BANK OF CANADA
BANQUE DU CANADA

ANNUAL REPORT 2015

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An architect's rendering shows a nighttime view of the proposed plaza and museum entrance at the renewed Bank of Canada head office, slated to open in 2017.

Contents

GOVERNOR'S FOREWORD

2015 was a volatile year in the world of central banking. From collapsing commodity prices to market disruption in China, to negative interest rates and exchange rate swings, your central bank spent the year responding—a reminder that all central banks need to live by the Scouting motto, "Be prepared."

The Bank of Canada takes pride in its state of readiness. The Bank manages itself under the umbrella of a three-year medium-term plan, and 2015 was the last year of our 2013–15 plan and the year when we prepared our 2016–18 plan.

Entitled *Central Banking for a New Era*, our 2016–18 plan is the first to be guided by our new vision statement, which we unveiled in last year's *Annual Report*. That vision, to be "A leading central bank—dynamic, engaged and trusted—committed to a better Canada," helped us to develop a more rigorous and more highly targeted allocation of resources for the future. The 2016–18 medium-term plan relies on a tradition of excellence and is built on a foundation of three themes: reinventing central banking, renewing ways of doing business and reinforcing a culture of innovation.

Our new management structure, developed under the leadership of Senior Deputy Governor Carolyn Wilkins and Chief Operating Officer Filipe Dinis, ensured that there was a comprehensive engagement in this work by the entire staff of the Bank. Another concrete result of this process was the development of a risk appetite statement—which is published in this *Report*—that will guide informed risk taking and foster innovation, nimbleness and continued excellence in our operations.

Being prepared means maintaining our standards of excellence in all four of the Bank's functions—monetary policy, financial system oversight, funds management and currency. And, we believe this new plan will buttress those standards while helping us to be more innovative, develop stronger leaders and, above all, be one of the best places to work in Canada. For the sixth year running, the Bank was recognized as one of Canada's Top 100 employers in 2015. But we are aiming higher, ensuring that we are even better managed in the future, whether by strengthening our behavioural expectations of our leaders, enhancing workplace diversity, deploying the latest technology and security, making our communications more effective, or delivering relevant research of the highest quality.

On the research front, we created a new senior role, the Chief of Economic and Financial Research, who is responsible for guiding and coordinating research across all six analytical areas of the Bank and for coordinating a robust Visiting Scholar Program. We also streamlined processes for publishing research to foster engagement with non-Bank researchers.

As usual, our research work covered a lot of ground in 2015. But one research stream stands out in particular—preparing for the upcoming renewal of our inflation-targeting agreement with the Government of Canada. That work has focused on three questions: What is the best way to measure inflation for targeting purposes? Is 2 per cent inflation still the right target level? And, how do we integrate financial stability considerations into the formulation of monetary policy? We will be working with our colleagues at the Department of Finance throughout 2016 to develop a new inflation-targeting agreement by the end of the year.

Working together, we were well positioned and ready to respond to the country's changing and complex economic and financial environment in 2015.

Being prepared also meant updating the unconventional measures in our monetary policy tool kit, which were last reviewed in 2009. Since then, the experience of other central banks with tools such as large-scale asset purchases and negative interest rates has been highly instructive. We also updated our framework for Emergency Lending Assistance. In both cases, we were not anticipating any near-term need; we were simply being prepared.

Certainly, events of 2015 demonstrated the benefits of preparation. The Bank has invested a great deal in recent years in its modelling of Canada's resource sector and its interaction with the rest of the economy. Because of this investment, when oil prices fell dramatically in the final few weeks of 2014 and into early 2015, the Bank was well positioned to understand what would happen next. This gave us the confidence to cut our policy rates very early in the process, in January, and then again in July, in anticipation of the spreading impact. Our economy will be adapting to this new reality for at least the next couple of years. Monetary policy and a flexible exchange rate can facilitate this adjustment, but there is no way to avoid it. I was very proud of the Bank's staff for offering clear guidance through the year, even if our decisions were at times controversial.

Part of the controversy around our policy decisions stemmed from concerns about rising household indebtedness in Canada, which many argued would worsen in response to the Bank's actions. But, again, Bank staff offered clear insights into those financial vulnerabilities. This allowed us to communicate to Canadians that focusing on our primary mission—keeping inflation on track—was the best contribution we could make to reducing overall risks to financial stability, even if financial vulnerabilities edged higher in the process.

Financial markets, both in Canada and elsewhere, clearly had a stressful year. Exchange rates moved more than usual, stock and bond markets reacted to falling commodity prices, and all markets were focused on when the U.S. Federal Reserve might take its first step toward rate normalization. With global markets still being fuelled by unconventional monetary policies in several countries and new global rules around capital and liquidity holdings for banks affecting the liquidity of some markets, there were occasional periods of stress. The Bank tweaked some of its own operations to offer what mitigation it could, including purchasing a smaller share of each new Government of Canada bond issue and setting up a regular program of term repo operations. Further, as fiscal agent for the Government of Canada, we ceased to conduct three-year bond auctions to create more liquidity in two- and five-year benchmark bonds. We also contributed at the global level to initiatives to strengthen the oversight of benchmark interest rates and exchange rates.

Our currency group was busy preparing as well, publishing extensive new research on electronic money, which is clearly an emerging issue. We also issued a commemorative $20 bank note honouring Her Majesty Queen Elizabeth II on the date she became the longest-reigning sovereign in Canada's modern era. And, we carried out a consultation process on the design of a bank note commemorating the 150th anniversary of Confederation, to be issued in 2017.

Meanwhile, the Bank began to prepare for the return to its original headquarters in early 2017. Renovations are on budget and on schedule. For the most part, the Bank will look exactly as before, but it will be stronger and safer, and a new public entrance at the corner of Bank and Wellington streets will showcase a new museum that we believe will be of great interest to all Canadians.

None of this responsiveness or preparation would be possible without fantastic people, great leaders and strong oversight from an independent Board of Directors. At the Bank, we are fortunate on all three fronts. There was only one change to our Board in 2015, with the appointment in May of Jean Simon (representing the province of Quebec).

Members of the Governing Council—indeed, all of the Bank—said "au revoir" to our long-time friend and colleague, Agathe Côté, who retired in January 2016 after more than 30 years of exemplary service. The Bank is truly a better place for Agathe having been here. Following a competitive search process, the Board of Directors was delighted to appoint Sylvain Leduc as Deputy Governor, effective 2 May 2016.

Deputy Governor Agathe Côté retired from the Bank after more than 30 years of exemplary service.

Let me conclude by thanking Bank staff for their contributions to every aspect of the Bank's business. Working together, we were well positioned and ready to respond to the country's changing and complex economic and financial environment in 2015. And Canadians can be assured that we remain well prepared to fulfill our mandate in the years ahead.

Stephen S. Poloz
Governor

Governor Stephen Poloz shakes hands with members of the Canada–United Kingdom Chamber of Commerce, after delivering a public speech in London, England, in March 2015. Photo: José Farinha

2015 AT A GLANCE

Policy highlights

- Total CPI inflation declined sharply at the beginning of 2015 and remained near the bottom of the inflation-control range throughout most of the year.
- The Bank lowered its target for the overnight rate twice in 2015 to help return the economy to full capacity and inflation sustainably to target.
- Updates to the framework for market operations and Emergency Lending Assistance policies added to the resilience of the financial system.

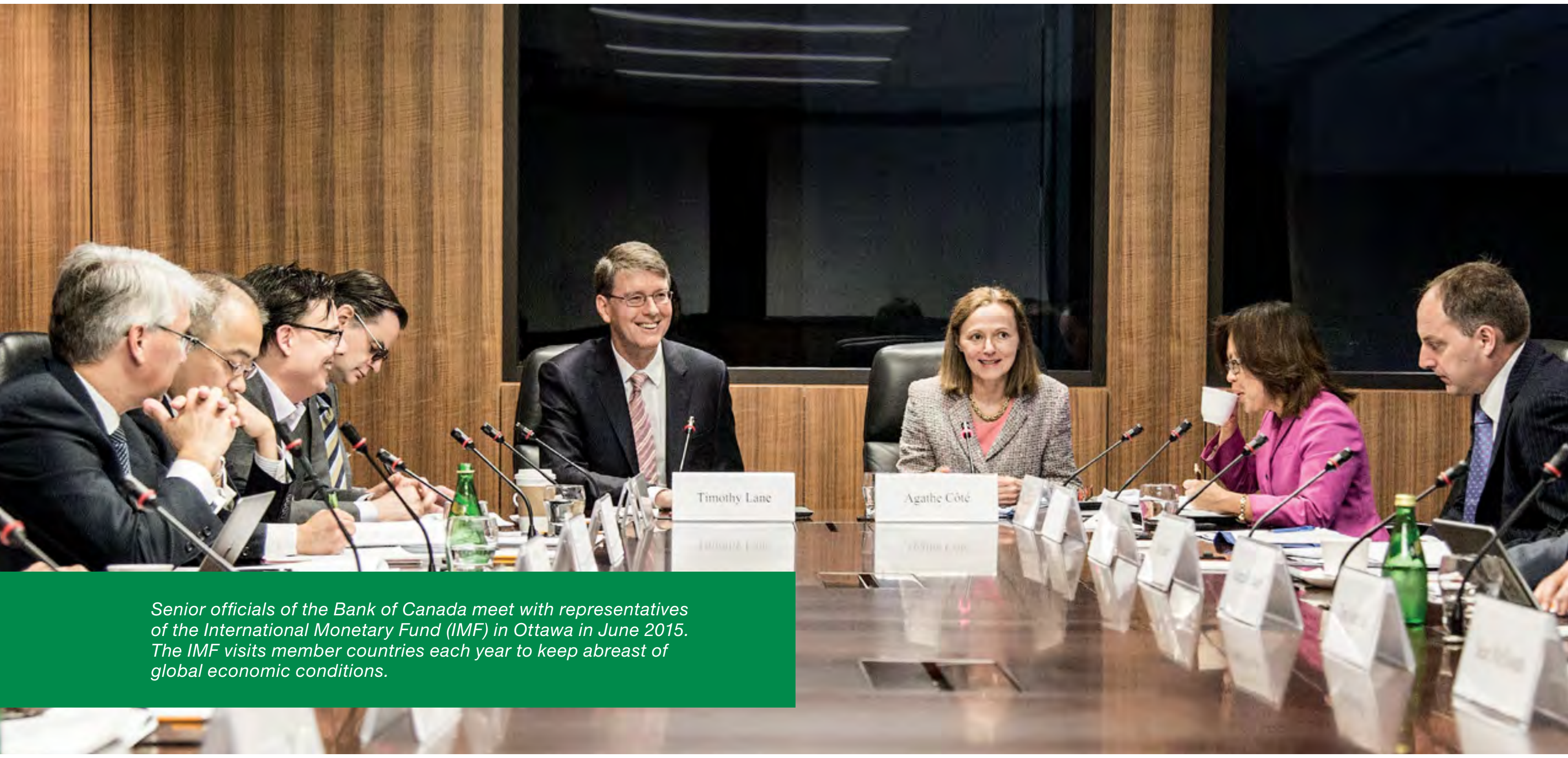
Operational highlights

- The Bank launched *Central Banking for a New Era*: *The Bank of Canada's 2016–18 Medium-Term Plan* to guide its activities over the next three years.
- The Bank of Canada's head office renewal is on track for completion in late 2016. Bank employees are scheduled to move back in early 2017.
- Cost-effective polymer bank notes are lasting at least 3.5 times longer than paper notes, and counterfeiting has dropped to a 25-year low.
- For the sixth 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.

Financial highlights

- The Bank's net income for 2015 was $1,175.8 million, an increase of 4 per cent over the previous year.
- Total expenses decreased by $18.1 million, largely as a result of lower production of bank notes and reduced premises costs.
- The Bank remitted $1,189.5 million in surplus to the Receiver General for Canada for 2015 in accordance with the requirements of the *Bank of Canada Act*.
- The value of bank notes in circulation increased by 8 per cent in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS



Senior officials of the Bank of Canada meet with representatives of the International Monetary Fund (IMF) in Ottawa in June 2015. The IMF visits member countries each year to keep abreast of global economic conditions.

BANK OF CANADA MANDATE AND PLANNING FRAMEWORK

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's vision is to be "*A leading central bank—dynamic, engaged and trusted—committed to a better Canada*."*

Planning Framework

The Bank has a robust planning framework in place to implement and operationalize its mandate and vision. In 2015, the Bank launched *Central Banking for a New Era: The Bank of Canada's 2016–18 Medium-Term Plan* (MTP) to guide its activities over the next three years.

The product of an extensive strategic planning process, the MTP is intended to help the Bank respond to the realities of its evolving policy and operating context. The MTP's three themes emphasize the importance of working together as "one Bank" to achieve the Bank's vision in these conditions.

Theme 1: *Reinventing central banking* reflects the need to respond creatively to changing events and circumstances in both the Canadian and global economies.

Theme 2: *Renewing ways of doing business* is about building and renewing a trusted public institution that is nimble, resilient and responsive.

Theme 3: *Reinforcing a culture of innovation* emphasizes the use of new approaches and multiple perspectives to find the best solutions.

The MTP was rolled out to Bank staff in 2015 to prepare for implementation of the plan starting in 2016. The Bank also made the plan available externally on its website in 2015, and Bank leaders started engaging stakeholders and external partners in a discussion of its themes. Senior Deputy Governor Carolyn Wilkins touched on one of the themes in a speech on "Innovation, Central-Bank Style" in November 2015.

The Bank's financial plan assumes 2 per cent growth on core operational expenditures between 2015 and 2018, in line with projected inflation, and the MTP is to be accomplished within existing resources.

Reporting

The MTP serves as a guide for the Bank's annual planning and reporting activities, informing departmental work plans and staff performance agreements.

The *Annual Report* is the Bank's public accountability document, outlining its annual activities and financial and non-financial performance. The Bank also publishes quarterly financial reports.

The Bank maintains a comprehensive website highlighting a variety of research papers, speeches, public reports, backgrounders and video statements to promote public understanding of its ongoing work.

For more information

Central Banking for a New Era: The Bank of Canada's 2016–18 Medium-Term Plan. Available at http://www.bankofcanada.ca/wp-content/uploads/2015/06/central-banking-new-era-mtp-2016-18.pdf.

Wilkins, C. 2015. "Innovation, Central-Bank Style." Speech to the Rotman School of Management and Munk School of Global Affairs, Toronto, 13 November. Available at http://www.bankofcanada.ca/2015/11/innovation-central-bank-style.

CORE FUNCTIONS

The Bank's four core areas of responsibility are as follows:

Monetary policy: *The objective of monetary policy is to preserve the value of money by keeping inflation low, stable and predictable.*

Financial system: *The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.*

Currency: *The Bank designs, issues and distributes Canada's bank notes; oversees the note distribution system; and ensures a consistent supply of quality bank notes that are readily accepted and secure against counterfeiting.*

Funds management: *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 administers and advises on the public debt 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.

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The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.

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FUNDS MANAGEMENT
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Monetary Policy

The primary objective of Canada's monetary policy is to enhance the well-being of Canadians by contributing to sustained economic growth, rising levels of employment and improved living standards. Experience has shown that the best way monetary policy can achieve this goal is by giving Canadian households and businesses confidence in the value of their money. This allows Canadians to make informed spending and investment decisions, 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 target, which is the midpoint of a 1 to 3 per cent inflation-control range. The target is set jointly by the Bank of Canada and the Government of Canada and reviewed every five years; the next inflation-control agreement will be renewed in 2016. The objective of the inflation target is symmetrical: the Bank is equally concerned about inflation rising above or falling below the target.

