BANK OF CANADA
BANQUE DU CANADA

ANNUAL REPORT 2014

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MESSAGE FROM THE GOVERNOR

Stephen S. Poloz, Governor

The world of central banking has been shaken by the events of the past decade. The emergence of massive financial excesses and a global financial crisis, along with the associated real economic consequences, all while central banks were quietly keeping inflation low and predictable, has altered the policy landscape. The policy response was, and remains, extreme, with interest rates at historic lows and many countries resorting to unconventional policies. Furthermore, the global financial regulatory framework is being remodelled, financial stability risks have become a preoccupation of central bankers, and macroprudential policy tools have entered everyday parlance.

It is not a stretch to describe this as a reinvention of central banking, although those with a fuller appreciation of history might see the increased focus on financial stability as a return to central banking's roots. Regardless, it was against this backdrop that the Bank of Canada adopted a vision statement in early 2014 to help guide resource allocation and inspire our people as we look to the future: "A leading central bank—dynamic, engaged, and trusted—committed to a better Canada." While these words could equally have described the Bank of Canada a generation ago, our emphasis on the words "leading" and "dynamic" is driven by the recent context: through innovative research and policy analysis, we intend to lead the intellectual evolution—or reinvention—of central banking that is under way.

Superficially, 2014 seemed like an unremarkable year for monetary policy. Inflation was very close to target, the economy grew at a reasonable pace and there was no material increase in financial stability risks. The Bank's policy rate remained unchanged in that context. Beneath the surface, however, there was considerable constructive activity at the Bank of Canada.

It is worth recalling that at the beginning of 2014, inflation was well below target, and, with the economy operating with considerable excess capacity, the risk that any new setback could push Canada into outright deflation had to be taken seriously. The world economy was still struggling to find its post-crisis footing, and the U.S. economic outlook remained a question mark. And, even taking all that into account, Canada's export performance was discouraging, a significant puzzle for economists.

By early 2015, Canada's inflation rate was very close to target, albeit boosted mainly by temporary factors, including the effects of the Canadian dollar's depreciation. Even so, there has been some narrowing of Canada's excess capacity, measured from the perspectives of both production capacity and labour supply. The export puzzle has been mostly solved, as Bank staff members have identified significant export capacity that was destroyed during the 2002–12 period, and the exchange-rate-sensitive sectors expected to lead our recovery have begun to do so. Central to this is a much stronger U.S. economy, a welcome contrast to the rest of the world, which remains fragile and fraught with downside risk.

Even if the U.S. economy appears to have entered a more robust growth phase, and Canada is starting to benefit from this and from the lower Canadian dollar, it is important not to forget that this is all happening with policy interest rates at extraordinarily low levels. What this means is that the economy is still trying to grow against significant headwinds, and requires considerable monetary stimulus to avoid falling back into recession. In Canada, the growth we have been seeing has been mainly the product of policy stimulus—whether domestic or international in origin—and a strong energy sector. And the energy sector was dealt a major blow in the closing weeks of 2014, as world oil prices plunged.

Through innovative research and policy analysis, we intend to lead the intellectual evolution—or reinvention—of central banking that is under way.

Accordingly, the positive progress that has been made must be weighed against lingering uncertainty about the future. Indeed, managing uncertainty, or risk, became a central preoccupation of the Bank during 2014. This showed up in the form of increased transparency around key unknowns in our *Monetary Policy Report* (MPR), including offering ranges for forecasts (output, inflation) or assumptions (potential growth, the neutral rate of interest) instead of point estimates, and providing more alternative scenarios. Among other things, this work underscored the difference between the forecaster's lens and the policy-maker's lens: two-sided risks that seem balanced to the forecaster might pose very unbalanced consequences for policy. In the current context, for example, with interest rates already so low, downside risk on the projected inflation profile would be much more difficult to manage than upside risk.

Another major uncertainty for policy during 2014 was the ongoing buildup of financial vulnerabilities, especially those associated with high household indebtedness and a hot housing sector. These vulnerabilities are the natural by-product of easy monetary conditions—the purpose of cutting interest rates, after all, is to persuade individuals to borrow and spend when they otherwise would not. However, the extended duration of low rates is allowing these imbalances to edge higher through time.

The Bank's analysis of these and other financial stability risks had for some time been presented in the form of a semi-annual *Financial System Review* (FSR). But in 2014 the Bank developed several significant methodological advances in that space, and elevated the FSR's profile to make it an essential complement to the MPR. In its oversight role for systemically important financial market infrastructures, the Bank worked effectively with other key players to ensure implementation of the new Principles for Financial Market Infrastructures. Meanwhile, at the global level, the Bank was also a key participant in negotiations around new capital and liquidity standards. Today, we operate in a more resilient global financial system as a result.

A stronger communications strategy was developed around both the monetary policy and financial stability streams in 2014, also with increased transparency as the central goal. Taken together, the eight interest rate announcements, four MPRs and two FSRs generated 10 press releases, which were simplified to enhance transparency. Rather than offering forward guidance around interest rates, as in the past, we provided more insight into the risks to the outlook for inflation, thereby encouraging financial markets to respond to the daily dataflow in a natural way. Press conferences hosted by the Governor and Senior Deputy Governor upon the release of the MPR and FSR were enhanced with a more fulsome opening statement offering increased visibility of the policy deliberations of the Governing Council. And, public speeches by all members of the Governing Council were treated as vehicles to advance this policy dialogue, each offering a preliminary release in a lock-up setting for media.

Meanwhile, the Bank's operations continued to run smoothly and efficiently. On the currency front, the new series of polymer notes now constitutes some 75 per cent of notes in circulation, and counterfeiting rates in the new series are extremely low. Furthermore, the durability of the new notes appears to be exceeding our original forecast. A public engagement process has been launched to help the Bank develop a recommendation to the government for a special commemorative bank note to mark the 150th anniversary of Confederation in 2017. Significant progress was also made in our research on the future of e-money.

In terms of managing government balances and the stock of government debt, perhaps the most interesting development was the issue of $3.5 billion in Government of Canada bonds at a coupon rate of 2.75 per cent, with a term to maturity of 50 years. Working to maintain a balanced market presence across the remainder of the yield curve, particularly in key benchmark issues, is proving to be a continuing challenge as the government's financing needs decline with its fiscal deficit. We also made a significant advance in the development of our internal credit risk-assessment capability.

The Bank was recognized as one of Canada's top 100 employers for the fifth year running, and we received the Central Banking Website of the Year Award.

On another front, the Bank worked with the banks and the Investment Industry Regulatory Organization of Canada to develop a code of conduct for the setting of benchmark interest rates, and to tender the role of administrator for the Canadian Dollar Offered Rate (CDOR) and CORRA, the Canadian overnight repo rate. We also worked with the People's Bank of China to create a swap arrangement that will backstop the development of direct Canadian-dollar/renminbi trading in Canada, a positive development for Canadian exporting companies.

At a corporate level, the Bank developed a long-term technology strategy in 2014. The Bank's systems are used by over 8,000 individuals, most of them in the community of financial institutions, in support of $160 billion in daily electronic transactions. A complementary cyber-security strategy was also developed, along with an extensive array of resilience and contingency plans. And, the Bank's renewal of its iconic head office complex remained on track to completion in late 2016.

All of this could only be achieved by a committed, professional and passionate staff. The Bank's triennial workforce checkup showed an extraordinary level of employee engagement, and key metrics highlighted for attention three years previously had all improved. The Bank was recognized as one of Canada's top 100 employers for the fifth year running, and we received the Central Banking Website of the Year Award. Bank employees are to be commended for maintaining their reputation for excellence, despite the challenges of temporary accommodations, along with significant turnover at the top of the house.

Indeed, 2014 saw the departure of Senior Deputy Governor Tiff Macklem, and the retirement of Deputy Governor John Murray, to both of whom the Bank of Canada owes a great deal. This situation placed a significant extra burden on our Board of Directors, who supported the creation of the new executive role of Chief Operating Officer, effectively splitting the Senior Deputy Governor role into two complementary positions, and then worked through the selection processes. Carolyn Wilkins was appointed Senior Deputy Governor; Filipe Dinis was appointed Chief Operating Officer; Deputy Governor Tim Lane moved into the international portfolio to work with Deputy Governor Agathe Côté, who retained the domestic economic portfolio; and Lynn Patterson was appointed Deputy Governor to work alongside Deputy Governor Larry Schembri on the financial side.

I wish to thank the Bank's Board members for their confidence, advice and encouragement in 2014. I thank especially Philip Deck, who extended his term and took on the role of Lead Director to oversee the appointment of our new Senior Deputy Governor and the other changes to the executive team. Along with Mr. Deck (Ontario), Leo Ledohowski (Manitoba), Richard McGaw (New Brunswick), Doug Emsley (Saskatchewan) and Brian Henley (Newfoundland and Labrador) all rotated off of the Board in 2014. They will remain Bank alumni, and we shall always be grateful to them for their service. Derek Key (Prince Edward Island) took over as Lead Director.

We welcome several new Board members: Alan Borger (Manitoba), Norman Betts (New Brunswick), Greg Stewart (Saskatchewan), Wes Scott (Ontario) and Martin Sullivan (Newfoundland and Labrador); also, we welcome Paul Rochon, Deputy Minister of Finance, to replace Michael Horgan, who retired from public service in 2014 after an extraordinary career.

All of these fine people epitomize the Bank's vision, to be a leading central bank—dynamic, engaged, and trusted—committed to a better Canada, every single day. Many thanks for a great year, everyone.

Stephen S. Poloz

Governor

2014 HIGHLIGHTS

The Bank of Canada adopted a vision statement in 2014:

OUR NOTRE VISION

A leading central bank – dynamic, engaged, and trusted – committed to a better Canada.

The *Financial System Review* was redesigned to help Canadians better understand the vulnerabilities and risks in both the domestic and international financial systems.

2%

INFLATION

Total consumer price index (CPI) inflation in Canada averaged close to the target in 2014 and inflation expectations remained well anchored at 2 per cent.

The Bank advanced understanding of key developments in the Canadian and global economies, to inform Canada's monetary policy and create a richer narrative around key policy issues.

The Bank of Canada was a key participant in the development and implementation of global financial system reforms.

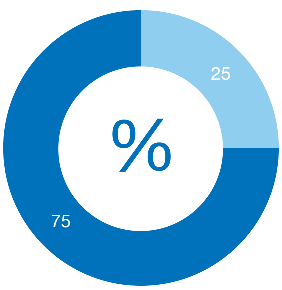
$3.5 BILLION | 50 YEARS

As fiscal agent for the Government of Canada, the Bank facilitated Canada's issue of $3.5 billion in ultra-long debt with a term to maturity of 50 years, locking in stable, low-cost funding for many years.

2014 HIGHLIGHTS

Operational Highlights

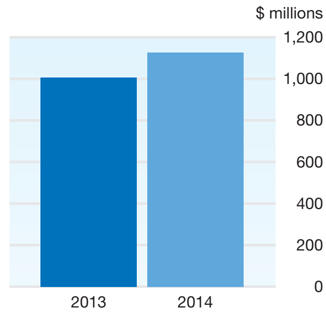
For the fifth year in a row, the Bank was recognized as one of Canada's Top 100 employers and one of the top 25 employers in the National Capital Region.



Polymer bank notes represented around 75 per cent of the bills in circulation by the end of 2014, allowing the Bank to promote efficiency and reduce costs in currency operations.

Renewed strategies were developed to provide the Bank with innovative, resilient and secure technology architecture and systems.

Financial Highlights



The Bank's net income for 2014 was $1,126.8 million, an increase of 12 per cent over the previous year. Total expenses decreased by $96.2 million, largely as a result of lower costs for the production of bank notes.

$1,025.4

MILLION SURPLUS

The Bank remitted $1,025.4 million in surplus to the Receiver General for Canada for 2014 in accordance with the requirements of the Bank of Canada Act.

+3% BALANCE SHEET

The Bank's balance sheet increased by 3 per cent in 2014, mainly related to the growth in the quantity of bank notes in circulation. This is roughly in line with the growth of nominal GDP.

TOP CENTRAL BANK WEBSITE

The Bank of Canada received an award for the top central bank website of 2014 by CentralBanking.com.[1]

1 http://www.centralbanking.com/central-banking-journal/feature/2388605/website-of-the-year-bank-of-canada

MANAGEMENT DISCUSSION AND ANALYSIS

MANDATE AND CORE FUNCTIONS

The Bank of Canada is the nation's central bank. Its mandate, as defined in the Bank of Canada Act, is "to promote the economic and financial welfare of Canada."

The Bank is committed to keeping Canadians informed about its policies, operations and activities.

The Annual Report *is the Bank of Canada's public accountability document, outlining its priorities and financial and non-financial performance each year.*

The Bank of Canada also publishes quarterly financial reports and maintains a comprehensive website to publish a variety of research papers, speeches, public reports, backgrounders and video statements to promote public understanding of its ongoing work.

The Bank of Canada's Vision

The Bank of Canada adopted the following vision statement in 2014:

"A leading central bank—dynamic, engaged, and trusted—committed to a better Canada."

The vision indicates what the Bank is trying to achieve as it pursues its legislated mandate. Shared at the Bank's first employee conference in 2014, the vision statement serves as a guide and inspiration for excellence in the development of policy and the delivery of programs and services.

Planning and Performance Framework

The Bank of Canada has a robust planning framework to implement and operationalize its mandate and vision, including a three-year medium-term plan and an annual planning and reporting process.

The medium-term plan for 2013–15, *Building on Excellence: Strength, Stability and Confidence*, outlines the Bank's high-level goals and priorities for that time period, with three strategic priorities:

- performing superior policy analytics;
- building a resilient financial system; and
- delivering excellent services.

The process to develop the next medium-term plan (2016–18) has begun and will continue in 2015.

To complement longer-term planning, all Bank of Canada departments engage in an annual planning exercise. Plans are grouped functionally by core business area, which may include one or more Bank departments.

The Bank's four core areas of responsibility are:

MONETARY POLICY	FINANCIAL SYSTEM	CURRENCY	FUNDS MANAGEMENT
The objective of monetary policy is to preserve the value of money by keeping inflation low, stable and predictable.	The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.	The Bank designs, issues and distributes Canada's bank notes, oversees the note distribution system, and ensures a supply of quality bank notes that are readily accepted and secure against counterfeiting.	The Bank provides funds-management services for the Government of Canada, the Bank itself and other clients. For the government, the Bank provides treasury management services and manages the government's public debt programs and foreign exchange reserves.

Monetary Policy

The objective of monetary policy is to preserve the value of money by keeping inflation low, stable and predictable. This allows Canadians to make spending and investment decisions with more confidence, encourages longer-term investment in Canada's economy, and contributes to sustained job creation and productivity growth.

At the heart of Canada's monetary policy framework is the 2 per cent inflation-control target, which is the midpoint of a 1 to 3 per cent target range. Introduced in 1991, the target is set jointly by the Bank of Canada and the federal government and reviewed every five years. The inflation target is symmetrical: the Bank is equally concerned about inflation rising above or falling below the target.

The conduct of monetary policy is the responsibility of the Bank's Governing Council. Their decisions regarding monetary policy are made within a flexible inflation-targeting framework. Since monetary policy affects the economy with a lag, decisions must be forward looking and, therefore, rely upon analysis and forecasts by Bank staff as well as on other insights from external sources. Given that Canada is an open economy that trades with the rest of the world and maintains a floating exchange rate regime, global forces are an important consideration when the Bank of Canada conducts monetary policy.

The recovery in the global economy paused in 2014. Despite exceptional monetary policy stimulus and accommodative global financial conditions, global economic growth continued to be held back by headwinds, including the need for further public and private sector deleveraging and reduced confidence in growth prospects that dampened investment spending.

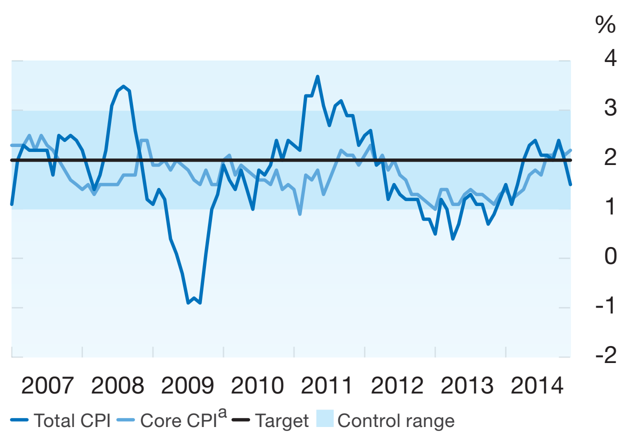
Disappointing growth was widespread across regions, but those economies that had taken the most aggressive and sustained policy actions in response to the global financial crisis fared the best as the year progressed. This was most notable in the United States where, on the back of strengthening activity, the U.S. Federal Reserve ended its asset-purchase program in October. World oil prices fell sharply in the latter part of the year, owing largely to substantial increases in supply, particularly from U.S. shale oil, and in the context of weak growth in global demand.

Real GDP growth in Canada picked up during 2014, to a rate above the estimated growth of potential economic output. Signs of a rotation of demand away from household spending toward business investment and exports also became evident. Exports began gaining traction, in line with the growing momentum in the U.S. economy and a lower Canadian dollar, and, in the second half of the year, business investment also began to pick up. Household spending remained robust, in part because of ongoing low interest rates, and still represents more than its long-run sustainable share of growth. The strength of household spending was associated with further sizable increases in house prices and additional upward pressures on household debt-to-income ratios.

Both core and total CPI inflation rose during 2014, to rates close to the 2 per cent target, compared with near 1 per cent in 2013 (**Chart 1**). A significant portion of the

Chart 1: Total CPI and core inflation rose to about 2 per cent in the fourth quarter of 2014

Year-over-year percentage change, monthly data



a. Consumer price index excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Source: Statistics Canada

rise in inflation since the beginning of 2014 reflected the temporary effects of exchange rate pass-through and sector-specific factors.[2] The Bank continued to judge that the underlying rate of inflation remained below the 2 per cent target, given the persistent slack in the economy and the continued effects of competition in the retail sector.

In its monetary policy decisions, the Bank considered a range of important risks to its inflation outlook. With underlying inflation expected to remain below target for some time, the downside risks to inflation remained important. These included the risk that growth in emerging-market economies, and in the global economy more generally, could be lower than expected; or that Canadian exports could disappoint, possibly reflecting more intense competitive pressures or an inability to respond rapidly to increases in foreign demand.

In its monetary policy decisions, the Bank considered a range of important risks to its inflation outlook.

In the last quarter of 2014, the marked decline in global oil prices presented another significant downside risk to the Canadian economy. An important risk on the upside was the possibility of a more robust recovery in the United States. Finally, a key two-sided risk was the possibility of greater-than-expected strength in housing and consumption, which would boost Canadian economic growth while increasing the likelihood and potential severity of a correction later on.

Weighing all of these considerations within its risk-management framework, the Bank judged that the risks to its inflation projection were roughly balanced over the course of 2014, while the financial stability risks associated with household imbalances edged higher by December. Overall, the balance of risks fell within the zone for which the current stance of monetary policy was appropriate, and therefore the target for the overnight rate remained at 1 per cent throughout 2014. Detailed economic analysis and an explanation of the Bank's monetary policy decisions are provided in the quarterly *Monetary Policy Report*.

Achievements in 2014

The Bank accomplished several key goals in the area of monetary policy in 2014:

- Steps were taken to improve the Bank's communications with the Canadian public. In particular, in an effort to convey the uncertainty associated with analyzing the Canadian economy, growth and inflation forecasts were published in the form of ranges rather than points, and more emphasis was accorded to uncertainty and risks in the *Monetary Policy Report* (MPR).
- The Bank reassessed the role of forward guidance—that is, a specific indication in the Bank's monetary policy communications regarding the probable future path of policy interest rates. Since there are costs as well as benefits to using this tool, the Governing Council decided that forward guidance will be reserved for times when the benefits to its use are clear, such as periods of market stress or when traditional monetary policy tools are constrained.
- Important economic issues and developments were identified and analyzed in a timely and rigorous manner, including global and Canadian inflation dynamics, Canadian export performance, slow global trade, labour and housing market developments, a reassessment of the neutral rate of interest, potential output and the risk of secular stagnation, and the downside risks to oil prices. Some innovative approaches were used in this analysis.
- Extensive research was produced on a wide range of issues related to monetary policy in Canada and abroad, as well as on commodities and inflation.

2 The depreciation of the Canadian dollar appears to have added about 0.1 to 0.3 percentage points to core inflation in the latter part of 2014. Since some of the key volatile components excluded from the core measure are more sensitive to exchange rate movements, the pass-through to total CPI inflation is estimated to be larger, at about 0.3 to 0.5 percentage points.

Looking Forward

The inflation-control agreement with the federal government is renewed every five years, and the next renewal is scheduled for 2016. Between renewals, as part of its commitment to good governance, the Bank rigorously reviews the framework by monitoring the experiences of other central banks, keeping abreast of the academic literature, evaluating the track record on inflation and questioning the assumptions underpinning the agreement. Three key issues have been established as research priorities for the 2016 renewal (see Côté 2014):

- analyze the costs and benefits of adjusting the inflation target in light of the post-recession experience with the zero lower bound on nominal interest rates, and evidence that the neutral rate has declined;
- evaluate financial stability considerations in the formulation of monetary policy; and
- re-examine the properties of alternative measures of core inflation to determine whether the Bank should continue its practice of identifying one pre-eminent measure of core inflation as its operational guide, and, if so, whether CPIX[3] should continue to play that role.

The Bank will also work on improving estimates of economic slack in the Canadian economy, with particular emphasis on the labour market, and on gaining a better understanding of the links between slack and underlying inflation pressures. As well, Bank staff will continue to improve their understanding of household imbalances and the Canadian housing market, including the drivers of housing activity and house prices and their implications for household credit.

Internationally, the emphasis will be on deepening the understanding of the structural changes under way in the global and Canadian economies. This will include analyzing ongoing developments in emerging-market economies, as well as global trade and commodity prices and their implications for Canada's terms of trade and exports.

More Information

Côté, A. 2014. "Inflation Targeting in the Post-Crisis Era." Remarks to the Calgary CFA Society, 18 November 2014. Available at http://www.bankofcanada.ca/2014/11/inflation-targeting-post-crisis-era/.

Poloz, S. S. 2014. "Integrating Uncertainty and Monetary Policy-Making: A Practitioner's Perspective." Bank of Canada Discussion Paper No. 2014-6, October. Available at http://www.bankofcanada.ca/2014/10/discussion-paper-2014-6.

The quarterly *Monetary Policy Report* presents the Bank's base-case projection for inflation and growth in the Canadian economy, and its assessment of risks. Available at http://www.bankofcanada.ca/publications/mpr/.

3 When the inflation targets were renewed in 2001, the Bank adopted a new measure of core inflation, CPIX, to replace CPI excluding food and energy. This measure excludes eight of the most volatile components of the CPI and adjusts the remaining components for the effect of changes in indirect taxes.

