



BANK OF CANADA
BANQUE DU CANADA

About the Bank



www.bankofcanada.ca

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Construction of the original granite Bank of Canada building at 234 Wellington Street in Ottawa was completed in 1938. In 1971, plans were approved for an expansion of the Bank's head office. Designed by Marani, Rounthwaite & Dick and Arthur Erickson, Associated Architects, the head office complex features two 12-storey glass towers linked by a garden court behind the original building—the ground floor of which now houses the Bank of Canada's Currency Museum.



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The Bank's Compass

As a public institution and a workplace, we take our bearings from our commitment to Canadians, to excellence, and to one another.

Our commitment to Canadians

To promote the economic and financial welfare of Canada, we

- conduct monetary policy in a way that fosters confidence in the value of money
- supply quality bank notes that are readily accepted and secure against counterfeiting
- promote the safety and efficiency of Canada's financial system
- provide efficient and effective funds-management services
- communicate our objectives openly and effectively and stand accountable for our actions

Our commitment to excellence

Building on our strengths, we aim to meet our commitment to Canadians through performance that is second to none among the central banks of the world.

We strive for excellence through leading-edge research and analysis, through partnerships within the Bank and with outside organizations, and through

- innovation in all aspects of our work
- leadership that spurs us on to new success
- integrity in our business and in our actions
- diversity of people and ideas

Our commitment to one another

We aim to achieve our best in a workplace where we

- communicate clearly and openly
- share knowledge and experience
- develop our talent and careers
- recognize those who live up to our commitments
- respect one another and our lives outside work

The Bank of Canada's commitment to Canadians is to contribute to the economic well-being of this country. We are Canada's central bank, working to preserve the value of money by keeping inflation low, stable, and predictable. As the country's sole supplier of bank notes, we are responsible for keeping Canada's currency secure. We promote the safety and efficiency of the financial system. As the federal government's banker, we manage government funds and public debt. We provide banking services to commercial banks, other financial institutions, and foreign central banks.

This is where talented professionals conduct innovative research and expertly manage the operation of one of the world's most forward-looking central banks. We share that research and expertise with other organizations through domestic and international forums. And we work with others to improve economic conditions and financial systems, both in Canada and globally.

We are committed to communicating openly and effectively with Canadians, and we stand accountable for our policy actions. That means continuous dialogue with the public, with market participants, and with the business community. The Bank of Canada's actions affect everyone, so we want Canadians to understand what we do and why.

That is what this publication is all about. This is the Bank of Canada's story.



David A. Dodge, Governor





How the Bank Works

What is a central bank?

A central bank is the principal monetary authority of a nation. The key role of the Bank of Canada is to conduct the country's monetary policy, which means managing the flow of money and credit in the economy, in order to preserve confidence in the value of money.

As a central bank, the Bank of Canada oversees the design, printing, and distribution of Canada's paper currency, or bank notes. Coins are produced and distributed by the Royal Canadian Mint.

The Bank of Canada's direct customers are the federal government, the chartered banks, other financial institutions, and foreign central banks. But the Bank of Canada is accountable to all Canadians.

Functions of the Bank of Canada

The Bank of Canada's mandate is to promote Canada's economic and financial well-being. Our operations are grouped into four main functions: monetary policy, currency, the financial system, and funds management.

Monetary policy

The ultimate objective of monetary policy is to promote solid economic performance and higher living standards for Canadians. The best way to achieve that objective is to keep inflation low, stable, and predictable. This gives Canadians confidence in the future value of their money, so that they can make sound economic and financial decisions. Low and stable inflation also helps to prevent inflationary "boom-and-bust" cycles that lead to painful recessions and higher unemployment.

The cornerstone of Canada's monetary policy framework is a target for inflation – as measured by

(Opposite) One of two granite urns that sit on either side of the front entrance to the Bank's Ottawa headquarters. These urns symbolize the storage of wealth.

the consumer price index – set jointly by the Bank of Canada and the Government of Canada. The Bank is publicly committed to keeping the trend of inflation at 2 per cent, with a control range of 1 to 3 per cent around this target.

The inflation target works hand in hand with Canada's flexible exchange rate. The exchange rate of the Canadian dollar is determined by the market and is influenced by many factors, primarily economic conditions in Canada and abroad, world commodity prices, and conditions in international money markets. A floating currency is a

key component of Canada's monetary policy framework, helping the economy adjust to shocks. Neither the government nor the Bank of Canada targets any particular level for the value of our currency, believing that this should be determined by market forces.