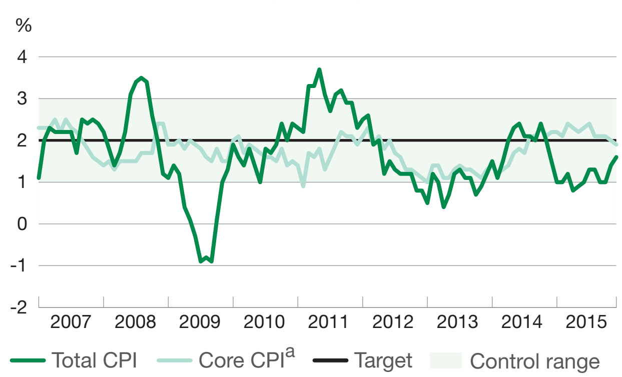
The Bank's Governing Council conducts monetary policy, taking a risk-management approach within a flexible inflation-targeting framework. Since monetary policy affects the economy with a lag, decisions must be forward looking and rely upon analysis and forecasts by Bank staff as well as on other insights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

Global economic growth was modest in 2015. The U.S. economy saw a solid expansion, with the Federal Reserve lifting policy interest rates in mid-December after leaving them unchanged for seven years. The recovery progressed gradually in other advanced economies. At the same time, growth prospects softened in a number of emerging-market economies—the main engine of global growth over the past several years.

The global economy continued to adjust to falling commodity prices in 2015. The declines in the prices of oil and other commodities changed the terms of trade across commodity-importing and commodity-exporting regions. Exchange rates responded to these developments, helping to facilitate global economic adjustments and rebalance demand growth.

Total CPI inflation declined near the bottom of the inflation-control range throughout most of 2015, owing to weak gasoline price inflation and persistent excess supply in the economy

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 Last observation: December 2015

The decline in Canada's terms of trade and in the value of the Canadian dollar set in motion complex adjustments in the Canadian economy and significant shifts in economic activity. The resource sector scaled back investment in response to much weaker commodity prices; job losses were significant, and production was curtailed in some cases. The non-resource sector, meanwhile, was relatively resilient and was expected to be the main source of growth in the coming years. A reallocation of labour and capital in Canada is expected to continue over the next several years.

Total CPI inflation declined sharply at the beginning of 2015 and remained near the bottom of the inflation-control range throughout most of the year, reflecting a combination of factors, notably the sharp drop in consumer energy prices. Although low, total CPI inflation was somewhat higher than anticipated in response to two key developments: the Canadian dollar depreciated relative to earlier assumptions and gasoline prices were firmer than anticipated. While gasoline prices declined, they did not fall as much as the reduction in crude oil prices would suggest, based on experience. In that context, medium-term inflation expectations continued to be well anchored at 2 per cent.

Confronted with the impact of lower prices for oil and other commodities, the Bank lowered its policy interest rate in January, and again in July as the impact of the terms-of-trade shock became clearer. Lower interest rates were one factor that helped the Canadian economy adjust, by supporting household spending in particular. The depreciation of the Canadian dollar associated with the decline in resource prices improved Canada's international competitiveness, helping to increase net exports. Non-commodity exports were boosted by solid growth in the U.S. economy. Still, the adjustments required to lower resource prices, notably a reallocation of labour and capital across sectors and regions, are complex and will take considerable time.

The Bank considered a range of risks to Canada's inflation outlook in making monetary policy decisions. In January, the view was that the oil price shock increased risks to both the inflation profile and financial stability. The decision to lower the target for the overnight rate by one-quarter of a percentage point, to 0.75 per cent, was intended to provide insurance against these risks, support the sectoral adjustment needed to strengthen investment and growth, and bring the Canadian economy back to full capacity and inflation to target within the projection horizon.

Subsequently, in July, a lower outlook for Canadian economic growth increased the downside risks to inflation. This prompted the Bank to lower its target for the overnight rate by one-quarter of one percentage point, to 0.5 per cent, because additional monetary stimulus was necessary to help return the economy to full capacity and inflation sustainably to target.

Real GDP contracted modestly in the first half of 2015 before firming in the third quarter, supported by a steadily strengthening U.S. economy, the past depreciation of the Canadian dollar and accommodative financial conditions. Business investment in the oil and gas sector fell sharply, while the lower terms of trade had an adverse impact on incomes and wealth, reducing domestic demand growth. Projections at year-end indicated that, on an average annual basis, real GDP would grow by just over 1 per cent in 2015 after growing 2.5 per cent in 2014. Economic performance is expected to remain uneven in 2016 as economies adapt and the composition of economic activity shifts within and across regions and sectors.

Achievements in 2015

- Monetary policy decisions were underpinned by timely and rigorous monitoring and analysis of the global commodity price shock and its impact on the Canadian economy, as well as on inflation dynamics. Detailed economic analysis and an explanation of monetary policy decisions were provided in the quarterly *Monetary Policy Report* and opening statements at the Governor's news conferences.
- The Bank continued to prepare for the 2016 renewal of the inflation-control agreement with the Government of Canada. Research focused on three key areas:
  - 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 the decline of the neutral rate of interest;
  - the role of financial stability considerations, including elevated household debt levels and imbalances in housing markets, in the conduct of monetary policy; and
  - the use of different measures of the underlying trend of inflation and whether any of these should be highlighted as the Bank's operational guide.

  Staff research contributed to a deeper understanding of important monetary policy issues, including the implications of the global financial cycle for conventional and unconventional monetary policies and the adequacy of unconventional monetary policy measures as a substitute for lower policy interest rates.

Medium-term inflation expectations have continued to be well anchored at the 2 per cent target

Objectives and indicators	Reference level (per cent)	2013 (per cent)	2014 (per cent)	2015 (per cent)
Achievement of Bank target for CPI inflation				
Average yearly total CPI inflation	2	0.9	2.0	1.1
Average annual total CPI inflation since 2001		1.9	1.9	1.9
Expectations of inflation remaining anchored to our target				
Inflation expectations at a 10-year horizon[a]	2	2.0	2.0	2.0

a. Consensus Economics—10-year projections

The Bank also solicited views from other central banks with similar inflation-control frameworks. For example, senior officials from the Sveriges Riksbank, the Reserve Bank of New Zealand and the Swiss National Bank were invited to a conference on the theme "Towards the 2016 Renewal of the Bank of Canada's Inflation-Control Target."

Website and outreach activities were expanded to promote understanding of the Bank's work on the inflation-targeting framework.

- In light of the recent experience with negative interest rates in some euro-area countries, the Bank reassessed the likely level of Canada's effective lower bound (ELB) for the overnight rate in 2015. The *Framework for Conducting Monetary Policy at Low Interest Rates*, published in December, outlined the case for an ELB of negative 0.50 per cent, adjusted downward from the 2009 estimate of positive 25 basis points.
- Bank staff conducted extensive analysis of other important monetary policy issues, such as the performance of Canadian exports, the impact of oil price fluctuations on business investment and the pass-through effects of exchange rate movements on inflation.
- The Bank also continued to improve its estimates of economic slack in the Canadian economy, notably for the labour market, and its link to underlying inflation pressures. The *Business Outlook Survey* introduced an indicator of the intensity of labour shortages, and the Bank began to publish estimates of the output gap based on a structural approach.

Looking forward

- In 2016, the Bank of Canada and the Government of Canada will renew Canada's agreement on the inflation-control target. Staff will continue to work on the three research priorities for the 2016 renewal of the agreement. The ongoing analysis involves monitoring the experiences of other central banks, reviewing academic literature, evaluating inflation trends and assessing the broad impact of policy measures on Canadians. The Bank will highlight this research on a dedicated web page, in a special issue of the *Bank of Canada Review* and in a background document accompanying the renewal agreement that will summarize the key elements of Canada's inflation-targeting framework.
- The Bank will study various monetary policy and financial stability issues in the post-crisis Canadian economy. This will include anticipation and assessment of "alternative futures" and of the trends and changes that could profoundly affect economies, markets and central banks in the future.
- The Bank will continue to examine the adjustments taking place in the global economy, including the evolution of China and other emerging-market economies, as well as ongoing challenges associated with large commodity price declines, including their implications for global economic activity and trade and for Canadian exports and terms of trade.

More information

Topics related to monetary policy are highlighted in speeches and research papers by members of the Governing Council, as well as technical reports and staff discussion papers, available at http://www.bankofcanada.ca/research/browse.

The *Framework for Conducting Monetary Policy at Low Interest Rates* (December 2015) is available at http://www.bankofcanada.ca/wp-content/uploads/2015/12/framework-conducting-monetary-policy.pdf

The *Monetary Policy Report* is available at http://www.bankofcanada.ca/2015/10/mpr-2015-10-21.

The *Business Outlook Survey* is available at http://www.bankof-canada.ca/wp-content/uploads/2015/10/bos-autumn2015.pdf.

Financial System

An effective and resilient financial system is crucial to the long-run stability and growth of the Canadian economy, allowing consumers and firms to purchase goods and services with confidence and to make informed decisions about financial transactions and investments.

The Bank promotes the stability and efficiency of the Canadian financial system by overseeing important financial market infrastructures (FMIs), including key domestic payment clearing and settlement systems; by providing liquidity on a routine and, if required, extraordinary basis to a range of Canadian financial institutions and designated FMIs; and by assessing risks to the overall stability of the financial system and participating in the development of financial system policies, in Canada and globally.

The Bank works with the Government of Canada, provincial agencies, market participants and other central banks and international organizations to ensure that systemically important FMIs operate in a way that controls risk and promotes efficiency and stability in the Canadian financial system. The Bank has specific oversight responsibilities for FMIs that are designated as having systemic importance for Canada.[1]

To facilitate the smooth operation of the Canadian payments system, 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. This system facilitates the clearing, settlement or recording of payments among participating entities and their customers. In addition to providing intraday liquidity, the Bank makes overnight collateralized loans available to participants experiencing temporary shortfalls at the end of the day.

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 assistance to provincial and federal deposit-taking financial institutions and infrastructures facing severe and persistent liquidity pressures, and it also has a range of routine and extraordinary liquidity facilities at its disposal to provide market-wide liquidity when needed to deal with important shocks.

The Bank's assessment of systemic vulnerabilities and risks in the Canadian financial system is published in the semi-annual *Financial System Review* (FSR).[2] This promotes financial stability by informing households, financial institutions and other corporate and regulatory authorities about these vulnerabilities and risks so that appropriate remedial actions can be taken.

In the December 2015 FSR, the Bank concluded that while vulnerabilities in the housing sector had edged higher, the Canadian financial system remained resilient.

In the December 2015 FSR, the Bank concluded that while vulnerabilities in the housing sector had edged higher, the Canadian financial system remained resilient. Elevated household indebtedness was also highlighted, along with uncertain market liquidity in fixed-income markets. Accordingly, the Bank considered the most important domestic risk to be a widespread and prolonged rise in unemployment, which could reduce the ability of households to service their debt, leading to a large and broad-based decline in house prices. The Bank judged the likelihood of this scenario materializing to be low, however, and expected that the imbalances in the household sector and the housing market would ease as the economy improves.

Achievements in 2015

Far-reaching and ongoing reforms have made financial systems stronger and more resilient than they were before the financial crisis. The Bank of Canada plays an important role in both domestic and global financial reforms.

1 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, CDSX, the Continuous Linked Settlement (CLS) Bank, the Canadian Derivatives Clearing Service and SwapClear.

2 A vulnerability is a pre-existing condition that can amplify and propagate shocks throughout the financial system. In contrast, risks are events or outcomes that could threaten the ability of the financial system to perform its core functions with significant adverse implications for economic activity. Risks materialize when trigger events, such as a dramatic drop in commodity prices or a sharp and widespread rise in unemployment, interact with vulnerabilities.

In 2015, the Bank contributed to progress in several areas of global financial reform, including guidance on financial benchmarks, over-the-counter derivatives and shadow banking.[3]

The regulations and policies underpinning Canada's financial system, already considered one of the most robust in the world, were also further improved in 2015. The Bank's work, complementing that of other Canadian financial regulators, focused on (i) increasing the resilience of financial institutions and important components of Canada's market infrastructures, (ii) enhancing its ability to channel liquidity to counterparties that need it most, and (iii) improving and expanding the scope of its assessment of financial system vulnerabilities and risks.

The regulations and policies underpinning Canada's financial system, already considered one of the most robust in the world, were also further improved in 2015.

In addition to its long-standing responsibility to oversee systemically important FMIs, the Bank has been responsible for prominent payment systems since 2014. In 2015, the Bank published its criteria for designating prominent payment systems, together with its risk-management standards. Guidance was prepared on the use of FMI recovery tools to limit potential systemic risks, and the Bank made significant progress on a framework for the resolution of designated FMIs.

The Bank continued to work with the Canadian Derivatives Clearing Corporation, the central counterparty (CCP) for Canadian fixed-income repo transactions and industry stakeholders, to develop a clearing model for buy-side participants to increase the share of the repo market cleared through the CCP. The repo market plays an important role in supporting the broader liquidity of the Canadian fixed-income market, and central clearing reduces systemic risk and enhances the resilience of core funding markets.

The Bank also concluded a comprehensive multi-year review of its policies for conducting market operations and providing ELA to eligible financial institutions (FIs) and FMIs. To support the implementation of monetary policy while safeguarding financial stability, the Bank implemented significant changes to its framework for market operations in 2015. Measures adopted will improve the Bank's ability to channel day-to-day liquidity to counterparties that need it most, facilitate monitoring of liquidity conditions in term funding markets and promote liquidity in Government of Canada securities markets. The Bank added a contingent bilateral liquidity facility to its tool kit, which can be activated at the Bank's discretion to support the stability of the Canadian financial system during a period of market-wide stress.

The Bank revised its policies to clarify ELA eligibility conditions for provincially regulated financial institutions and FMIs and to expand the scope of eligible collateral that may be pledged for ELA. The revisions to the ELA policy also support the recovery and resolution process for eligible FIs and FMIs.

The Bank established a comprehensive framework to improve its ability to monitor and manage operational risks related to core financial market activities. Regular risk assessments, as well as operational reviews and simulations, are conducted. The Bank has standing swap arrangements in place with several other central banks to facilitate cross-currency liquidity provision. The Bank conducted several exercises in coordination with other central banks to test operational readiness for those facilities.

To enhance the efficiency and resilience of the Canadian fixed-income market, the Bank established the Canadian Fixed-Income Forum (CFIF), with representatives from 15 small and large institutions active in the Canadian fixed-income market. Chaired by the Bank of Canada, this senior-level group will meet quarterly to discuss developments in the structure and functioning of fixed-income markets, market practices, and related policy issues.

The Bank continued to improve and expand the scope of its assessment of financial system vulnerabilities and risks, and the Bank's analytical framework now covers a wider range of financial system vulnerabilities. The Bank solicited input from other central banks on its approach and co-hosted, with the Rotman School of Management, a conference for researchers, practitioners and policy-makers on liquidity risk in asset management and its implications for financial stability.[4]

3 See the Global Engagement chapter on page 37 for more information on the Bank's international activities.

4 http://www.bankofcanada.ca/wp-content/uploads/2015/12/liquidity_risk_conference_agenda.pdf.

Looking forward

- 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 Insurance Corporation—the Bank will continue domestic work on measures agreed to by the G20 and the Financial Stability Board related to the resolution of global systemically important FMIs, over-the-counter (OTC) derivatives, financial benchmarks, shadow banking and the reduction of mechanistic reliance on credit-rating agencies.
- The Bank will continue to work with the Canadian Derivatives Clearing Corporation to increase the share of the repo market cleared through the CCP. This will involve increasing the number of market participants using the repo clearing service and developing a process to support the clearing of general collateral repo transactions.
- The Bank will continue to work with the Canadian Payments Association on the next generation of core payment systems in Canada.
- The Bank will engage with provincial regulatory authorities to facilitate an assessment of the eligibility of provincial institutions for ELA and to enhance the Bank's ability to assess financial system risks and vulnerabilities at the provincial level.
- The Bank will consider making additional operational changes to support the efficiency and liquidity of the bond market, including further adjustments to its Government of Canada bond purchases and term repo facilities and the possibility of purchasing other types of marketable debt securities.
- The Bank will continue to analyze ongoing key vulnerabilities and risks in the Canadian economy, including increased household financial stress and a large correction in house prices, a sharp rise in global risk premiums, stress emanating from China and other emerging-market economies, and prolonged weakness in commodity prices. An updated assessment will be published in the next *Financial System Review*, to be released in June 2016.

More information

The *Financial System Review* is available at http://www.bankofcanada.ca/2015/12/fsr-december-2015.

Topics related to the financial system are highlighted in speeches and research papers by members of the Governing Council, as well as in technical reports and staff discussion papers, available at http://www.bankofcanada.ca/research/browse.

