year's presentation.