Bank of Canada Fellowship Program

Professor Thomas Lemieux, winner of the 2014 Fellowship Award, gives a presentation to Bank of Canada staff at the Fellowship Learning Exchange.

The Bank of Canada's Fellowship Program encourages leading-edge research in subjects critical to the Bank's mandate, and allows the Bank to develop close working relationships and partnerships with Canadian researchers and other external experts.

Two major awards are presented each year: the Fellowship Award provides financial support to a leading academic researcher and the Governor's Award is given to exceptional assistant and associate professors with the potential to do exemplary work in fields related to the Bank's core functions.

The recipient of the 2014 Fellowship Award was Professor Thomas Lemieux of the University of British Columbia's Vancouver School of Economics. His work focuses on the study of regional variations within countries to answer a number of important questions on unemployment and the evolution of wage inequality.

The Governor's Award for 2014 was presented to Professor Amy Hongfei Sun of Queen's University. Her macroeconomic research focuses on monetary policy, asset pricing and wealth distribution.

An important part of the Fellowship Program is the annual Fellowship Learning Exchange in Ottawa. The three-day event builds working relationships among and between researchers, management and the recipients of Bank awards. Bank employees have the opportunity to meet with the award recipients to discuss and share information about important areas of study.

More information is available at http://www.bankofcanada.ca/research/fellowship-program/.

Financial System

The Bank of Canada promotes the safe and efficient operation of the Canadian and global financial systems that allow Canadian consumers and firms to purchase goods and services and to make financial transactions and investments. The Bank works with market participants, federal and provincial agencies, and other central banks and international organizations to achieve these goals. An effective and resilient global financial system is crucial to the long-run stability and growth of the Canadian economy.

One important way the Bank fulfills this responsibility is by identifying and assessing important underlying financial vulnerabilities, as well as key and emerging risks to the stability of Canada's financial system, and communicating this analysis to Canadians through the twice-yearly publication of its *Financial System Review*. The Bank also provides policy advice to the federal government on issues pertaining to the domestic and international financial sectors and works with other agencies and with counterpart organizations abroad to monitor and respond to emerging financial risks in Canada and globally.

The Bank has specific oversight responsibilities for financial market infrastructures (FMIs) that are designated as being systemically important for Canada. Those systems facilitate the clearing, settlement or recording of payments, securities, derivatives or other financial transactions among participating entities.[4] The Bank works with other regulatory authorities to ensure that systemically important FMIs operate in a way that controls risk and promotes efficiency and stability in the Canadian financial system.

To facilitate the smooth operation of Canadian payment systems, the Bank of Canada acts as settlement agent, or "banker," for members of the Canadian Payments Association (CPA) that are direct participants in the Large Value Transfer System (LVTS), Canada's main payment system. The Bank offers an overnight collateralized lending facility to participants experiencing a temporary shortfall at the end of the day, and provides intraday liquidity to promote the finality of transfers throughout the day.

In addition to this standing provision of liquidity to support the LVTS, the Bank of Canada is also the lender of last resort to Canadian financial institutions in times of stress. Through Emergency Lending Assistance (ELA), the Bank may provide liquidity to deposit-taking financial institutions facing severe and persistent liquidity pressures, and it also has a range of extraordinary liquidity facilities at its disposal to provide market-wide liquidity when needed to deal with important shocks.

The Bank has specific oversight responsibilities for financial market infrastructures (FMIs) that are designated as being systemically important for Canada.

Far-reaching and ongoing international reforms have made the global financial system stronger and more resilient than it was before the financial crisis. Banks are substantially better capitalized and in a stronger position to deal with unexpected adverse shocks than they were a few years ago. Significant progress has been made in making important financial markets more resilient, notably through the increased use of financial market infrastructures in over-the-counter derivatives markets. Reforms have also begun to tackle risks in the shadow banking system that were a source of stress during the global financial crisis. The development of minimum global policy standards is largely complete and focus is switching to national implementation. Reflecting all of this progress, the Financial Stability Board (FSB) Chair declared in November that the job of agreeing to the measures to fix the fault lines that caused the financial crisis is substantially complete.

4 Under the Payment Clearing and Settlement Act (PCSA), the Bank is responsible for the regulatory oversight of major clearing and settlement systems, including the Large Value Transfer System, the Canadian Depository for Securities Limited, the Continuous Linked Settlement (CLS) Bank, the Canadian Derivatives Clearing Service and SwapClear.

National implementation of these measures in Canada is under way. The FSB recently provided a progress report on implementation in key areas, by individual member jurisdictions. Canada's scorecard indicates high marks for the implementation of the Basel III capital requirements, standards for compensation practices by banks, and the implementation of recovery and resolution plans for domestic systemically important banks. Canadian authorities, including the Bank, have also taken important steps toward the development of credible regimes to resolve failing financial institutions in an orderly manner. Canada has also promoted an increased use of central clearing for repo transactions, helping to make this core funding market more resilient.

Exceptional monetary policy in many advanced economies, including Canada, helped drive equity indexes to, or close to, all-time highs in 2014 and reduced risk premiums and volatility across a range of asset markets and a general search for higher yield.

Very low interest rates, while needed to stimulate economic growth, also encouraged more borrowing and increased investor risk taking, contributing to a buildup of financial system vulnerabilities. Canada continued to experience elevated levels of household indebtedness and rising prices in key housing markets.

Achievements in 2014

To sharpen its assessment of these and other financial system vulnerabilities, the Bank developed an enhanced analytical framework in 2014 to assess the probability and potential impact of the main financial stability risks facing Canada. The Governor raised the level of public discussion of these issues in 2014 by giving greater prominence to the publication of the *Financial System Review*, with an accompanying news release and press conference.

Significant progress was made in 2014 on planned improvements to the regulations and policies underpinning Canada's financial system, already considered one of the most robust systems in the world. Efforts were focused on reducing systemic risk and increasing the resilience of financial institutions and important components of Canada's market infrastructures.

Work continued on comprehensive reviews of the Bank of Canada's liquidity provision framework and of its framework for market operations. These included reviews of the Bank's Emergency Lending Assistance and market-wide liquidity facilities to respond to the evolution of the financial system and lessons learned from the financial crisis, both in Canada and in other jurisdictions. In line with the Government of Canada's broad objective of clarifying federal and provincial roles and responsibilities related to provincially regulated financial institutions, the Bank reviewed the conditions under which these financial institutions would be eligible for ELA.

An amendment to the Bank of Canada Act was proposed in 2014 to enshrine in legislation the requirement for provinces to indemnify the Bank of Canada against potential residual losses in instances when the Bank provides ELA to provincially regulated credit unions and caisses populaires. The Bank met with provincial authorities and credit unions/centrals to discuss the proposed amendment and its implementation.

The Bank made progress in several other areas of its financial system responsibilities in 2014, including financial benchmarks, over-the-counter derivatives, liquidity regulation, capitalization of the trading book for banks, and shadow banking. These contributions relate to the G-20 agenda for financial regulatory reform, highlighted in the Global Engagement section of this *Annual Report*.

The Bank collaborated with other agencies to review Canada's national payment systems, which resulted in the Bank becoming responsible for prominent payment systems. While problems in these systems would not cause systemic risk, they are still considered essential to the smooth operation of the national economy. The Bank worked with the Department of Finance to draft the recommended changes to the Payment Clearing and Settlement Act.

The Bank also drafted guidance for the implementation of the Principles for Financial Market Infrastructures (PFMIs)[5] in Canada. Following input from the securities commissions, the guidance was sent out for public consultation on 27 November 2014.[6]

5 The Principles for Financial Market Infrastructures are part of a set of 12 key standards that the international community considers essential to strengthen and preserve financial stability. The PFMIs were issued in April 2012 by the Committee on Payment and Settlement Systems-International Organization of Securities Commissions. Jurisdictions around the world are in the process of implementation.

6 See http://www.bankofcanada.ca/2014/11/public-consultation-policy-guidance-bank-canada-risk-management/.

Governor Stephen S. Poloz and Senior Deputy Governor Carolyn Wilkins at the first press conference to discuss the Financial System Review*, June 2014.*

Looking Forward

The Bank will implement recommendations from an ongoing review of its financial market operations. This may include changes to the management of the Bank's balance sheet and to its regular and emergency liquidity operations, as well as updated policies on its role as lender of last resort via ELA.

Working with provincial and federal agencies, the Bank will develop a framework for the resolution of designated FMIs.

The Bank will provide support to the Canadian Payments Association on the research and analysis needed to develop the next generation of core payment systems in Canada.

In co-operation with other Canadian financial authorities, including the Department of Finance, the Office of the Superintendent of Financial Institutions, and the Canada Deposit and Insurance Corporation, the Bank will undertake domestic work related to measures agreed to by the G-20 and the Financial Stability Board in the areas of resolution of global systemically important FMIs, over-the-counter derivatives, financial benchmarks and shadow banking. It will also continue to promote increased use of central counterparties in repo transactions.

More Information

The Bank communicates its assessments of financial system risk in its semi-annual ***Financial System Review***. Available at http://www.bankofcanada.ca/2014/12/fsr-december-2014/.

The quarterly ***Business Outlook Survey*** summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms. Available at http://www.bankofcanada.ca/publications/bos/.

The ***Senior Loan Officer Survey*** collects information on the business-lending practices of Canadian financial institutions. Available at http://www.bankofcanada.ca/publications/slos/.

The Bank publishes a variety of technical reports, discussion papers, and working papers on the financial system, authored by the Bank's research economists, as well as speeches and research papers published by members of the Governing Council, including:

Schembri, L. 2014. "Double Coincidence of Needs: Pension Funds and Financial Stability," available at http://www.bankofcanada.ca/2014/06/dual-vision-canadian-payments-system/;

Schembri, L. 2014. "A Dual Vision for the Canadian Payments System," available at http://www.bankofcanada.ca/2014/05/double-coincidence-needs-pension-funds/; and

Schembri, L. 2014. "Housing Finance in Canada: Looking Back to Move Forward," available at http://www.bankofcanada.ca/2014/11/article-lawrence-schembri-04-november-2014/.

Currency

The Bank of Canada is responsible for supplying Canadians with bank notes they can use with confidence. The Bank oversees the complete life cycle of a bank note, including the design, development, production, distribution and post-issue support for Canada's bank note supply. The goal is to ensure that bank notes in circulation are secure against counterfeiting, meet a high standard of quality and are available in sufficient supply.

Regular consultations with stakeholders in law enforcement, retail, and banking, and with the public at large, enable the Bank to ensure that bank notes meet the needs of Canadians. These external consultations also provide valuable information on the manner in which bank notes are being used.

To deter the counterfeiting of Canadian currency, the Bank collaborates with law-enforcement agencies and conducts educational activities to increase the routine verification of bank notes by retailers and the public. The Bank's goal is to achieve a level of fewer than 30 counterfeit notes for every 1 million genuine notes in circulation (30 ppm).[7]

The Bank undertakes a broad spectrum of research in such areas as bank note security and design; the quality and performance of notes in circulation; the use of cash and the future of bank notes; and the potential role of the central bank in policy, oversight, regulation and issuance of e-money. These research activities support initiatives related to the future development of bank notes and contribute to strategic decision making and direction setting for the Currency function.

The Bank participates in international working groups and collaborates with research institutes and other central banks to pool knowledge, share opinions and resources, exchange best practices and contribute to the evolution of research in currency-related fields.

7 Bank note counterfeiting numbers are expressed as the number of counterfeits identified for every 1 million genuine notes in circulation. If there are 30 counterfeit notes for 1 million genuine notes in circulation, the rate is expressed as 30 parts per million (ppm).

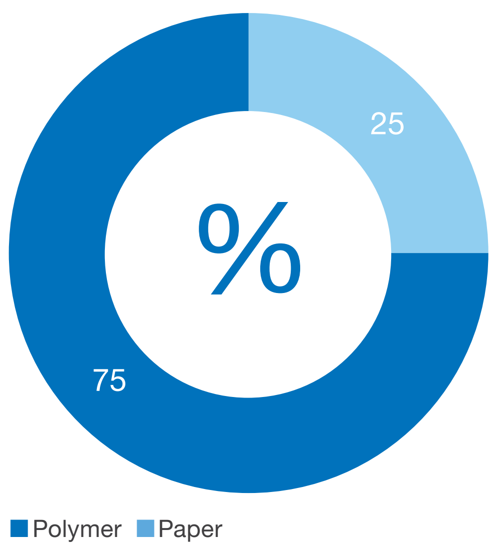
Achievements in 2014

The transition from paper to polymer bank notes in Canada continued in 2014. At year-end, polymer notes represented about 75 per cent of all notes in circulation, an increase from 51 per cent at the end of 2013. This figure is projected to reach 85 per cent by the end of 2015.

The Bank continued to see benefits from the adoption of the "greener" *Polymer* series, with polymer notes trending toward a circulation lifespan that is more than 2.5 times that of paper bank notes. Since polymer notes last longer and can be recycled, they have less environmental impact than paper notes and represent a reduced cost to Canadians. The new series of polymer bank notes incorporates leading-edge security features that are easy to verify and difficult to counterfeit.

Polymer vs Paper Bank Notes in Circulation

31 December 2014



Note: Approximately 1.8 billion bank notes ($5 to $100) were in circulation at 31 December 2014.

The overall quality of bank notes in circulation remained high in 2014, and all bank note delivery targets were achieved. Bank note inventories across the distribution system were managed efficiently, providing both a good contingency note reserve across all denominations and allowing the Bank to accelerate the withdrawal of paper notes.

Research and development on bank note security in 2014 were aimed at building a contingency bank note design to counter any serious upturn in counterfeiting; developing a plan for future bank note series; and developing new bank note technologies in a research consortium that included the National Research Council and participants from both the public and private sectors.

The introduction of the *Polymer* series also created opportunities for the Bank to find efficiencies in its currency operations, benefiting both the Bank and its financial institution partners. The Bank has also been working to streamline the supply chain for the distribution of bank notes.

In 2014, the Bank completed and published a review of its bank note design process, fulfilling a commitment it had made to Canadians in 2013. This review recognized that, to ensure that bank notes have broad appeal and reflect the national character of Canada, the Bank must consult more openly and with a larger number of Canadians on the development of visual content for new bank note series, including theme, subject matter and images.

The Bank also began consultations with the public to identify themes and images for the commemorative bank note planned for 2017 to mark the anniversary of Canada's first 150 years.

Bank of Canada offices in Vancouver, Calgary, Toronto, Montréal and Halifax were key contributors to the Bank's confidence objectives, liaising with and delivering currency education programs to law-enforcement personnel, financial institutions and retailers. The Bank's partnership in the Bank Note Distribution System ensured that high-quality notes were available to Canadians in all regions.

Looking Forward

The Bank will:

- continue work on the 2017 commemorative note project, specifically to decide on the visual content of the note design and initiate the production process;
- continue research on the future of bank notes and on issues of policy, regulation and oversight as they apply to e-money;
- undertake a formal review of Canada's Bank Note Distribution System, and continue development of an innovative data and tracking system to better evaluate the quality of bank notes in circulation; and
- develop, sustain and nurture partnerships in counterfeiting deterrence with law-enforcement and other agencies.

Celebrating Canada's 150th Birthday

In 2014, the Government of Canada announced that a commemorative bank note will be issued in 2017 to celebrate the 150th anniversary of Confederation.

The Bank of Canada invited Canadians to propose ideas and images that would best represent Canada's 150th birthday on a bank note.

The Bank collected input from thousands of Canadians through its website, a national survey, and other consultations with stakeholders and subject matter experts. Results of these broad consultations will be shared with the public.

The Minister of Finance will make the final choice on the design of the commemorative bank note.

Since it was founded, the Bank of Canada has issued two commemorative bank notes: a special $1 note to celebrate Canada's 100th anniversary in 1967 and a $25 note in 1935 honouring the Silver Jubilee of King George V.

Funds Management

As the Government of Canada's fiscal agent and banker, the Bank of Canada is focused on providing effective and efficient banking and other funds-management services within a strong and resilient risk-management framework. The Bank administers and advises on the federal government's debt and reserves and, in co-operation with the Department of Finance, develops policies and programs for managing Canada's borrowing and investment activities.

The Bank manages the government's domestic cash balances, conducts auctions for domestic debt, and manages the assets of the Exchange Fund Account, Canada's foreign exchange reserves.[8]

Cash balances for the federal government and Canadian financial institutions averaged approximately $32 billion in 2014.

The market value of liquid reserves held in the EFA was US$62.7 billion as at 31 January 2014 and is invested in securities denominated in U.S. dollars, euros, Japanese yen and pound sterling.[9]

Approximately $95 billion in Government of Canada marketable bonds and $307 billion in treasury bills will be issued over the 2014/2015 fiscal year. The total stock of market debt is projected to be roughly $650 billion at the end of fiscal year 2014/2015.

The Bank also manages the risks associated with its own balance sheet, and acts as administrator of the Bank of Canada Pension Plan, which includes managing the assets of the Pension Trust Fund.

In addition, the Bank undertakes banking activities on behalf of other central banks and international organizations, and provides banking services to financial institutions and designated payment clearing and settlement systems.

Finally, the Bank of Canada acts, on behalf of the owner, as the custodian of unclaimed balances. These are Canadian-dollar deposits or negotiable instruments held by federally regulated banks or trust companies where there has been no activity for a period of 10 years.

8 Note that the assets of the Exchange Fund Account are those of the government and do not appear on the balance sheet of the Bank of Canada.

9 More information on the Exchange Fund Account can be found at http://www.fin.gc.ca/purl/efa-eng.asp.

Achievements in 2014

The Bank continued in 2014 to maintain its high standard of operational excellence in funds management, with payment system availability of 99.96 per cent. Operational infrastructure was further strengthened through the completion of a number of major initiatives to improve systems.

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The Bank of Canada has made significant progress in reducing its reliance on external credit-rating agencies by developing and implementing internal capacity to perform its own credit assessments. This follows a 2010 recommendation by the Financial Stability Board that all banks should reach their own credit judgments on the financial instruments that they will accept in market operations, both as collateral and as outright purchases. Reducing mechanistic reliance on the ratings of external credit-rating agencies is seen as a way to promote stability in the system.

Significant advances were made in the management of Canada's foreign exchange reserves. The Bank adopted a strategic benchmark for the Exchange Fund Account, based on the Bank's internal credit ratings, which will guide decisions on asset allocation and performance measurement.

The Bank also finalized a new margining and collateral policy for the cross-currency swap portfolio. While the Bank will incur some initial and ongoing costs to implement the new policy, it is expected to reduce risk and lower the government's funding costs by $25 million to $30 million per year once fully implemented. In support of this initiative, the Bank will incur project-related and ongoing operations costs.

Canada issued $3.5 billion in ultra-long debt with a term to maturity of 50 years, locking in stable, low-cost funding for an extended term. In addition, terms of the morning auction for Receiver General cash balances were revised, moving deposits with financial institutions to a fully collateralized basis, thus reducing credit risk for the government.

Looking Forward

The Bank will continue its work to improve operational excellence in funds management in 2015. Revisions are planned to the Banking Operations service model and road map, which will clarify the framework for services offered to clients. The Bank will also continue to invest in updated technology to improve the functionality and resilience of Canada's financial, risk-management, banking and markets systems.

Research will proceed in the areas of funds management and banking operations and will include joint activities with other agencies, such as a study with the Canadian Payments Association on the next generation of payment systems.

More Information

More information on funds management at the Bank of Canada can be found at http://www.bankofcanada.ca/core-functions/funds-management/.

Research and related publications: http://www.bankofcanada.ca/research/browse/?topic%5B%5D=186&topic%5B%5D=773

Information on unclaimed balances, including how to claim them, is available at http://www.bankofcanada.ca/unclaimed-balances/.

MANAGING THE BANK OF CANADA

The Bank of Canada places a high priority on operational excellence as an integral part of its vision to be a "leading central Bank—dynamic, engaged, and trusted—committed to a better Canada." The Bank aims to ensure that Canadians, as well as its international partners, can rely on its efficient, cost-effective, and innovative programs and services.

At the Bank's first employee conference, which took place in May 2014, Governor Poloz introduced the Bank of Canada's vision statement: "A leading central bank—dynamic, engaged, and trusted—committed to a better Canada."

The Bank's corporate administration departments are essential to the delivery of the Bank's mandate. They provide a wide range of programs and services to support the Bank's management of its people, operations and strategic initiatives, as well as the stewardship of its physical, information and technology assets.

They also manage significant centralized Bank-wide costs, such as leases, taxes, utilities, recruitment and training, information and data purchases, technology and licences, as well as maintenance and support contracts.

The Bank's governance structure was modified in 2014 to include a new Executive Council and a Senior Management Council, to enhance management oversight of Bank operations and ensure ongoing alignment of corporate administration resources with those of the Bank's core business functions.

A Chief Operating Officer position was added to oversee the Corporate Administration function and operational planning; the COO is a member of the Executive Council. In addition, the accountabilities of key operational committees reporting to the Senior Management Council were clarified. These include Head Office Oversight, Project Review, Security, Human Resources, Finance and Contracts, and Risk Oversight.

Our People

The Bank of Canada employed approximately 1,600 people across Canada in 2014.[10] Nearly 90 per cent of all employees were based in Ottawa, with the remaining staff located in offices and operations centres in Halifax, Montréal, Toronto, Calgary, Vancouver and New York City.

The staff complement includes economists and financial system specialists, as well as individuals in a variety of other professions who guide and deliver essential support, such as information technology, financial services, audit, communications, security, knowledge and information, data and statistics, legal services, and human resources.

The Bank of Canada's recruitment efforts are focused on attracting the best talent in the fields of expertise required by the Bank. The recruitment framework is designed to ensure an appropriate balance of external recruiting and internal staffing to support and deliver on the Bank's mandate and strategic objectives.

The Bank uses various methods in its hiring practices, including general recruitment, university recruitment, and MA and PhD internship programs, and by hiring co-op and summer students. The annual University Recruitment Campaign targets graduates of university programs in economics and finance at the bachelor's, master's and doctoral levels. These graduates fill positions as research assistants, economists/analysts and senior analysts, respectively.

The Bank promotes employee engagement through the creation of a superior work environment.

In 2014, for the fifth consecutive year, the Bank was recognized as one of Canada's Top 100 employers, and one of the top 25 employers in the National Capital Region.

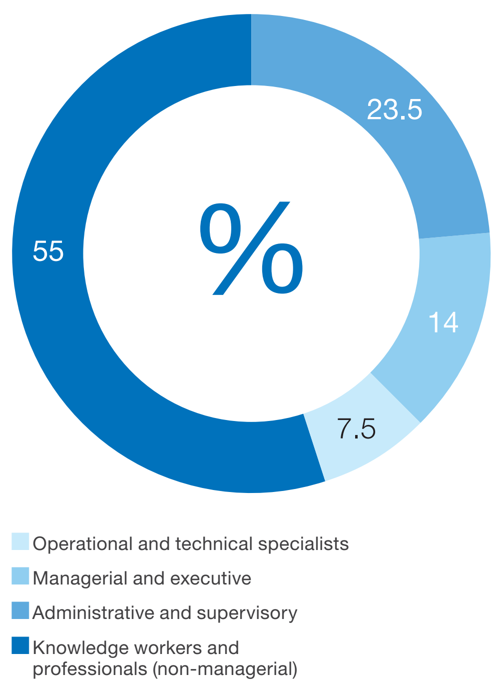
The Bank's first employee conference was held in May 2014, with the participation of 1,150 staff from every department and division of the Bank. The Governor presented the Bank's new vision statement to employees at the conference

The Bank's inaugural Awards of Excellence were presented in 2014 to recognize individual employees and teams demonstrating outstanding contributions to corporate objectives. A total of 56 employees were honoured for their work in the categories of innovation, work environment and collaboration.