Schembri, L. 2015. *The Long-Term Evolution of House Prices: An International Perspective*. Speech to the Canadian Association for Business Economics, Kingston, Ontario, 25 August. Available at http://www.bankofcanada.ca/2015/08/long-term-evolution-house-prices.

Additional information on the Bank's framework for market operations and liquidity provision can be found at http://www.bankofcanada.ca/markets/market-operations-liquidity-provision/framework-market-operations-liquidity-provision.

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 design, development, production and distribution. The goal is to ensure that bank notes in circulation are secure against counterfeiting, meet a high standard of quality, are available in sufficient supply and continue to meet the needs of Canadians.

The Bank undertakes a broad spectrum of research to inform the strategic decision making and direction setting for its Currency function. Research topics include bank note security and design, the quality and performance of notes in circulation, the use of cash, and the future of bank notes. The Bank has also studied the oversight, regulation and issuance of e-money and electronic retail payment methods.

Regular consultations with stakeholders in law enforcement, retail and banking, and with the public at large, provide valuable information on topics such as how cash is being used, the visual content of future bank notes, and the use and cost of alternative payment systems.

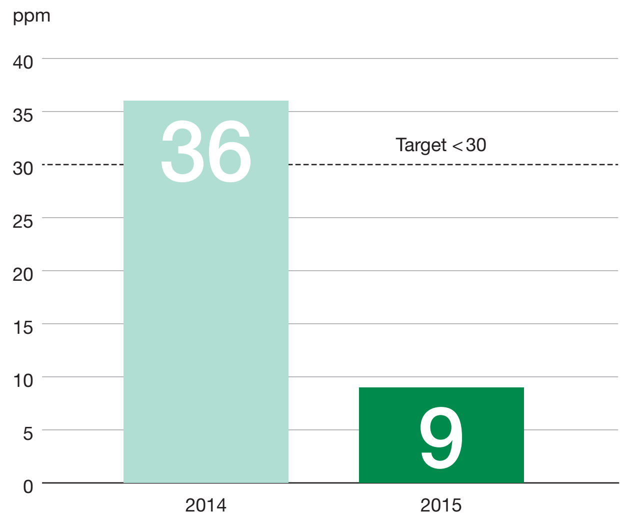
To deter the counterfeiting of Canadian currency, the Bank collaborates with law-enforcement agencies and conducts educational activities to increase the routine verification of bank notes by retailers and the public.

The Bank 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.

Senior Deputy Governor Wilkins delivers the welcome address at the international Currency Conference in Vancouver in May 2015. Started in 1992 at the request of central bankers responsible for currency issuance, the conference brings together key officials and suppliers in the field of currency issuing and printing.
Photo: Vision Event Photography

Counterfeiting rate

Counterfeit notes detected per year for each million genuine notes in circulation (parts per million, or ppm)



Achievements in 2015

Developing and issuing a new bank note encompasses a broad range of activities, from research into security features and consideration of visual content to production and distribution.

On 9 September, the Bank unveiled and issued a commemorative $20 polymer bank note honouring Her Majesty Queen Elizabeth II, who on that day became the longest-reigning sovereign in Canada's modern era. Over 41 million notes were made available to Canadians through their financial institutions.

Public consultations were held in 2015 as part of preparations for a commemorative note to mark the 150th anniversary of Confederation in 2017. In line with its principles for bank note design, the Bank collected public views on how best to represent the 150th anniversary theme on a bank note. This input, together with insights from content experts and other Bank stakeholders, was provided to the Minister of Finance, who has the authority to make the final decision.

Canada continued its transition from paper to polymer bank notes, now in its fourth year. To facilitate the process, financial institutions worked with their branches and commercial clients toward the goal of removing all paper notes from circulation. At year-end, polymer notes represented about 80 per cent of all notes in circulation, an increase from 75 per cent in 2014. This figure is projected to reach 86 per cent by the end of 2016.

The *Polymer* series continued to perform well in circulation, lasting a minimum of 3.5 times longer than paper. The increased durability of the polymer, along with its recyclability, allows the Bank to produce more economical and environmentally friendly bank notes. The polymer notes are also difficult to counterfeit, a technical achievement reflected in Canada's steadily decreasing counterfeiting rate. At the end of 2015, the rate had decreased from 36 parts per million (ppm) in 2014 to 9 ppm,[5] the lowest level in nearly 25 years and well below the Bank target of 30 ppm. Counterfeiting is now mainly found in the paper bank notes that remain in circulation.

The Bank pursued its counterfeit-deterrence activities with the retail community. It also continued to collaborate with the Royal Canadian Mounted Police and Public Safety Canada through the National Counterfeit Enforcement Strategy, a program renewed by the Government of Canada in 2015 for five years.

Through the Currency Department's new Information Management Strategy, a bank note can now be tracked through every stage of its life cycle—from development to destruction. This pioneering approach to bank note analytics received the 2015 award for "Best Bank Note Processing Innovation" from the International Association of Currency Affairs.

5 Statistics on bank note counterfeiting are expressed as the number of counterfeits identified for every 1 million genuine notes in circulation. If there are 9 counterfeit notes for 1 million genuine notes in circulation, the rate is expressed as 9 ppm.

2015 Commemorative Bank Note

On 9 September 2015, Her Majesty Queen Elizabeth II became the longest-reigning sovereign in Canada's modern era, exceeding the tenure of her great-great-grandmother, Queen Victoria.

The Bank of Canada was proud to mark this historic milestone with a commemorative bank note, formally issued at Rideau Hall by His Excellency the Right Honourable David Johnston, Governor General of Canada, and the Bank's Chief of Currency, Richard Wall. A commemorative stamp from Canada Post and a coin from the Royal Canadian Mint were issued on the same occasion.

More than 41 million commemorative notes were distributed through Canadian financial institutions in 2015.

The note is a variation on the existing $20 note in the *Polymer* series and has all the same security features. The differences are in the visual elements of the large window. These include a colourful metallic portrait of Her Majesty, wearing a tiara for the first time on a Canadian bank note. The image is based on a 1951 photograph by famous Canadian photographer, Yousuf Karsh. Under the portrait, there are three metallic symbols: Her Majesty's monogram, a garland of maple leaves and an inscription celebrating the Queen's historic reign.

His Excellency the Right Honourable David Johnston, Governor General of Canada (right), and Richard Wall, Chief of the Currency Department at the Bank of Canada (left), pose with the commemorative $20 bank note honouring the historic reign of Queen Elizabeth II.

This is only the third commemorative note issued in the Bank's history. A $25 note was produced in 1935 to mark the silver Jubilee of King George V, and in 1967, a $1 note was issued to mark the 100th anniversary of Canadian Confederation.

In 2017, the Bank will issue a new commemorative note to celebrate Canada's 150th anniversary.

Research and development in bank note technology in 2015 examined bank note fitness, high-speed sorting performance, new models for evaluating note life, human authentication behaviours and new bank note technologies. The Bank is part of a research consortium that includes the National Research Council of Canada and participants from the public and private sectors.

The Bank continued research on the use of cash, e-money and other forms of payment in 2015.

The most recent Methods-of-Payment Survey provided valuable data on the use of cash and the adoption of existing and new payment technologies in Canada. Canadian retailers were also surveyed as part of the Bank's ongoing research on the costs of different payment options to businesses and society in general.

Currency operations continued to supply Canadians with secure, high-quality bank notes.

The Bank has also started an analysis of the merits and drawbacks of central banks issuing digital currency. One published study, which examines a case of privately issued bank notes circulated in the United States, may offer some insight into the emergence of e-money.[6]

Currency operations continued to supply Canadians with secure, high-quality bank notes through inventory management, rigorous quality assurance and ongoing collaboration with financial institution partners. Because of the durability of polymer notes, bank note processing centres have seen a significant decline in the number of bank notes that must be removed from circulation and have realigned their operations as a result.

The Bank's regional offices in Vancouver, Calgary, Toronto, Montréal and Halifax continued to provide a strong presence across Canada, delivering currency education programs to local law-enforcement partners and the RCMP, financial institutions, and the retail community.

Looking forward

- Polymer bank notes are expected to reach 86 per cent of the total number in circulation by the end of 2016 as the replacement of paper notes continues. Since this represents substantially all notes in circulation, the replacement rate is likely to slow significantly in subsequent years.
- Work will continue on the design, production and preparation for a release of a commemorative bank note marking Canada's 150th year in 2017, and the Bank will launch a public consultation to develop the first bank note in the next polymer series.
- The modernization of bank note processing centres will continue, including the phasing in of additional automated equipment.
- Through the Information Management Strategy and other research, the Bank will gain new and deeper insight into the circulation patterns of bank notes between financial institutions and across Canada. This information will inform potential improvements to the bank note distribution system.
- The Bank will advance its research on e-money, e-payment technologies and other payment methods, as well as on leading-edge security technologies for bank notes.

More information

More information on Canada's polymer bank notes is available at http://www.bankofcanada.ca/banknotes.

Fung, B., K. P. Huynh and G. Stuber. 2015. "The Use of Cash in Canada." *Bank of Canada Review* (Spring): 45–56. Available at http://www.bankofcanada.ca/wp-content/uploads/2015/05/boc-review-spring15-fung.pdf.

6 W. E. Weber, "Government and Private E-Money-Like Systems: Federal Reserve Notes and National Bank Notes," Staff Working Paper No. 2015-18, Bank of Canada, 2015. Available at http://www.bankofcanada.ca/2015/06/working-paper-2015-18.

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 provides advice 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, manages the assets of the Exchange Fund Account (EFA) and Canada's foreign exchange reserves, and administers the government's Retail Debt Program.

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

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 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 or more.

Achievements in 2015

Consistent with the Government of Canada's 2015–16 debt strategy, the 2015 debt program focused on raising stable and low-cost funding for government programs and services while maintaining a liquid and well-functioning Government of Canada securities market. This involves striking a balance between the cost and the risk associated with the debt structure.

Through a partnership with the Investment Industry Regulatory Organization of Canada, arrangements were made for the Bank to access data on debt securities transactions made by all government securities distributors. This will allow the Bank to improve its monitoring, analysis and research of Canadian fixed-income markets.

Canada ceased issuing 3-year bonds in 2015 to allow for larger bond benchmarks in key terms to maturity. The forgone issuance has been gradually reallocated to the 2- and 5-year sectors. This will increase liquidity and support well-functioning securities markets.

- Approximately $90 billion in Government of Canada marketable bonds and $304 billion in treasury bills will be issued in the 2015–16 fiscal year. The total stock of market debt was roughly $672 billion as at 31 December 2015.
- Cash balances for the federal government held at the Bank and at Canadian financial institutions averaged approximately $33 billion in 2015.
- The market value of liquid reserves held in the Exchange Fund Account was US$69.1 billion as at 31 December 2015 and is invested in securities denominated in U.S. dollars, euros, Japanese yen and pounds sterling.
- The stock of treasury bills is projected to decrease from $136 billion at 1 April 2015 to $129 billion by 31 March 2016.

Significant advances were made in the management of Canada's foreign exchange reserves portfolio.

Significant advances were made in the management of Canada's foreign exchange reserves portfolio. A new portfolio-management approach, with an asset benchmark based on the Bank's internal credit ratings, was adopted in 2015 to guide the mix of investments to be held in the portfolio. The Bank also implemented risk-tolerance measures for the assets and liabilities within the EFA portfolio. The transition of the US$69 billion in liquid reserves to the new asset benchmark was piloted in 2015.

The Bank and the Government of Canada reduced their reliance on external credit-rating agencies by developing internal capacity to perform credit risk assessments. In 2015, the Bank completed development of internal credit-rating methodologies and eliminated mechanistic reliance on credit-rating agencies in the management of the assets of the EFA. 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 reliance on external credit ratings is considered a best practice that promotes stability in the financial system.

The Bank continued to maintain its high standard of operational excellence in funds management, with payment system availability of 99.96 per cent in 2015.

The government revised the legal agreements governing the cross-currency swaps it executes with financial institution counterparties to raise funds for its foreign exchange reserves, moving to a bilateral exchange of collateral. At the end of 2015, agreements were in place with counterparties representing 85 per cent of the government's existing swap portfolio. Once fully implemented, the new policy is expected to reduce credit risk and lower the government's funding costs by $25 million to $30 million per year. The transition to the new policy had reduced government expenses by $93 million as of December 2015.

The Government of Canada released the results of an external review[7] of the Government's Retail Debt Program, which is managed by the Bank. Given the ongoing popularity of the Canada Savings Bond and Premium Bond programs, a decision was made to maintain the programs in their current form. Some 2.5 million Canadians have invested a total of $6 billion in bonds sold through the Retail Debt Program.

The Bank continued to maintain its high standard of operational excellence in funds management, with payment system availability of 99.96 per cent in 2015. Operational infrastructure was further strengthened through the completion of a number of major initiatives to improve systems.

The Bank improved the resilience of operational and banking services provided to foreign central banks, official institutions and key participants in the Canadian financial system that maintain their securities with the Bank. A revised service model for banking operations allows these clients to actively trade their securities, resulting in a significant increase in their trading activity and contributing to the smooth functioning of fixed-income markets. The Canadian Deposit Insurance Corporation became a new client of the system in 2015.

The Bank completed its triennial study of the Pension Fund's assets and liabilities in 2015. In response to the study's recommendations, the Bank began work to diversify assets within the Bank of Canada Pension Trust Fund portfolio to improve risk-return ratios.

Looking forward

The Bank will continue to maintain its focus on operational excellence in funds management in 2016, including investments in updated technology to improve the functionality and resilience of its financial, risk-management, banking and markets systems.

The Bank will continue to redevelop and modernize the key auction system it uses to distribute cash and securities for its own operations and as fiscal agent of the Government of Canada. The intent is to increase the operational flexibility and efficiency of the system and reduce the associated operational risks. This Auction Modernization Initiative will continue through to 2018.

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

More information

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

The Government of Canada Debt Management Strategy is available at http://www.fin.gc.ca/dms-sgd/dms-sgd-15-eng.pdf.

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

7 Department of Finance Canada, *Evaluation of the Retail Debt Program*. Available at http://www.fin.gc.ca/treas/evaluations/rdp-pptmd-eng.asp.

MANAGING THE BANK OF CANADA

A strong management and operating framework provides the foundation for the Bank of Canada's core functions and activities. Efficient, cost-effective and innovative operations promote employee engagement and productivity in the workplace and contribute to the achievement of the themes and business objectives outlined in the medium-term plan.

Corporate administration departments work with Bank leaders and employees to ensure that operations function as required. This involves the management of

- people: recruiting, engaging and retaining highly qualified employees for the Bank
- processes: executive decision making and governance, compliance and legal systems, corporate policy, and risk management
- assets: maintaining buildings, procuring services and securing information resources
- finances: budgeting, accounting, control and audit
- information technology, data and security

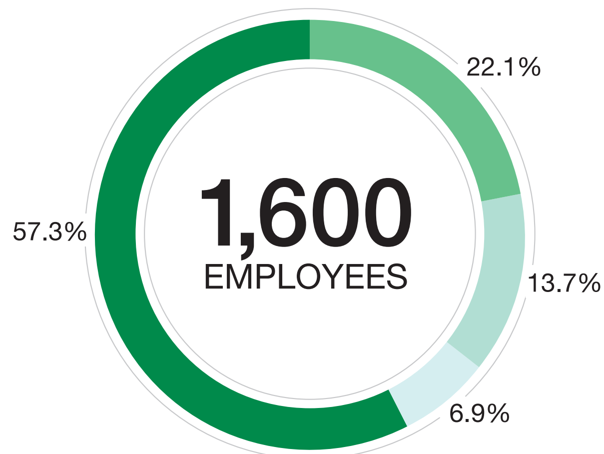
Our People

The Bank needs an appropriate staff complement, equipped with the right tools, to fulfill its mandate effectively.

In addition to the economists and financial system specialists who work in the Bank's core functions, many others fill operational support roles related to information technology, financial services, audit, communications, security, knowledge and information, data and statistics, legal services, and human resources. Approximately 1,600[8] people were employed at the Bank in 2015, with 90 per cent based in Ottawa, and the remaining 10 per cent located in offices and operations centres in Halifax, Montréal, Toronto, Calgary, Vancouver and New York City.