The Bank carries out its monetary policy by influencing short-term interest rates. It does this by changing the target for the overnight interest rate – the rate financial institutions charge each other for overnight loans. A change in this target rate leads to changes in other interest rates and therefore

affects everyone's spending and borrowing decisions. The target rate is set eight times a year, on a pre-announced schedule.

The combination of the inflation-targeting system and a flexible exchange rate has served Canadians well since 1991, paving the way for stable, sustained economic growth.

Monetary policy decisions are made by the Bank's Governing Council, which includes the Governor, the Senior Deputy Governor, and four Deputy Governors. The strategies, policies, and economic analysis behind these decisions are explained four times a year in the Bank's *Monetary Policy Report* and the *Update*, as well as in regular speeches by members of the Council. The Bank also explains the reasons for its interest rate decisions in a press release each time it announces its target for the overnight rate.



Senior Deputy Governor Paul Jenkins and Governor David Dodge at a press conference for the release of the *Monetary Policy Report Update*

Currency

The Bank of Canada is responsible for the design, production, and distribution of paper currency – bank notes. We contract the printing of bank notes to two security printing companies. The Bank must ensure that there is a sufficient supply of bank notes and that those notes are secure against counterfeiting.

To stay ahead of advances in counterfeiting, the Bank regularly issues new series of bank notes that incorporate improved security features. The Bank also runs education programs to help Canadians recognize and use the security features built into the bank notes. We coordinate many of these educational activities with provincial and municipal law-enforcement agencies. We work with those agencies, and with the RCMP, to monitor and

In January 2004, the Bank unveiled a new \$100 bank note, as part of the *Canadian Journey* series. Here, sheets of the new \$100 note are inspected.

analyze counterfeiting activities across Canada.

The Bank also actively promotes counterfeit deterrence by law-enforcement agencies and Crown prosecutors across Canada by supporting the investigation and prosecution of counterfeiting offences.

Bank notes have a limited lifespan. The Bank of Canada is responsible for replacing and destroying worn notes. When financial institutions return notes to the Bank, we select those that are no longer fit for circulation, shred them, and send them to landfill sites.



Staff in the Mutilated Note Service carefully sift through charred bank notes. Each year, the Bank is asked to identify, for reimbursement purposes, the value of notes that have been burned, decomposed, torn, shredded, or contaminated.



Visit Our Currency Museum

The Bank's Currency Museum features items from the National Currency Collection, which traces the evolution of money in Canada and around the world. The Museum houses over 100,000 individual items, including ancient and medieval coins and modern coins and paper money from many countries. It also organizes touring exhibitions.

The Currency Museum is located within the Bank of Canada building, at 234 Wellington Street, in Ottawa. It operates from Tuesday to Saturday, 10:30 a.m. to 5 p.m., Sunday 1 p.m. to 5 p.m. (open Mondays from 1 May to 1 October). Admission is free. Guided tours are available.

Visit the Currency Museum's website at
www.currencymuseum.ca



The financial system

A healthy economy needs a sound and efficient financial system.

Canada's financial system consists of

- *financial institutions*, such as banks, credit unions, securities firms, and insurance companies;
- *financial markets*, such as securities and foreign exchange markets; and
- *clearing and settlement systems*, through which funds or securities flow from one financial institution to another and transactions are settled.

The Bank works with other agencies and market participants to promote the safe and efficient operation of these key elements of the financial system. The Bank undertakes extensive research in this area and, twice a year, updates Canadians on new developments,

issues, and research by publishing its *Financial System Review*.

The Bank of Canada helps Canada's payments system function smoothly, keeping accounts for Canada's largest deposit-taking financial institutions. Every day, these institutions exchange billions of dollars in electronic and cheque payments through Canada's two major payments systems, the Large Value Transfer System and the Automated Clearing Settlement System. These two systems are operated by the Canadian Payments Association. At the end of the day, the net claims of each of the participating financial institutions are calculated, and transfers of funds take place among their accounts at the Bank of Canada.

We routinely provide loans to financial institutions that participate in the payments systems, to assist in the efficient

Unclaimed balances

Banks and federally chartered trust and loan companies are required to transfer to the Bank of Canada the unclaimed balances of all bank accounts that have been inactive for 10 years. The owners of these accounts can have their money returned once they provide the Bank with proof of ownership.