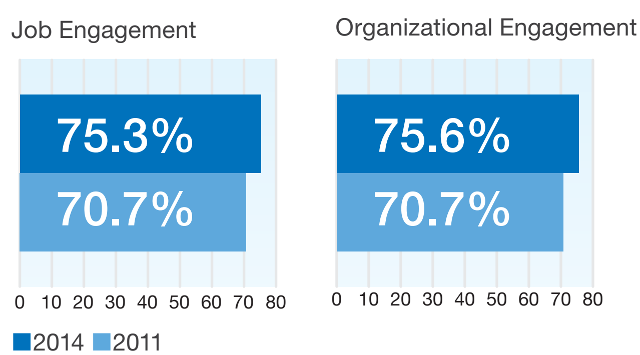
The Bank regularly assesses job and organizational engagement—employees' perceived relationship to their work and with their organization—through a triennial Corporate Work Environment Check Up (WECU) survey. Eighty-seven per cent of employees participated in the most recent survey, completed in 2014. The results were very good, with the scores for overall engagement increasing by 5 per cent compared with the 2011 survey, and exceeding the target of 70 per cent.

Composition of Bank Staff, by Role

As of December 2014



WECU Survey Outcomes



10 Staff numbers include employees in both regular and temporary positions.

Leadership development was a focus for the Bank in 2014, with just over 50 leaders and managers participating in training sessions. The Bank has a comprehensive succession-planning process in place, recognizing the importance of continuity of leadership for all programs and services. Employees also have access to a variety of professional development opportunities, including job rotations, lateral moves and temporary assignments within the Bank, as well as secondments, external training and education.

The Bank of Canada devotes considerable effort to providing staff with the information and the tools needed to do their jobs and feel welcome in the workplace. Clear, open communications with Bank employees are a priority.

A number of communications vehicles are used to meet the needs of employees. The Bank's employee website —*Banque Centrale*— is updated daily with practical information and news of interest to employees. The Bank also publishes a quarterly employee magazine, *Bank Notes*, which highlights exceptional and interesting work by Bank staff.

Significant improvements were made in 2014 to modernize and enhance the Bank's Human Resources processes, including the use of new electronic tools for recruitment, staffing and human resource case management.

Renewing the Bank's Head Office

The Bank of Canada is renewing its head office complex at 234 Wellington Street with a clear commitment to preserving the architectural heritage and integrity of the original buildings, while exercising sound stewardship of public funds.

A resilient work facility is critical for the Bank to continue to fulfill its mandate to promote the economic and financial welfare of Canada. The head office complex was in need of extensive renovation to meet modern health, safety and structural standards and to satisfy the Bank's evolving security and business requirements.

The Bank will modernize the space in a way that enhances its best features and remains true to the architects' original vision, while ensuring that it will be a safe, comfortable and productive place to work for decades to come. The project is an opportunity to make the complex more energy-efficient, cost-effective and environmentally sustainable.

The Bank continues to consult with stakeholders interested in the Head Office Renewal Program, including the National Capital Commission and the City of Ottawa. The Bank and its architects met with heritage groups and outside architects in 2014 to solicit views on maintaining the architectural heritage of the building, with the goal of respecting the intent of the architect, Arthur Erickson, who designed the modern towers.

The estimated cost of the construction is $460 million. A committee of senior Bank staff oversees the project, and it is also closely monitored by the Board of Directors. The goals and details related to the project can be found on the Bank's website at http://www.bankofcanada.ca/about/head-office-renewal/.

In 2014, demolition work was completed and construction began. Work progressed well through the year and remains on schedule. Plans for shared spaces were completed, and workspace design was initiated. Both management and staff are involved in the process to ensure that design and technology are appropriate to staff activities and collaborative work styles. Design work will be completed in 2015.

The Bank is anticipating significant capital outlays in 2015 as construction proceeds, with the main focus on mechanical, electrical and structural work. Construction is anticipated to be completed by the end of 2016.

The program remains on schedule, with employee moves to the renewed facility scheduled to start early in 2017.

On next page: *Design and construction of the renewed Bank of Canada buildings proceeded on schedule in 2014. Shown is an architect's rendering of the East Plaza, to be completed in 2017.*

Operating Infrastructure

The rapid pace of change in technology, along with constantly evolving business needs, requires ongoing improvement in the Bank's operating infrastructure.

Technology plays a vital role in any modern workplace, and is an integral part of business success at the Bank of Canada. The Bank maintains the backbone and critical systems that support everything from macroeconomic policy analysis to daily national and international financial transactions, serving approximately 8,500 internal and external users.

The Bank developed a renewed information technology (IT) strategy in 2014, to be implemented over the next four years. The strategy focuses on the provision of innovative, resilient and secure technology architecture and systems to business areas, supported by updated policies and governance.

The IT strategy will complement the Head Office Renewal Program. The new facility will allow for the improved integration of systems to support a more flexible workplace. Employees will be able to adjust work methods as tasks and circumstances dictate; share knowledge in more productive ways; and capture, store and distribute information that is important to the Bank.

The complexity and interdependent nature of networks and other Bank systems makes cyber attacks an increasing risk. In 2014, the Bank assessed its preparedness to detect and respond to cyber risks, and developed a coordinated and consolidated approach to security threats, risk assessment and policy development.

The Bank has been active in the development of key security linkages with Canadian financial institutions and government agencies, with the goal of enhancing the resilience of the financial sector more broadly. In November 2014, the Bank led an exercise that brought together financial sector participants to test escalation procedures, strategic decision making and information flow within the context of a large-scale cyber event. Discussions have also continued with external electricity and telecom providers to share information on potential financial sector vulnerabilities.

COMMUNICATIONS AND ACCOUNTABILITY

Effective communication is essential to achieving the Bank's mandate to promote the economic and financial welfare of Canada. It provides the transparency needed to be accountable and understandable to the Canadian public. Further, by providing information about its policies and track record in meeting objectives, the Bank helps Canadians make financial decisions with confidence.

At the Bank of Canada, communications go in both directions. Listening to individuals and businesses enriches the Bank's understanding of the Canadian economy, which in turn helps it to develop and implement effective policy.

Communicating Bank of Canada Policy

A number of changes were made in 2014 to provide greater transparency around the Bank's policy decision making.

Eight times a year, the Bank announces its decision on the setting of its key policy interest rate. To provide context for the policy decisions, the announcements explain the Bank's analysis of the significant forces at play in the economy and the risks to the inflation outlook. More extensive analysis, including forecasts for growth and inflation, is published in the Bank's quarterly *Monetary Policy Report* (MPR), released simultaneously with four of the policy rate announcements. To communicate the uncertainty associated with analyzing the Canadian economy, the growth and inflation forecasts now appear as ranges rather than as point estimates. With more emphasis accorded to uncertainty and risks, the Bank has refined its risk management approach to monetary policy.[11]

The Bank also reassessed the role of forward guidance—that is, the Bank's specific indication of the probable future path of policy interest rates. There are costs as well as benefits to using forward guidance; consequently, the Governing Council decided that this tool will be reserved for times when the benefits of its use outweigh the costs, such as periods of market stress or when traditional monetary policy tools are constrained.

Finally, the structure of the *Financial System Review* (FSR) was revised to better articulate Canada's financial vulnerabilities and risks, and the publication was given a higher profile in 2014. Similar to the program for the publication of the MPR, the FSR is now accompanied by a press release and is followed by a news conference, led by the Governor and Senior Deputy Governor.[12]

11 Refer to Monetary Policy section, page 13.

12 Refer to Financial System section, page 17.

Speaking Engagements and Meetings

The Bank communicates with Canadians through speeches delivered across Canada and internationally, parliamentary appearances, press conferences and media interviews. In 2014, members of Governing Council delivered 17 public speeches.

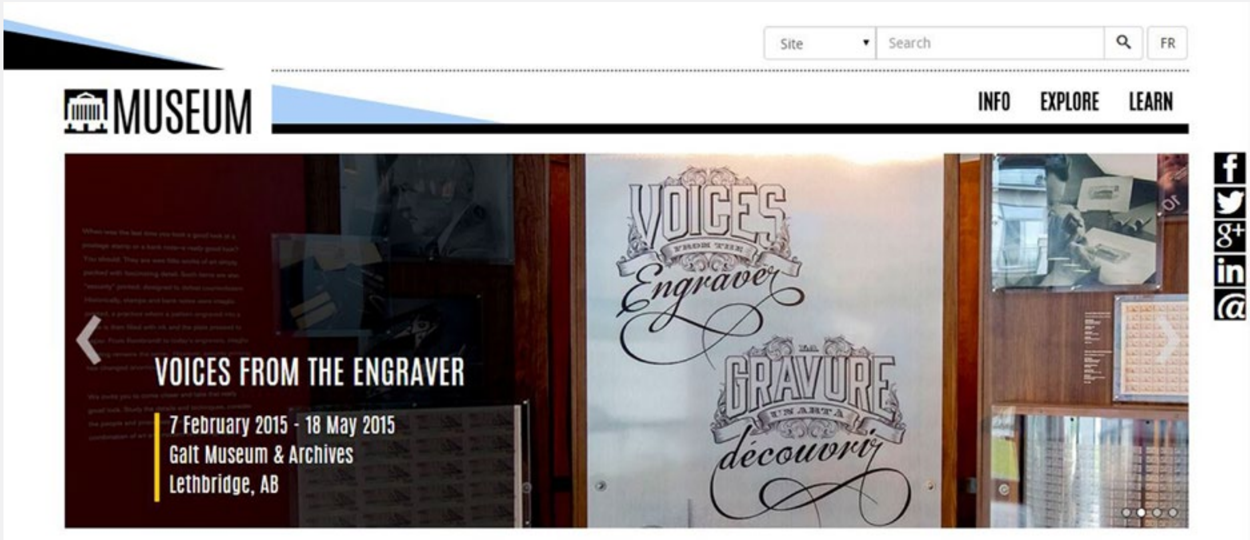
The Governor and Senior Deputy Governor appeared twice before both the House of Commons Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce and held 12 press conferences. Both the Governor and Senior Deputy Governor participated in numerous media interviews.

In addition to policy-related communications programs, the Bank has a regional outreach program. Deputy Governors make regular visits to regions, supported by members of the Board of Directors, to deliver presentations about the functions of the Bank, to meet local stakeholders and to conduct media interviews. In 2014, three such regional outreach events took place.

The Bank's five regional offices in Vancouver, Calgary, Toronto, Montréal and Halifax play an important liaison role with businesses, organizations and citizens across the country. They keep abreast of regional and local issues and interests and contribute to the Bank's analysis of economic and business trends. The regional offices also work with partner agencies, businesses and citizens to promote an effective currency system. The Bank also has an office in New York City to maintain contact with partner agencies in the United States.

An important part of the Bank's ongoing engagement with the public is the Governor's consultation program, a series of meetings held with business leaders and organizations on matters related to the Bank's mandate. These meetings allow the Governor to hear external perspectives on issues facing Canada's economic and financial sectors. In 2014, Governor Poloz hosted 11 such consultations in Ottawa and other locations.

The Bank of Canada Museum



The Bank of Canada Museum (formerly the Currency Museum) will re-open in 2017 with a new location and a new mission: to bring the work of the Bank of Canada to Canadians. In the meantime, Canadians can access the Museum via a new website and a series of travelling exhibitions. *Voices from the Engraver*, launched in November 2014, has been booked across Canada into 2016. For further information, see http://www.bankofcanadamuseum.ca.

Surveying Canadians

The Bank has ongoing informal contact with partners and stakeholders related to the Bank's core business areas and operational activities.

The Bank also formally tracks and assesses the views of Canadians. Annual and periodic surveys allow the Bank to collect a broad sample of public opinion on important issues. Examples of ongoing survey work include the quarterly *Business Outlook Survey* and *Senior Loan Officer Survey*.

Other surveys are conducted periodically to support specific Bank activities. In 2014, the Bank commissioned a national telephone and online survey to measure what Canadians know and understand about the Bank and its mandate and policies. The questions, format and time frame were consistent with surveys conducted in 1999 and 2010 in order to track changes in public opinion over time.

In the autumn of 2014, to increase public engagement in the design of future bank notes, the Bank invited Canadians to complete a website questionnaire to give their views on the principles that guide the design of the country's bank notes; a total of 1,972 responses were received.[13]

Canadians also participated in an online survey posted in December 2014 to suggest potential themes for a commemorative bank note to mark Canada's 150th anniversary as a nation.

13 http://www.bankofcanada.ca/principles-bank-note-design/

Online Communications

The Bank takes full advantage of online and multi-media communications tools to strengthen its outreach to Canadians.

The Bank maintains a dynamic website that averaged 910,000 visits per month in 2014. Visitors can find key financial market information—such as the exchange rate and interest rates—as well as backgrounders, publications, research papers and speeches that provide the academic and technical context for the Bank's policies and operations. The website also has extensive educational content about the Bank and its history, bank notes and currency, and useful statistics.

In 2014, the website was redesigned to emphasize the Bank's research, to make content easily accessible on mobile devices, and to enhance the overall experience for online audiences. The Bank of Canada's site was named the top central bank website of 2014 by CentralBanking.com.[14]

The Governor's speeches, press conferences and key presentations are webcast to improve public access to important Bank information and announcements and to help Canadians understand complex economic and financial issues.

The Bank uses other popular online tools to give Canadians the opportunity to receive information, provide feedback and contribute to the work of the Bank. In addition to the website and YouTube, the Bank has followers on Twitter and LinkedIn and uses email updates, RSS feeds and Flickr.

70,123 followers on Twitter

8,027 followers on LinkedIn

128,556 video views on YouTube

910,000 monthly visitors on the Bank website on average

14 http://www.centralbanking.com/central-banking-journal/feature/2388605/website-of-the-year-bank-of-canada

GLOBAL ENGAGEMENT

Through its engagement with other central banks and international financial organizations, the Bank of Canada promotes strong, sustained and balanced international economic growth and a more resilient global financial system.

The Bank regularly engages in dialogue with international organizations such as the International Monetary and Financial Committee (IMFC), which met in Washington in October 2014. Credit: IMF

The Governor of the Bank of Canada—as well as the Senior Deputy Governor, Deputy Governors and other Bank leaders—engages in dialogue throughout the year on global economic and financial developments through bodies such as the G-7, the G-20, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), and the International Monetary Fund (IMF).

Other Bank leaders and staff members also collaborate with their international counterparts to promote innovation and excellence in central banking policy and operations in Canada and abroad. This includes joint research and information sharing on such issues as monetary policy, commodity markets, financial stability, currency and bank notes, and foreign reserves management.

International discussions on the global economy during 2014 took place in the context of the disappointing global economic recovery from the financial crisis of 2008.

Despite exceptional monetary policy stimulus and accommodative global financial conditions, headwinds continued to dampen economic growth and investment spending. A major development in the last quarter was the substantial decline in oil prices, which was seen as likely to benefit the global economy as a whole despite the adverse effects on Canada and other oil-exporting countries.

At G-20 meetings in 2014, Canada's representatives advocated policies to bolster demand alongside structural reform measures to boost potential growth. G-20 countries committed to the development of comprehensive growth strategies that, if fully implemented, will, by 2018, lift the G-20's GDP by 2.1 per cent above the trajectory implied by policies in place at the St. Petersburg summit. Bank of Canada staff also participated in various G-20 working groups—including the Framework Working Group, the Investment and Infrastructure Working Group, and the Energy Sustainability Working Group—to fulfill important elements of the G-20 strategy.

Global Financial Activities

The Bank of Canada works with its domestic and international partners on measures to make the global financial system more resilient.

The Bank played a key role in the completion in 2014 of the Net Stable Funding Ratio (NSFR), one of the Basel Committee's key reforms to promote a more resilient banking sector. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. The intention is to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The international work was led by the Bank of Canada's Senior Deputy Governor and supported by staff participating on the Basel Committee, the BCBS Working Group on Liquidity, the Economic Consultative Committee Working Group on Central Bank Monetary Policy Operating Frameworks and Current Regulatory Initiatives, and the BCBS Policy Development Group. The Bank also chairs the work at the BCBS on the implementation of the Basel III countercyclical capital buffer, a macroprudential tool that aims to increase the resilience of the global banking system.

The Bank played a key role in the completion in 2014 of the Net Stable Funding Ratio, one of the Basel Committee's key reforms to promote a more resilient banking sector.

On behalf of domestic financial regulators, the Bank led Canada's participation in several Financial Stability Board monitoring exercises. The Bank worked with industry and regulators to address challenges to implementation and global aggregation of trade reporting for over-the-counter derivatives, including the development of a strategy to access trade-reporting data. These data, which are being collected as part of G-20 commitments to make derivatives markets more transparent and resilient, have the potential to improve the ability of Canadian and global authorities to monitor these markets, permitting the early detection of systemic risk.

The Bank played a leadership role in the development of an international regulatory framework of minimum haircuts on securities financing transactions; a review of the implementation of international margin standards for non-cleared derivatives; and in the reform of financial benchmarks.

Canada made important contributions in 2014 to the development of recommendations to enhance the resilience and effective regulation of benchmark rates that are set and used in fixed-income and foreign exchange markets. These contributions included Canada's active role on the FSB Official Sector Steering Group, which developed recommendations on reforming major interest rate benchmarks, as well as on the FSB Foreign Exchange Benchmarks Group, which produced similar recommendations with respect to foreign exchange benchmarks.

Safe and efficient financial market infrastructures (FMIs) are an important element of financial stability. The Bank contributes to international efforts to strengthen FMIs, including by advancing the work of the Committee on Payments and Market Infrastructures (CPMI). In 2014, the Bank contributed to the CPMI-IOSCO Implementation Monitoring Standing Group and headed one of the teams assessing whether measures adopted by various jurisdictions are complete and consistent with the Principles for Financial Market Infrastructures. In addition, the Bank made contributions to reports by CPMI on cyber resilience, FMI recovery, collateral management and retail payments.

Peer reviews play an important role in ensuring that countries adhere to agreed international standards and promote global financial stability. Notable in the Bank's peer review contributions was the chairmanship by one of the Bank's Deputy Governors of the FSB peer review of the Netherlands, with a focus on its macroprudential policy framework and tools, as well as crisis management and bank resolution.

Renminbi and Other Central Bank Swap Arrangements

In November, the Prime Minister of Canada announced an agreement with the Government of China, establishing a renminbi trading hub in Canada. This is part of a broader initiative to promote increased trade and investment between Canada and China. It will also be a step toward the internationalization of the renminbi, which will ultimately promote stable and balanced growth of the global economy.

A key element of the renminbi hub is a new reciprocal Canadian-dollar/renminbi bilateral liquidity swap between the Bank of Canada and the People's Bank of China (PBoC). The Bank also signed a memorandum of understanding with the PBoC to establish a regular dialogue on the conduct of renminbi business and on renminbi liquidity conditions in Canada, and to support the establishment of a renminbi clearing bank in Canada.

The Bank already has standing swap arrangements with a number of other central banks. As an exercise to test operational readiness, the Bank conducted a small-value Canadian-dollar operation in 2014 with the European Central Bank, drawing euros against Canadian dollars. The Bank intends to conduct similar exercises in the future as part of prudent planning.

Canada is also one of the first sovereigns to update the documentation governing its derivatives transactions to allow for the two-way flow of collateral, thus improving the functioning of the financial system and lowering the government's cost of funding. The Bank's approach to modelling domestic debt portfolios continues to be leading edge, and Canada's advice and technical assistance have been sought by several other central banks.

Secure International Currency Systems

Canada collaborates with other central banks and research institutes around the world in the development of strategies and tools to ensure a global supply of safe and secure bank notes.

This includes a range of innovative research in Canada on subjects such as bank note security and design, the quality and performance of notes in circulation, the use of cash, and the future of bank notes. There was also significant research and collaboration with other central banks in 2014 on the subject of e-money and digital currencies.

To address counterfeiting threats resulting from the use of scanners, image editing software and various other innovative technologies, the Bank takes part in the Central Bank Counterfeit Deterrence Group (CBCDG), an association of 34 central banks. The CBCDG provides guidance to private sector manufacturers to ensure that the equipment and software they produce will recognize bank note images and impede reproduction.

The Four Nations Counterfeit Deterrence Group—comprising the central banks of Mexico, England, Australia, and the U.S. Federal Reserve and the Bank of Canada—facilitates information sharing on counterfeiting statistics, counterfeiting techniques and research on security features. The Bank of Canada is also one of 14 central banks participating in the Reproduction Research Centre (RRC), a state-of-the-art facility staffed by experts in the field of graphic arts and science. The RRC is hosted by the Danish National Bank.

Finance Minister Joe Oliver and Bank of Canada Governor Stephen S. Poloz met with their Group of 20 (G-20) colleagues in Washington, D.C. in October 2014. The G-20 is the premier forum for international economic co-operation, with members accounting for 85 per cent of global output and two-thirds of the world's population. Credit: IMF

International Co-Operation

Bank of Canada staff members collaborate with other central banks, international financial organizations and universities to exchange ideas among leading economists and researchers around the world. This sharing allows Bank of Canada staff to receive constructive feedback on their own research, benefit from the experiences and knowledge of peer institutions, and build networks and relationships to carry out joint work.

The Bank of Canada provides technical assistance to other central banks and international agencies that can benefit from the Bank's expertise, either in core business areas such as economics and currency or in technical or administrative activities such as strategic planning and information technology. These activities help the Bank of Canada maintain strong international relationships and develop its reputation as a dynamic institution in the central bank community.

Participating institutions may visit the Bank, provide questionnaires for the Bank to complete, or have discussions via video or teleconference. Staff will occasionally travel to the participating institutions, generally as part of a broader initiative with external funding. In 2014, the Bank of Canada accommodated 64 requests for technical assistance, ranging from advice and expertise on website design to sharing information and providing training on currency communications, operations and distribution.

Central Bank Operations

Canada promotes best practices in central bank operations through collaborative work with international agencies and organizations.

In 2014, the Bank hosted internal auditing professionals from central banks representing 15 French-speaking countries to share best practices and discuss common current and future challenges for this important corporate function.

The Bank's information technology managers maintain close relationships with their counterparts around the world through forums such as the Group of Computer Experts (GCE). Members of the GCE were consulted on the Bank of Canada's 2014 IT strategy. Additionally, the Bank is an active member of the Working Party on Security Issues (WPSI), an international forum for sharing information, concerns and experiences on the critical topic of IT security.