Composition of Bank staff, by role

Approximate, for 2015



Human resources in 2015

Human resources activities focused on attracting, engaging and retaining highly qualified employees; fostering a culture of respect, integrity and excellence; and harnessing the innovative and collaborative spirit that is needed to interact effectively with partners in Canada and around the world.

The Bank was recognized once again in 2015 for its efforts to provide a superior work environment, distinctive development opportunities and competitive compensation for employees. For the sixth consecutive year, the Bank was named one of Canada's Top 100 employers and one of the top 25 employers in the National Capital Region.

The Bank uses a balance of external recruitment and internal staffing to hire people with the required skills: primarily through general recruitment, master's and PhD internship programs, and co-op and summer student positions. The University Recruitment Campaign was complemented in 2015 by the introduction of the Governor's Challenge,[9] a monetary policy competition for undergraduate students. In addition to its educational goals, the program raises awareness among students of the Bank as a potential employer.

In line with the Bank's business objectives outlined in the new medium-term plan (MTP), the Governor and Senior Deputy Governor championed the introduction of updated leadership competencies as a core element

8 Staff numbers include employees in both regular and temporary positions. They exclude the Governor and the Senior Deputy Governor and employees on leave for less than two years.

9 For more information on the Governor's Challenge, see page 35.

The Bank of Canada was named one of Canada's Top 100 Employers for the sixth year in a row. Chief Operating Officer Filipe Dinis, centre, accepts the 2015 award on behalf of the Bank, accompanied by Ann Abels, left, and Nea Powell of the Bank's Human Resources Department.

of a new leadership development framework for the Bank. The intent is to enhance the existing opportunities for Bank leaders at all levels to build their skills to promote the innovation and strategic risk taking that will be needed to reinvent central banking in the future.

Diversity and employment equity are a continuing priority, and new initiatives were undertaken in 2015 to enhance the representation of Aboriginal peoples and persons with disabilities in the Bank's employee complement. The Bank introduced a university scholarship program aimed at these two groups, along with a job placement pilot program for persons with disabilities.

The Bank emphasizes internal communications to ensure that employees have the information they need to do their work, as well as to create a positive, collaborative work environment. The employee intranet site, *Banque Centrale,* is updated daily with practical information and news of interest to employees. New content was added in 2015 to enhance the tools, programs and information available to employees working on career development.

There was an increase in the number of employees nominated by their peers for the Awards of Excellence in 2015, the program's second year. Some 68 nominations were received, and 16 employees were recognized by the Bank for their contributions in the areas of innovation, work environment and collaboration.

Leadership Competencies

Strategic Outlook

To translate the Bank's vision into concrete plans, bringing a longer-term context to strategy and operations.

Inspirational Leadership

To motivate staff with a shared understanding of the Bank's goals to build productive and engaged teams.

Intellectual Leadership

To be recognized with expertise that catalyzes the work of others and models courage to challenge the status quo.

Coaching and Developing Others

To foster an environment that supports learning and development and values individual differences.

Achievement Orientation

To demonstrate results through strong performance, effective risk management and sound analytic-based decisions.

Bank employees also take part in a workplace charitable campaign each year on a voluntary basis. In addition to the traditional focus on the United Way, in 2015 the Bank introduced the option for staff to make donations to Health Partners, a group of national health charities. More than $237,000 was raised through direct contributions and internal fundraising events. Bank staff also conducted a food drive for the Ottawa Food Bank.

Operating Infrastructure

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

The Bank continued to strengthen its cyber security posture in 2015. A full-scale continuity of operations exercise was conducted to test the Bank's readiness and response to a fictional cyber attack. The exercise generated valuable lessons for Bank staff and raised awareness of potential cyber threats.

The Bank launched a renewed information technology (IT) strategy, augmenting its technology infrastructure to reduce risk and increase business resilience and leveraging industry trends and best practices from other central banks and related institutions.

A component of the strategy is the modernization of the work environment for employees, using new tools to facilitate collaboration and mobility at the renewed head office. In the first phase of this process, the deployment of SharePoint, an enterprise content management system, was completed across the Bank in 2015. Skype for Business, a tool that increases the ability to communicate and collaborate irrespective of location, was also launched Bank-wide in 2015.

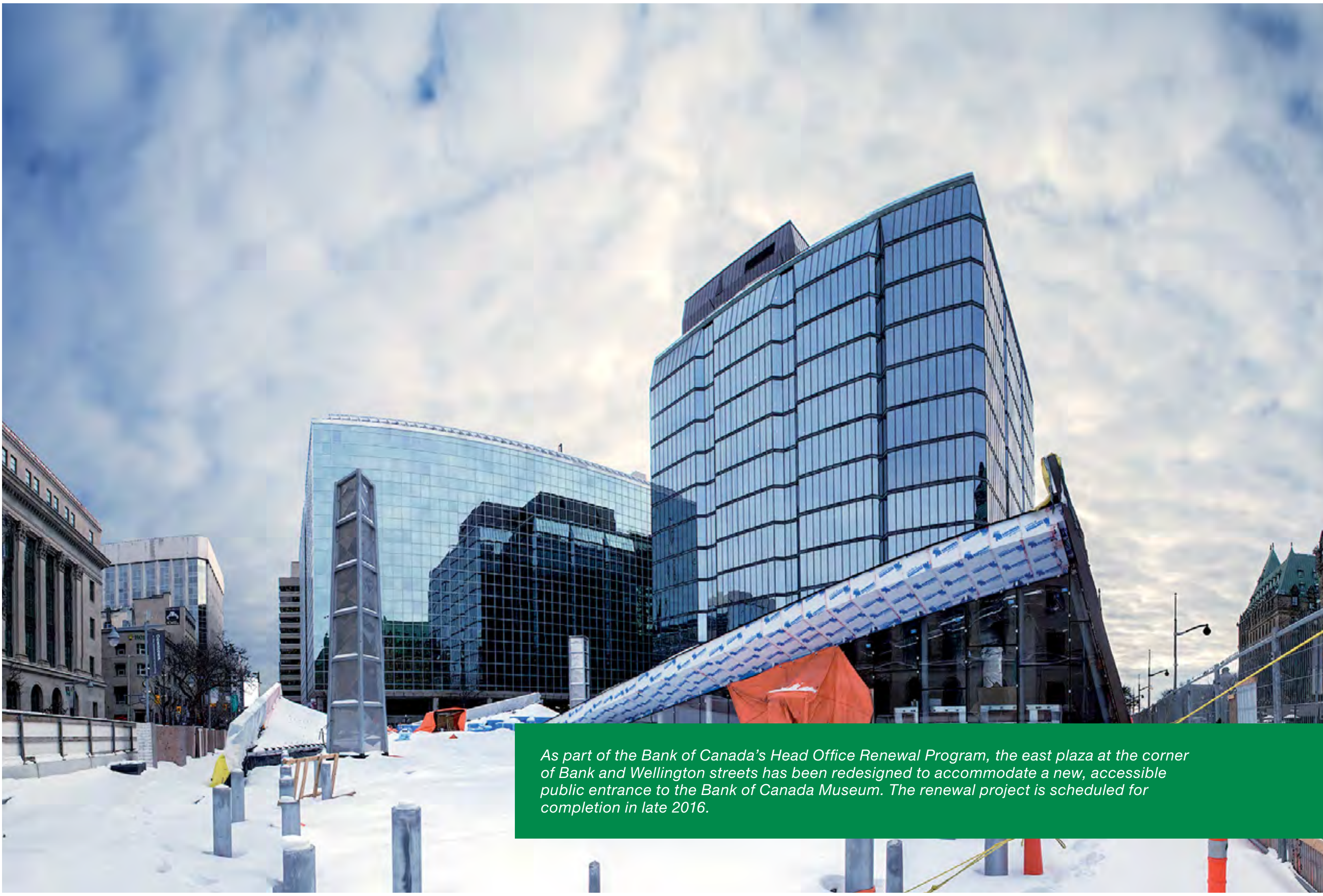
Other successful initiatives were undertaken in 2015 to increase the resilience and effectiveness of Bank operations. An integrated critical environment assessment of the Bank's primary data centre indicated that the availability and reliability levels were well above required standards, and the Bank was awarded the Management & Operations (M&O) Stamp of Approval by the Uptime Institute, an independent advisory organization that creates and administers standards and certifications for data centre design, construction and operational sustainability. The award recognizes adherence to behaviours that have been proven to achieve maximum uptime for a data centre.

The team that led the Tri-Agency Database System Renewal project—a joint initiative of the Office of the Superintendent of Financial Institutions, the Canadian Deposit Insurance Corporation and the Bank—received an Excellence in Collaboration award from the Government Technology and Exhibition Conference (GTEC), a forum promoting excellence in innovation and government service delivery. The project resulted in significant improvements to the regulatory reporting system used jointly by the three agencies and operated by the Bank.

A new facilities service model was developed in 2015 to coincide with the Bank's return to the Wellington Street site in 2017. The model will promote efficiency and tap into specialized services and expertise outside the Bank.

The Bank also streamlined a number of administrative processes in 2015 to improve efficiency while ensuring understanding of, and compliance with, legislation, regulations and internal Bank policies. Improvements were made to systems and processes related to unclaimed balances, procurement, budgeting and reporting, and the HR Centre. As well, the Bank's regulatory compliance framework was updated to include a process for the acknowledgment and assurance of compliance measures.

Finally, significant efforts in many departments were undertaken to develop and prepare for the implementation of the Bank's new three-year medium-term plan, which officially took effect on 1 January 2016.



As part of the Bank of Canada's Head Office Renewal Program, the east plaza at the corner of Bank and Wellington streets has been redesigned to accommodate a new, accessible public entrance to the Bank of Canada Museum. The renewal project is scheduled for completion in late 2016.

Head Office Renewal

The project to renew the Bank of Canada's head office complex at 234 Wellington Street is on track for completion in late 2016. Bank employees now working at the Bank's temporary headquarters at Laurier and O'Connor streets are scheduled to move back to the Bank's permanent facilities in a phased process starting in early 2017.

Located diagonally across from the Parliament of Canada, the Bank's head office is an architecturally significant building in downtown Ottawa. The complex consists of two main structures blending classical and modern styles, joined by an atrium. The original stone building, constructed in 1938, is surrounded by two modern glass towers added in the 1970s.

The renewed structure will include upgrades to the main building systems, which had reached the end of their lifespans, and accommodate the Bank's evolving security and business requirements.

Significant progress was made on the project in 2015. The base building structure was completed, and fit-up construction began throughout the facility. The plaza on the east portion of the property has been redesigned to create a vibrant public space and improve access to the Bank of Canada Museum, which is scheduled to reopen in an expanded format in 2017.

The project remains on budget ($460 million), and the Bank will proceed with significant capital outlays in 2016, primarily on interior fit-up, furniture and equipment.

COMMUNICATIONS AND ACCOUNTABILITY

The Bank of Canada is committed to openness and transparency in communicating its policy and operating decisions. Canadians, businesses and investors will have more confidence in the value of their money and in the safety of the country's financial system if they understand the Bank's work.

Governor Poloz and Senior Deputy Governor Wilkins field questions during a press conference in 2015.

The Bank communicates with Canadians through speeches, publications, parliamentary appearances, press conferences and media interviews. On fixed dates eight times a year, the Bank announces its decision on the setting of its key policy interest rate, complemented quarterly by the *Monetary Policy Report.* The Bank also promotes understanding of financial vulnerabilities and emerging risks to the stability of Canada's financial system through the twice-yearly publication of the *Financial System Review.*

News conferences and interviews are held following most major appearances by the Governor and Senior Deputy Governor, except during a federal election. A comprehensive website gives Canadians access to a wealth of information on the Bank's activities. The Bank also has an extensive outreach program to ensure that the views of individuals, businesses and organizations in Canada are understood and considered by the Bank in the course of its activities.

External Communications

In 2015, members of Governing Council delivered 28 public speeches or presentations related to monetary policy, Canadian and global financial system stability, and the international financial reform agenda. Key issues related to preparations for the renewal of the inflation-targeting agreement were also discussed in a number of speeches.

The Governor and Senior Deputy Governor appeared before the House of Commons Standing Committee on Finance in 2015. Senior staff also appeared before the Committee regarding the Canadian renminbi trading centre and the impact of lower oil prices on the Canadian economy.

The Bank has increased its use of social media and other online and multimedia communications tools to strengthen its outreach to Canadians. The Bank's website averaged more than 1 million visits per month in 2015, and the number of unique users accessing the website increased by 29 per cent, to 12.1 million, generating 54 million page views during the year. CentralBanking.com gave the Bank of Canada an award for the top central bank website for 2015.[10]

10 The 2015 award was announced in late 2014 and was included in last year's *Annual Report.*

Popular online tools—Twitter, LinkedIn, RSS feeds and Flickr—have helped to engage Canadians in the work of the Bank. The Bank added more webcasts in 2015 to improve access to all of Governing Council's public speaking events. The Governor's key events in 2015, as well as speeches by the Senior Deputy Governor and the Deputy Governors, were webcast live, and archives of all speeches are available on the Bank's YouTube channel.

In addition to daily statistics on interest and exchange rates, the website provides access to all of the Bank's notices and publications, surveys, research papers, speeches, public reports, backgrounders, and videos. Educational content about the Bank covers general interest topics such as the Bank's history and bank notes.

The Bank continues to improve its website user experience. Technical improvements have made the website easier to view on mobile devices, enhancing the user's ability to access text or images on a wide variety of topics. Web content is modified and updated as needed to support both ongoing work and special communications activities. Examples include major updates to website information on financial market operations and liquidity and the online communications content made available to support the launch of the commemorative $20 bank note.

Governor Poloz and Senior Deputy Governor Wilkins walk through the corridors of the House of Commons on their way to a presentation before the Standing Committee on Finance.

Bank of Canada online engagement

86,900 Twitter followers	**14,223** LinkedIn followers	**134,892** YouTube views	**1,080,000** Average monthly visitors to the Bank's website

Public Outreach

In line with the priorities of the medium-term plan, the Bank continues to develop new strategies to reach out to external partners and other stakeholders. Public consultations were held in 2015 with partner agencies, financial institutions, market participants and business leaders on a variety of topics.

Governor Poloz delivers a speech on the topic of "Central Bank Credibility and Policy Normalization" at the Canada–United Kingdom Chamber of Commerce in March 2015. Photo: José Farinha

The Bank's five Canadian regional offices in Vancouver, Calgary, Toronto, Montréal and Halifax play an important liaison role with businesses, organizations and citizens across the country. Bank staff in these locations 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 office in New York City maintains contact with financial sector participants in the United States.

Deputy Governors travel throughout Canada to deliver presentations about the functions of the Bank and to meet local stakeholders and conduct media interviews. A member of the Bank's Board of Directors typically attends as well. In 2015, three such regional outreach events took place in Kelowna, Winnipeg and Regina.

The Governor and Senior Deputy Governor also have regular consultations and round table meetings with business leaders and organizations. Governor Poloz and Senior Deputy Governor Wilkins hosted a total of 15 such meetings in Ottawa and other locations, which allowed them to hear external perspectives on issues facing Canada's economic and financial sectors.

The Bank receives and responds to a large volume of public inquiries each year. In 2015, staff fielded a total of 18,015 telephone calls, 12,562 emails, 541 letters and 151 facsimiles on a wide range of questions and concerns about the Bank.

Academic Outreach

As part of its commitment to innovation, in 2015 the Bank refreshed its approach to academic engagement with the aim of fostering rigorous discussion and information exchange. A new Chief of Economic and Financial Research was appointed, and a Bank-wide research plan was developed with cross-functional research activities to support the Bank's business objectives.

A Visiting Scholar Program was launched, with three scholars selected, to promote collaboration between external academics and Bank researchers. The Bank organized several conferences; topics covered in 2015 included e-money and payments, inflation targeting, and price cycles for commodities.

The Bank also expanded the range of Bank research published online. Staff research papers are now published under a new process that is independent of Governing Council and can be refereed by external reviewers. A new outlet was also created for shorter, more topical pieces of staff analysis, now published as staff analytical notes.

The Governor's Challenge

The Bank of Canada launched the Governor's Challenge in 2015 to inspire Canadian undergraduate students to learn more about monetary policy in Canada.