To check whether you have unclaimed balances, use the search facility on the Bank's website at www.bankofcanada.ca or contact any of the Bank's regional offices. You can also call the Bank toll free at **1 888 891-6398** or send an email to ucbalances@bankofcanada.ca.

functioning of these systems. In very unusual circumstances, the Bank will provide extra funds to meet extraordinary demands for funds in the financial system. For example, following the terrorist attacks in the United States on 11 September 2001, the Bank took immediate steps to increase the liquidity available to financial institutions so that Canadian banks, markets, and clearing and settlement systems could function normally. The Bank of Canada is also the lender of last resort. In an extreme situation, where a financial institution is judged to be solvent but faces a liquidity

crisis, the Bank can provide short-term emergency loans.

Funds management

The Bank of Canada is the federal government's fiscal agent. It acts as banker and manager for Canada's debt and reserves, and manages the government's exposure to financial risk.

The Bank handles the deposit accounts of the Receiver General. Almost all the money collected and spent by the government flows through these accounts. We also maintain foreign currency accounts at other central banks

and operate accounts for foreign central banks and international financial institutions.

The federal government finances its operations primarily through taxation and borrowing. Most of that borrowing is done by issuing Government of Canada bonds and treasury bills. The Bank of Canada advises on, and manages, these issues of securities. The Bank also makes sure that the government has sufficient cash balances to meet its daily requirements and invests any excess balances. The Bank advises the government on its investment policy for foreign exchange reserves and manages those reserves.



The Bank's trading room

The Bank also acts as fiscal agent for the federal government's retail debt program. Under this program, the government issues Canada Savings Bonds, Canada Premium Bonds, and Canada Investment Bonds to the public. The retail debt program is directed by the Department of Finance. The Bank oversees operations and systems support for the program, which are performed under contract by a private company.

The Bank in the world

The Bank of Canada works with many international groups and institutions to monitor, assess, and respond to world economic and financial developments, and to share knowledge with other central banks. These groups include the Bank for International Settlements, the Organisation for Economic Co-operation and Development, the International Monetary Fund,

the World Bank, the G-7, G-10, and G-20 groups of countries, and other economic and financial organizations. The Bank also participates in academic and central bank research seminars and conferences. Bank staff are often asked to provide advice and technical assistance to other central banks around the world.

Visit our website!

You will find information on all the Bank's functions and operations. Our website contains a virtual Currency Museum site, a recruitment site, an inflation calculator, information on unclaimed bank balances, and explanations and graphics illustrating the way our monetary policy works. You will also find a description of the security features on bank notes. As well, the site features live audio webcasts of major speeches and press conferences; up-to-date information on exchange rates, interest rates, and other economic data; and links to related sites.

www.bankofcanada.ca



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Corporate Governance and Management

Ownership and governance of the Bank

The Bank of Canada is owned by the people of Canada. The Bank was established in 1934 as a privately owned corporation. In 1938, the Bank became a Crown corporation.

The Bank operates under the statutes of the federal Bank of Canada Act. The Bank's chief executive officer and chairman of its Board of Directors is the Governor. In the absence of the

Governor, the Senior Deputy Governor exercises all the powers of the office.

The Bank's revenue more than covers the cost of its operations. Most of the Bank's revenue is investment income earned on its portfolio of government securities – acquired in exchange for bank notes. This income, minus the costs of producing, distributing, and replacing bank notes, is known as seigniorage revenue. Most of this revenue is paid to the Government of Canada. A small portion is used each year to finance the Bank's general operating expenses.

The Board of Directors

The Bank's Board of Directors is responsible for the governance of the Bank. It oversees all its administrative functions, ensuring that the Bank is well managed and accountable to all Canadians for its commitments, its actions, and its results.

In addition to the Governor and Senior Deputy Governor, the Board is composed of 12 independent Directors and the Deputy Minister of Finance (who has no vote but provides an important link with

the Department of Finance). The 12 independent Directors are appointed by the Minister of Finance (with federal Cabinet approval) for renewable three-year terms. These Directors are chosen from outside the Bank and typically come from every Canadian province and from diverse backgrounds.

The Board is responsible for reviewing the Bank's general policies and for approving the Bank's corporate objectives, plans, and budget. The Board oversees the Bank's risk-management process. This identifies key areas of risk, based on the Bank's responsibilities and strategic priorities. The Bank's external auditors report directly to the Board. The independent Directors are also responsible for appointing the Governor and the Senior Deputy Governor (with the approval of Cabinet) for seven-year terms.