GOVERNANCE OF THE BANK OF CANADA

The Bank of Canada Act provides the legal authority and framework for governance of the Bank of Canada.

Governor

The Governor of the Bank of Canada is both the Chief Executive Officer of the Bank and Chair of its Board of Directors.

The Governor has specific authority and responsibility for the business of the Bank, including the formulation and implementation of monetary policy, the provision of fiscal-agent services to the government, the issuance of bank notes, the provision of liquidity to the financial system, and oversight of Canada's major financial clearing and settlement systems, as set out in the Payment Clearing and Settlement Act.

In his role as Chair, the Governor leads the Board in its oversight responsibilities for financial and administrative matters at the Bank.

Board of Directors

The Board of Directors of the Bank of Canada is composed of the Governor, the Senior Deputy Governor and 12 independent directors.[15]

All independent directors are appointed for three-year renewable terms by the Governor-in-Council (the Cabinet). The Deputy Minister of Finance is an ex-officio, non-voting member of the Board.

The Board has specific responsibilities related to strategic planning, financial and accounting matters, risk management, human resources, and other internal policies. Monetary policy is neither formulated nor implemented by the Board.

The Board and the Bank regularly review best practices on corporate governance and management used by similar public institutions, central banks and private sector organizations to ensure that Bank processes meet the highest standards.

Board members also keep the Bank informed about prevailing economic conditions in their respective regions.

15 As at 31 December 2014, the Board had one vacancy.

Changes to the Board of Directors in 2014

Appointments	Departures
Carolyn Wilkins, Senior Deputy Governor and member of the Board, May 2014	Tiff Macklem, Senior Deputy Governor, April 2014
Alan Borger, July 2014	Richard McGaw, July 2014
Norman Betts, July 2014	Leo Ledohowski, July 2014
Greg Stewart, October 2014	Doug Emsley, October 2014
Wes Scott, October 2014	Philip Deck, October 2014
Martin Sullivan, December 2014	Brian Henley, December 2014
Changes in Board leadership roles	

Lead Director: Derek D. Key succeeded Philip Deck in April 2014.

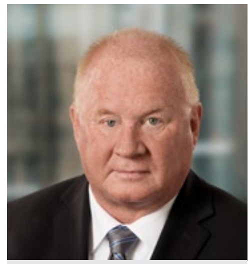
Chair, Human Resources and Compensation Committee: Monique Jérôme-Forget succeeded Philip Deck in July 2014.

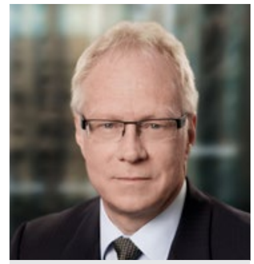
Chair, Pension Committee: Carolyn Wilkins succeeded Tiff Macklem in May 2014.

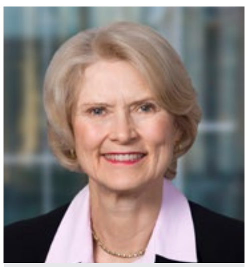
Board of Directors


Stephen S. Poloz[2*]
Governor

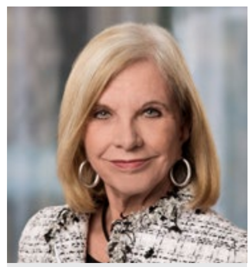

Carolyn Wilkins[2, 7*]
Senior Deputy Governor

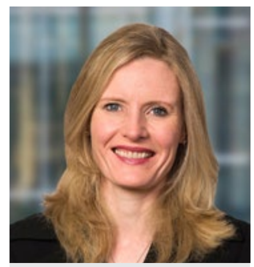

Norman M. Betts[4, 7]
Fredericton, New Brunswick

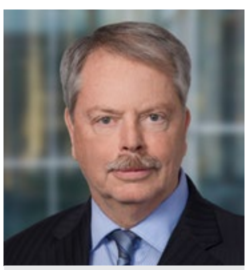

Alan Andrew Borger[3, 5]
Winnipeg, Manitoba

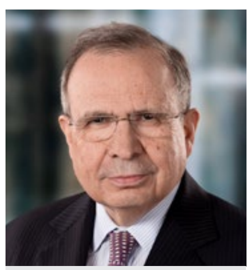

Phyllis Clark[2, 4,* 5]
Edmonton, Alberta


Colin Dodds[6, 7, 8]
Halifax, Nova Scotia

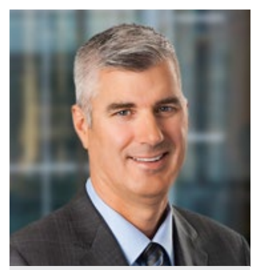

Monique Jérôme-Forget[2, 3, 6*]
Montréal, Quebec


Claire Kennedy[3,* 4, 6]
Toronto, Ontario


Derek D. Key[1, 2, 3, 5]
Summerside, Prince Edward Island


Hassan Khosrowshahi[4, 5]
Vancouver, British Columbia


Wes Scott[4, 7]
Toronto, Ontario


Greg Stewart[5, 6]
Regina, Saskatchewan


Martin Sullivan[5, 6**]
Calvert, Newfoundland and Labrador


Paul Rochon
Deputy Minister of Finance, Member ex officio

1. Lead Director
2. Member of Executive Committee
3. Member of Corporate Governance Committee
4. Member of Audit and Finance Committee
5. Member of Capital Projects Committee
6. Member of Human Resources and Compensation Committee
7. Member of Pension Committee
8. Chair of the Fellowship Nominating Committee

* Indicates committee chair

** Committee appointment made subsequent to year-end

Board of Directors and Committee Meetings

The Board and its committees meet regularly in Ottawa throughout the year. The Board holds one meeting outside of Ottawa as part of the Bank's regional outreach program. In 2014, the Board met nine times and the external meeting was held in Edmonton.

In addition, the Bank of Canada Act provides for an Executive Committee to act in place of the Board. In 2014, the Executive Committee met once to receive the Bank's Annual "Senior Officer and Succession Planning Report."

The Board of Directors has five Standing Committees. Each committee has terms of reference outlining the responsibilities of the committee and its chair, and adopts a work plan for the year.

In February, a Special Committee composed of independent directors was formed to lead the process that selected Carolyn Wilkins as Senior Deputy Governor for a seven-year term, effective May 2014. Board members also participated in the selection of Lynn Patterson as Deputy Governor.

An independent director acts as Chair of the Nominating Committee of the Bank's Fellowship Program. That post was held by Colin Dodds in 2014.

Standing Committees of the Board of Directors

Committee	Chair	Mandate	Number of meetings in 2014[a]
Audit and Finance Committee	Phyllis Clark	Provides Board oversight on the financial affairs of the Bank, including its medium-term plan, annual budget and expenditures, and on internal and external audit activities.	7
Human Resources and Compensation Committee	Monique Jérôme-Forget[b]	Provides Board oversight on human resources policies and practices, compensation policies, succession planning, and senior executive performance. Recommends compensation of the Governor and the Senior Deputy Governor, within ranges set by the Governor-in-Council and subject to its approval.	4
Corporate Governance Committee	Claire Kennedy	Oversees corporate governance policies and practices, including Board effectiveness, Board member education, terms of reference of the Board and its committees, and the composition of Board committees.	3
Capital Projects Committee	Brian Henley[c]	Provides Board oversight for significant Bank capital projects, including the Head Office Renewal Program.	4
Pension Committee[d]	Carolyn Wilkins[e]	Advises the Board on the Bank's responsibilities as sponsor and administrator of the Bank of Canada pension plan, including plan investment policies, plan administration, communications and stakeholder relations.	4

a. Attendance figures for the Board are published on the Bank of Canada's website at http://www.bankofcanada.ca/about/board-of-directors.
b. From July 2014
c. To December 2014
d. The Pension Committee is composed of three independent directors, the Senior Deputy Governor and three other members of management.
e. From May 2014

Board Independence

As the Governor is both Chair of the Board of Directors and Chief Executive Officer, the independent (non-management) directors elect a Lead Director for a two-year renewable term to represent their interests and act as a link between them and the Governor. Derek Key began his two-year term as Lead Director in April 2014.

The Board and its committees regularly hold sessions without management or non-independent directors present. Each Standing Committee of the Board, except the Pension Committee, consists solely of independent directors.

The Audit and Finance Committee provides Board oversight of the Bank's internal auditors and manages the relationship with the Bank's external auditors, which are appointed by the Governor-in-Council. The committee meets privately on a regular basis with the joint auditors, the Chief Internal Auditor, and the Chief Financial Officer and Chief Accountant.

The Board and its committees have the right to retain independent advisers at the Bank's expense.

Board Conduct, Effectiveness and Education

The Board regularly conducts an assessment of its effectiveness by soliciting directors' views on various aspects of the Board's operations, governance and activities. New directors participate in a comprehensive orientation program. The Board has implemented an ongoing director education program and regularly examines its education requirements.

The Bank of Canada Act specifies eligibility requirements for members of the Board, including rules to prevent conflict of interest. The Board has also adopted a Code of Business Conduct and Ethics for the independent directors.

Director Compensation

Independent directors are paid within the ranges established under the *Remuneration Guidelines for Part-Time Governor-in-Council Appointees in Crown Corporations*, administered by the Privy Council Office.

Board Member Compensation:

- Annual retainer: $8,000
- Executive Committee, additional retainer: $3,000
- Committee Chair, additional retainer (excluding Corporate Governance): $1,000
- Corporate Governance Committee Chair, additional retainer: $2,000
- Per diem for meeting attendance: $625

The Bank reimburses all independent members for travel, accommodation and meal expenses incurred while attending meetings of the Board, its committees or other Board-related events.

The Governor, the Senior Deputy Governor and the Deputy Minister of Finance receive no compensation for their duties as members of the Board.

Bank of Canada Management

Governor and Senior Deputy Governor

The Governor and the Senior Deputy Governor are appointed for terms of seven years by the independent directors with the approval of the Governor-in-Council (the Cabinet). The length of the term allows the Governor and the Senior Deputy Governor to adopt the medium- and longer-term perspectives essential to conducting effective monetary policy.

The salaries of the Governor and the Senior Deputy Governor are determined by the Board within ranges established by the Government of Canada's Advisory Committee on Senior Level Retention and Compensation. They are subject to approval by the Governor-in-Council.

The remaining components of their total compensation are related to their membership in the Bank of Canada pension plan and health and dental benefits. The Bank of Canada Act stipulates that the salaries of the Governor and the Senior Deputy Governor shall not include any performance-based element.

Governing Council

The Governor is assisted by the Governing Council in the Bank's policy-making functions, namely:

- the conduct of monetary policy
- promoting a safe and efficient financial system

The Governing Council is made up of the Governor, the Senior Deputy Governor and four Deputy Governors.

Two committees are in place to provide advice to the Governing Council:

1. **Monetary Policy Review Committee (MPRC)**
   The MPRC meets regularly to share information and to advise the Governing Council on monetary policy. The committee plays an important role in the assessment of economic conditions.

   The MPRC consists of the Governing Council, the General Counsel and Corporate Secretary, advisers, chiefs of the economics and communications departments, the financial market directors in Montréal and Toronto, and the Bank's senior representative in New York. The MPRC is chaired by the Governor or the Senior Deputy Governor in the absence of the Governor.

2. **Financial System Review Committee (FSRC)**
   The FSRC is the main forum for the presentation and discussion of financial system issues.

It has broad membership that includes all of the members of the MPRC and the Chief of the Currency Department. The FSRC is chaired by the Governor or the Senior Deputy Governor in the absence of the Governor.

The Bank also has five advisers and one special adviser who provide advice and expertise on specialized topics of interest to the Governing Council and the Executive Council.

Bank of Canada Management Structure

The Bank made a number of adjustments to its management structure and personnel in 2014 to address the organization's changing needs and priorities.

A Chief Operating Officer (COO) position was created in 2014 to oversee strategic and operational planning, administration, and operations. Filipe Dinis joined the Bank as COO in May 2014.

Additional changes to the Bank's management committee structure became effective on 1 October 2014. In addition to the existing Leadership Forum, the updated structure now includes an Executive Council (EC) and a Senior Management Council (SMC). The responsibilities of the current committees are as follows:

1. The Executive Council is the primary forum for management discussion and decisions on the Bank's strategic direction. The Executive Council is composed of members of the Governing Council and the Chief Operating Officer.
2. The Leadership Forum focuses on strategic Bank issues and building a leadership culture. Board debriefs, seminars and other meetings are key means of information sharing. The forum consists of members of the Governing Council, together with the Bank's advisers and department chiefs.
3. The Senior Management Council (SMC), which replaced the former Management Council, supports the EC's work by overseeing operational issues, corporate programs, strategic initiatives, financial reporting, annual planning and related risks.

Members of the Bank's Executive Council in 2014 (left to right): Agathe Côté, *Deputy Governor;* Carolyn Wilkins, *Senior Deputy Governor;* Filipe Dinis, *Chief Operating Officer;* Stephen S. Poloz, *Governor;* Lawrence Schembri, *Deputy Governor;* Timothy Lane, *Deputy Governor; and* Lynn Patterson, *Deputy Governor*

The SMC is composed of the Senior Deputy Governor (Chair), the Chief Operating Officer (Co-Chair), the General Counsel and Corporate Secretary, the Chief Risk Officer (CRO), the Chief Accountant and Chief Financial Officer (CFO), the Chief of Human Resources, the Chief of Corporate Services, and four other department chiefs on 18-month rotations. In 2014, the rotating positions were filled by the Chiefs of Funds Management and Banking, International Economic Analysis, Financial Stability, and Communications.

The Bank has 13 departments, including a new Human Resources Department created in February 2014 (previously a division of the Corporate Services Department). The others are Audit, Canadian Economic Analysis, Communications, Corporate Services, Currency, Executive and Legal Services, Financial Markets, Financial Services, Financial Stability, Funds Management and Banking, Information Technology Services, and International Economic Analysis.

Compliance and Ethics

The Bank requires that all employees observe the highest standards of professional ethics. To this end, a comprehensive Code of Business Conduct and Ethics was introduced in 2013, which consolidated and updated previous policies guiding the personal and professional conduct of Bank employees.

The Code serves as a guide for all employees on the professional ethics expected by the Bank, including behaviour related to conflict of interest, work environment, confidentiality, conduct of personal financial transactions and handling of information. Enhanced trading restrictions are applied to senior employees and to those with access to certain confidential information.

Once a year, Bank employees, individuals seconded to the Bank and certain consultants are required to formally acknowledge their awareness of, and compliance with, the Code.

Disclosure of Wrongdoing Framework

The Bank has a policy and processes to support the disclosure of wrongdoing, including the provision of information to employees on how to report wrongdoing. The processes also provide for management's role in disclosures, investigations and reporting.

Bank of Canada—Senior Officers

Governing Council

Governor
Stephen S. Poloz

Senior Deputy Governor
Carolyn Wilkins

Deputy Governors
Agathe Côté
Timothy Lane
Lynn Patterson
Lawrence Schembri

Chief Operating Officer
Filipe Dinis

Chief of Staff to the Governor and Senior Deputy Governor
Rosemarie Boyle

General Counsel and Corporate Secretary
Jeremy S.T. Farr

Advisers
Don Coletti, Janet Cosier,[16] *Dale Fleck, Sharon Kozicki, Colleen Leighton*

Chief Risk Officer
Sheila Vokey

Special Adviser
Line Rivard

16 Also Chair of the Board of Directors of the Canadian Payments Association

Audit
Julie Champagne, Chief Internal Auditor

Canadian Economic Analysis
Stephen Murchison, Chief

Communications
Jill Vardy, Chief

Corporate Services
Dinah Maclean, Chief

Currency
Richard Wall, Chief

Executive and Legal Services
Jeremy S.T. Farr, General Counsel and Corporate Secretary

Financial Markets
Paul Chilcott, Chief

Financial Services
Carmen Vierula, Chief Financial Officer and Chief Accountant

Financial Stability
Ron Morrow, Chief

Funds Management and Banking
Grahame Johnson, Chief

Human Resources
Alexis Corbett, Chief

Information Technology Services
Sylvain Chalut, Chief

International Economic Analysis
Eric Santor, Chief

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RISK MANAGEMENT

The Bank of Canada places a high priority on managing financial, business and enterprise risks that may directly or indirectly affect the Bank's ability to deliver on its mandate and achieve its strategic objectives. Business and enterprise risks incorporate both strategic and operational risks.

Risk Governance and Oversight

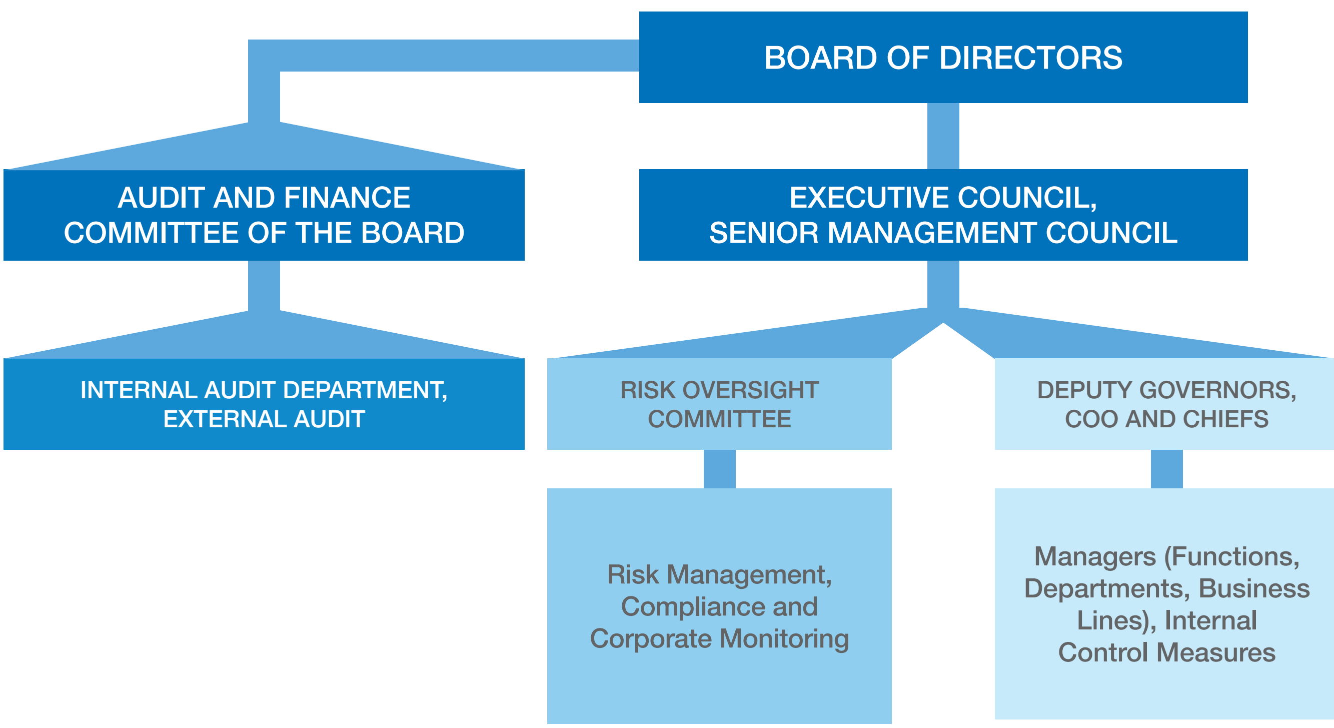
An enterprise-risk-management (ERM) framework is in place to ensure that risks are identified, assessed and managed as needed:

- Deputy Governors, the Chief Operating Officer (COO) and department chiefs are accountable to the Governor and Senior Deputy Governor for the management of risk in their respective areas.
- The Chief Risk Officer, who chairs the Risk Oversight Committee and is a member of the Senior Management Council, provides guidance on risk management.
- The Internal Audit Department conducts periodic reviews of the Bank's operations, including risk-management processes.

Through a quarterly risk self-assessment process, senior managers identify and assess the key risks for each functional area—monetary policy, the financial system, currency, funds management and corporate administration.

The results of these assessments are shared with the Risk Oversight Committee, the Senior Management Council and the Executive Council to incorporate their views. As well, any significant changes in the levels of existing risks or the identification of any new risks that arise during the year are also brought to their attention. Where required, changes to risk-management strategies are identified and implemented.

The Board of Directors receives semi-annual risk reports, as well as in-depth briefings on specific risks related to each of the Bank's functions over the course of the year. In addition, reports on any significant changes to the level or type of risk are escalated as required.



The Bank's Risk Profile

The Bank's risk profile reflects some short- to medium-term challenges and uncertainties in both the external and internal environments. Notable risk-management achievements in 2014 included:

- a new framework to help manage, monitor and report on risks arising from market operations;
- improvements in the currency supply chain and business continuity planning for the Bank Note Distribution System;
- an enhanced strategy to promote secure and resilient IT architecture and systems, including mitigation of cyber risks;
- measures to stabilize other areas of corporate administration, given the 2013 relocation of head office staff and related service-delivery changes; and
- an enhanced Continuity of Operations program.

The Bank's risk framework is broken down into three categories:

1. Financial risk,
2. Business risk (which includes strategic risk), and
3. Enterprise risk.

Financial Risk

The Bank is exposed to the following financial risks: credit risk, market risk and liquidity risk.[17]

The Bank's asset portfolio consists primarily of securities that represent direct obligations of the Government of Canada, thereby exposing the Bank's balance sheet to credit, market and liquidity risks. However, such financial risk is low, given the stable nature of the securities and how they are managed.

Management has established and actively monitors a system of internal controls, and periodic reviews are conducted to assess the appropriateness and effectiveness of these controls. The Financial Risk Office, which is independent of operations, monitors and reports on financial risks relating to the Bank's balance sheet. Collateral policies are reviewed and updated regularly in connection with the Bank's liquidity operations.

Credit Risk

The Bank's maximum exposure to credit risk is the carrying amount of the portfolio. Advances and securities purchased under resale agreements are offset by collateral taken in accordance with the Bank's publicly disclosed policies.

Additional risk arises when the Bank undertakes extraordinary liquidity operations in support of financial system stability and monetary policy. Operations may include exceptional buyback transactions, purchases of an expanded range of securities and Emergency Lending Assistance[18] to solvent members of the Canadian Payments Association. The terms and conditions for these operations are approved by the Governing Council.

Market Risk

The Bank's exposure to market risk is primarily through its available-for-sale investments, including Government of Canada treasury bills and the Bank's investment in the Bank for International Settlements (BIS). The BIS investment is subject to currency and price risks, since the fair value of the shares is estimated on the basis of the net asset value in Canadian dollars on the reporting date. These variations would not affect the Bank's ability to fulfill its obligations, since its income greatly exceeds its expenses.

Liquidity Risk

The Bank's largest liability is bank notes in circulation, which are non-interest-bearing with no fixed maturity. In the event of an unexpected redemption of bank notes or a significant withdrawal from the Government of Canada's prudential liquidity-management plan deposit, the Bank has the ability to settle the obligation by means of several tools.