The competition complements a number of other Bank programs designed to engage students and academics at all levels in the study of central bank issues.

Teams of students from each university analyze and forecast macroeconomic developments in the Canadian economy and develop monetary policy recommendations. A panel of Bank of Canada judges evaluates the teams on the substance of their analysis, the quality of their presentation and evidence of strong teamwork.

More than 100 undergraduates from 22 universities across Canada took part in the regional competitions in 2015, the competition's inaugural year.

Teams from the following universities were chosen to compete in the final round in Ottawa in February 2016:

- University of Saskatchewan
- Wilfrid Laurier University
- University of Toronto (St. George campus)
- McGill University
- St. Francis Xavier University

The Governor of the Bank of Canada presents the Governor's Challenge trophy to the winning team.

Bank of Canada Museum

A new Bank of Canada Museum is being created to meet the needs of a broader group of Canadians interested in the work of the Bank. Formerly the Currency Museum, the new facility will open in 2017 in the Bank's renewed head office on Wellington Street.

Core construction of the Museum facility was largely completed in 2015. It will eventually share a large street-level entrance with the Bank's conference facility in the east plaza on the corner of Bank and Wellington streets.

After a competitive selection process, a specialty consulting firm was contracted to design both the physical and content elements of the new Museum, using contemporary interpretive approaches and leading-edge exhibition technology. The consultants worked closely with a Bank-wide Museum advisory working group through 2015. External stakeholders will be engaged in the coming year as the project moves into its next phase.

The Museum has been offering more content online, and visits to the redesigned website increased substantially in 2015. The Museum is also active on Twitter and was featured in four travelling and temporary exhibitions in 2015, including one at the Museum of History.

The Bank of Canada museum held a series of travelling exhibitions through 2015 at various venues across Canada. More information is available at http://www.bankofcanadamuseum.ca/.

Governor Stephen Poloz meets with Governor Agustín Carstens of the Banco de México at the Bank in 2015.

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 Governor of the Bank of Canada—as well as the Senior Deputy Governor, Deputy Governors and other Bank leaders—engages in dialogue on global economic and financial developments through such bodies as the G7, the G20, the Financial Stability Board (FSB), the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), and the International Monetary Fund (IMF).

Bank leaders and staff members 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 issues such as monetary policy, commodity markets, financial stability, currency and bank notes, and foreign reserves management.

International Activities

International discussions on the global economy during 2015 took place in the context of several major developments that affected economic activity and financial markets.

At G20 meetings in 2015, Canada's representatives advocated policies to further support demand and to smooth the adjustment process as a result of the terms-of-trade shock caused by the dramatic drop in commodity prices. They also urged full and timely implementation of the structural reform measures that make up the G20's comprehensive growth strategies to boost potential economic growth and lift the G20's overall GDP by 2 per cent by 2018. Bank staff also participated in various G20 working groups—including the Framework Working Group, the Investment and Infrastructure Working Group, and the Energy Sustainability Working Group.

Governor Poloz served in 2015 on the BIS Board of Directors, which determines the strategic and policy direction of the BIS, supervises BIS management and fulfills other specific tasks. He chaired the BIS Board's Audit Committee, which meets four times a year to examine matters related to the Bank's internal control systems and financial reporting.

The Governor was also named chair of the BIS Consultative Council for the Americas for a two-year term, starting in 2016. Composed of the governors of the eight central banks in the Americas that are members of the BIS, the group was established in 2008 to facilitate communication between these central banks and the BIS board and management on matters of interest to the central banking community in the region.

Senior Deputy Governor Carolyn Wilkins co-chairs the FSB Regional Consultative Group for the Americas with DeLisle Worrell, Governor of the Central Bank of Barbados.

At the BIS Committee on the Global Financial System, the Bank participated in three important workstreams to assess the implications for financial markets of financial market developments and reforms. Deputy Governor Timothy Lane chaired a working group that explored how the design of central banks' operational frameworks influences private collateral markets in such areas as collateral availability, pricing, related market practices and market performance under stress. The Bank also took part in a working group to evaluate fixed-income market liquidity in light of recent market events, including the expansion of electronic trading, dealer deleveraging, regulatory reform and accommodative monetary policy.

The Bank of Canada contributes to FSB activities to develop and promote effective regulatory, supervisory and other financial sector policies in the interests of financial stability around the world. Senior Deputy Governor Wilkins sits on the FSB Plenary and co-chairs the FSB Regional Consultative Group for the Americas, with members from 20 jurisdictions in the Americas. She is also a member of the Standing Committee on Assessment of Vulnerabilities, which monitors and assesses vulnerabilities in the global financial system.

The Bank made important contributions in 2015 to the development of recommendations to enhance the resilience and effective regulation of benchmark rates that are set and used in foreign exchange markets. In particular, the Bank is actively involved in the ongoing work to develop a Global Code of Conduct for the foreign exchange market, which is due to be completed in 2017.

Derivatives and Shadow Banking

The Bank supports a number of initiatives to advance international commitments related to shadow banking and OTC derivatives. The Senior Deputy Governor chaired the thematic peer review on the implementation of the FSB policy framework for shadow banking entities. In addition, Deputy Governor Lawrence Schembri co-chaired the FSB Regional Consultative Group of the Americas working group on shadow banking, which published a report on shadow banking in 17 jurisdictions in the Americas.

The Bank contributed to the FSB's work on structural issues in asset management and led the international team responsible for exploring the vulnerabilities of pension funds and sovereign wealth funds. On behalf of domestic financial regulators, the Bank led Canada's participation in several FSB monitoring exercises.

The Bank also played an active role in the development of an international regulatory framework for minimum haircuts on securities financing transactions and a review of the implementation of international margin standards for non-centrally cleared derivatives. The Bank also supported FSB efforts to identify barriers to the adoption of OTC derivatives reforms, including the implementation of margining of non-centrally cleared derivatives and removing barriers to access by authorities to domestic and international trade repository data.

Financial Market Infrastructures

Safe and efficient financial market infrastructures (FMIs) are an important element of financial stability. The Bank contributes to international efforts to strengthen FMIs through the BIS Committee on Payments and Market Infrastructures (CPMI) and CPMI-IOSCO[11] initiatives fostering safe and resilient payment and securities clearing and settlement systems.

Among the key initiatives in 2015 were a review of central counterparty (CCP) resilience,[12] recovery and resolution, and the appointment of working groups on cyber resilience and retail payment systems. The Bank led the workstreams on CCP recovery and on the CCP implementation of the Principles for Financial Market Infrastructures for key global OTC derivatives, and made important contributions to the work on retail payments.

11 The International Organization of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector.

12 In 2009, G20 leaders committed to ensuring that all standardized OTC derivatives contracts are cleared through CCPs.

International Co-operation

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

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. The Bank hosted and participated in a number of international conferences and forums and contributed to international policy discussions on the impact of the oil price shock on the global and Canadian economies.

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 to maintain strong international relationships and develop its reputation as a dynamic institution in the central bank community. Participating institutions may visit the Bank, submit questionnaires or have discussions by video or teleconference. Staff will occasionally travel to the participating institutions, generally as part of a broader initiative with external funding. In 2015, the Bank accommodated 58 requests for technical assistance, ranging from advice and expertise on the development of economic models and inflation targeting to currency issues, ethics and compliance policies, internal audit, and budgeting processes.

Central Bank Operations

Central banks play an important role in promoting safe and efficient domestic and international financial systems. The provision of banking and custodial services to foreign central banks and other key financial system participants supports the smooth functioning of domestic markets. Canada promotes best practices in central bank operations through collaborative work with foreign central banks, the BIS and other international organizations.

BIS forums such as the Group of Computer Experts, the Working Party on Security Issues and the Central Bank Internal Auditors group also help the Bank to keep abreast of information technology issues and trends in the central banking community.

In 2015, the Bank continued to collaborate with other central banks through the BIS and the FSB to investigate the implications of and risks from the growing use of alternative electronic money and payment mechanisms. Current research is focused on the implications of digital currencies for the core functions of a central bank: currency issuance, financial stability and monetary policy.

Bank researchers participated in discussions of the Virtual Currency Working Group of the BIS Committee on Payments and Market Infrastructure. Bank staff also presented at conferences and other meetings with Canadian government groups and international partners on the potential implications and risks of digital currencies. In addition, the Bank hosted a conference on electronic money and payments that attracted researchers from around the world.

Canada promotes best practices in central bank operations through collaborative work.

More information

Established on 17 May 1930, the Bank for International Settlements (BIS) is the world's oldest international financial organization. Its mission is to serve central banks in their pursuit of monetary and financial stability, to foster international co-operation in those areas and to act as a bank for central banks. More information on the BIS is available at https://www.bis.org/about/index.htm.

The Financial Stability Board (FSB) was established in April 2009 as the successor to the Financial Stability Forum. The FSB has assumed a key role in promoting the reform of international financial regulation. More information on the FSB is available at http://www.fsb.org/about.

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.

Pursuant to the *Bank of Canada Act*, 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 and the provision of liquidity to the financial system. The Governor oversees 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.

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 financial and accounting matters and human resources. Monetary policy is neither formulated nor implemented by the Board.

The Bank strives to maintain leading standards of corporate governance and management, and to that end, the Board and senior management stay informed about best practices used by similar public institutions, central banks and private sector organizations.

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

Changes to the Board of Directors in 2015

Jean Simon was appointed to the Board of Directors in May 2015.

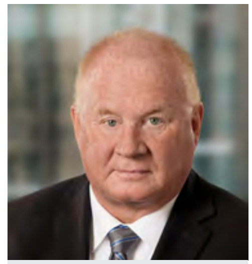
Changes in Board leadership roles

Chair, Capital Projects Committee: Derek D. Key succeeded Brian Henley in January 2015.

The Board of Directors

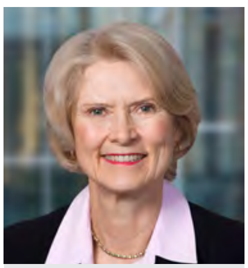
Stephen S. Poloz[2*]
Governor

Carolyn Wilkins[2, 7*]
Senior Deputy Governor



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

Alan Andrew Borger[3, 5]
Winnipeg, Manitoba

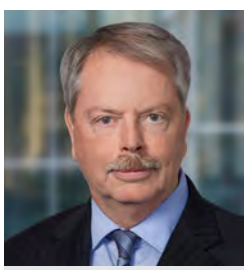


Phyllis Clark[2, 4,* 5]
Edmonton, Alberta

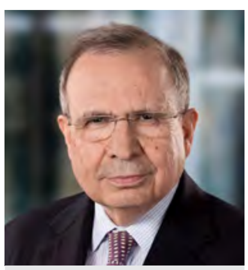
Colin Dodds[6, 7, 8]
Halifax, Nova Scotia

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

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

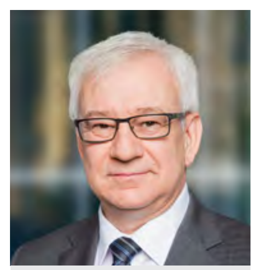


Derek D. Key[1, 2, 3, 5*]
Summerside, Prince Edward Island

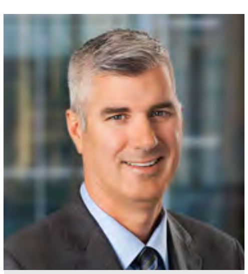


Hassan Khosrowshahi[4, 5]
Vancouver, British Columbia

Wes Scott[4, 7]
Toronto, Ontario



Jean Simon[3, 6]
Saguenay, Quebec



Greg Stewart[5, 6]
Regina, Saskatchewan

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

Paul Rochon[2]
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

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 2015, the Board met six times, and the external meeting was held in St. Andrews, New Brunswick.

In addition, the *Bank of Canada Act* provides for an Executive Committee to act in place of the Board. In 2015, the Executive Committee met once to receive the Bank's Annual Senior Officer and Succession Planning Report.

Standing Committees of the Board of Directors

Committee	Chair	Mandate	Number of meetings in 2015[a]
Audit and Finance Committee	Phyllis Clark	To provide 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	To provide Board oversight on human resources policies and practices, compensation policies, succession planning and senior executive performance. Recommends compensation for the Governor and the Senior Deputy Governor, within ranges set by the Governor-in-Council and subject to its approval.	3
Corporate Governance Committee	Claire Kennedy	To oversee 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.	2
Capital Projects Committee	Derek D. Key	To provide Board oversight for significant Bank projects, including the Head Office Renewal Program.	6
Pension Committee[b]	Carolyn Wilkins	To provide advice to 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 website at http://www.bankofcanada.ca/about/board-of-directors.
b. The Pension Committee is composed of three independent directors, the Senior Deputy Governor and three other members of the management team.

Each committee has terms of reference outlining the responsibilities of the committee and its chair and adopts a work plan for the year.

In November, a selection committee was formed to lead the process for the recruitment of a Deputy Governor following the announcement of the retirement of Agathe Côté, effective 16 January 2016.

An independent director acts as Chair of the Fellowship Program Nominating Committee. That post was held by Colin Dodds in 2015.

Board independence

Given that 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 act as a key point of contact with the Governor. Derek Key acted as Lead Director in 2015.

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, who 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 advisors 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 its *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 independent members of the Board in accordance with its policy for travel, meal and accommodation expenses claimed while attending meetings of the Board, its committees or other Board-related events. A per diem for meal expenses and incidentals was introduced in 2015 as an alternative to claims for reimbursement.

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 length of the term allows the Governor and the Senior Deputy Governor to adopt medium- and longer-term perspectives, which are 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.

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

- conducting monetary policy, and
- promoting a safe and efficient financial system.

Governing Council

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**
   The Monetary Policy Review Committee (MPRC) meets regularly to share information and to provide advice to 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, advisors, 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**
   The Financial System Review Committee (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.

Executive Council, from left, Deputy Governor Lawrence Schembri, Senior Deputy Governor Carolyn Wilkins, Deputy Governor Lynn Patterson, Governor Stephen S. Poloz, Deputy Governor Agathe Côté, Deputy Governor Timothy Lane, Chief Operating Officer Filipe Dinis.

Bank of Canada management structure

The Chief Operating Officer, Filipe Dinis, oversees strategic and operational planning, administration and operations.

The **Executive Council** is the primary forum for management discussion and decisions on the Bank's strategic direction. It is composed of members of the Governing Council and the Chief Operating Officer.

The Bank also has six advisors and a Chief Risk Officer, who provide advice and expertise to the Governing Council and the Executive Council.

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 Executive Council, together with the Bank's advisors and chiefs.

The **Senior Management Council** supports the work of the **Executive Council** by overseeing operational issues, corporate programs, strategic initiatives, financial reporting, annual planning and related risks. The Senior Management Council is composed of the Senior Deputy Governor (Chair), the Chief Operating Officer (Co-Chair), the General Counsel and Corporate Secretary, the Chief Risk Officer, the Chief Financial Officer and Chief Accountant, the Chief of Human Resources, the Chief of Corporate Services, and four other department chiefs on 18-month rotations. In 2015, the rotating positions were filled by the chiefs of Funds Management and Banking, Canadian Economic Analysis, Financial Stability, and Communications.

The Bank's departments are Audit, Canadian Economic Analysis, Communications, Corporate Services, Currency, Executive and Legal Services, Financial Markets, Financial Services, Financial Stability, Funds Management and Banking, Human Resources, Information Technology Services, and International Economic Analysis. In addition, there is a Chief of Economic and Financial Research, who coordinates the research activities across the economics departments.

Compliance and ethics

The Bank requires that all employees observe the highest standards of professional ethics. To this end, the Bank's comprehensive *Code of Business Conduct and Ethics* is in place to address 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. Senior employees and those with access to certain confidential information are subject to enhanced trading restrictions.

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.