The independent Directors elect a Lead Director, who, as Chairman of the Board's Corporate Governance and Nominating Committee, oversees the corporate governance practices of the Board and the Bank. The Lead Director presides over Board meetings when neither the Governor nor the Senior Deputy Governor is present and acts as liaison between the Board and the Bank's management.

To fulfill its responsibilities of governance and oversight of the Bank, the Board has formed several permanent committees. The Bank of Canada Act stipulates that the Board have an Executive Committee, chaired by the Governor, which may act on behalf of the Board. There are also committees on corporate governance, human resources and compensation, audit, planning and budget, and pension. In addition, the Board can form

special committees, such as a selection committee when a new Governor must be chosen.

The Board has no direct responsibility for monetary policy beyond its general oversight role.

The Governing Council

Under the Bank of Canada Act, the Governor alone is responsible for monetary policy. But in practice, the Governor shares that responsibility with fellow members of the Bank's Governing Council. The Council is composed of the Governor, Senior Deputy Governor, and the four Deputy Governors. The Council works by consensus, formulating, implementing, and communicating Canadian monetary policy with the support of the Bank's economics and communications departments.

The Governing Council, along with the General Counsel/Corporate Secretary, the Adviser, Regulatory Policy, and the Chief of Communications, make up the Bank's Financial System Committee. This committee reviews issues relating to the domestic and international financial system, and makes policy decisions in the areas specific to the Bank's responsibilities.

Members of the Governing Council communicate regularly with parliamentarians, financial market participants, business leaders, and the public to inform Canadians about the major economic issues of the day and about the conduct of monetary policy, and to hear their views.

The Bank of Canada Act requires that the Minister of Finance and the Governor of the Bank consult regularly on monetary policy and its relation to general economic policy. The Act also provides that,

in case of a disagreement that cannot be resolved through further discussion, the Minister can give a public, written directive to the Governor on the monetary policy to follow. Such a directive has never been issued. This provision of the Act makes it clear that the Bank takes full responsibility for monetary policy as long as a directive is not in effect, and that the government assumes ultimate responsibility for the monetary policy being pursued.

The Executive Management Committee

The Executive Management Committee establishes the basic principles of how the Bank's responsibilities are to be carried out and decides on broad organizational and strategic issues.