17 For further information about the Bank's financial risks, see note 8 to the financial statements.

18 The last such event occurred in 1986.

Business Risk

Business risks arise from internal issues or external factors that directly affect the Bank's ability to carry out its four core functions: monetary policy, financial system, currency and funds management.

Monetary policy

Risks arise from a number of sources, including uncertainty related to the global and domestic economic outlooks and the global financial system, the level of the neutral rate of interest, the transmission mechanism, the complexity of the analysis required, and challenges in attracting a sufficient number of skilled and experienced staff.

Financial system

Risks related to policy, oversight, communications and operations arise from the significant global and domestic reform agenda and its cumulative impact on markets; high household indebtedness; issues with keeping relevant audiences informed on financial system policies, risks and vulnerabilities; and the challenges in attracting and retaining sufficient numbers of qualified staff.

Currency

Risks relate mainly to operations, the counterfeiting of older series of bank notes and the longer-term uncertainties regarding the use of cash and e-money. The risk level decreased following the successful issuance of all denominations in the *Polymer* series of bank notes; their low counterfeiting rate (0.56 parts per million) and durability; the decreasing proportion of bank notes in circulation from prior series; and the reduction in risk to the Bank Note Distribution System resulting from increased automation.

Funds management

Risks are mainly associated with the operations of the payment clearing and settlement system, the management of foreign exchange reserves, and the operations of safekeeping services.

Risks related to monetary policy, the financial system and funds management were assessed as cautionary in 2014, given the uncertainty in the global economy and the changing domestic and international environments for financial and funds management. Risks related to the Currency function were considered to be acceptable.

The Bank analyzes, monitors and manages risks through well-established policy frameworks, an extensive research and analysis program, and collaboration and information sharing with other central banks and with its regulatory partners associated with the Canadian and international financial sectors.

As well, a comprehensive communications effort is in place to ensure that Canadians are informed about the Bank's policy decisions, and to promote awareness of potential vulnerabilities in the financial system.

Enterprise Risk

Enterprise risks cross multiple functions and occur in support activities as well as in the core functions. The Bank divides these risks into the following key areas:

People and capacity

These risks relate to elevated movement of staff; the growing complexity of the Bank's work; the limited and highly competitive labour market pool for economists and financial sector specialists, as well as some other professions; and capacity pressures in IT system development.

The Bank manages these risks by continuing to strengthen its recruitment strategy, and focusing on leadership development and succession planning.

Project-related risks

These risks relate to the interdependency and breadth of initiatives under way, as well as human resource capacity to stay abreast of the Bank's evolving business needs.

The Bank mitigates these risks with a sound IT governance structure; project monitoring and reporting; portfolio-management practices; a focus on successfully transitioning projects to operations; strengthened partnerships between the client and project delivery areas; and the use of external expertise, where appropriate.

Continuity of critical business processes

These risks pertain to the possibility that the Bank would be unable to carry out its critical business processes, if staff, information, IT systems and other infrastructure were not available.

Disaster-recovery tests are conducted periodically to further strengthen the Bank's disaster-recovery posture. Measures to manage risks also include ongoing training on operational processes and systems; split operations for critical processes; and a co-ordinated approach to security threats, risk assessment and policy development.

Head Office Renewal Program

In 2014, risks related primarily to the completion of the design for the renewed head office complex, demolition and the first phases of construction.

The Bank has a comprehensive governance and oversight framework for managing this initiative, and has engaged external expertise to support the work and to provide independent advice. The contractual provisions for this work are designed to limit the Bank's financial risks. Regular risk workshops are held with key stakeholders to assess and manage ongoing or emerging risks.

Although caution continued to be warranted in these areas in 2014, as it did in 2013, some of the risk pressures have been reduced. These reductions were due to the stabilization of operations following significant changes in 2013; the completion of the design for the renewed head office complex, and the demolition and first phases of its construction; and progress on key infrastructure initiatives and project execution.

2014 FINANCIAL RESULTS

The Bank's balance sheet has increased by 46 per cent since 2011 and 3 per cent in 2014.

The expansion from 2011 was mainly due to the federal government's decision to build a prudential liquidity-management deposit of up to $20 billion at the Bank of Canada. This deposit grew by $10 billion in 2012 and by a further $10 billion in 2013, driving the increase in the Bank's balance sheet over those years and resulting in higher income for the Bank in 2014 because of the full-year impact of the larger asset portfolio.

This year, changes in the Bank's balance sheet are related to the demand for bank notes in circulation. The value of bank notes in circulation increased by 5 per cent in 2014, roughly in line with the growth of nominal GDP.

Proceeds from the issuance of bank notes were invested in Government of Canada securities. As a result, the Bank's investment portfolio grew by 2.5 per cent in 2014.

2014 Financial Position

The Bank's *assets* and *liabilities* and *equity* increased by $2,806.4 million since 31 December 2013, and by $827.4 million since its last interim reporting.

Assets

Investments have increased by $2,249.3 million (2.5 per cent). Government of Canada treasury bills decreased by $2,199.9 million and Government of Canada bonds increased by $4,431.1 million. The balance of the change in investments resulted from an increase in the fair value of the Bank's investment in shares of the Bank for International Settlements (BIS).

As at 31 December 2014, *Loans and receivables* consisted primarily of purchase and resale agreements undertaken for general balance-sheet-management purposes (related to the seasonal demand for bank notes during the peak holiday season). The purchase and resale agreements that were outstanding at year-end 2013 matured in January 2014.

The change in *Capital assets* resulted primarily from capital spending related to the Bank's Head Office Renewal Program.

Other assets have decreased by $42.9 million since 31 December 2013, owing mainly to a lower net defined-benefit asset related to the Bank's registered pension plan. The decrease in the net defined-benefit asset is the result of a drop in the discount rate[19] (as described in the discussion of *Other Comprehensive Income*). This change was partially offset by higher advances related to the Head Office Renewal Program and bank note inventory.

Liabilities

The bank note liability represents approximately 75 per cent of the Bank's *Total liabilities and equity*. This liability increases over time with the growth in demand for bank notes and is also subject to seasonal variations.[20] *Bank notes in circulation* has increased by 5 per cent since 31 December 2013.

The second-largest liability on the balance sheet consists of deposits held for the Government of Canada and other financial institutions. The main components

19 The net defined-benefit assets and liabilities are measured using the discount rate in effect as at the period-end. The rate as at 31 December 2014 was 4.0 per cent (4.9 per cent at 31 December 2013).

20 The *Bank notes in circulation* liability typically reaches its lowest level at the end of the first quarter and peaks in the second and fourth quarters around holiday periods.

Highlights of the Statement of Financial Position
(Millions of Canadian dollars)

	As at 31 December	
	2014	2013
Assets		
Cash and foreign deposits	8.4	5.0
Loans and receivables	2,768.4	2,214.9
Investments	90,826.4	88,577.1
Capital assets[a]	327.7	284.6
Other assets	181.2	224.1
Total Assets	94,112.1	91,305.7
Liabilities and Equity		
Bank notes in circulation	70,023.5	66,615.9
Deposits	23,195.6	23,823.5
Other liabilities	443.7	431.1
Equity	449.3	435.2
Total liabilities and equity	94,112.1	91,305.7

a. Includes *Property and equipment*, and *Intangible assets* of the *Deposits* liability are $1,526.6 million held for the Government of Canada for operational balances[21] and $20,000.0 million held for the government's prudential liquidity-management plan. The Government of Canada operational balances decreased by $803.3 million compared with year-end 2013.

Other liabilities consist mainly of the accrued profit transfer to the Receiver General for Canada and the defined-benefit liabilities for the Bank's deferred employee benefit plans.

Changes in the accrued profit transfer liability are the result of the timing of cash payments to the Receiver General for Canada. Net income earned on the Bank's assets, after deductions for operating expenses and allocations to reserves, is paid each year to the Receiver General. At 31 December 2014, the unremitted balance was $150.4 million[22] ($153.7 million at 31 December 2013).

Increases in the liabilities related to defined-benefit plans[19] are the result of a drop in the discount rate used to value these liabilities (as described in the discussion on *Other Comprehensive Income*).

Since 31 December 2013, the Bank's *Equity* has increased by $14.1 million, mainly as a result of fair-value increases in the Bank's investment in the BIS. Fair-value changes related to the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills are reported in *Other Comprehensive Income* and accumulated in the available-for-sale reserve within *Equity* (see note 16 of the Financial Statements). As at 31 December 2014, this reserve totalled $319.3 million and consisted primarily of the fair-value change in the Bank's investment in the BIS.

21 The operating portion of the deposit is dependent on the cash needs of the Government of Canada, and fluctuations that occur are a result of decisions related to cash-flow management.

22 For the 12 months ended 31 December 2014, the Bank transferred cash payments of $153.7 million related to 2013 net income and $875.0 million related to 2014 net income to the Receiver General ($82.2 million related to 2012 net income and $1,077.0 million related to 2013 net income was paid during the 12 months ended 31 December 2013).

Highlights of the Statement of Net Income

Income

Total Income for 2014 was $1,604.6 million, an increase of $24.6 million, or 1.5 per cent, compared with the previous year.

The Bank's *Interest revenue* consists mainly of interest revenue from treasury bills and bonds. In 2014, the Bank recorded $1,808.6 million in interest revenue from treasury bills and bonds, an increase of $37.9 million over the previous year.

The growth in *Interest revenue* is due mainly to the higher level of investments, which is partially offset by lower yields on newly acquired bonds compared with yields on investments that have matured. The remaining component is interest earned on purchase and resale agreements and dividend revenue from the Bank's investment in the BIS, which were both slightly lower than 2013 levels.

Income is reported net of the interest paid on Government of Canada deposits. The higher level of Government of Canada deposits[23] in 2014, compared with 2013, resulted in a higher interest expense on deposits of $7.6 million. Interest rates paid on deposits are based on market-related rates, which did not change significantly from 2013.

The Bank's revenues from its remaining sources[24] decreased slightly from 2013 levels.

Expenses

Operating expenses were in line with expectations for 2014 and decreased by $96.2 million compared with the previous year, mainly as a result of lower costs associated with the production of polymer bank notes.

23 The government's prudential liquidity-management plan reached its intended maximum amount of $20.0 billion in September 2013 and has remained at that amount since that time.

24 Other sources of revenue include interest earned on lending facilities and client deposits, as well as safekeeping and custodial fees.

Highlights of the Statement of Net Income
(Millions of Canadian dollars)

	For the year ended 31 December	
	2014	2013
Interest revenue	1,814.6	1,779.5
Interest expense	(218.2)	(210.6)
Other revenue	8.2	11.1
Total income	**1,604.6**	**1,580.0**
Staff costs (includes salaries and employee benefits)	191.3	213.6
Bank note research, production and processing	99.6	158.8
Other expenses	186.9	201.6
Total expenses	**477.8**	**574.0**
Net income	**1,126.8**	**1,006.0**

Costs associated with bank note production were $59.2 million lower than the previous year. Costs for bank note production are driven by note volumes delivered by the printers. During 2014, 458 million polymer notes were received, compared with 733 million notes received in 2013. Polymer notes are expected to last at least 2.5 times longer than the previous cotton-based notes, and as a result, the Bank needed fewer notes to be produced in 2014.

Excluding the impact of the new bank notes, the decrease in expenses is $37.0 million and is broadly distributed among staff costs, technology costs, premises costs and depreciation. *Staff costs* decreased by $22.3 million in 2014 compared with 2013. The decrease was mainly the result of lower benefit costs associated with the Bank's defined-benefit plans, which are driven by changes in discount rates.[25] Benefit costs decreased by $23.7 million compared with the same period in 2013.

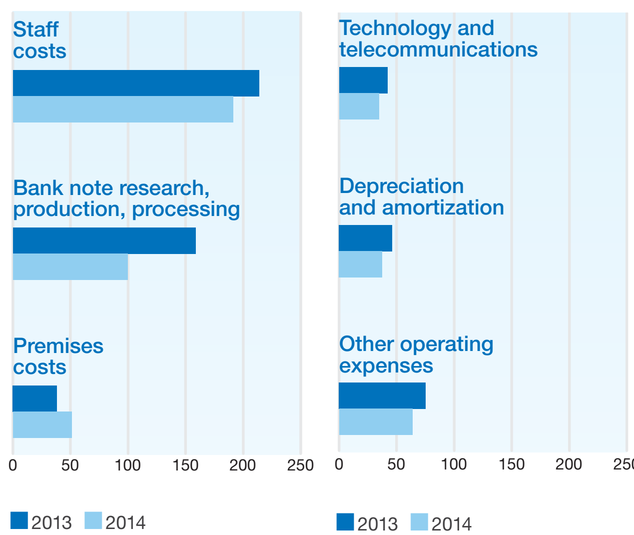
The remaining expenses (premises, technology, depreciation and other operating expenses) represent 39 per cent of the Bank's total operating expenses. These costs decreased by $14.7 million in total compared with 2013.

Increases in *Premises* costs of $12.7 million are related to demolition costs associated with the Bank's Head Office Renewal Program.

Technology and telecommunications costs decreased by $7.5 million as a result of the completion of a number of the Bank's strategic investment projects in 2013. *Depreciation and amortization* costs were higher in 2013 as a result of the depreciation of the 234 Wellington facility.[26]

Bank of Canada Expenses

Can$ millions



25 Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2014 are based on a discount rate of 4.9 per cent (4.0 per cent in 2013).

26 Following the approval of the Head Office Renewal Program, depreciation of the building was aligned to coincide with the start of construction in 2014.

Net Income and Remittances to the Receiver General For Canada
(Millions of Canadian dollars)

	For the year ended 31 December	
	2014	2013
Net income	1,126.8	1,006.0
Other comprehensive income (loss)	(87.3)	221.4
Comprehensive income	1,039.5	1,227.4

Other Comprehensive Income, Equity and Reserves, and Remittances

Net income was $1,126.8 million at 31 December 2014, compared with $1,006.0 million at 31 December 2013. The increase in *Net income* was driven mainly by lower costs in 2014.

Other comprehensive income (loss) of ($87.3) million consists of remeasurement losses of $101.4 million on the Bank's defined-benefit plan assets and liabilities, and an increase of $14.1 million in the fair values of available-for-sale (AFS) assets.

Remeasurements of defined-benefit plan assets and liabilities are affected by the return on plan assets and by changes in the discount rate used to determine defined-benefit obligations. The remeasurements recorded in 2014 are the result of a 90-basis-point decrease in the discount rate used to value the net defined-benefit liability/asset,[27] offset by strong returns on plan assets. The 90-basis-point decrease in the discount rate reflects the change in AA-corporate bond yields over the past 12 months.

Available-for-sale assets are composed of Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for AFS assets within the Bank's *Equity* (see note 16 of the financial statements). At 31 December 2014, the fair value of the Bank's investment in the BIS was $355.2 million, representing an increase of $18.1 million since year-end 2013. The remainder of the change resulted from a decrease in the fair value of the Bank's portfolio of treasury bills.

Transfer to Receiver General for Canada

In accordance with the requirements of the Bank of Canada Act, the Bank remits its surplus income, after funding its operations, to the Receiver General for Canada and does not hold retained earnings.

The Bank's operations are not constrained by its cash flow or by its holdings of liquid assets, since income is predictable and exceeds its expenses. The balance of this income, less agreed reserves and deductions, is remitted to the Receiver General for Canada. This amount was $1,025.4 million in 2014.

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and hold within retained earnings an amount equal to unrealized losses on available-for-sale assets, unrealized remeasurement losses on post-employment defined-benefit plans, and other unrealized or non-cash losses. Subsequently, amounts held back are issued upon the recognition of unrealized gains.

As a result of actuarial losses on the defined-benefit plans in 2014, the Bank withheld $101.4 million from its transfers to the Receiver General.

27 The net defined-benefit liability/asset is based on the discount rate as at the period-end. The rate in effect at 31 December 2014 was 4.0 per cent (4.9 per cent at 31 December 2013).

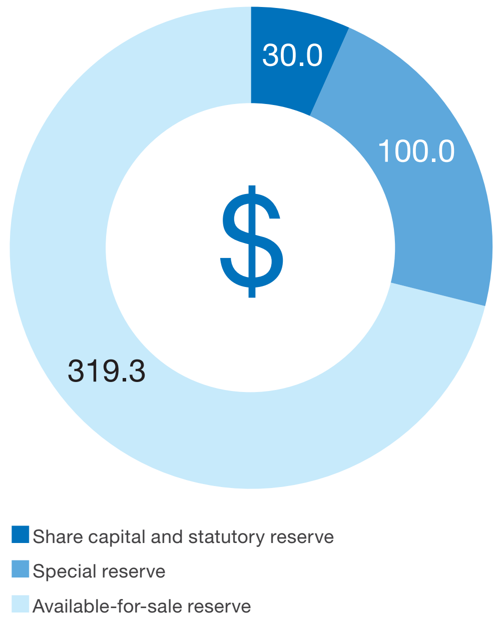
Equity

The Bank's primary equity includes $5 million of authorized share capital and a $25 million statutory reserve.

The Bank also holds a special reserve of $100 million to offset valuation losses arising from changes in the fair value of available-for-sale assets (see note 16 of the Financial Statements). There has been no change in the reserve since its inception.

The largest reserve held by the Bank is the available-for-sale reserve (discussed above).

Bank of Canada Equity
Can$ millions



Looking Ahead to 2015

The Bank's forecasts for its operations do not include projections of net income and financial position. Such projections would require assumptions about interest rates, which could be interpreted as a signal of future monetary policy.

The 2013–15 financial plan established a target of $363 million for medium-term plan (MTP) operating expenses for 2015, up 2 per cent from a budget of $356 million in 2014.

Total operating expenses in 2015 are expected to decrease by $9 million from 2014 levels. Expenses related to bank note production will be lower than in 2014 as a result of lower production volumes. Operating costs associated with the Head Office Renewal Program will also decrease in 2015, since the majority of costs associated with the project will be capital in nature.

In 2015, the Bank also expects to incur $208 million in capital expenditures, of which the majority relates to the Head Office Renewal Program.

The Bank's 2015 Plan
(Millions of Canadian dollars)

	2015 budget	2014 actual
MTP operating expenses	363	348
Bank note production	73	96
Non-current deferred employee benefits	14	(3)
MTP programs including Head Office Renewal	19	37
Total expenses	**469**	**478**

Accounting and Control Matters

The Bank is a Government Business Enterprise as defined by the Public Sector Accounting Board Handbook and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Chartered Professional Accountants of Canada (CPA Canada).

The Bank of Canada Act requires the Bank to submit audited financial statements for the fiscal year ending 31 December to the Minister of Finance, accompanied by a summary report, by the end of February. The Minister then presents the *Annual Report* to Parliament and a copy of the financial statements is published in the *Canada Gazette*.

Funding of deferred employee benefit plans

The Bank sponsors a funded defined-benefit pension plan (the registered pension plan) to provide retirement income benefits to eligible employees. The Bank also sponsors a funded defined-benefit supplementary pension arrangement[28] and other unfunded benefit plans. Plans are funded in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit obligations.

The registered pension plan

The Bank has been conducting annual actuarial valuations of the plan for funding purposes since 2008, with the latest completed valuation as at 31 December 2013. On a going-concern basis (which assesses the plan over the long term on the assumption that it will operate indefinitely), the funding status of the plan at 31 December 2013 was an actuarial surplus ratio of 120 per cent. On a solvency basis (which assesses the plan on the assumption that it would be terminated on the date of the valuation), the funding status of the plan was an actuarial solvency ratio of 104 per cent.

The funding requirements of the plan are determined by the going-concern valuation. In addition, since 2009, the Bank has made additional contributions toward eliminating the solvency deficit. The Bank's estimated funding requirement for 2015 is $22 million, in regular contributions to cover current service costs. In 2015, it is estimated that there will be no requirement for additional contributions as projections indicate an average three-year solvency surplus.

Financial controls

The Bank maintains an internal control framework to evaluate the design and effectiveness of internal controls over financial reporting, as well as disclosure controls and procedures to provide reasonable assurance about the reliability of financial reporting and the preparation of the financial statements.

Significant contracts and agreements

The Bank of Canada and the People's Bank of China signed a reciprocal three-year Canadian-dollar/renminbi (RMB) bilateral swap arrangement with a maximum value of Can$30 billion when the People's Bank of China draws, or RMB 200 billion when the Bank of Canada draws. This swap facility was established to promote increased trade and investment between Canada and China, as well as to provide liquidity in each jurisdiction should market conditions warrant.

28 The supplementary pension arrangement was established to pay pension benefits to employees with annual earnings above the amount covered by the registered pension plan, as provided under the Income Tax Act (Canada).

Understanding the Bank's Financial Operations

The Bank of Canada is a Crown corporation wholly owned by the Government of Canada and accountable to the Minister of Finance. It works closely throughout the year with the Department of Finance and other federal and provincial financial regulators to promote a strong economy and oversee Canada's financial systems.

The Bank's financial structure supports its arm's-length relationship with the government in the conduct of monetary policy. The Bank has an independent revenue stream to fund its activities and operations; any net revenue remaining after expenses is remitted to the Government of Canada. The Bank does not have a budget appropriation from the government.

The Bank's activities and operations are undertaken in support of its core mandate, and not with the objective of generating revenue or profits.

The Bank has the exclusive right to issue Canadian bank notes. The face value of the bank notes in circulation is the most significant liability on the Bank's balance sheet. The Bank invests the proceeds from the issuance of bank notes into Government of Canada securities which are acquired on a non-competitive basis.

The Bank's investments consist primarily of government securities in a proportion that broadly mirrors the structure of the federal government's domestic marketable debt. This makes the Bank's balance sheet a neutral factor in the government's debt-management and fiscal-planning activities.

Interest income derived from Government of Canada securities is the Bank's primary source of revenue. The income is generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs), referred to as "seigniorage"; this generates a stable source of funding for the Bank's operations.

Financial Impact of Core Functions

Monetary Policy

The objective of the Bank of Canada's monetary policy is to keep inflation close to a target that supports sustainable economic growth, as defined by a formal agreement with the Government of Canada. The current target is the 2 per cent midpoint of a 1 to 3 per cent inflation-control range.

The Bank influences short-term interest rates through adjustments in the overnight interest rate on predetermined fixed announcement dates. Other tools used to maintain the overnight rate close to target, as described below, have an impact on the Bank's financial results.

Tool used by the Bank	Impact on the Bank's financial results
Direct-clearing members of the Canadian Payments Association (CPA) can hold surplus deposits with the Bank (referred to as settlement balances) and take advances on an overnight basis. Deposits earn interest at the target rate minus 25 basis points, and collateralized advances are charged interest at the target rate plus 25 basis points.	The Bank currently targets $150 million in net settlement balances but can adjust this amount as warranted to provide required liquidity to the financial system in virtually unlimited amounts. These settlement balances are reflected on the Bank's financial statements.
When required, the Bank offers term purchase and resale agreements and sale and repurchase agreements to designated counterparties.	These agreements are recorded as collateralized lending transactions[a] or as collateralized borrowing transactions[b] at the amounts at which the securities were acquired or sold, plus accrued interest.
Receiver General cash balances are invested through an auction process with participating financial institutions that is administered by the Bank.	Receiver General cash balances held at the Bank are liabilities on the balance sheet.[c]

a. These transactions are recorded in *Loans and receivables* on the Statement of Financial Position.
b. These amounts are recorded in *Other liabilities* on the Statement of Financial Position.
c. Receiver General balances appear on the Statement of Financial Position as *Deposits–Government of Canada*.