Senior Management

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 and Chief, Executive and Legal Services
Jeremy S. T. Farr

Advisors
Paul Chilcott, Don Coletti, Dale Fleck, Sharon Kozicki, Colleen Leighton, Stephen Murchison

Chief Risk Officer
Sheila Vokey

Audit
Julie Champagne, *Chief Internal Auditor*

Canadian Economic Analysis
Eric Santor, *Chief*

Communications
Jill Vardy, *Chief*

Corporate Services
Dinah Maclean, *Chief*

Currency
Richard Wall, *Chief*

Economic and Financial Research
Michael Ehrmann, *Chief*

Financial Markets
Toni Gravelle, *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
Césaire Meh, *Chief*

* Members of Executive Council

Photo: Roger Lalonde, City of Ottawa

RISK MANAGEMENT

The Bank of Canada is exposed to a range of risks from internal and external factors that influence its ability to achieve its mandate and strategic goals. The Bank maintains a strong risk culture and an enterprise risk management (ERM) framework to inform management processes and decision making. This includes regular risk-identification, assessment, monitoring and reporting processes, which allow significant and emerging risks to be appropriately identified and managed. When required, action plans for new or strengthened risk treatments and controls are developed and implemented. Experience from risk response and recovery is used to improve business processes.

Enterprise Risk Management in 2015

In early 2015, the Bank reassessed its approach to enterprise risk management in line with the medium-term plan, which calls for the implementation of a renewed ERM framework between 2016 and 2018.

A new ERM policy outlines the intent, scope, mandatory requirements and employee expectations related to ERM at the Bank. Implementation of the policy is guided by an updated ERM framework and a risk appetite statement (RAS) (see Box on next page). The approach facilitates integration of risk information in the Bank's decision-making, priority-setting and resource-allocation processes. The Bank's management and the Board of Directors will review the policy, framework and RAS annually and update them as required.

The Bank's Risk Appetite

The Bank, like any organization, cannot achieve its objectives without taking some degree of risk. While taking risk in an uncalculated fashion can lead to negative consequences, unwarranted risk aversion can also create risks—stifling innovation and leading to inefficiency in operations.

The Bank's new RAS articulates in written form the Bank's philosophy of risk management and the type and amount of risk, at a broad level, that the Bank is willing to accept. The statement includes a preamble discussing the environment at a central bank and consists of two principles that outline the acceptable level of risk taking for carrying out the Bank's core functions and for fostering innovation. A series of supporting statements provide additional information.

Risk Governance

The Executive Council (EC) oversees the ERM program and the implementation of sound management processes to safeguard the Bank. It reviews and approves changes to the ERM policy and framework and the Risk Appetite Statement, in consultation with the Board of Directors, which has an oversight role in the Bank's performance of risk management.

The Senior Management Council (SMC) actively participates in enterprise-wide discussions on risk and integrates ERM in decision making. The Risk Oversight Committee (ROC), an SMC subcommittee, contributes to the development of the Bank's risk profile, monitors risk-related activities and issues, and prepares regular reports to the SMC, EC and Board of Directors. The ROC is chaired by the Chief Risk Officer (CRO).

The Bank follows a standard "lines of defence" approach to the roles, responsibilities and accountabilities for risk management, control, policy, monitoring and assurance within the Bank.

The **first line of defence** lies within the individual business units. They identify and own the risks in their areas of responsibility and are accountable for the timely and effective management of any risks that affect the achievement of their objectives.

The **second line of defence** involves the policy-making, monitoring and compliance conducted by the CRO, the ERM team, the Compliance Office, the Financial Risk Office, and the policy and standards-setting activities of Corporate Security and the Continuity of Operations Program.

The **third line of defence** is found in the Audit Department, which independently verifies and provides assurance on risk management and control to the Governor and the Board's Audit and Finance Committee.

The Bank of Canada's Risk Appetite Statement

The Bank of Canada's mandate is to promote the economic and financial welfare of Canadians. We pursue our mandate by keeping inflation low, stable and predictable, fostering a safe and efficient financial system, serving as fiscal agent to the Government of Canada, and providing Canadians with bank notes they can use with confidence. Our vision is to be a leading central bank—dynamic, engaged and trusted—committed to a better Canada.

As a central bank, we face a specialized and complex environment in which we manage a range of risks arising from external forces, as well as from our own activities. The operational and financial risks that confront us across all our activities are managed through sound internal controls. At the same time, the policy domain is highly strategic and dynamic in nature, since, at the core, the central bank makes decisions that anticipate the future in the context of uncertainty and, sometimes, public debate. We use judgment to weigh and manage all risks in light of their potential impact on the Bank's credibility, reputation and capacity to achieve its long-term objectives.

Bank employees manage these various risks in accordance with their delegated authority and within a comprehensive system of controls and deliberation processes designed to be commensurate with risk. We regularly monitor known risks and scan the horizon to identify emerging risks in both policy and operational areas.

Accordingly, our risk-management activities are guided by the following:

1. We seek to minimize and manage the impact of risks that could undermine the Bank's ability to fulfill its mandate.

   This means that:

   - We actively seek to prevent the occurrence of material risk events that affect our ability to carry out and support our core functions.
   - We have governance arrangements that help us scrutinize and evaluate the potential consequences of our major policy and operational decisions.
   - Through our systems and practices, we seek to anticipate and assess new risks to our core functions, and respond to risks effectively should they materialize.

2. We take informed risks to foster innovation, advance our research and policy development, and to improve our operations and business practices.

   This means that:

   - We encourage leading-edge research and innovative lines of inquiry, including constructive public discourse and debate, to advance our policy thinking and frameworks.
   - We pursue process and technological innovation to respond to and mitigate emerging risks, and to increase effectiveness, efficiency and resilience.
   - We consider alternative futures and approaches to meeting our mandate within the context of a changing environment.

Principal Risks

The Bank has adopted a revised risk classification scheme with a set of common risks defined in each of three categories: strategic, financial and operational. Since reputational impacts may arise from any type of risk, the Bank does not consider "reputational risk" as a separate category. This risk-classification scheme forms the foundation for enterprise-wide communication and integration of risk information.

Strategic risks are sourced in external conditions such as widespread shifts in public opinion, changes in economic or legal parameters, or changes to or disruption of major vendors' operations, and the risk that business strategies are not aligned to the environment.

In the course of developing its medium-term plan, the Bank identifies risks to its mandate and vision as key inputs to establishing its strategic goals. These risks have a long-term horizon but are reviewed annually.

Strategic risks are managed by continuously scanning the environment, maintaining extensive relationship and knowledge networks, and conducting research to identify and develop policy and operational options. The Bank also recognizes the important role of stakeholder engagement and communications in the achievement of its business objectives.

Financial risks relate to the potential for financial losses arising from credit, market and liquidity risks.

The Bank's balance sheet is exposed to these risks through its asset portfolio, consisting primarily of securities that represent direct obligations of the Government of Canada. The financial risk associated with this exposure 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 for its financial assets and liabilities. 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.

Financial risks are discussed in detail in the notes to the Bank's financial statements.[13] Financial risks associated with the Bank's fiscal-agent role are not reflected in the Bank's financial statements. These risks are subject to oversight under the Funds Management Governance Framework of the Government of Canada and the Bank of Canada and are borne by the Government of Canada.

Operational risks relate to the achievement of the Bank's business plans and are sourced in operational conditions and practices, including people, processes, technology and other infrastructure. The Bank has identified and manages operational risks in the following categories:

- business resilience and security,
- people and culture,
- systems and physical infrastructure,
- information and communication,
- business practices, and
- governance.

13 Additional information on financial risk management starts on page 74.

The Bank operates in an increasingly complex security and threat landscape and is thus exposed to risks to business continuity, cyber security, and physical and personnel security. The Bank continues to invest in strengthening its business resilience and security posture and has a robust Continuity of Operations Program. It also works closely with other central banks and with the federal security and intelligence community to share security risk and response information.

The attraction and retention of well-qualified personnel is a focus within the category of people and culture risks. The limited and highly competitive labour market pool for economists and financial sector specialists, as well as for professionals in other specialized areas such as cyber security, remains an ongoing challenge. The Bank has a number of programs in place to manage these risks.

An important area of operational risk is systems and infrastructure, which relates to the core critical systems and tools required to support the Bank's key business functions. Examples include the systems that support the operations of the payment clearing and settlement system, as well as the Government of Canada securities auctions and the management of foreign exchange reserves. The Bank continues to invest in IT systems and technology to address its evolving business needs.

The rapidly changing global economic and financial environment poses information and communication risks. The Bank needs access to the best possible economic data, market intelligence and economic models to inform its policy decisions. These risks are managed through an extensive research and analysis program, as well as collaboration and information sharing with other central banks and with its regulatory partners in the financial sector.

Consistent with similar organizations, the Bank has operational risks related to its ability to govern its business and to manage its capacity and business processes effectively. Clear governance structures; effective internal policies, processes and standards; and careful priority setting are fundamental to the management of these risks.

2015 FINANCIAL RESULTS

In September 2015, the Bank announced changes to its framework for financial market operations. The financial impact of these changes included the introduction of a regular program of term repo operations and a corresponding reduction in the Bank's minimum purchase of nominal bonds at auction, from 20 per cent to 15 per cent.

In addition, changes in the Bank's balance sheet in 2015 are related to higher demand for bank notes in circulation. The value of bank notes in circulation increased by 8 per cent in 2015, exceeding the growth experienced in recent years, which was generally in line with the rise of GDP.

Managing the Balance Sheet

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 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 in accordance with the requirements of the *Bank of Canada Act.* The Bank does not have a budget appropriation from the government.

The Bank's holdings of financial assets are generally driven by its role in issuing bank notes. As the exclusive issuer of Canadian bank notes, the Bank invests the proceeds from the issuance of notes into Government of Canada securities, which are acquired on a non-competitive basis. The Bank's investments broadly mirror 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.

Financial Position
(Millions of Canadian dollars)

	As at 31 December	
	2015	2014
Assets		
Cash and foreign deposits	11.2	8.4
Loans and receivables	6,096.7	2,768.4
Investments	94,389.0	90,826.4
Capital assets[a]	469.3	327.7
Other assets	180.7	181.2
Total Assets	101,146.9	94,112.1
Liabilities and Equity		
Bank notes in circulation	75,496.9	70,023.5
Deposits	24,592.9	23,195.6
Other liabilities	558.9	443.7
Equity	498.2	449.3
Total liabilities and equity	101,146.9	94,112.1

a. Includes *Property and equipment*, and *Intangible assets*

Assets

In 2015, the Bank introduced changes to the framework for financial market operations to improve the effectiveness of its financial market operations in light of ongoing and expected changes in the external environment. In connection with this revised framework, the Bank introduced a regular program of term purchase and resale operations (for 1- and 3-month terms) that will be built up to a target portfolio size of $7,000 million to $10,000 million over a six-month implementation period beginning 1 October 2015. At 31 December 2015, there was $6,089.4 million in *Loans and receivables* in connection with purchase and resale operations.

Also, in connection with the revised framework, the Bank announced a corresponding decrease in its minimum purchase of nominal bonds at auction, from 20 per cent to 15 per cent, effective 1 October 2015.

The Bank's investments grew in 2015 (an increase of $3,562.6 million, or 4 per cent), generally driven by increases in bank notes in circulation. Government of Canada treasury bills decreased by $1,166.2 million, and Government of Canada bonds increased by $4,678.8 million. The balance of the change in investments resulted from an increase of $50.0 million in the foreign-denominated fair value of the Bank's investment in shares of the Bank for International Settlements (BIS).

Construction related to the Bank's Head Office Renewal Program drove the majority of capital asset spending in 2015.

Other assets include primarily bank note inventory and the net defined-benefit asset. Lower bank note inventory levels were offset by a higher advance related to the Head Office Renewal Program.[14] The net defined-benefit asset related to the Bank's registered pension plan increased slightly relative to December 2014. The change is due to the positive asset returns in 2015 and an increase in the discount rate[15] (as described in the discussion of *Other Comprehensive Income*).

14 The advance is to facilitate the timely payment of the subcontractor agreements and is expected to remain in place through to the end of the construction period.

15 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 2015 was 4.1 per cent (4.0 per cent at 31 December 2014).

Liabilities

The bank note liability represents approximately 75 per cent of the Bank's *Total liabilities and equity*. The value of *Bank notes in circulation* has increased by 8 per cent since 31 December 2014, exceeding the growth experienced in recent years, which was generally in line with the rise of GDP.

The second-largest liability on the balance sheet consists of deposits held for the Government of Canada and other financial institutions. The main components of the *Deposits* liability are $20,000 million held for the government's prudential liquidity-management plan and $2,617.3 million held for the Government of Canada for operational balances. The Government of Canada operational balance[16] increased by $1,090.7 million compared with year-end 2014.

Other liabilities consist mainly of the accrued profit transfer to the Receiver General for Canada and the net defined-benefit liabilities for the Bank's deferred employee benefit plans (including the liability for the Supplementary Pension Arrangement (SPA) and unfunded post-employment defined-benefit plans).

16 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.

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. For the 12-month period ended 31 December 2015, the Bank transferred cash payments of $1,090.4 million. At 31 December 2015, the unremitted balance was $249.5 million ($150.4 million at 31 December 2014).

Increases in the liabilities related to defined-benefit plans[17] are mainly due to lower asset returns[18] for the SPA, partially offset by an increase in the discount rate used to value these liabilities (as described in the discussion on *Other Comprehensive Income*).

17 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 2015 was 4.1 per cent (4.0 per cent at 31 December 2014).

18 The asset portfolio of the SPA is held mainly in Canadian equities, which were affected by low oil prices.

Managing Equity

The Bank of Canada operates safely with a low capital base relative to its assets. The Bank's primary equity includes $5 million of authorized share capital and a $25 million statutory reserve. In accordance with the *Bank of Canada Act*, the Bank remits its surplus income, after funding operations, to the Receiver General for Canada and does not hold retained earnings.

The Bank can safely operate with a low capital base because its balance sheet is not exposed to significant foreign currency risk or the gold holdings that are often held by other central banks. Canada's foreign reserves are held by the Exchange Fund Account and not by the Bank. The Bank's exposure to currency risk is primarily through its holdings of shares in the Bank for International Settlements. Given the small size of the Bank's exposure to currency risk relative to its total assets, currency risk is not considered significant.

Another reason the Bank can operate with low capital is the low credit risk of its asset portfolio. The portfolio consists mainly of obligations of the Government of Canada, which holds a credit rating of AAA. As well, the holdings in Government of Canada bonds are not subject to fair-value accounting, since they are acquired with the intention to hold until maturity and are accounted for using the amortized cost method. Other financial assets, such as advances and loans related to repurchase agreements, are collateralized obligations of various Canadian-based financial institutions.

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, which consists of fair-value changes in the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills. These fair-value changes 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 2015, this reserve totalled $368.2 million.

Results of Operations
(Millions of Canadian dollars)

	For the year ended 31 December	
	2015	2014
Total income	1,635.5	1,604.6
Total expenses	459.7	477.8
Net income	1,175.8	1,126.8
Other comprehensive income (loss)	62.6	(87.3)
Comprehensive income	1,238.4	1,039.5

Income

Total income for 2015 was $1,635.5 million, an increase of $30.9 million, or 2 per cent, compared with the previous 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"; this generates a stable source of funding for the Bank's operations. Investment revenue also includes revenue on investments backing the *Deposits*.

The Bank's primary source of revenue is *Interest revenue* from investments, which is derived from investments in Government of Canada securities and fluctuates with market conditions. In 2015, the Bank recorded $1,747.4 million in interest revenue from treasury bills and bonds, a decrease of $61.2 million over the previous year. The decline in *Interest revenue* is due mainly to the lower yields on newly acquired bonds compared with yields on investments that have matured, which is partially offset by the higher level of investments. The interest earned on purchase and resale agreements increased by $1.8 million, mainly during the last quarter of 2015 in connection with the revised framework for financial market operations.

The remaining component, dividend revenue from the Bank's investment in the BIS, was slightly higher than for the previous year.

Income is reported net of the interest paid on Government of Canada deposits. Interest rates paid on deposits are based on market-related rates, which decreased significantly over the comparable period in 2014, resulting in a lower interest expense on deposits.

The Bank's revenues from its remaining sources[19] increased slightly from 2014 levels.

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

Expenses

Operating expenses were in line with expectations for 2015 and decreased by $18.1 million compared with the previous year, owing to the lower production of bank notes and lower premises costs.

Costs associated with bank note production were $27.1 million lower than for the previous year. The Bank is benefiting from the adoption of polymer notes, which are lasting at least 3.5 times longer than paper bank notes. Because the longer-lasting notes reduce the need to replace unfit notes, the production of new notes is decreasing. During 2015, 335 million polymer notes were received, compared with 458 million notes received in 2014.