This committee includes the members of the Governing Council,

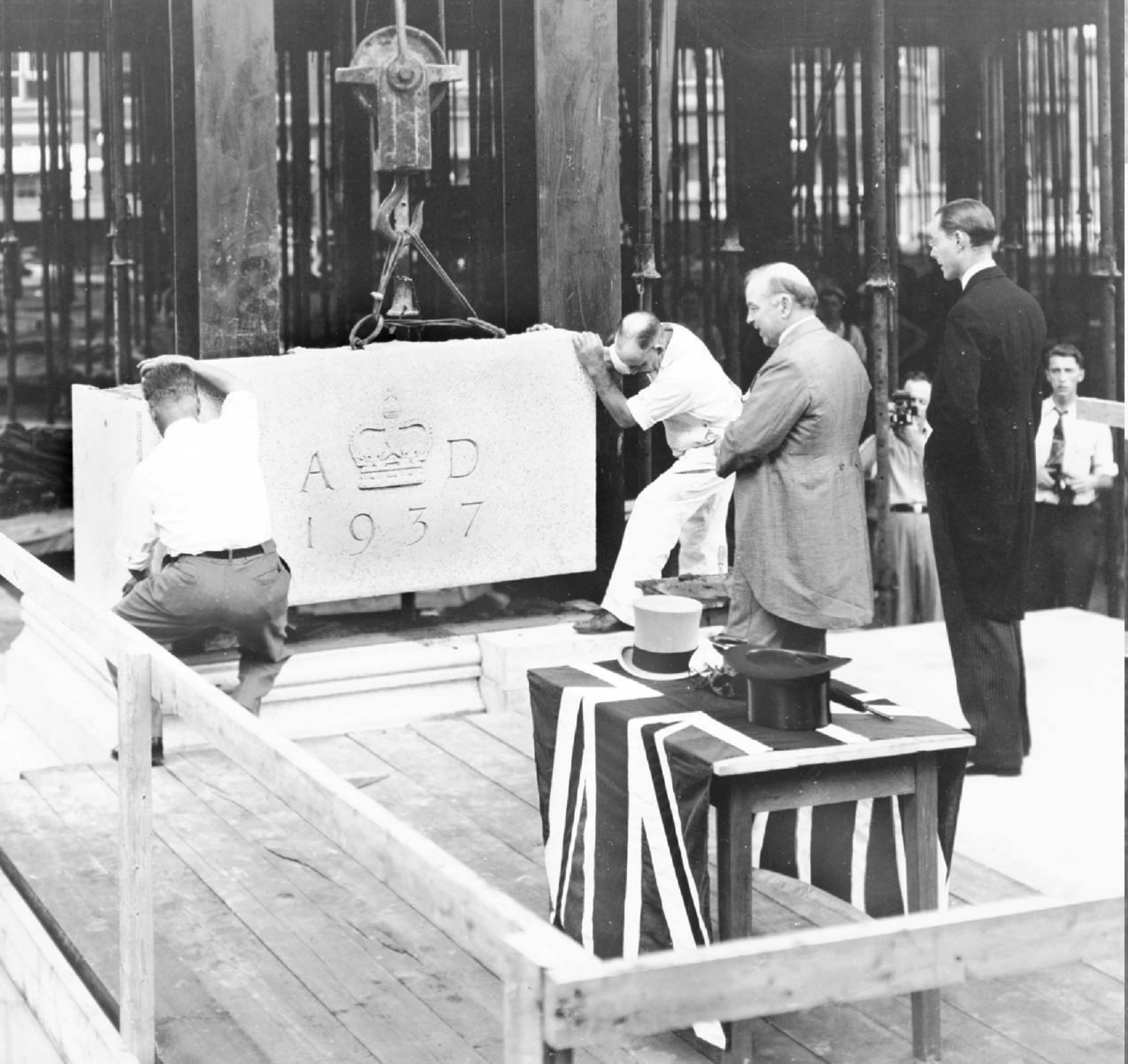
as well as the General Counsel/Corporate Secretary, the Adviser on Strategic Planning and Risk Management, the Chief of the Corporate Services Department, and the Chief of the Financial Services Department.

Management Forum

The Management Forum meets regularly to exchange information on management issues and to review corporate policy proposals. The Forum consists of the Executive Management Committee, advisers, department chiefs, and the director of human resources.

Detail of bronze panel on front of head office building





History of the Bank of Canada

Until the 1930s, Canada's financial system operated through a network of private banks. The larger commercial banks handled the government's business, and the network developed a system for clearing cheques between banks.

The start of the Depression and mounting criticism of the country's financial structure coincided with a specific concern of Prime Minister R.B. Bennett – the lack of a direct means in Canada for settling international accounts. In 1933, Bennett set up a Royal Commission to study the banking and monetary system and to consider the idea of a Canadian central bank. The

Commission recommended that a central bank be established. One week later, the Prime Minister announced that his government would adopt the recommendation.

An appendix to the Commission's report formed the framework for the Bank of Canada Act, which became law on 3 July 1934. In March 1935, the Bank of Canada opened its doors as a privately owned institution, with shares sold to the public.

Soon after the Bank opened, a new government amended the Bank of Canada Act to nationalize the institution. In 1938, the federal

government became the Bank's sole shareholder and remains so today.



Prior to the establishment of the Bank of Canada, chartered banks provided most of the bank notes in circulation. These notes were redeemable for gold coins or Dominion of Canada notes.

(Opposite) Prime Minister Mackenzie King (left) and the Bank's first Governor, Graham Towers (right), watch as the cornerstone of the Bank's original building is laid.

BANK OF CANADA REGIONAL OFFICES

The Bank of Canada is headquartered in Ottawa. It has operations centres in Ottawa, Toronto, and Montréal and maintains five regional offices across Canada. They are located in Halifax, Montréal, Toronto, Calgary, and Vancouver. These offices are integral to our service to Canadians, strengthening the Bank's ties with the financial community, provincial governments, industries, educational institutions, and the public.

Quarterly regional surveys of firms and associations provide important input for the Bank's analysis of the Canadian economy. Regional staff also oversee the distribution of bank notes across the country, maintain liaison with law-enforcement agencies, promote awareness of bank note security features, and assist the Governing Council and members of the Board of Directors with their communications activities across Canada.