Financial System

The Bank of Canada works with other agencies and market participants to promote the safe and efficient operation of the key elements of Canada's financial system: financial institutions, financial markets and payment systems. The Bank also has specific responsibilities related to financial market infrastructures (FMIs) involved in the clearing, settling or recording of payments, securities, derivatives or other financial transactions among participating entities.

The Payment Clearing and Settlement Act (PCSA) defines the Bank's responsibilities related to payment clearing and settlement systems in Canada. The systems designated for oversight under the PCSA are the Large Value Transfer System (LVTS), the Canadian Depository for Securities Exchange, the Continuous Linked Settlement (CLS) Bank, the Canadian Derivatives Clearing Service and SwapClear.

The Bank's financial assets are also used to support the financial system function, as described below. Financial institutions typically allocate liquidity without having to make significant use of the Bank's collateralized advance and deposit facilities. However, in exceptional circumstances, the Bank may be required to provide Emergency Lending Assistance to a financial institution that does not have sufficient liquidity.

Services provided by the Bank	Impact on the Bank's financial results
Settlement balances Typically, participants in the Large Value Transfer System settle net payment positions among themselves on a daily basis. Where required, participants can hold deposits or take advances from the Bank through the Standing Liquidity Facility.	Settlement balances appear as liabilities[a] or assets[b] on the Bank's balance sheet.
Standing Liquidity Facility Advances to financial institutions at a rate of 25 basis points above the target rate are routine under this facility. The framework for the target overnight interest rate provides an incentive for financial intermediaries to allocate liquidity among themselves without having to make significant use of the Bank's deposit facilities and collateralized advances.	These advances[c] are assets of the central bank, and interest on these advances is included in the Bank's revenue.
Securities-lending program The Bank operates a securities-lending program to support the efficiency of the market for Government of Canada securities by providing a temporary, secondary source of securities. When specific Government of Canada treasury bills or bonds are in short supply in the secondary market, the Bank will lend up to 50 per cent of its holdings in these securities on an overnight basis in exchange for other securities.	Securities-lending transactions are fully collateralized by securities. The securities loaned by the Bank continue to be accounted for as assets. Lending fees[d] are included in the Bank's revenue.
Securities purchased or sold under repurchase agreements In the normal course of managing its balance sheet, the Bank needs to undertake repurchase operations from time to time. These assets are typically acquired to offset seasonal flows of bank notes, but can be used for other temporary purposes.	For the impact on the financial results, see the Monetary Policy section on page 13.
Emergency Lending Assistance (ELA) The Bank has the ability to provide ELA to a participant that is judged to be solvent but requires short-term liquidity. Under the Bank of Canada Act, the Bank can provide collateralized ELA to a member of the Canadian Payments Association. Under the Payment Clearing and Settlement Act, the Bank may also provide liquidity loans to a clearing house or a central counterparty.	ELA would appear as a collateralized loan receivable. Interest would be recorded as revenue.

a. Recorded as *Deposits—Members of the Canadian Payments Association* on the Statement of Financial Position.
b. Recorded as *Advances to members of the Canadian Payments Association* on the Statement of Financial Position.
c. Advances appear on the Statement of Financial Position as *Advances to members of the Canadian Payments Association*.
d. Lending fees are recorded as *Other revenue* on the Statement of Comprehensive Income.

Currency

The Bank has exclusive responsibility for supplying Canadians with bank notes that they can use with confidence.

Impact of bank note production on the Bank's financial results

Bank notes in circulation represent the largest liability on the Bank's balance sheet. The liability increases with the growth in demand for bank notes and is subject to important seasonal variations, typically reaching its lowest level at the end of the first quarter and peaking in the second and fourth quarters around holiday periods.	The costs of producing bank notes are expensed as the bank notes are produced and received in finished form by the Bank. The raw materials purchased by the Bank for the production of notes are recorded as *Inventory* on the Bank's balance sheet until they are used in note production.

Funds Management

The Bank of Canada manages the assets and liabilities on its own balance sheet and serves as administrator of the Bank of Canada Pension Plan, making investments on behalf of the Pension Trust Fund.

As fiscal agent for the Government of Canada, the Bank serves as the country's banker and treasurer, managing the accounts of the Receiver General as well as Canada's domestic debt transactions and foreign exchange reserves.

The Bank provides limited funds-management services, including securities settlement and custodial services, to other central banks and international organizations.

Services provided by the Bank	Impact on the Bank's financial results
Fiscal agent to the Government of Canada	The Bank maintains sufficient funds in Receiver General accounts to meet the government's daily requirements and invests any surplus in term deposits. Receiver General accounts are shown as liabilities on the Bank's balance sheet.[a] The costs associated with the provision of fiscal-agent services to the Government of Canada are part of the Bank's expenses. No fees are earned for these services.
The Bank provides policy advice to the government and manages the country's debt. The Bank sells government securities at auction to financial market distributors. The Bank also administers the government's retail debt program, including Canada Savings Bonds.	Debt liabilities are reported in the Public Accounts of Canada and do not appear in the Bank's financial statements.
Canada's foreign exchange reserves are held in the Exchange Fund Account.	The Bank does not hold foreign exchange reserves on its balance sheet and holds only minimal foreign cash balances. The foreign reserves of the Government of Canada appear in the Public Accounts of Canada.
Administration of Bank of Canada Pension Plan	Assets of the Bank of Canada Pension Plan are held and maintained in a segregated Pension Trust Fund.[b]
International securities settlement and custodial services	Assets held under custody agreements held on behalf of the Bank's clients do not appear as assets on the Bank's balance sheet; however, fees earned for these services are included in the Bank's income.

a. Amounts are recorded as *Deposits—Government of Canada* on the Statement of Financial Position.
b. See note 15 in the Financial Statements for more detail on the Bank's accounting as sponsor of the Bank of Canada Pension Plan.

FINANCIAL STATEMENTS

31 December 2014

Financial Reporting Responsibility

The accompanying financial statements of the Bank of Canada (the Bank) have been prepared by management in accordance with International Financial Reporting Standards and contain certain items that reflect the 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 recognized, 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.

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 and Finance Committee of the Board. The Audit and Finance Committee is composed of members who are neither officers nor employees of the Bank and who are financially literate. The Audit and Finance Committee is therefore qualified to review the Bank's annual financial statements and to recommend their approval by the Board of Directors. The Audit and Finance Committee meets with management, the Chief Internal Auditor, and the Bank's independent auditors who are appointed by Order-in-Council. The Audit and Finance Committee has established processes to evaluate the independence of the Bank's independent auditors and oversees all services provided by them. The Audit and Finance 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 in 2014 by the Bank's independent auditors, Deloitte LLP and Ernst & Young LLP, and their report is presented herein. The financial statements of the Bank for the year ended 31 December, 2013, were audited by Deloitte LLP and KPMG LLP. The independent auditors have full and unrestricted access to the Audit and Finance Committee to discuss their audit and related findings.

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
13 February 2015

Independent Auditors' Report

To the Minister of Finance, registered shareholder of the Bank of Canada (the "Bank")

We have audited the accompanying financial statements of the Bank, which comprise the statement of financial position as at 31 December 2014 and the statements of net income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended 31 December, 2013, were audited by Deloitte LLP and KPMG LLP who expressed an unmodified opinion on those statements on 13 February 2014.

Deloitte LLP

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
13 February 2015

Statement of Financial Position

(Millions of Canadian dollars)

	31 December 2014	As at 31 December 2013
Assets		
Cash and foreign deposits (note 4)	**8.4**	5.0
Loans and receivables		
Securities purchased under resale agreements (note 5)	**2,764.8**	2,205.9
Advances to members of the Canadian Payments Association (note 5)	**-**	-
Other receivables	**3.6**	9.0
	2,768.4	2,214.9
Investments (notes 6, 7, 8)		
Government of Canada treasury bills	**19,386.5**	21,586.4
Government of Canada bonds	**71,084.7**	66,653.6
Other investments	**355.2**	337.1
	90,826.4	88,577.1
Property and equipment (note 9)	**283.9**	232.4
Intangible assets (note 10)	**43.8**	52.2
Other assets (note 11)	**181.2**	224.1
Total assets	**94,112.1**	91,305.7
Liabilities and Equity		
Bank notes in circulation (notes 7, 12)	**70,023.5**	66,615.9
Deposits (notes 7, 13)		
Government of Canada	**21,526.6**	22,329.9
Members of the Canadian Payments Association	**150.1**	186.7
Other deposits	**1,518.9**	1,306.9
	23,195.6	23,823.5
Other liabilities (note 14)	**443.7**	431.1
	93,662.8	90,870.5
Equity (note 16)	**449.3**	435.2
Total liabilities and equity	**94,112.1**	91,305.7

Commitments, contingencies and guarantees (notes 17, 18)

Stephen S. Poloz,
Governor

Carmen Vierula, CPA, CA,
Chief Financial Officer and Chief Accountant

Derek D. Key,
Lead Director, Board of Directors

Phyllis Clark,
Chair, Audit and Finance Committee

(See accompanying notes to the Financial Statements.)

Statement of Net Income and Comprehensive Income

(Millions of Canadian dollars)

	For the year ended	
	31 December 2014	31 December 2013
Income		
Interest revenue		
Interest earned on investments	**1,808.6**	1,770.7
Dividend revenue	**3.3**	4.7
Interest earned on securities purchased under resale agreements	**2.5**	3.8
Other interest revenue	**0.2**	0.3
	1,814.6	1,779.5
Interest expense		
Interest expense on deposits	**(218.2)**	(210.6)
Net interest income	**1,596.4**	1,568.9
Other revenue	**8.2**	11.1
Total income	**1,604.6**	1,580.0
Expenses		
Staff costs	**191.3**	213.6
Bank note research, production and processing	**99.6**	158.8
Premises costs	**51.0**	38.3
Technology and telecommunications	**34.6**	42.1
Depreciation and amortization	**37.6**	46.2
Other operating expenses	**63.7**	75.0
Total expenses	**477.8**	574.0
Net income	**1,126.8**	1,006.0
Other comprehensive income (loss)		
Items that will not be reclassified to net income		
Remeasurements of the net defined-benefit liability/asset	**(101.4)**	224.7
Items that may be reclassified subsequently to net income		
Change in fair value of available-for-sale financial assets	**14.1**	(3.3)
Other comprehensive income (loss)	**(87.3)**	221.4
Comprehensive income	**1,039.5**	1,227.4

(See accompanying notes to the Financial Statements.)

Statement of Changes in Equity

(Millions of Canadian dollars)

For the year ended 31 December

	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2014	**5.0**	**25.0**	**100.0**	**305.2**	**-**	**435.2**
Comprehensive income for the period						
Net income	**-**	**-**	**-**	**-**	**1,126.8**	**1,126.8**
Remeasurements of the net defined-benefit liability/asset	**-**	**-**	**-**	**-**	**(101.4)**	**(101.4)**
Change in fair value of BIS shares	**-**	**-**	**-**	**18.1**	**-**	**18.1**
Change in fair value of Government of Canada treasury bills	**-**	**-**	**-**	**(4.0)**	**-**	**(4.0)**
	-	**-**	**-**	**14.1**	**1,025.4**	**1,039.5**
Transfer to Receiver General for Canada	**-**	**-**	**-**	**-**	**(1,025.4)**	**(1,025.4)**
Balance, 31 December 2014	**5.0**	**25.0**	**100.0**	**319.3**	**-**	**449.3**

	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Retained earnings	Total
Balance, 1 January 2013	5.0	25.0	100.0	308.5	-	438.5
Comprehensive income for the period						
Net income	-	-	-	-	1,006.0	1,006.0
Remeasurements of the net defined-benefit liability/asset	-	-	-	-	224.7	224.7
Change in fair value of BIS shares	-	-	-	(5.6)	-	(5.6)
Change in fair value of Government of Canada treasury bills	-	-	-	2.3	-	2.3
	-	-	-	(3.3)	1,230.7	1,227.4
Transfer to Receiver General for Canada	-	-	-	-	(1,230.7)	(1,230.7)
Balance, 31 December 2013	5.0	25.0	100.0	305.2	-	435.2

(See accompanying notes to the Financial Statements.)

Statement of Cash Flows

(Millions of Canadian dollars)

	For the year ended 31 December 2014	31 December 2013
Cash Flows from Operating Activities		
Interest received	**1,870.1**	1,817.0
Dividends received	**3.3**	4.7
Other revenue received	**13.0**	7.3
Interest paid	**(218.2)**	(210.6)
Payments to or on behalf of employees/suppliers and to members of the Canadian Payments Association	**(482.7)**	(515.7)
Net decrease in advances to members of the Canadian Payments Association	**-**	61.8
Net increase (decrease) in deposits	**(627.9)**	10,532.2
Proceeds from maturity of securities purchased under resale agreements	**21,321.1**	57,969.7
Acquisition of securities purchased under resale agreements	**(21,878.4)**	(58,337.3)
Repayments of securities sold under repurchase agreements	**(229.9)**	(3,653.9)
Proceeds from securities sold under repurchase agreements	**229.9**	3,653.9
Net cash provided by operating activities	**0.3**	11,329.1
Cash Flows from Investing Activities		
Net decrease (increase) in Government of Canada treasury bills	**2,180.4**	(2,582.0)
Purchases of Government of Canada bonds	**(18,109.8)**	(18,213.5)
Proceeds from maturity of Government of Canada bonds	**13,634.0**	7,780.0
Additions of property and equipment	**(76.8)**	(66.3)
Additions of intangible assets	**(3.9)**	(6.0)
Net cash used in investing activities	**(2,376.1)**	(13,087.8)
Cash Flows from Financing Activities		
Net increase in bank notes in circulation	**3,407.6**	2,915.9
Remittance of ascertained surplus to the Receiver General for Canada	**(1,028.7)**	(1,159.2)
Net cash provided by financing activities	**2,378.9**	1,756.7
Effect of Exchange Rate Changes on Foreign Currency	**0.3**	0.2
Increase (decrease) in Cash and Foreign Deposits	**3.4**	(1.8)
Cash and Foreign Deposits, Beginning of Year	**5.0**	6.8
Cash and Foreign Deposits, End of Year	**8.4**	5.0

(See accompanying notes to the Financial Statements.)

Notes to the Financial Statements of the Bank of Canada

For the year ended 31 December 2014

(Amounts in the notes to the Financial Statements of the Bank of Canada are in millions of Canadian dollars, unless otherwise stated.)

1. The business of the Bank of Canada

The Bank of Canada (the Bank) is the nation's central bank. The Bank is a corporation under the Bank of Canada Act, is wholly owned by the Government of Canada and is exempt from income taxes. The Bank is a Government Business Enterprise as defined by the Canadian Public Sector Accounting Standards and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Chartered Professional Accountants of Canada (CPA Canada).

The address of the registered head office is 234 Laurier Avenue West, Ottawa, Ontario.

The responsibilities of the Bank focus on the goals of low and stable inflation, financial system stability, a safe and secure currency, and the efficient management of government funds and public debt. These responsibilities are carried out as part of the broad functions described below.

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

Financial system
Promotes the stability and efficiency of Canada's financial system, both within Canada and globally.

Currency
Designs, produces and distributes Canada's bank notes and replaces worn notes. The Bank deters counterfeiting through leading-edge bank note design, public education and collaboration with law-enforcement agencies.

Funds management
Provides effective and efficient funds-management services for the Government of Canada, and administers and advises on the public debt and foreign exchange reserves. In addition, the Bank provides banking services to foreign central banks, as well as to critical payment clearing and settlement systems.

The Bank's activities and operations are undertaken in support of its core mandate and not with the objective of generating revenue or profits. It does not offer banking services to the public. The Bank has the exclusive right to issue Canadian bank notes, and the face value of these bank notes is the most significant liability on the Bank's balance sheet. The Bank invests the proceeds from the issuance of bank notes into Government of Canada securities, which are acquired on a non-competitive basis. These assets enable the Bank to execute its responsibilities for the monetary policy and financial system functions.

Interest income derived from Government of Canada securities is the Bank's primary source of revenue each year. The income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage," which provides a stable and constant source of funding for the Bank's operations, enabling it to function independently of government appropriations. A portion of this revenue is used to fund the Bank's operations and reserves; the remaining net income is remitted to the Receiver General in accordance with the requirements of the Bank of Canada Act.

2. Basis of preparation

Compliance with International Financial Reporting Standards (IFRS)

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's bylaws.

The Board of Directors approved the financial statements on 13 February 2015.

Measurement base

The financial statements have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets, which are measured at fair value, and the net defined-benefit liability/asset of employee benefit plans, which is recognized as the net of the fair value of plan assets and the present value of the defined-benefit obligation.

Significant accounting estimates and judgments in applying accounting policies

The preparation of the financial statements requires management to make judgments, estimates and assumptions based on information available at the statement date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, as well as related information. The Bank based its assumptions and estimates on information that was available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change, however, in response to market fluctuations or circumstances that are beyond the control of the Bank. In such cases, the impact will be recognized in the financial statements of a future fiscal period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates are primarily in the area of the fair values of certain financial instruments and collateral taken (note 8) and employee benefits (note 15).

Functional and presentation currency

The Bank's functional and presentation currency is the Canadian dollar.

Fiscal-agent and custodial activities

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the Government of Canada) and the Department of Finance. In this fiscal-agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas. The assets, liabilities, expenditures and revenues to which this support relates are those of the Government of Canada and are not included in the financial statements of the Bank.

Securities safekeeping and gold custodial activities are provided to foreign central banks and international organizations. The assets, and income arising therefrom, are excluded from these financial statements, since they are not assets or income of the Bank.

3. Significant accounting policies

This section contains the Bank's accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to a note are included within that note. Accounting policies related to non-material items are not included in these financial statements.

There were no new or amended standards adopted by the Bank during fiscal 2014 that had a material impact on its financial statements.

Translation of foreign currencies

Investment income and expenses denominated in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Fair-value items denominated in foreign currencies are translated at the exchange rate in effect at the date of the fair-value measurement. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the end of the reporting period. The resulting gains and losses are included in *Other revenue*. Gains or losses on equity investments classified as AFS, along with any exchange-related gains or losses, are recognized in the available-for-sale reserve within *Other Comprehensive Income*.

Impairment of financial assets

For financial assets that are not classified at fair value through net income, the Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of assets is impaired. Once impaired, financial assets carried at amortized cost are remeasured at the net recoverable amount, with the amount of impairment recognized in net income. Unrealized losses on impaired AFS financial assets are recognized in net income at the time of impairment.

Impairment of non-financial assets

Non-financial assets, including property and equipment, and intangible assets, are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount.

Intangible assets under development are assessed for impairment on an annual basis.

Revenue recognition

Interest revenue earned on Government of Canada treasury bills and bonds is recognized in net income using the effective interest method. Dividend revenue on the Bank for International Settlements (BIS) shares is recognized as dividends are declared.

Realized gains (losses) on the sale of Government of Canada treasury bills are recognized in net income at the time of sale as a reclassification from O*ther Comprehensive Income* and are calculated as the excess of proceeds over the amortized cost at the transaction date.

Interest earned on securities purchased under resale agreements is recognized using the effective interest method.

Other revenue is primarily composed of interest earned on advances to members of the Canadian Payments Association (CPA) and is recognized using the effective interest method.

Future changes in accounting policies

The following new standards issued by the International Accounting Standards Board (IASB) were assessed as having a possible effect on the Bank in the future. The Bank is currently determining the impact of these standards on its financial statements.

IFRS 9 Financial Instruments (IFRS 9)

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 9 eliminates the existing financial asset categories and adopts a logical approach to the classification of financial assets driven by cash-flow characteristics and the business model in which an asset is held.

IFRS 9 introduces a new impairment model that results in a single impairment model being applied to all financial instruments. In addition, this new expected loss impairment model will require more timely recognition of expected credit losses.

IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk-management activities for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant improvements apply to those entities that hedge non-financial risk.

The IASB has set 1 January 2018 as the mandatory effective date for the adoption of IFRS 9, although early adoption is permitted. The Bank is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15 Revenue from contracts with customers (IFRS 15)

IFRS 15, as issued in May 2014, relates to the recognition of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).

IFRS 15 establishes a five-step model to apply to revenue from contracts and extensive requirements for revenue disclosure. The standard also addresses the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities.

The IASB has set 1 January 2017 as the mandatory effective date for the adoption of IFRS 15, although early adoption is permitted. The Bank is currently evaluating the impact of IFRS 15 on its financial statements.

4. Cash and foreign deposits

Cash and foreign deposits is composed of cash on hand as well as highly liquid demand deposits in foreign currencies with other central banks or international financial institutions. Included in this balance is Can$7.9 million (Can$4.6 million at 31 December 2013) of foreign deposits. Credit risk related to these foreign deposits is discussed in note 8.

5. Loans and receivables

Loans and receivables is composed primarily of securities purchased under resale agreements and, if any, advances to members of the CPA. These transactions are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. Financial risks related to these instruments are discussed in note 8.

Accounting policy

Securities purchased under resale agreements for terms of one business day are acquired to reinforce the target overnight interest rate. Securities are acquired through buyback transactions with primary dealers where the counterparties may accept an amount up to their pre-specified limit.

Securities purchased under resale agreements for terms of longer than one business day are acquired through an auction process. Details of these auctions are announced by the Bank in advance. Bids are submitted on a yield basis, and funds are allocated in descending order of bid yields.

Securities purchased under resale agreements are reverse repo-type transactions in which the Bank purchases securities from designated counterparties with an agreement to sell them back at a predetermined price on an agreed transaction date. For accounting purposes, these agreements are treated as collateralized lending transactions and are recognized on the Statement of Financial Position at the amounts at which the securities were originally acquired, plus accrued interest.

Securities purchased under resale agreements

Balances outstanding at 31 December 2014 consist of agreements with original terms to maturity of 24 days. (Balances outstanding at 31 December 2013 consist of agreements with original terms to maturity of 21 days.)

Advances to members of the Canadian Payments Association

Advances to members of the Canadian Payments Association (CPA) are typically composed of liquidity loans made under the Bank's Standing Liquidity Facility. These advances mature the next business day. Interest on overnight advances is calculated at the Bank Rate. The Bank Rate is the rate of interest that the Bank charges on one-day loans to major financial institutions.

6. Securities lending program

The Bank operates a Securities-Lending Program to support the liquidity of Government of Canada securities by providing the market with a secondary and temporary source of these securities. These securities-lending transactions are fully collateralized by securities and are generally one business day in duration.

Accounting policy

The securities loaned continue to be accounted for as investment assets. Lending fees charged by the Bank on these transactions are included in *Other revenue* at the maturity date of the transaction.