Staff costs increased by $24.0 million in 2015 compared with 2014. The increase was the result of higher benefit costs associated with the Bank's defined-benefit plans, which are driven by changes in discount rates[20] and not by changes to the benefits entitlements. Benefit costs increased by $17.0 million compared with 2014 as a result of a lower discount rate.

The remaining expenses (*Premises costs, Technology and telecommunications, Depreciation and amortization,* and *Other operating expenses)* represent 37 per cent of the Bank's total operating expenses. These costs decreased by $15.0 million in total compared with 2014.

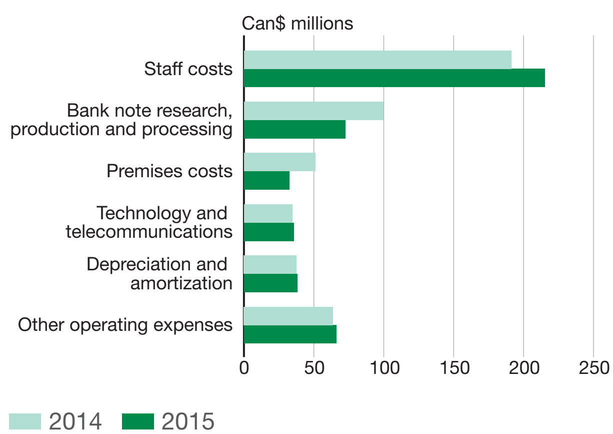
20 Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2015 are based on a discount rate of 4.0 per cent (4.9 per cent in 2014).

The decrease in *Premises costs* of $18.7 million is related to demolition costs incurred in 2014 associated with the Bank's Head Office Renewal Program.

The year 2015 marked the completion of the Bank's 2013–15 medium-term plan (MTP). Core operating expenses of $1,060 million over the 3-year period were within the MTP financial envelope of $1,078 million and were aligned with the planned growth of 2 per cent between 2012 and 2015, consistent with the Bank's inflation target.

Bank of Canada Expenses

For the year ended 31 December



Other Comprehensive Income and Remittances

Other comprehensive income (loss) of $62.6 million includes remeasurement gains of $13.7 million on the Bank's net defined-benefit plan assets and liabilities and an increase of $48.9 million in the fair values of available-for-sale (AFS) assets.

Remeasurements of net defined-benefit plan assets and liabilities are affected by the return on plan assets and by changes in the discount rate used to determine net defined-benefit obligations. The remeasurements recorded in 2015 are the result of positive asset returns of the Bank's registered pension plan and a 10-basis-point increase in the discount rate used to value the net defined-benefit liability/asset.[21] The 10-basis-point increase 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 2015, the foreign-denominated fair value of the Bank's investment in the BIS was $405.2 million, representing an increase of $50.0 million driven by changes in the exchange rate. The remainder of the change resulted from a decrease in the fair value of the Bank's portfolio of treasury bills.

21 The net defined-benefit liability/asset is based on the discount rate as at the period-end. The rate in effect at 31 December 2015 was 4.1 per cent (4.0 per cent at 31 December 2014).

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 $1,189.5 million in 2015.

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and hold within *Equity* an amount equal to unrealized losses on AFS 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 gains on the defined-benefit plans in 2015, the Bank reimbursed $13.7 million from its previously withheld remittances to its transfers to the Receiver General. At 31 December 2015, $113.3 million in withheld remittances was outstanding.

Looking Ahead to 2016

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.

This coming year, 2016, represents the first of the Bank's 2016–18 MTP, *Central Banking for a New Era*. The MTP was developed based on financial assumptions that balance the need to invest in our people and tools with recognition of the Bank's commitment to ensure effective use of public funds. As the first year of the new MTP, 2016 will see the launch of several new initiatives resulting in a temporary growth rate in MTP expenditures of 4 per cent. This temporary growth in expenditures has been factored into the MTP financial assumptions, where the average annual rate across the three years is targeted at 2 per cent.

Bank note production costs are projected to decrease in 2016, as fewer new notes are needed to replace the more durable polymer bank notes in the system.

In 2016, the Bank also expects to incur $172 million in capital expenditures, of which the majority relates to the Head Office Renewal Program.

The Bank's 2016 Plan
(Millions of Canadian dollars)

	2016 budget	2015 actual
MTP expenditures	398	370
Bank note production	63	70
Non-current deferred employee benefits	13	14
Head Office Renewal and strategic investment programs	209	185
Total expenditures[a]	**682**	**639**

a. Includes operational and capital expenditures
Table may not add due to rounding

Accounting and Control Matters

The Bank is a Government Business Enterprise as defined by the *CPA Canada Public Sector Accounting Handbook* and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Chartered Professional Accountants of Canada (CPA Canada). In compliance with this requirement, the Bank has developed accounting policies in accordance with International Financial Reporting Standards (IFRS).

The *Bank of Canada Act* requires the Bank to submit to the Minister of Finance audited financial statements for the fiscal year ending 31 December, 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[22] 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 1 January 2015. 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 1 January 2015 was an actuarial surplus ratio of 126 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 102 per cent.

The funding requirements of the plan are determined by the going-concern valuation. The Bank's estimated funding requirement for 2016 is $22 million, in regular contributions to cover current service costs.

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 regarding the reliability of financial reporting and the preparation of the financial statements.

22 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).

FINANCIAL STATEMENTS

31 December 2015

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 by the Bank's independent auditors, Deloitte LLP and Ernst & Young LLP, and their report is presented herein. 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
11 February 2016

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 2015 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 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
11 February 2016

Statement of Financial Position

(Millions of Canadian dollars)

	31 December 2015	As at 31 December 2014
Assets		
Cash and foreign deposits (note 4)	**11.2**	8.4
Loans and receivables		
Securities purchased under resale agreements (note 5)	**6,089.4**	2,764.8
Advances to members of the Canadian Payments Association (note 5)	**-**	-
Other receivables	**7.3**	3.6
	6,096.7	2,768.4
Investments (notes 6, 7, 8)		
Government of Canada treasury bills	**18,220.3**	19,386.5
Government of Canada bonds	**75,763.5**	71,084.7
Other investments	**405.2**	355.2
	94,389.0	90,826.4
Property and equipment (note 9)	**431.4**	283.9
Intangible assets (note 10)	**37.9**	43.8
Other assets (note 11)	**180.7**	181.2
Total assets	**101,146.9**	94,112.1
Liabilities and Equity		
Bank notes in circulation (notes 7, 12)	**75,496.9**	70,023.5
Deposits (notes 7, 13)		
Government of Canada	**22,617.3**	21,526.6
Members of the Canadian Payments Association	**500.4**	150.1
Other deposits	**1,475.2**	1,518.9
	24,592.9	23,195.6
Other liabilities (note 14)	**558.9**	443.7
	100,648.7	93,662.8
Equity (note 16)	**498.2**	449.3
Total liabilities and equity	**101,146.9**	94,112.1

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 2015	For the year ended 31 December 2014
Income		
Interest revenue		
Interest earned on investments	**1,747.4**	1,808.6
Dividend revenue	**3.8**	3.3
Interest earned on securities purchased under resale agreements	**4.3**	2.5
Other interest revenue	**0.3**	0.2
	1,755.8	1,814.6
Interest expense		
Interest expense on deposits	**(128.8)**	(218.2)
Net interest income	**1,627.0**	1,596.4
Other revenue	**8.5**	8.2
Total income	**1,635.5**	1,604.6
Expenses		
Staff costs	**215.3**	191.3
Bank note research, production and processing	**72.5**	99.6
Premises costs	**32.3**	51.0
Technology and telecommunications	**35.5**	34.6
Depreciation and amortization	**38.2**	37.6
Other operating expenses	**65.9**	63.7
Total expenses	**459.7**	477.8
Net income	**1,175.8**	1,126.8
Other comprehensive income (loss)		
Items that will not be reclassified to net income		
Remeasurements of the net defined-benefit liability/asset	**13.7**	(101.4)
Items that may be reclassified subsequently to net income		
Change in fair value of available-for-sale financial assets	**48.9**	14.1
Other comprehensive income (loss)	**62.6**	(87.3)
Comprehensive income	**1,238.4**	1,039.5

(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 2015	**5.0**	**25.0**	**100.0**	**319.3**	**-**	**449.3**
Comprehensive income for the period						
Net income	**-**	**-**	**-**	**-**	**1,175.8**	**1,175.8**
Remeasurements of the net defined-benefit liability/asset	**-**	**-**	**-**	**-**	**13.7**	**13.7**
Change in fair value of BIS shares	**-**	**-**	**-**	**50.0**	**-**	**50.0**
Change in fair value of Government of Canada treasury bills	**-**	**-**	**-**	**(1.1)**	**-**	**(1.1)**
	-	**-**	**-**	**48.9**	**1,189.5**	**1,238.4**
Transfer to Receiver General for Canada	**-**	**-**	**-**	**-**	**(1,189.5)**	**(1,189.5)**
Balance, 31 December 2015	**5.0**	**25.0**	**100.0**	**368.2**	**-**	**498.2**

	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

(See accompanying notes to the Financial Statements)

Statement of Cash Flows

(Millions of Canadian dollars)

	For the year ended 31 December 2015	31 December 2014
Cash Flows from Operating Activities		
Interest received	**1,836.2**	1,870.1
Dividends received	**3.8**	3.3
Other revenue received	**3.7**	13.0
Interest paid	**(128.8)**	(218.2)
Payments to or on behalf of employees/suppliers and to members of the Canadian Payments Association	**(391.1)**	(482.7)
Net decrease in advances to members of the Canadian Payments Association	**-**	-
Net increase (decrease) in deposits	**1,397.3**	(627.9)
Proceeds from maturity of securities purchased under resale agreements	**42,363.0**	21,321.1
Acquisition of securities purchased under resale agreements	**(45,687.2)**	(21,878.4)
Repayments of securities sold under repurchase agreements	**(115.1)**	(229.9)
Proceeds from securities sold under repurchase agreements	**115.1**	229.9
Net cash (used in) provided by operating activities	**(603.1)**	0.3
Cash Flows from Investing Activities		
Net decrease in Government of Canada treasury bills	**1,136.6**	2,180.4
Purchases of Government of Canada bonds	**(16,721.8)**	(18,109.8)
Proceeds from maturity of Government of Canada bonds	**11,986.8**	13,634.0
Additions of property and equipment	**(173.1)**	(76.8)
Additions of intangible assets	**(6.7)**	(3.9)
Net cash used in investing activities	**(3,778.2)**	(2,376.1)
Cash Flows from Financing Activities		
Net increase in bank notes in circulation	**5,473.4**	3,407.6
Remittance of ascertained surplus to the Receiver General for Canada	**(1,090.4)**	(1,028.7)
Net cash provided by financing activities	**4,383.0**	2,378.9
Effect of Exchange Rate Changes on Foreign Currency	**1.1**	0.3
Increase in Cash and Foreign Deposits	**2.8**	3.4
Cash and Foreign Deposits, Beginning of Year	**8.4**	5.0
Cash and Foreign Deposits, End of Year	**11.2**	8.4

(See accompanying notes to the Financial Statements)

Notes to the Financial Statements of the Bank of Canada

For the year ended 31 December 2015

(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 established under the *Bank of Canada Act*, is wholly owned by the Government of Canada and is exempt from income taxes. The Bank does not offer banking services to the public.

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). In compliance with this requirement, the Bank has developed accounting policies in accordance with International Financial Reporting Standards (IFRS).

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

The Bank's mandate under the *Bank of Canada Act* is "to promote the economic and financial welfare of Canada." The Bank's activities and operations are undertaken in support of this mandate and not with the objective of generating revenue or profits. The Bank's four core areas of responsibility are the following:

Monetary policy: The objective of monetary policy is to preserve the value of money by keeping inflation low, stable and predictable.

Financial system: The Bank promotes safe, sound and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.

Currency: The Bank designs, issues and distributes Canada's bank notes, oversees the note distribution system, and ensures a supply of quality bank notes that are readily accepted and secure against counterfeiting.

Funds management: 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 administers and advises on the public debt and foreign exchange reserves.

The Corporate Administration function supports the management of the Bank's human resources, operations and strategic initiatives, as well as the stewardship of financial, physical, information and technology assets.

The Bank has the exclusive right to issue Canadian bank notes, and the face value of these bank notes is 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 11 February 2016.

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 the shares in the Bank for International Settlements (BIS) (note 7), 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 other custodial activities are provided to foreign central banks, international organizations and other government-related entities. 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. These specific accounting policies refer to loans and receivables (note 5), securities lending (note 6), financial instruments (note 7), property and equipment (note 9), intangible assets (note 10), other assets (note 11), other liabilities (note 14), employee benefits (note 15) and leases (note 17).

There were no new or amended standards adopted by the Bank during fiscal 2015 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 exchange rates 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 gains or losses related to the exchange rate, 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 shares in the BIS 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 *Other 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 2018 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.

IFRS 16 Leases (IFRS 16)

On 13 January 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance.

Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors.

IFRS 16 is effective 1 January 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenue from Contracts with Customers.* The Bank is currently evaluating the impact of IFRS 16 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$10.3 million (Can$7.9 million at 31 December 2014) 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. The duration of securities purchased under resale agreements generally ranges between 1 and 90 business days. Financial risks related to these instruments are discussed in note 8.

Accounting policy

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 2015 consist of agreements with original terms to maturity ranging from 22 to 85 days (24 days at 31 December 2014).

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.

As at 31 December 2015, there were no Advances to members of the Canadian Payments Association ($Nil at 31 December 2014).

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 2015, there were no loaned securities in the Bank's investments (investments included loaned securities with fair market value of $185.8 million and amortized cost of $175.0 million at 31 December 2014).

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, other employee benefit plans and lease contracts).

In *Other investments*, the Bank holds 9,441 BIS shares (9,441 BIS shares at 31 December 2014) 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 $405.2 million ($355.2 million at 31 December 2014).

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 investment in the 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 when it considers that substantially all of the risks and rewards of the asset have been transferred or when the contractual rights to the cash flows of the financial 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 2015				
Government of Canada treasury bills	**18,220.3**	**-**	**-**	**18,220.3**
BIS shares	**-**	**-**	**405.2**	**405.2**
	18,220.3	**-**	**405.2**	**18,625.5**
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

There were no transfers of amounts between levels in 2015.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value 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 net asset value 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 2015	31 December 2014
Opening balance at beginning of period	**355.2**	337.1
Change in fair value recorded through *Other Comprehensive Income*	**50.0**	18.1
Closing balance at period-end	**405.2**	355.2

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 was $81,116.9 million at 31 December 2015 ($75,630.7 million at 31 December 2014).

8. Financial risk management

The Bank maintains a strong risk culture and a comprehensive risk management and control framework to manage its risks. The Executive Council oversees risk management and the implementation of sound management processes to safeguard the Bank. The Board of Directors has an oversight role in the Bank's performance of risk management.

The Bank is exposed to financial 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 93 per cent of the carrying value of its total assets (97 per cent in 2014), 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 6 per cent of the carrying value of its total assets (3 per cent in 2014), are collateralized obligations of various Canadian-based financial institutions. The fair value of collateral held against securities purchased under resale agreements at the end of the reporting period is presented below.

	31 December 2015		**31 December 2014**	
	$	**%**	**$**	**%**
Securities issued or guaranteed by the Government of Canada	**1,918.6**	**30.0**	2,868.4	100.0
Securities issued or guaranteed by a provincial government	**4,401.7**	**70.0**	-	-
Total fair value of collateral pledged	**6,320.3**	**100.0**	2,868.4	100.0
As a percentage of amortized cost		**104%**		104%

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, 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.