In 2002, the Bank established a post in New York to enhance communication with the financial community there.

VANCOUVER

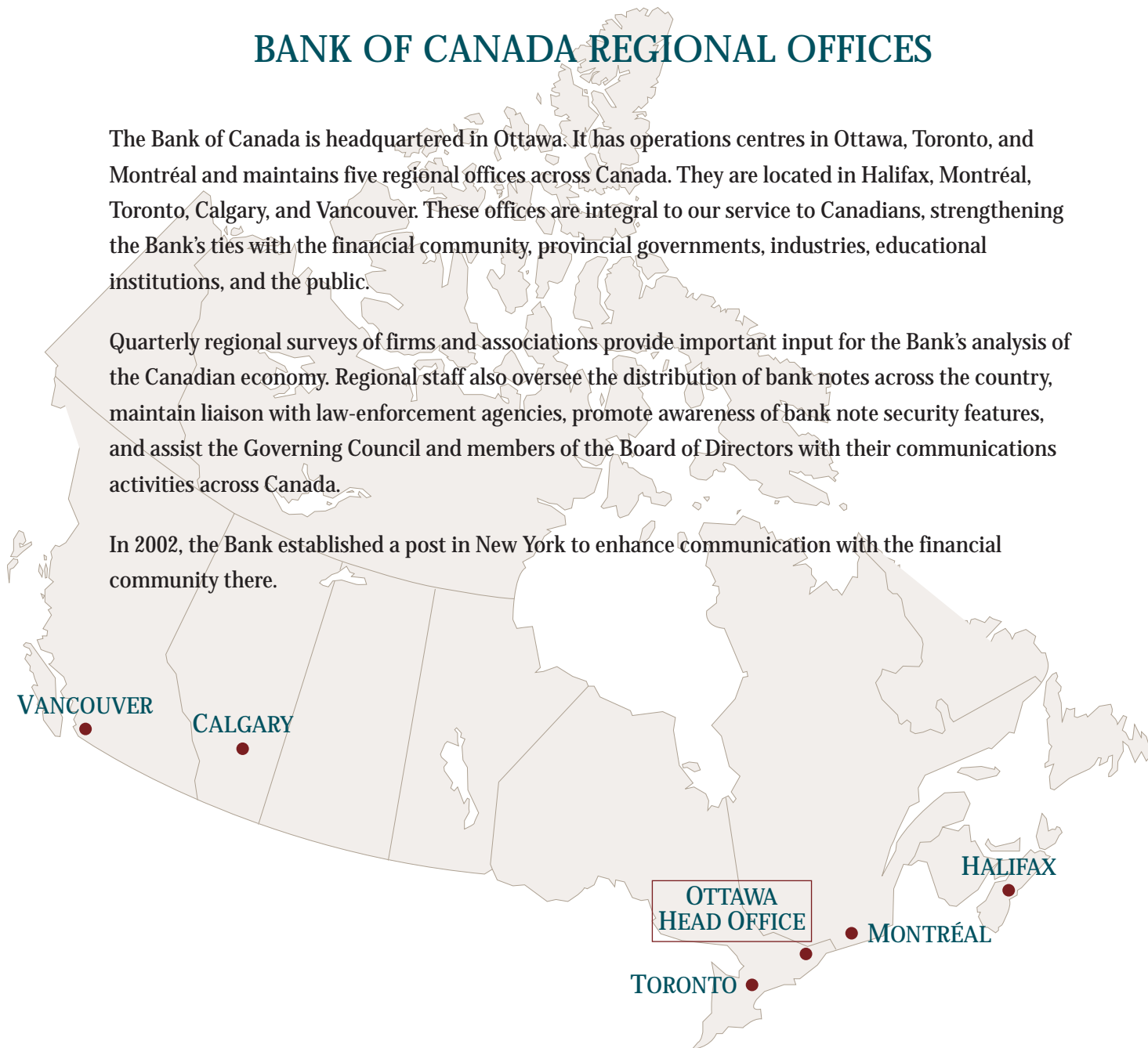
CALGARY

OTTAWA
HEAD OFFICE

TORONTO

MONTRÉAL

HALIFAX



Departments

The Bank's 1,200 employees work in the following departments (listed in alphabetical order).

Audit is responsible for evaluating the effectiveness of the Bank's risk management, control, and governance activities, and for promoting their continuous improvement.