Securities lending

As at 31 December 2014, the Bank's investments included loaned securities with a fair market value of $185.8 million ($129.7 million at 31 December 2013) and an amortized cost of $175.0 million ($119.5 million at 31 December 2013). Collateral held against investments loaned under securities lending at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $190.5 million, representing 102 per cent of the fair market value of the securities loaned.

7. Financial instruments

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the CPA, other receivables, investments (consisting of Government of Canada treasury bills, Government of Canada bonds and other investments), bank notes in circulation, deposits and other liabilities (excluding the net defined-benefit liability for pension benefit plans and other employee benefit plans).

In *Other investments*, the Bank holds 9,441 BIS shares (9,441 BIS shares at 31 December 2013) in order to participate in the BIS. Ownership of BIS shares is limited to central banks, and new shares can only be acquired following an invitation to subscribe extended by the BIS Board of Directors. The shares are non-transferable unless prior written consent is obtained from the BIS. The fair value of the BIS shares totalled $355.2 million ($337.1 million at 31 December 2013).

Accounting policy

The Bank accounts for all financial instruments using settlement-date accounting. Financial instruments are measured at fair value on initial recognition, plus transaction costs, if any, for all financial assets not carried at fair value through net income. Subsequent to initial recognition, they are accounted for based on their classification.

Subsequent to initial recognition, financial assets classified as AFS are measured at fair value using quoted market prices, with the exception of the BIS shares, which are measured using significant non-observable inputs. Unrealized changes in the values of AFS financial assets measured at fair value are recognized in *Other Comprehensive Income* and accumulated in the *Available-for-sale reserve* in *Equity* until the financial asset is derecognized or becomes impaired. At that time, the cumulative unrealized gain or loss previously recognized in *Other Comprehensive Income* is reclassified from *Equity* to *Net income*. The Bank's financial assets designated as AFS consist of Government of Canada treasury bills and other investments, which include BIS shares.

Financial assets that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity (HTM). Subsequent to initial recognition, financial assets classified as HTM are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method uses the rate inherent in a financial instrument that discounts the estimated future cash flows over the expected life of the financial instrument in order to recognize interest on a constant-yield basis. Government of Canada bonds are classified as HTM.

The Bank has not classified any of its financial assets at fair value through net income, other than cash and foreign deposits.

All other financial assets are classified as loans and receivables. Subsequent to initial recognition, these are measured at amortized cost less any impairment losses using the effective interest method.

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in net income.

The Bank has classified its financial liabilities as other liabilities. These liabilities are initially recognized at fair value. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value. The Bank has not classified any of its financial liabilities at fair value through net income.

The Bank derecognizes financial liabilities when the Bank’s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in net income.

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. For accounting purposes, these agreements are treated as collateralized borrowing transactions and are recognized on the Statement of Financial Position at the amounts at which the securities were originally sold, plus accrued interest.

Measurement of financial instruments

Cash and foreign deposits, Government of Canada treasury bills, and BIS shares are measured at fair value. All other financial instruments are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value.

Financial instruments measured at fair value

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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

	Level 1	Level 2	Level 3	Total
Financial assets at fair value as at 31 December 2014				
Government of Canada treasury bills	**19,386.5**	**-**	**-**	**19,386.5**
BIS shares	**-**	**-**	**355.2**	**355.2**
	19,386.5	**-**	**355.2**	**19,741.7**
Financial assets at fair value as at 31 December 2013				
Government of Canada treasury bills	21,586.4	-	-	21,586.4
BIS shares	-	-	337.1	337.1
	21,586.4	-	337.1	21,923.5

There were no transfers of amounts between levels in 2014.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value (NAV) of the BIS at the reporting date. This formula is equivalent to the methodology applied by the BIS to determine the pricing of any new shares issued. While the Bank considers that the 30 per cent discount against the net asset value of the BIS continues to be the appropriate basis for valuation, the valuation inputs are not considered to be observable, and a 5 per cent change in the discount to the NAV would not have a material impact on the fair value of the BIS shares. There were no changes to the valuation technique during the year.

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair-value measurements:

	31 December 2014	31 December 2013
Opening balance at beginning of period	**337.1**	342.7
Change in fair value recorded through *Other Comprehensive Income*	**18.1**	(5.6)
Closing balance at period-end	**355.2**	337.1

Financial instruments not measured at fair value
Fair values of Government of Canada bonds are determined based on unadjusted quoted market prices in an active market (Level 1). The fair value of Government of Canada bonds is $75,630.7 million at 31 December 2014 ($68,622.2 million at 31 December 2013).

8. Financial risk management

The Bank has a well-established framework for identifying, managing and monitoring pertinent areas of risk. This framework is supported by the Board of Directors, which ensures that the Bank has a robust risk-management process in place. The Bank is exposed to financial risk (credit risk, market risk and liquidity risk) associated with the management of the Bank's financial assets and liabilities. The Financial Risk Office, which is independent of operations, monitors and reports on the financial risks relating to the Bank's Statement of Financial Position. The following is a description of those risks and how the Bank manages its exposure to them.

Credit risk

Credit risk is the risk that a counterparty to a financial contract will fail to discharge its obligations in accordance with agreed-upon terms.

The Bank is exposed to credit risk through its cash and foreign deposits, investment portfolio, and advances to members of the CPA, and through market transactions conducted in the form of securities purchased under resale agreements and loans of securities. The maximum exposure to credit risk is estimated to be the carrying value of the items listed above. There are no past due or impaired amounts.

Advances to members of the CPA, securities purchased under resale agreements and securities loaned are fully collateralized loans. Collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements, which are accessible on its website. Strict eligibility criteria are set for all collateral, and the Bank requires excess collateral relative to the size of the loan provided.

In the unlikely event of a counterparty default, collateral can be liquidated to offset credit exposure. The credit quality of collateral is managed through a set of restrictions based on asset type, term to maturity and the credit ratings of the securities pledged.

Concentration of credit risk

The credit risk associated with the Bank's investment portfolio, representing 97 per cent of the carrying value of its total assets (97 per cent in 2013), is low because the securities held are primarily direct obligations of the Government of Canada, which holds a credit rating of AAA. The Bank's advances to members of the CPA and securities purchased under resale agreements, representing 3 per cent of the carrying value of its total assets (2 per cent in 2013), are collateralized obligations of various Canadian-based financial institutions.

Collateral held against securities purchased under resale agreements at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $2,868.4 million, representing 104 per cent of the amortized cost of $2,764.8 million ($2,250.6 million, representing 102 per cent of the amortized cost at 31 December 2013).

The Bank is exposed to credit risk through its guarantee of the Large Value Transfer System (LVTS) and through the execution of foreign currency contracts. The maximum exposure under guarantees and foreign currency contracts is described in note 18.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's investment in Government of Canada treasury bills and bonds counteracts the non-interest-bearing bank notes in circulation liability and supports the Bank's operational independence to conduct monetary policy. These assets are acquired in proportions that broadly resemble the structure of the Government of Canada's domestic debt outstanding in order to reduce interest rate risk from the perspective of the Government of Canada.

The Bank's exposure to fair-value interest rate risk arises principally through its investment in Government of Canada treasury bills, which are short term in duration, and Government of Canada bonds. The fair value of the Government of Canada treasury bills portfolio held by the Bank is exposed to fluctuations because of changes in market interest rates. Unrealized gains and losses on the Government of Canada treasury bill portfolio are recognized in the *Available-for-sale reserve* in the *Equity* section of the Statement of Financial Position until they mature or are sold. Government of Canada bonds are carried at amortized cost and are acquired with the intention of holding them to maturity. All other financial assets or liabilities with an interest rate component are carried at amortized cost or at face value.

The Bank's revenue will vary over time in response to future movements in interest rates. These variations would not affect the ability of the Bank to fulfill its obligations, since its revenues greatly exceed its expenses.

The figures below show the effect at 31 December of an (increase)/decrease of 25 basis points in interest rates on the fair value of the Government of Canada treasury bill portfolio and on other comprehensive income.

	31 December 2014	31 December 2013
Government of Canada treasury bills	**(17.5) / 16.9**	(17.6) / 17.0

The Bank's exposure to interest rate risk in the form of fluctuations in future cash flows of existing financial instruments is limited to Government of Canada deposits, and cash and foreign deposits, since these instruments are subject to variable interest rates. The remainder of the Bank's financial assets and liabilities have either fixed interest rates or are non-interest-bearing.

The figures below show the effect at 31 December of an increase/(decrease) of 25 basis points in interest rates on the interest expenses paid on Government of Canada deposits.

	31 December 2014	31 December 2013
Interest expense on Government of Canada deposits	**57.1 / (57.1)**	51.3 / (51.3)

For all financial instruments, except bank notes in circulation, the future cash flows of the Bank are dependent on the prevailing market rate of interest at the time of renewal.

The following table illustrates interest rate risk relative to future cash flows by considering the expected maturity or repricing dates of existing financial assets and liabilities.

					As at 31 December 2014
	Non-interest-sensitive	Within 12 months	1 to 5 years	Over 5 years	Total
Financial Assets					
Cash and foreign deposits	-	8.4	-	-	8.4
Loans and receivables[1]	3.6	2,764.8	-	-	2,768.4
Investments					
Government of Canada treasury bills	-	19,386.5	-	-	19,386.5
Government of Canada bonds[2]	-	12,031.7	35,162.0	23,891.0	71,084.7
Shares in the BIS	355.2	-	-	-	355.2
	358.8	34,191.4	35,162.0	23,891.0	93,603.2
Financial Liabilities					
Bank notes in circulation	70,023.5	-	-	-	70,023.5
Deposits					
Government of Canada	-	21,526.6	-	-	21,526.6
Members of the CPA	-	150.1	-	-	150.1
Other deposits	577.3	941.6	-	-	1,518.9
Other financial liabilities	238.9	-	-	-	238.9
	70,839.7	22,618.3	-	-	93,458.0
Interest rate sensitivity gap	(70,480.9)	11,573.1	35,162.0	23,891.0	145.2

					As at 31 December 2013
	Non-interest-sensitive	Within 12 months	1 to 5 years	Over 5 years	Total
Financial Assets					
Cash and foreign deposits	-	5.0	-	-	5.0
Loans and receivables[1]	9.0	2,205.9	-	-	2,214.9
Investments					
Government of Canada treasury bills	-	21,586.5	-	-	21,586.5
Government of Canada bonds[2]	-	13,706.3	32,040.8	20,906.5	66,653.6
Shares in the BIS	337.1	-	-	-	337.1
	346.1	37,503.7	32,040.8	20,906.5	90,797.1
Financial Liabilities					
Bank notes in circulation	66,615.9	-	-	-	66,615.9
Deposits					
Government of Canada	-	22,329.9	-	-	22,329.9
Members of the CPA	-	186.7	-	-	186.7
Other deposits	532.7	774.2	-	-	1,306.9
Other financial liabilities	254.4	-	-	-	254.4
	67,403.0	23,290.8	-	-	90,693.8
Interest rate sensitivity gap	(67,056.9)	14,212.9	32,040.8	20,906.5	103.3

1. Securities purchased under resale agreements are interest-bearing assets. Other receivables are non-interest-sensitive.
2. Interest payments on Government of Canada bonds are classified according to their coupon date.

Currency risk

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

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

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The Bank is exposed to other price risk through its investment in the BIS. For accounting purposes, the Bank treats BIS shares as AFS and the fair value of these shares is estimated on the basis of the net asset value of the BIS, less a discount of 30 per cent. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Canadian dollar. The other price risk faced on BIS shares is incidental to the general reasons for holding them and is immaterial compared with other market risks faced by the Bank.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liabilities with no fixed maturity include *Bank notes in circulation* and *Government of Canada deposits*. Historical experience has shown that bank notes in circulation provide a stable source of long-term funding for the Bank. *Government of Canada deposits* are deposits held in the Bank's capacity as the Government of Canada's fiscal agent. As a counterpart to this non-interest-bearing liability with no fixed maturity, the Bank holds a portfolio of highly liquid, interest-bearing securities. In the event of an unexpected redemption of bank notes or a significant withdrawal from the Government of Canada's deposit for the prudential liquidity-management plan, the Bank has the ability to settle the obligation by means of several tools.

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

The Bank is exposed to liquidity risk through its guarantee of the LVTS. The maximum exposure under this guarantee is described in note 18.

The following table presents a maturity analysis of the Bank's financial assets and liabilities. The balances in this table do not correspond to the balances in the Statement of Financial Position, since the table presents all cash flows on an undiscounted basis.

In cases where counterparties to securities purchased under resale agreements substitute collateral after the outset of an agreement, portions of the carrying values presented may mature earlier than as presented, where the amount maturing early is dependent on the value of the collateral being substituted. Where collateral has been substituted, agreements are typically re-established under the same terms and conditions. The information presented in the following table is prepared according to agreements in place as at 31 December 2014 and 31 December 2013, respectively.

	As at 31 December 2014				
	No fixed maturity	**Within 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial Assets					
Cash and foreign deposits	**8.4**	**-**	**-**	**-**	**8.4**
Loans and receivables	**-**	**2,768.4**	**-**	**-**	**2,768.4**
Investments					
Government of Canada treasury bills	**-**	**19,450.0**	**-**	**-**	**19,450.0**
Government of Canada bonds	**-**	**11,986.8**	**35,040.0**	**23,123.8**	**70,150.6**
Shares in the BIS	**355.2**	**-**	**-**	**-**	**355.2**
	363.6	**34,205.2**	**35,040.0**	**23,123.8**	**92,732.6**
Financial Liabilities					
Bank notes in circulation	**70,023.5**	**-**	**-**	**-**	**70,023.5**
Deposits					
Government of Canada	**21,526.6**	**-**	**-**	**-**	**21,526.6**
Members of the CPA	**-**	**150.1**	**-**	**-**	**150.1**
Other deposits	**1,518.9**	**-**	**-**	**-**	**1,518.9**
Other financial liabilities	**-**	**238.9**	**-**	**-**	**238.9**
	93,069.0	**389.0**	**-**	**-**	**93,458.0**
Net maturity difference	**(92,705.4)**	**33,816.2**	**35,040.0**	**23,123.8**	**(725.4)**

	As at 31 December 2013				
	No fixed maturity	**Within 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial Assets					
Cash and foreign deposits	5.0	-	-	-	5.0
Loans and receivables	-	2,214.9	-	-	2,214.9
Investments					
Government of Canada treasury bills	-	21,650.0	-	-	21,650.0
Government of Canada bonds	-	13,634.0	31,971.8	20,158.8	65,764.6
Shares in the BIS	337.1	-	-	-	337.1
	342.1	37,498.9	31,971.8	20,158.8	89,971.6
Financial Liabilities					
Bank notes in circulation	66,615.9	-	-	-	66,615.9
Deposits					
Government of Canada	22,329.9	-	-	-	22,329.9
Members of the CPA	-	186.7	-	-	186.7
Other deposits	1,306.9	-	-	-	1,306.9
Other financial liabilities	-	254.4	-	-	254.4
	90,252.7	441.1	-	-	90,693.8
Net maturity difference	(89,910.6)	37,057.8	31,971.8	20,158.8	(722.2)

9. Property and equipment

Accounting policy

Property and equipment consists of land, buildings, computer equipment, other equipment and related projects in progress. *Property and equipment* is measured at cost less accumulated depreciation, except for land, which is not depreciated, and is net of any related impairment losses. Projects in progress are measured at cost but are not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Upon replacing a significant part of an item of property and equipment, the carrying amount of the replaced part is derecognized and any gain or loss recognized in depreciation.

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below. The estimated useful life and the depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Buildings	25 to 65 years
Computer equipment	3 to 7 years
Other equipment	5 to 15 years

Leasehold improvements (included in *Other equipment*) are depreciated over the lesser of the useful life or the term of the lease.

Carrying value of property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2014				
Cost				
Balances, 31 December 2013	**221.4**	**35.8**	**80.5**	**337.7**
Additions	**70.1**	**3.4**	**3.3**	**76.8**
Disposals	**-**	**-**	**(4.6)**	**(4.6)**
Transfers to other asset categories	**-**	**0.1**	**(0.1)**	**-**
Balances, 31 December 2014	**291.5**	**39.3**	**79.1**	**409.9**
Depreciation				
Balances, 31 December 2013	**(72.4)**	**(11.4)**	**(21.5)**	**(105.3)**
Depreciation expense	**(5.9)**	**(5.3)**	**(14.0)**	**(25.2)**
Disposals	**-**	**-**	**4.5**	**4.5**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 31 December 2014	**(78.3)**	**(16.7)**	**(31.0)**	**(126.0)**
Carrying amounts				
At 31 December 2013	**149.0**	**24.4**	**59.0**	**232.4**
At 31 December 2014	**213.2**	**22.6**	**48.1**	**283.9**

Land and buildings includes the activities related to the Head Office Renewal Program. In December 2013, the Bank signed a memorandum of understanding with the construction manager that establishes a guaranteed maximum price for future construction at the head office facility. The commitments at 31 December 2014 are primarily associated with the Head Office Renewal Program.

Other equipment includes bank note inspection equipment that was obtained through a finance lease arrangement (note 17).

	Land and buildings	Computer equipment	Other equipment	Total
Projects in progress 2014				
Included in *Carrying amounts* at 31 December 2014	**89.4**	**5.1**	**0.4**	**94.9**
Additions during 2014	**69.7**	**3.4**	**0.3**	**73.4**
Commitments at 31 December 2014	**199.5**	**0.3**	**1.0**	**200.8**

Projects in progress consists primarily of $89.4 million related to the Head Office Renewal Program (31 December 2013—$19.7 million) and $5.1 million related to the High Availability Renewal Program (31 December 2013—$1.8 million). The Tri-Agency Database System Renewal was put into service in 2014 and removed from *Projects in progress*.

	Land and buildings	Computer equipment	Other equipment	Total
2013				
Cost				
Balances, 31 December 2012	240.7	27.2	95.7	363.6
Additions	20.8	7.4	50.6	78.8
Disposals	(37.8)	(1.1)	(65.8)	(104.7)
Transfers to other asset categories	(2.3)	2.3	-	-
Balances, 31 December 2013	221.4	35.8	80.5	337.7
Depreciation				
Balances, 31 December 2012	(89.4)	(7.1)	(76.7)	(173.2)
Depreciation expense	(13.8)	(4.9)	(9.8)	(28.5)
Disposals	30.8	0.6	65.0	96.4
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2013	(72.4)	(11.4)	(21.5)	(105.3)
Carrying amounts				
At 31 December 2012	151.3	20.1	19.0	190.4
At 31 December 2013	149.0	24.4	59.0	232.4
Projects in progress 2013				
Included in *Carrying amounts* at 31 December 2013	19.7	2.0	0.1	21.8
Additions during 2013	17.8	1.8	0.4	20.0
Commitments at 31 December 2013	41.4	0.1	5.7	47.2

10. Intangible assets

Accounting policy

Intangible assets are identifiable non-monetary assets without physical substance. The Bank's intangible assets consist of computer software internally developed or externally acquired.

Costs that are directly associated with the internal development of identifiable software are recognized as intangible assets if, in management's best estimate, the asset can technically be completed and will provide a future economic benefit to the Bank. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software assets that are acquired by the Bank and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, which may vary from 3 to 15 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.

Carrying value of intangible assets

	Internally generated software	Other software	Total
2014			
Cost			
Balances, 31 December 2013	43.2	61.4	104.6
Additions	2.7	1.2	3.9
Disposals	-	-	-
Balances, 31 December 2014	45.9	62.6	108.5
Amortization			
Balances, 31 December 2013	(33.8)	(18.6)	(52.4)
Amortization expense	(4.7)	(7.6)	(12.3)
Disposals	-	-	-
Balances, 31 December 2014	(38.5)	(26.2)	(64.7)
Carrying amounts			
At 31 December 2013	9.4	42.8	52.2
At 31 December 2014	7.4	36.4	43.8

Projects in progress 2014			
Included in *Carrying amounts* at 31 December 2014	2.7	0.5	3.2
Additions during 2014	2.7	0.5	3.2
Commitments at 31 December 2014	-	-	-

	Internally generated software	Other software	Total
2013			
Cost			
Balances, 31 December 2012	42.8	55.8	98.6
Additions	0.4	5.6	6.0
Disposals	-	-	-
Balances, 31 December 2013	43.2	61.4	104.6
Amortization			
Balances, 31 December 2012	(29.7)	(13.3)	(43.0)
Amortization expense	(4.1)	(5.3)	(9.4)
Disposals	-	-	-
Balances, 31 December 2013	(33.8)	(18.6)	(52.4)
Carrying amounts			
At 31 December 2012	13.1	42.5	55.6
At 31 December 2013	9.4	42.8	52.2

Projects in progress 2013			
Included in *Carrying amounts* at 31 December 2013	-	4.1	4.1
Additions during 2013	-	2.7	2.7
Commitments at 31 December 2013	-	-	-

11. Other assets

Accounting policy

Bank note inventory consists of production materials, including the polymer substrate and ink, and is measured at the lower of: the cost or the net realizable value. The cost to produce finished bank notes is expensed as incurred.

Composition of other assets

	31 December 2014	31 December 2013
Bank note inventory	**17.2**	11.9
Net defined-benefit asset (note 15)	**134.8**	197.7
All other assets	**29.2**	14.5
Total other assets	**181.2**	224.1

Included in *All other assets* is a $15.0 million advance to CBRE Limited in connection with the Head Office Renewal Program, which is expected to remain in place through to the end of the construction period ($Nil at 31 December 2013). The advance is to facilitate the timely payment of subcontractor agreements.

12. 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.

	31 December 2014	31 December 2013
$5	**1,188.0**	1,103.4
$10	**1,275.6**	1,263.8
$20	**17,801.4**	17,229.7
$50	**11,233.9**	10,744.3
$100	**37,323.9**	35,039.3
Other bank notes	**1,200.7**	1,235.4
Bank notes in circulation	**70,023.5**	66,615.9

Other bank notes include denominations that are no longer issued but continue to be legal tender. Bank notes in circulation are non-interest-bearing liabilities and are due on demand.

13. Deposits

The liabilities within *Deposits* consist of $23,195.6 million in Canadian-dollar demand deposits ($23,823.5 million at 31 December 2013). The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at short-term market rates, and interest expense on deposits is included in the Statement of Net Income and Comprehensive Income.

Deposits from the Government of Canada consist of $1,526.6 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($2,329.9 million and $20,000.0 million, respectively, at 31 December 2013).

14. Other liabilities

Accounting policy

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the statement of financial position date, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Composition of other liabilities

	31 December 2014	31 December 2013
Accrued transfer payment to the Receiver General for Canada	**150.4**	153.7
Net defined-benefit liability (note 15)		
Pension benefit plan	**32.0**	16.8
Other benefit plans	**172.8**	159.9
All other liabilities and provisions (note 17)	**88.5**	100.7
Total other liabilities	**443.7**	431.1

Accrued transfer payment

The accrued transfer payment to the Receiver General for Canada of $150.4 million (31 December 2013—$153.7 million) is included in the $1,025.4 million *Transfer to the Receiver General* for the year presented in the Statement of Changes in Equity (31 December 2013—$1,230.7 million).