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 2015	**31 December 2014**
Government of Canada treasury bills	**(15.2) / 15.1**	(17.5) / 16.9

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 2015	**31 December 2014**
Interest expense on Government of Canada deposits	**56.7 / (56.7)**	57.1 / (57.1)

For all financial instruments, except bank notes in circulation, the future cash flows of the Bank depend 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 2015

	Non-interest-sensitive	Within 12 months	1 to 5 years	Over 5 years	Total
Financial Assets					
Cash and foreign deposits	**-**	**11.2**	**-**	**-**	**11.2**
Loans and receivables[1]	**7.3**	**6,089.4**	**-**	**-**	**6,096.7**
Investments					
Government of Canada treasury bills	**-**	**18,220.3**	**-**	**-**	**18,220.3**
Government of Canada bonds[2]	**-**	**14,378.0**	**35,714.9**	**25,670.5**	**75,763.4**
Shares in the BIS	**405.2**	**-**	**-**	**-**	**405.2**
	412.5	**38,698.9**	**35,714.9**	**25,670.5**	**100,496.8**
Financial Liabilities					
Bank notes in circulation	**75,496.9**	**-**	**-**	**-**	**75,496.9**
Deposits					
Government of Canada	**-**	**22,617.3**	**-**	**-**	**22,617.3**
Members of the CPA	**-**	**500.4**	**-**	**-**	**500.4**
Other deposits	**626.2**	**849.0**	**-**	**-**	**1,475.2**
Other financial liabilities	**353.3**	**-**	**-**	**-**	**353.3**
	76,476.4	**23,966.7**	**-**	**-**	**100,443.1**
Interest rate sensitivity gap	**(76,063.9)**	**14,732.2**	**35,714.9**	**25,670.5**	**53.7**

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

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 British pound 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 keeping 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 2015 and 31 December 2014, respectively.

As at 31 December 2015

	No fixed maturity	Within 12 months	1 to 5 years	Over 5 years	Total
Financial Assets					
Cash and foreign deposits	**11.2**	**-**	**-**	**-**	**11.2**
Loans and receivables	**-**	**6,096.7**	**-**	**-**	**6,096.7**
Investments					
Government of Canada treasury bills	**-**	**18,250.0**	**-**	**-**	**18,250.0**
Government of Canada bonds	**-**	**14,330.0**	**35,555.0**	**24,778.8**	**74,663.8**
Shares in the BIS	**405.2**	**-**	**-**	**-**	**405.2**
	416.4	**38,676.7**	**35,555.0**	**24,778.8**	**99,426.9**
Financial Liabilities					
Bank notes in circulation	**75,496.9**	**-**	**-**	**-**	**75,496.9**
Deposits					
Government of Canada	**22,617.3**	**-**	**-**	**-**	**22,617.3**
Members of the CPA	**-**	**500.4**	**-**	**-**	**500.4**
Other deposits	**1,475.2**	**-**	**-**	**-**	**1,475.2**
Other financial liabilities	**-**	**353.3**	**-**	**-**	**353.3**
	99,589.4	**853.7**	**-**	**-**	**100,443.1**
Net maturity difference	**(99,173.0)**	**37,823.0**	**35,555.0**	**24,778.8**	**(1,016.2)**

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)

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
2015				
Cost				
Balances, 31 December 2014	**291.5**	**39.3**	**79.1**	**409.9**
Additions	**165.9**	**3.0**	**4.2**	**173.1**
Disposals	**-**	**(1.3)**	**(0.4)**	**(1.7)**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 31 December 2015	**457.4**	**41.0**	**82.9**	**581.3**
Depreciation				
Balances, 31 December 2014	**(78.3)**	**(16.7)**	**(31.0)**	**(126.0)**
Depreciation expense	**(6.1)**	**(5.5)**	**(14.0)**	**(25.6)**
Disposals	**-**	**1.3**	**0.4**	**1.7**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 31 December 2015	**(84.4)**	**(20.9)**	**(44.6)**	**(149.9)**
Carrying amounts				
At 31 December 2014	**213.2**	**22.6**	**48.1**	**283.9**
At 31 December 2015	**373.0**	**20.1**	**38.3**	**431.4**

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 2015 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 2015				
Included in *Carrying amounts* at 31 December 2015	**255.3**	**6.4**	**4.1**	**265.8**
Additions during 2015	**165.9**	**3.0**	**3.7**	**172.6**
Commitments at 31 December 2015	**99.1**	**0.2**	**7.3**	**106.6**

Projects in progress consists primarily of $255.3 million related to the Head Office Renewal Program (31 December 2014—$89.4 million) and $4.5 million related to the High Availability Renewal Program (31 December 2014—$5.1 million).

	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	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

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
2015			
Cost			
Balances, 31 December 2014	**45.9**	**62.6**	**108.5**
Additions	**5.2**	**1.5**	**6.7**
Disposals	**(2.0)**	**-**	**(2.0)**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 31 December 2015	**49.1**	**64.1**	**113.2**
Amortization			
Balances, 31 December 2014	**(38.5)**	**(26.2)**	**(64.7)**
Amortization expense	**(4.5)**	**(8.1)**	**(12.6)**
Disposals	**2.0**	**-**	**2.0**
Transfers to other asset categories	**-**	**-**	**-**
Balances, 31 December 2015	**(41.0)**	**(34.3)**	**(75.3)**
Carrying amounts			
At 31 December 2014	**7.4**	**36.4**	**43.8**
At 31 December 2015	**8.1**	**29.8**	**37.9**

	Internally generated software	Other software	Total
Projects in progress 2015			
Included in *Carrying amounts* at 31 December 2015	**7.0**	**1.4**	**8.4**
Additions during 2015	**4.5**	**1.4**	**5.9**
Commitments at 31 December 2015	**-**	**-**	**-**

	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	-	-	-
Transfers to other asset categories	-	-	-
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	-	-	-
Transfers to other asset categories	-	-	-
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

	Internally generated software	Other software	Total
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	-	-	-

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 2015	31 December 2014
Bank note inventory	**11.1**	17.2
Net defined-benefit asset (note 15)	**135.1**	134.8
All other assets	**34.5**	29.2
Total other assets	**180.7**	181.2

Included in *All other assets* is a $20.0 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 ($15.0 million at 31 December 2014). 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 2015	31 December 2014
$5	**1,232.5**	1,188.0
$10	**1,315.4**	1,275.6
$20	**18,729.3**	17,801.4
$50	**12,017.8**	11,233.9
$100	**41,032.2**	37,323.9
Other bank notes	**1,169.7**	1,200.7
Bank notes in circulation	**75,496.9**	70,023.5

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 $24,592.9 million in Canadian-dollar demand deposits ($23,195.6 million at 31 December 2014). 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 $2,617.3 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,526.6 million and $20,000.0 million, respectively, at 31 December 2014).

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 2015	31 December 2014
Accrued transfer payment to the Receiver General for Canada	**249.5**	150.4
Net defined-benefit liability (note 15)		
Pension benefit plan	**37.4**	32.0
Other benefit plans	**168.2**	172.8
All other liabilities and provisions	**103.8**	88.5
Total other liabilities	**558.9**	443.7

Accrued transfer payment

The following table reconciles the Accrued transfer payment to the Receiver General for Canada:

	31 December 2015	31 December 2014
Opening balance at beginning of period	**150.4**	153.7
Remittance of ascertained surplus to the Receiver General for Canada	**(1,090.4)**	(1,028.7)
Transfer to Receiver General for Canada	**1,189.5**	1,025.4
Closing balance at period-end	**249.5**	150.4

All other liabilities and provisions

Other liabilities consists of provisions, a finance lease obligation (note 17), accounts payable and accrued liabilities. 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*.

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 *Bank of Canada 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, 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 at 1 January 2015, and the next required valuation will be as at 1 January 2016.

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, when 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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Fair value of plan assets				
Fair value of plan assets at beginning of year	**1,569.2**	1,404.9	**-**	-
Interest income	**62.5**	68.6	**-**	-
Remeasurement gains/(losses)				
Return on plan assets[1]	**(20.5)**	105.0	**-**	-
Bank contributions	**25.4**	28.3	**-**	-
Employee contributions	**13.5**	11.8	**-**	-
Benefit payments and transfers	**(51.2)**	(47.7)	**-**	-
Administration costs	**(2.1)**	(1.7)	**-**	-
Fair value of plan assets at end of year	**1,596.8**	1,569.2	**-**	-
Defined-benefit obligation				
Benefit obligation at beginning of year	**1,466.4**	1,224.0	**172.8**	159.9
Current service cost	**35.9**	25.9	**5.4**	6.0
Interest cost	**59.2**	60.1	**6.8**	7.7
Employee contributions	**13.5**	11.8	**-**	-
Remeasurement (gains)/losses				
Arising from changes in demographic experience	**1.7**	(3.3)	**-**	(3.1)
Arising from changes in financial assumptions	**(26.4)**	195.6	**(9.5)**	12.9
Benefit payments and transfers	**(51.2)**	(47.7)	**(7.3)**	(10.6)
Defined-benefit obligation at end of year	**1,499.1**	1,466.4	**168.2**	172.8
Net defined-benefit asset/(liability)	**97.7**	102.8	**(168.2)**	(172.8)
Net defined-benefit asset	**135.1**	134.8	**-**	-
Net defined-benefit liability	**(37.4)**	(32.0)	**(168.2)**	(172.8)
Net defined-benefit asset/(liability)	**97.7**	102.8	**(168.2)**	(172.8)

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 latest ALM was approved by the Pension Committee in September 2015.

The Plan's investments are subject to credit, liquidity and market risks. Of these risks, the most significant is asset volatility because 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 2015				31 December 2014			
	Quoted	Unquoted	Total	In %	Quoted	Unquoted	Total	In %
Money market instruments	**1.7**	**-**	**1.7**	**0.1**	13.7	-	13.7	0.9
Equity instruments								
Canadian equity funds	**308.7**		**308.7**	**19.4**	324.7	-	324.7	20.7
Foreign equity funds	**601.8**		**601.8**	**37.6**	576.8	-	576.8	36.7
Debt instruments[1]								
Securities issued or guaranteed by the Government of Canada	**220.3**		**220.3**	**13.8**	209.0	-	209.0	13.3
Other securities	**354.2**		**354.2**	**22.2**	343.2	-	343.2	21.9
Real estate funds	**-**	**76.7**	**76.7**	**4.8**	-	70.0	70.0	4.5
Statutory deposit	**-**	**33.4**	**33.4**	**2.1**	-	31.8	31.8	2.0
	1,486.7	**110.1**	**1,596.8**	**100.0**	1,467.4	101.8	1,569.2	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 2015	31 December 2014	31 December 2015	31 December 2014
Active members	**584.1**	591.3	**46.4**	88.7
Pensioners	**821.2**	788.3	**121.8**	84.1
Deferred members	**93.8**	86.8	**-**	-
Defined-benefit obligation	**1,499.1**	1,466.4	**168.2**	172.8

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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Current service cost, net of employee contributions	**35.9**	25.9	**5.4**	6.0
Net interest expense	**(3.3)**	(8.5)	**6.8**	7.7
Actuarial gains arising from changes in financial assumptions	**-**	-	**-**	(4.3)
Administration costs	**2.1**	1.7	**-**	-
Benefit plan expense recognized in *Net Income*	**34.7**	19.1	**12.2**	9.4
Remeasurement on the net defined-benefit liability/asset:				
Return on plan assets (excluding net interest)	**20.5**	(105.0)	**-**	-
Actuarial (gains)/losses arising from changes in demographic experience	**1.7**	(3.3)	**-**	1.2
Actuarial (gains)/losses arising from changes in financial assumptions	**(26.4)**	195.6	**(9.5)**	12.9
Remeasurement (gains)/losses recognized in *Other Comprehensive Income*	**(4.2)**	87.3	**(9.5)**	14.1

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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Cumulative remeasurement losses recognized, beginning of year	**(220.7)**	(133.4)	**(26.1)**	(12.0)
Remeasurement gains/(losses) recognized in current year	**4.2**	(87.3)	**9.5**	(14.1)
Cumulative remeasurement losses recognized, end of year	**(216.5)**	(220.7)	**(16.6)**	(26.1)

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 2015 reported a solvency surplus of $36 million and a three-year average solvency surplus of $13 million. Contributions in 2016 will be based on the actuarial valuation as at 1 January 2016 and are estimated to be $22 million ($21 million in 2015), consisting solely of regular contributions to cover current service costs.

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 at 1 January 2015, and the next required valuation will be as at 1 January 2016.

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

	Pension benefit plans		Other benefit plans	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Defined-benefit obligation				
Discount rate	**4.10%**	4.00%	**4.02%**	3.99%
Inflation rate[1]	**2.00%**	2.00%	**n.a.**	n.a.
Rate of compensation increase	**3.20% + merit**	3.20% + merit	**3.20% + merit**	3.20% + merit
Benefit plan expense				
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**	3.20% + merit	**3.20% + merit**	3.30% + merit
Assumed medical cost trend				
Medical cost trend rate	**n.a.**	n.a.	**5.95–4.50%**	6.01%–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 20 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 2015, the assumption for life expectancy for the plan valuations assumes that a male member reaching 60 will live for approximately 27 years (2014: 27 years) and a female member approximately 29 years (2014: 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[1]	
	Pension benefit plans	Other benefit plans
Discount rate	**4.10%**	**4.02%**
Impact of 0.10 percentage point increase	**(24.1)**	**(2.7)**
Impact of 0.10 percentage point decrease	**24.7**	**2.8**
Rate of compensation increase	**3.20%**	**3.20%**
Impact of 0.10 percentage point increase	**3.9**	**0.3**
Impact of 0.10 percentage point decrease	**(3.9)**	**(0.3)**
Mortality rate		
Impact of 0.10 percentage point increase	**(29.7)**	**(2.7)**
Impact of 0.10 percentage point decrease	**32.8**	**3.2**
Inflation rate	**2.00%**	**n.a.**
Impact of 0.10 percentage point increase	**22.3**	**n.a.**
Impact of 0.10 percentage point decrease	**(21.9)**	**n.a.**
Medical cost trend rates	**n.a**	**5.95%**
Impact of 1.00 percentage point increase	**n.a**	**28.4**
Impact of 1.00 percentage point decrease	**n.a**	**(22.0)**

[1] 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 2015	31 December 2014
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**368.2**	319.3
Retained earnings	-	-
Total equity	**498.2**	449.3

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 2015	**31 December 2014**
Government of Canada treasury bills	**1.1**	2.2
BIS shares	**367.1**	317.1
Available-for-sale reserve	**368.2**	319.3

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 2015, the Bank reimbursed $13.7 million for its previously withheld remittances ($101.4 million withheld during 2014) and, as at 31 December 2015, $113.3 million in withheld remittances was outstanding ($127.0 million as at 31 December 2014).

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 May 2016 to October 2025.

At 31 December 2015, the future minimum payments for rent, real estate taxes and building operations are presented below.

	31 December 2015	31 December 2014
Due within one year	**16.1**	16.0
Due within one to five years	**24.8**	40.5
Due later than five years	**1.7**	2.2
Total premises lease commitments	**42.6**	58.7
Lease payments expensed	**15.6**	15.8

Finance lease commitments

As at 31 December 2015, the future minimum lease payments were $6.6 million ($9.3 million as at 31 December 2014) for equipment obtained through a finance lease arrangement (note 9). The net carrying amount of the equipment at 31 December 2015 was $6.3 million ($8.8 million at 31 December 2014). The finance lease obligation amounted to $6.5 million at 31 December 2015 ($9.0 million as at 31 December 2014) 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 2015, fixed payments totalling $111.9 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 2015, fixed payments totalling $12.3 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.

At 31 December 2015, the total minimum 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	**13.7**
Total minimum payments	**124.2**

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**
Bank for International Settlements (denominated in Canadian dollars)	**100.0**

The BIS swap was accessed in 2015 and 2014 for operational purposes. None of the other liquidity or other swaps were accessed, by either party, in 2015 or 2014. No related commitments existed as at 31 December 2015 ($Nil as at 31 December 2014).

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 are standing arrangements with no expiry date. 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 12 December 2016, have indefinite terms and are subject to annual renewal.

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

The Bank is also party to a swap facility with the BIS for operational purposes. Transactions executed under this agreement are generally one business day in duration.

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 $67.9 million at 31 December 2015 ($59.5 million at 31 December 2014), 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 when 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 $0.9 million ($0.8 million in 2014) were fully recovered from the Plan in 2015.

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 2015 was 29 (29 in 2014).

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

	31 December 2015	31 December 2014
Short-term employee benefits	**5.0**	3.7
Post-employment benefits	**1.6**	1.0
Directors' fees	**0.2**	0.2
Total compensation	**6.8**	4.9

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 2015.

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