Banking Operations designs and issues Canada's bank notes, and oversees their production and distribution. Its staff in Ottawa and the regional offices are responsible for all of the Bank's anti-counterfeiting efforts. The department provides banking services to financial institutions, central banks, and

the government and ensures the delivery of cost-effective operations and policy advice in support of the government's retail debt program.

Communications helps the Bank meet its commitment to communicate openly with the public and with Bank staff. It advises on communications issues, produces and translates publications and speeches, handles media and public enquiries, organizes events and conferences, and operates the Bank's website.

Corporate Services provides services across the Bank in the following areas: human resources,

staff services, facilities, and security.

Executive and Legal Services provides administrative services to the Bank's executive and to the Board of Directors. Its lawyers provide the Bank with legal services. The department is managed by the Corporate Secretary, who represents the Bank as a corporate entity.

Financial Markets implements monetary policy, manages the federal government's cash balances and foreign exchange reserves, markets Government of Canada wholesale debt instruments, and manages the assets of the Bank of Canada's

balance sheet. This department also monitors financial markets and analyzes and researches financial market issues.

Financial Services is responsible for the accounting and financial reporting of the Bank as a corporate entity. It provides financial management and reporting services, contract management, and procurement and payment services.

Information Technology Services provides and supports a reliable IT environment by delivering advanced technologies that enhance the business of the Bank.

International analyzes economic developments in foreign countries, and shares information with international financial organizations such as the International Monetary Fund. The department also undertakes research on the

Canadian dollar and exchange rate regimes.

Monetary and Financial Analysis monitors and reports on the financial sector, and conducts research in that area. Its staff also manage issues relating to the Bank's oversight of clearing and settlement systems and to the overall stability and efficiency of the financial system.

Research analyzes and assesses current and prospective economic conditions in Canada. Its staff at headquarters and in regional offices undertake research to better understand the economy's operation and the effect of fiscal and monetary policies on the economy.

In addition, the Bank has a **Financial Risk Office** that monitors and reports on the risks associated with the Bank's fiscal-agent activities,

as well as those associated with its own market operations. It also monitors and researches risk-management practices in the financial sector.

The Board of Directors and Management of the Bank of Canada

For a complete and current listing of the Bank's executives, visit our website at www.bankofcanada.ca.

Board of Directors

David A. Dodge, Governor
Paul Jenkins, Senior Deputy Governor
Jean-Guy Desjardins, Lead Director
Montréal, Quebec
William Black,
Halifax, Nova Scotia
Philip Deck,
Toronto, Ontario
Paul D. Dicks,
St. John's, Newfoundland and Labrador
Bonnie DuPont,
Calgary, Alberta
Douglas Emsley,
Regina, Saskatchewan
Jock Finlayson,
Vancouver, British Columbia
Carol Hansell,
Toronto, Ontario
David Laidley,
Montréal, Quebec
Gilles Lepage,
Caraquet, New Brunswick
Michael O'Brien,
Charlottetown, Prince Edward Island
Thomas J. Rice,
Winnipeg, Manitoba

Member *ex officio*:

Robert A. Wright,
Deputy Minister of Finance

Senior Management

Governor

David A. Dodge**

Senior Deputy Governor

Paul Jenkins**

Deputy Governors

Pierre Duguay**
Sheryl Kennedy**
David Longworth**
Tiff Macklem**

General Counsel and Corporate Secretary

Marcus L. Jewett*

Advisers

Janet Cosier*¹
Clyde Goodlet
John Murray
Ron Parker²
George Pickering
Jack Selody

1. Chair of the Board of Directors of the Canadian Payments Association

2. On Executive Interchange to the Government of Canada

Special Adviser

Steven Ambler³

Internal Auditor

David Sullivan

Chief Accountant

Sheila Vokey*

Department Chiefs

Audit: David Sullivan
Banking Operations: Gerry Gaetz
Communications: Denis Schuthe
Corporate Services: Sheila Niven*
Executive and Legal Services:
Marcus L. Jewett*
Financial Markets: Donna Howard
Financial Services: Sheila Vokey*
Information Technology Services:
Carole Briard
International: Larry Schembri
Monetary and Financial Analysis:
Allan Crawford
Research: Agathe Côté

As at 2 July 2007

3. Visiting economist

*Member of Executive Management Committee

**Member of Governing Council and Executive Management Committee



How to Reach Us

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