For the year ended 31 December 2014, an amount of $153.7 million related to 2013 net income and $875.0 million related to 2014 net income was paid to the Receiver General for Canada ($82.2 million related to 2012 net income and $1,077.0 million related to 2013 net income was paid in 2013).

All other liabilities and provisions

As a result of the program to overhaul and modernize the head office building, provisions totalling $15.1 million for the final year of the five-year lease agreement for temporary office space and for site restoration costs were recognized in 2012 and are included under *Other liabilities*. *Other liabilities* consists of provisions, a finance lease obligation, accounts payable and accrued liabilities.

15. Employee benefits

Accounting policy

Short-term employee benefits

Short-term employee benefits include cash salary, bonus, annual leave, health benefits, dental care and statutory benefits and are measured on an undiscounted basis.

Long-term employee benefits

The Bank sponsors a long-term disability program.

The liability recognized in respect of this plan amounts to the present value of the defined-benefit obligation. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates on high-quality corporate bonds with terms to maturity approximating the estimated duration of the obligation. The expense recognized for the period-end consists of current service costs, interest costs, remeasurement gains and losses, and past service costs.

The current service costs and the benefit obligations of the plan are actuarially determined on an event-driven accounting basis. Remeasurement gains and losses, as well as past service costs arising from plan amendments, are recognized immediately on the Statement of Net Income and Comprehensive Income in the period in which they occur.

Post-employment defined-benefit plans

The Bank sponsors a funded defined-benefit pension plan (the Bank of Canada Pension Plan) and a funded defined-benefit supplementary pension arrangement (the Bank of Canada Supplementary Pension Arrangement), which are designed to provide retirement income benefits to eligible employees. The Bank of Canada Pension Plan was established under the provisions of the Bank of Canada Act, 1934, and has remained in accordance with the Act as subsequently amended. The Bank of Canada Pension Plan is a registered plan as defined in the Income Tax Act (Canada) (ITA) and, consequently, is not subject to income taxes. The Supplementary Pension Arrangement was created to pay pension benefits to Bank employees with annual earnings above the amount covered by the Bank of Canada Pension Plan (the RPP), as provided under the ITA. The Supplementary Pension Arrangement is a Retirement Compensation Arrangement as defined in the ITA.

Benefits provided under these plans are calculated based on years of service and average full-time salary for the best five consecutive years and are indexed to reflect changes in the consumer price index on the date payments begin and each 1 January thereafter. The Bank is the administrator of the pension plans. The Bank's Board of Directors has established a Pension Committee and has delegated to it the responsibility for carrying out the Bank's duties as administrator of the plans, including adherence to the guidelines established in the Statement of Investment Policy and Procedures (SIPP), which is approved annually by the Board. A separate trust fund has been established for each plan to receive and invest contributions and pay benefits due under the plans.

The most recent actuarial valuation for funding purposes of the Pension Plan was done as of 1 January 2014, and the next required valuation will be as of 1 January 2015.

The Bank also sponsors other unfunded post-employment defined-benefit plans, which include life insurance and eligible health and dental benefits, as well as a long-service benefit program for employees hired before 1 January 2003.

The net asset or liability of these plans is recognized on the Statement of Financial Position. The net asset or liability recognized at period-end in respect of these plans is composed of the present value of the defined-benefit obligation less the fair value of plan assets, where applicable. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates on high-quality corporate bonds with terms to maturity approximating the estimated duration of the obligation. The expense recognized for the reporting period consists of current service costs, past service costs, net interest on the net defined-benefit liability/asset, gains or losses arising on settlement (if applicable) and administrative costs. Net interest is calculated by applying the discount rate to the net defined-benefit liability/asset.

The current service costs and the benefit obligations of the plans are actuarially determined using the projected unit credit method. Remeasurements comprise actuarial gains and losses, the return on plan assets, and the effect of the asset ceiling (if applicable). They exclude amounts included in net interest on the net defined-benefit liability/asset. Remeasurements are recognized immediately in *Other Comprehensive Income* in the period in which they occur. Past service costs are recognized at the earlier of: when the plan amendment or curtailment occurs, or when the entity recognizes related restructuring costs or termination benefits. Plan assets of funded benefit plans are determined according to their fair value at the end of the reporting period.

Termination benefits

A liability for termination benefits is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Net defined benefits

The changes in plan assets and defined-benefit obligations for the year are as follows:

	Pension benefit plans		Other benefit plans	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Fair value of plan assets				
Fair value of plan assets at beginning of year	**1,404.9**	1,266.5	**-**	-
Interest income	**68.6**	50.7	**-**	-
Remeasurement gains				
Return on plan assets[1]	**105.0**	84.3	**-**	-
Bank contributions	**28.3**	41.3	**-**	-
Employee contributions	**11.8**	10.2	**-**	-
Benefit payments and transfers	**(47.7)**	(46.6)	**-**	-
Administration costs	**(1.7)**	(1.5)	**-**	-
Fair value of plan assets at end of year	**1,569.2**	1,404.9	**-**	-
Defined-benefit obligation				
Benefit obligation at beginning of year	**1,224.0**	1,285.8	**159.9**	182.7
Current service cost	**25.9**	33.2	**6.0**	7.5
Interest cost	**60.1**	52.7	**7.7**	7.2
Employee contributions	**11.8**	10.2	**-**	-
Remeasurement (gains)/losses				
Arising from changes in demographic experience	**(3.3)**	66.1	**(3.1)**	6.6
Arising from changes in financial assumptions	**195.6**	(179.0)	**12.9**	(34.9)
Past service costs	**-**	1.6	**-**	-
Benefit payments and transfers	**(47.7)**	(46.6)	**(10.6)**	(9.2)
Defined-benefit obligation at end of year	**1,466.4**	1,224.0	**172.8**	159.9
Net defined-benefit asset/(liability)	**102.8**	180.9	**(172.8)**	(159.9)
Net defined-benefit asset	**134.8**	197.7	**-**	-
Net defined-benefit liability	**(32.0)**	(16.8)	**(172.8)**	(159.9)
Net defined-benefit asset/(liability)	**102.8**	180.9	**(172.8)**	(159.9)

1. The return on plan assets excludes net interest.

Pension benefit plans - Asset mix

The Plan's SIPP requires that its investments be held in a diversified mix of asset types and also sets out requirements for investment eligibility. The diversification of assets serves to decrease the variations in the expected return performance of the portfolio. The current practice is to conduct an Asset-Liability Modelling (ALM) study every three years. The ALM assists the Pension Committee in establishing an asset allocation that is consistent with the pension plan's objectives and the Bank's risk tolerance.

The Plan's investments are subject to credit, liquidity and market risks. Of these risks, the most significant is asset volatility, since plan liabilities are calculated using a discount rate set with reference to the yield on Canadian AA-corporate bonds. If plan assets underperform this yield, a deficit will be created. Requirements for asset diversification and investment eligibility serve as basic risk-management tools for the investment portfolio as a whole.

The pension benefit plan assets consist of the following:

	31 December 2014				31 December 2013			
	Quoted	**Unquoted**	**Total**	**In %**	**Quoted**	**Unquoted**	**Total**	**In %**
Money market instruments	**13.7**	**-**	**13.7**	**0.9**	11.2	-	11.2	0.8
Equity instruments								
Canadian equity funds	**324.7**	**-**	**324.7**	**20.7**	310.0	-	310.0	22.1
Foreign equity funds	**576.8**	**-**	**576.8**	**36.7**	517.4	-	517.4	36.8
Debt instruments[1]								
Securities issued or guaranteed by the Government of Canada	**209.0**	**-**	**209.0**	**13.3**	171.3	-	171.3	12.2
Other securities	**343.2**	**-**	**343.2**	**21.9**	295.0	-	295.0	21.0
Real estate funds	**-**	**70.0**	**70.0**	**4.5**	-	69.1	69.1	4.9
Statutory deposit	**-**	**31.8**	**31.8**	**2.0**	-	30.9	30.9	2.2
	1,467.4	**101.8**	**1,569.2**	**100.0**	1,304.9	100.0	1,404.9	100.0

1. Debt instruments consist of fixed-income securities and inflation-linked assets.

Defined-benefit obligations and expenses

The defined-benefit obligation, presented in terms of membership, is as follows:

	Pension benefit plans		Other benefit plans	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Active members	**591.3**	476.5	**88.7**	89.4
Pensioners	**788.3**	675.7	**84.1**	70.5
Deferred members	**86.8**	71.8	**-**	-
Defined-benefit obligation	**1,466.4**	1,224.0	**172.8**	159.9

Benefit plan expenses recognized in the Statement of Net Income and Comprehensive Income are composed of the following components:

	Pension benefit plans		Other benefit plans	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current service cost, net of employee contributions	**25.9**	33.2	**6.0**	7.5
Past service costs	**-**	1.6	**-**	-
Net interest expense	**(8.5)**	2.0	**7.7**	7.2
Actuarial gains arising from changes in financial assumptions	**-**	-	**(4.3)**	(0.8)
Administration costs	**1.7**	1.5	**-**	-
Benefit plan expense recognized in *Net Income*	**19.1**	38.3	**9.4**	13.9
Remeasurement on the net defined-benefit liability/asset:				
Return on plan assets (excluding net interest)	**(105.0)**	(84.3)	**-**	-
Actuarial (gains)/losses arising from changes in demographic experience	**(3.3)**	66.1	**1.2**	6.6
Actuarial (gains)/losses arising from changes in financial assumptions	**195.6**	(179.0)	**12.9**	(34.1)
Remeasurement (gains)/losses recognized in *Other Comprehensive Income*	**87.3**	(197.2)	**14.1**	(27.5)

Remeasurement gains and losses pertaining to post-employment benefit plans are recognized in *Other Comprehensive Income* and are accumulated in *Equity* in the *Remeasurements reserve*.

The cumulative remeasurement losses recognized in *Other Comprehensive Income* are as follows:

	Pension benefit plans		Other benefit plans	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Cumulative remeasurement losses recognized, beginning of year	**(133.4)**	(330.6)	**(12.0)**	(39.5)
Remeasurement gains/(losses) recognized in current year	**(87.3)**	197.2	**(14.1)**	27.5
Cumulative remeasurement losses recognized, end of year	**(220.7)**	(133.4)	**(26.1)**	(12.0)

Total cash payments

Regulations governing federally regulated pension plans establish certain solvency requirements that assume that the plans are wound up at the valuation date. Actuarial valuations for funding purposes are required annually under the Pension Benefits Standards Act. The actuarial valuation of the Pension Plan completed at 1 January 2014 reported a solvency surplus of $48.7 million and a three-year average solvency deficit of $24.4 million. The Bank is making additional contributions to fund this average solvency deficit over a period of five years. In 2014, these additional contributions amounted to $4.9 million.

Contributions in 2015 will be based on the actuarial valuation as at 1 January 2015, and are estimated to be $22.0 million, consisting solely of regular contributions to cover current service costs. In 2015, it is estimated that there will be no requirement for additional contributions as projections indicate an average three-year solvency surplus.

Assumptions

The cost of the defined-benefit pension plans and other benefits plans and the present value of the benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actuarial developments in the future. These assumptions include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Owing to the complexities involved in the valuation and its long-term nature, a defined-benefit obligation is highly sensitive to changes in these assumptions.

The most recent actuarial valuation for funding purposes of the Pension Plan was done as of 1 January 2014, and the next required valuation will be as of 1 January 2015.

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

	Pension benefit plans		Other benefit plans	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Defined-benefit obligation				
Discount rate	**4.00%**	4.90%	**3.99%**	4.79%
Inflation rate[1]	**2.00%**	2.00%	**n.a.**	n.a.
Rate of compensation increase	**3.20% + merit**	3.30% + merit	**3.20% + merit**	3.30% + merit
Benefit plan expense				
Discount rate	**4.90%**	4.00%	**4.79%**	3.86%
Inflation rate[1]	**2.00%**	2.00%	**n.a.**	n.a.
Rate of compensation increase	**3.20% + merit**	3.30% + merit	**3.30% + merit**	3.30% + merit
Assumed medical cost trend				
Medical cost trend rate	**n.a.**	n.a.	**6.01%-4.50%**	6.31% - 4.50%
Year that the rate reaches the ultimate trend rate	**n.a.**	n.a.	**2029**	2029

1. *Other benefit plans* does not include an inflation rate adjustment since it is a component of *Assumed medical cost trend*

The parameter most subject to change is the discount rate, which is determined by reference to Canadian AA-corporate bonds with terms to maturity approximating the duration of the obligation.

The weighted-average duration of the defined-benefit obligation is approximately 17 years for the *Pension benefit plans* and 6 to 21 years for the Other benefit plans.

The mortality assumptions used in the plan valuations are based on tables issued by the Canadian Institute of Actuaries. Actuarial adjustments to the tables are applied when recommended by the plan's actuaries. In 2014, the assumption for life expectancy for the plan valuations assumes that a male member reaching 60 will live for approximately 27 years (2013: 27 years) and a female member approximately 29 years (2013: 29 years).

Sensitivity analysis

The following table outlines the potential impact of changes in certain key assumptions used in measuring the defined-benefit obligations and benefit costs.

	Change in obligation	
	Pension benefit plans	**Other benefit plans**
Discount rate	**4.00%**	**3.99%**
Impact of 0.10 percentage point increase	**(23.7)**	**(3.0)**
Impact of 0.10 percentage point decrease	**24.2**	**3.1**
Rate of compensation increase	**3.20%**	**3.30%**
Impact of 0.10 percentage point increase	**3.8**	**0.4**
Impact of 0.10 percentage point decrease	**(3.7)**	**(0.4)**
Mortality rate		
Impact of 0.10 percentage point increase	**(28.8)**	**(3.0)**
Impact of 0.10 percentage point decrease	**31.9**	**3.5**
Inflation rate	**2.00%**	**n.a.**
Impact of 0.10 percentage point increase	**21.9**	**n.a.**
Impact of 0.10 percentage point decrease	**(21.3)**	**n.a.**
Medical cost trend rates	**n.a.**	**6.01%**
Impact of 1.00 percentage point increase	**n.a.**	**29.0**
Impact of 1.00 percentage point decrease	**n.a.**	**(22.4)**

The sensitivity analysis presented in this table is hypothetical and should be used with caution. The analysis is based on a change in assumptions while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The method and types of assumptions used in preparing the sensitivity analysis did not change compared with the previous year.

16. Equity

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

The elements of equity are shown in the table below:

	31 December 2014	31 December 2013
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**319.3**	305.2
Retained earnings	-	-
Total equity	**449.3**	435.2

Share capital

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

Statutory reserve

The statutory reserve was accumulated out of net income until it reached the stipulated maximum amount of $25.0 million in 1955.

Special reserve

The special reserve was created in 2007 further to an amendment to the Bank of Canada Act to offset potential unrealized valuation losses due to changes in the fair value of the Bank's available-for-sale portfolio. The amount held in the special reserve is reviewed regularly for appropriateness using value-at-risk analysis and scenario-based stress tests and may be amended, pursuant to a resolution passed by the Board of Directors. The value-at-risk analysis uses historical data to estimate the maximum possible extent of unrealized valuation losses of the Bank's treasury bill portfolio. The scenario-based stress tests assess the impact of a rapid increase in interest rates on the value of the Bank's treasury bill portfolio. This reserve is subject to a ceiling of $400 million; an initial amount of $100 million was established in September 2007.

Available-for-sale reserve

The available-for-sale reserve represents cumulative movements in the fair value of the Bank's available-for-sale portfolios, as shown below:

	31 December 2014	31 December 2013
Government of Canada treasury bills	**2.2**	6.2
BIS shares	**317.1**	299.0
Available-for-sale reserve	**319.3**	305.2

Retained earnings

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

The Bank's remittance agreement with the Minister of Finance was designed to enable the Bank to manage its equity requirements considering the volatility arising from fair-value changes and remeasurements (which are recorded in *Other Comprehensive Income*). This agreement allows the Bank to deduct from its remittances to the Receiver General and hold within *Retained earnings* an amount equal to unrealized losses on AFS financial assets, unrealized remeasurements of the net defined-benefit liability/asset on defined-benefit plans and other unrealized or non-cash losses arising as a result of changes in accounting standards or legislation.

During 2014, the Bank withheld $101.4 million for remittances ($224.7 million paid during 2013) and, as at 31 December 2014, $127.0 million ($25.5 million as at 31 December 2013) in withheld remittances was outstanding.

17. Leases

Accounting policy

Where the Bank is a lessee

Leases of equipment where the Bank has substantially assumed all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in *Other liabilities*. Each lease payment is allocated between the liability and finance charges to achieve a constant rate of return on the finance lease obligation outstanding. Equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term.

Other leases are classified as operating leases. Payments made under operating leases are charged to the Statement of Net Income and Comprehensive Income on a straight-line basis over the period of the lease.

Where the Bank is a lessor

Leases granted on the Bank's property were assessed and classified as operating leases, because the risks and rewards of ownership are not transferred to the lessees. Operating lease income is recognized on a straight-line basis over the period of the lease.

Operating lease commitments

The Bank occupies leased premises in Ottawa, Halifax, Montréal, Toronto, Calgary and Vancouver. The minimum payments are determined at the beginning of the lease and may vary during the term of the lease. Contingent rent on premises leases is based on building operating costs; for office equipment leases, contingent rent is based on usage. The expiry dates vary for each lease, from August 2014 to October 2025.

As a result of the program to overhaul and modernize the head office building, in 2012, the Bank signed a five-year lease agreement for temporary office space.

At 31 December 2014, the future minimum payments are $58.7 million for rent, real estate taxes and building operations. Lease payments expensed in the period are $15.8 million ($12.2 million as at 31 December 2013).

	31 December 2014	**31 December 2013**
Due within one year	**16.0**	16.0
Due within one to five years	**40.5**	55.8
Due later than five years	**2.2**	3.3
Total premises lease commitments	**58.7**	75.1

Finance lease commitments

As at 31 December 2014, the future minimum lease payments were $9.3 million ($12.0 million as at 31 December 2013) for equipment obtained through a finance lease arrangement (note 9). The net carrying amount of the equipment at 31 December 2014 was $8.8 million ($11.3 million at 31 December 2013). The finance lease obligation amounted to $9.0 million at 31 December 2014 ($11.5 million as at 31 December 2013) and is recorded in *Other liabilities* (note 14).

18. Commitments, contingencies and guarantees

Long-term contracts other than leases

The Bank has a long-term contract with an outside service provider for retail debt services that expires in 2021. At 31 December 2014, fixed payments totalling $132.2 million remained, plus a variable component based on the volume of transactions.

The Bank has a long-term contract with an outside service provider for data centre services that expires in 2025. At 31 December 2014, fixed payments totalling $14.1 million remained.

Commitments related to the program to overhaul and modernize the head office building are included in commitments for *Property and equipment* in note 9.

The total minimum annual payments for long-term contracts, other than leases, *Property and equipment*, and *Intangible assets*, are as follows:

Due within one year	**22.1**
Due within one to three years	**44.2**
Due within three to five years	**44.2**
Thereafter	**35.8**
Total minimum annual payments	**146.3**

Foreign currency contracts

The Bank is a counterparty to several foreign currency swap facilities as follows:

	Maximum available
Bilateral liquidity swap facilities with central banks	
Bank of Japan (denominated in Japanese yen)	**Unlimited**
Swiss National Bank (denominated in Swiss francs)	**Unlimited**
Bank of England (denominated in British pounds)	**Unlimited**
European Central Bank (denominated in euros)	**Unlimited**
Federal Reserve Bank of New York (denominated in U.S. dollars)	**Unlimited**
People's Bank of China (denominated in renminbi)	**200,000.0**
Other swap facilities	
Exchange Fund Account of Canada (denominated in Canadian dollars)	**Unlimited**
Federal Reserve Bank of New York (denominated in U.S. dollars)	**2,000.0**
Banco de México (denominated in Canadian dollars)	**1,000.0**

None of the liquidity or other swaps were accessed, by either party, in 2014 or 2013. No related commitments existed at 31 December 2014 ($Nil as at 31 December 2013).

Bilateral liquidity swap facilities with central banks

The bilateral liquidity swap facilities were established to provide liquidity in each jurisdiction in any of their currencies, should market conditions warrant.

The swap facilities with the Bank of Japan, the Swiss National Bank, the Bank of England, the European Central Bank and the Federal Reserve Bank of New York were converted to standing arrangements in January 2014. The Bank of Canada and the People’s Bank of China signed a reciprocal three-year Canadian-dollar/renminbi bilateral swap arrangement in November 2014.

These facilities can be structured as either a Canadian-dollar liquidity swap or a foreign currency liquidity swap arrangement and can be initiated by either party. The exchange rate applicable to the swap facilities is based on the prevailing market spot exchange rate as mutually agreed upon by the parties.

Other swap facilities

The other swap facilities established with the Federal Reserve Bank of New York and with the Banco de México, which expire on 11 December 2015, have indefinite terms and are subject to annual renewal.

The Bank is also party to a standing foreign currency swap facility with the Exchange Fund Account of Canada. There is no stated maximum amount under this agreement.

Contingency

The 9,441 shares in the BIS have a nominal value of 5,000 Special Drawing Rights per share, of which, 25 per cent (i.e., SDR1,250) is paid up. The balance of SDR3,750 is callable at three months' notice by a decision of the BIS Board of Directors. The Canadian equivalent of this contingent liability was $59.5 million at 31 December 2014 ($58.0 million at 31 December 2013), based on prevailing exchange rates.

Guarantees

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

LVTS guarantee

The LVTS is a large-value payment system, owned and operated by the CPA. Any deposit-taking financial institution that is a member of the CPA can participate in the LVTS, provided that it maintains a settlement account at the Bank of Canada, has the facilities to pledge collateral for LVTS purposes and meets certain technical requirements. 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 with the largest possible net amount owing. The Bank guarantees to provide this liquidity, and, in the event of a 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 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. No amount has ever been paid under such indemnifications.

Insurance

The Bank does not normally 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. However, in connection with the Head Office Renewal Program, the Bank has obtained insurance coverage for the period of construction to cover direct risks to the Bank's property.

Any costs arising from risks not insured are recognized in the accounts if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the statement of financial position date, and it is probable that an outflow of economic benefits will be required to settle the obligation.

19. Related parties

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

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

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

Bank of Canada pension plans

The Bank provides management, investment and administrative support to the Bank of Canada Pension Plan. Services in the amount of $0.8 million ($0.6 million in 2013) were fully recovered from the Plan in 2014.

Key management personnel and compensation

The key management personnel responsible for planning, directing and controlling the activities of the Bank are the members of the Executive Council, the Senior Management Council and the Board of Directors. The number of key management personnel as at 31 December 2014 was 29 (21 in 2013).

The compensation of key management personnel is presented in the following table:

	31 December 2014	31 December 2013
Short-term employee benefits	**3.7**	3.0
Post-employment benefits	**1.0**	0.9
Directors' fees	**0.2**	0.3
Total compensation	**4.9**	4.2

Short-term employee benefits and post-employment benefits apply to Bank of Canada employees only.

There were no other long-term employee benefit costs or termination benefits related to key management personnel in 2014.

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