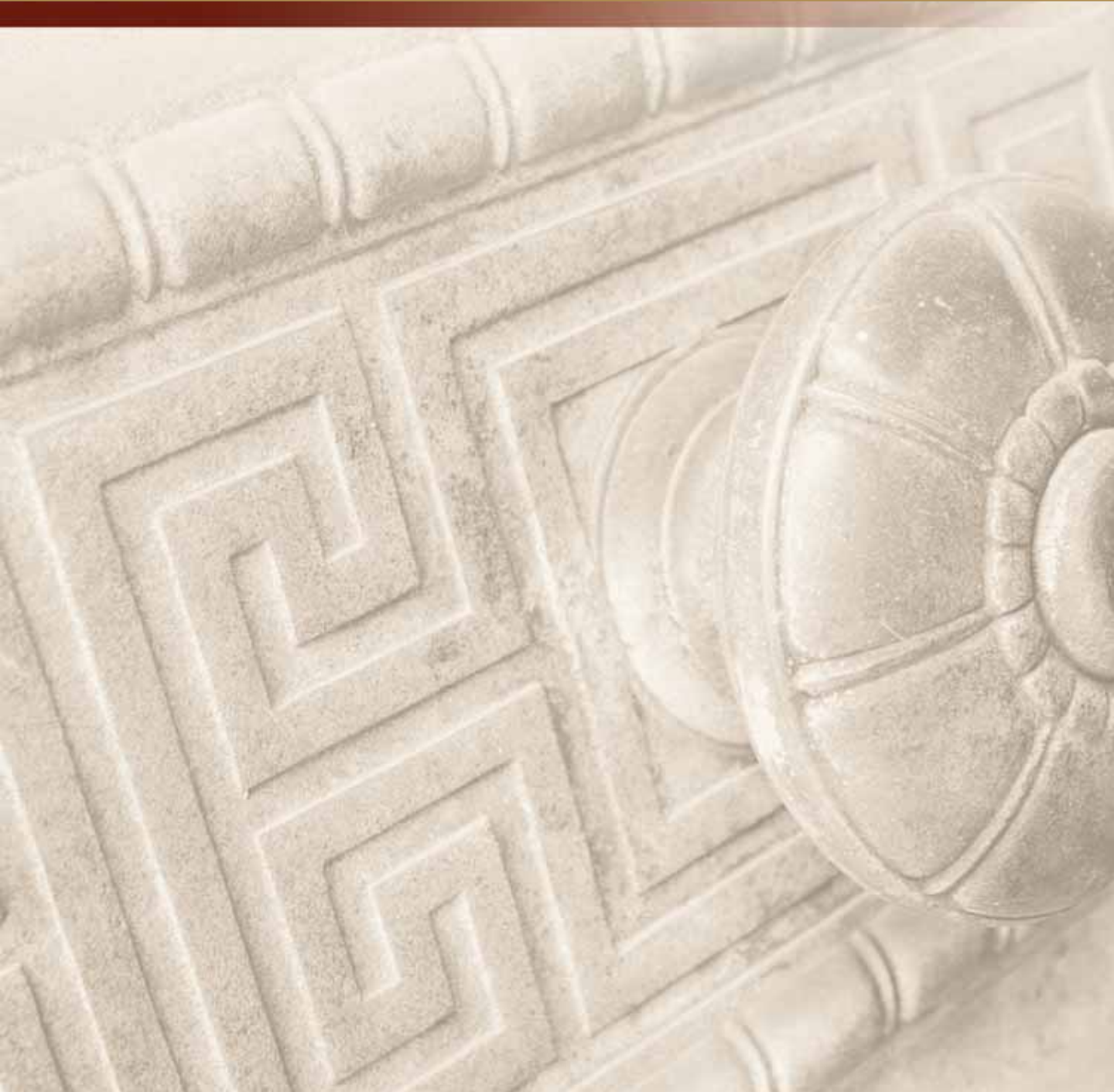
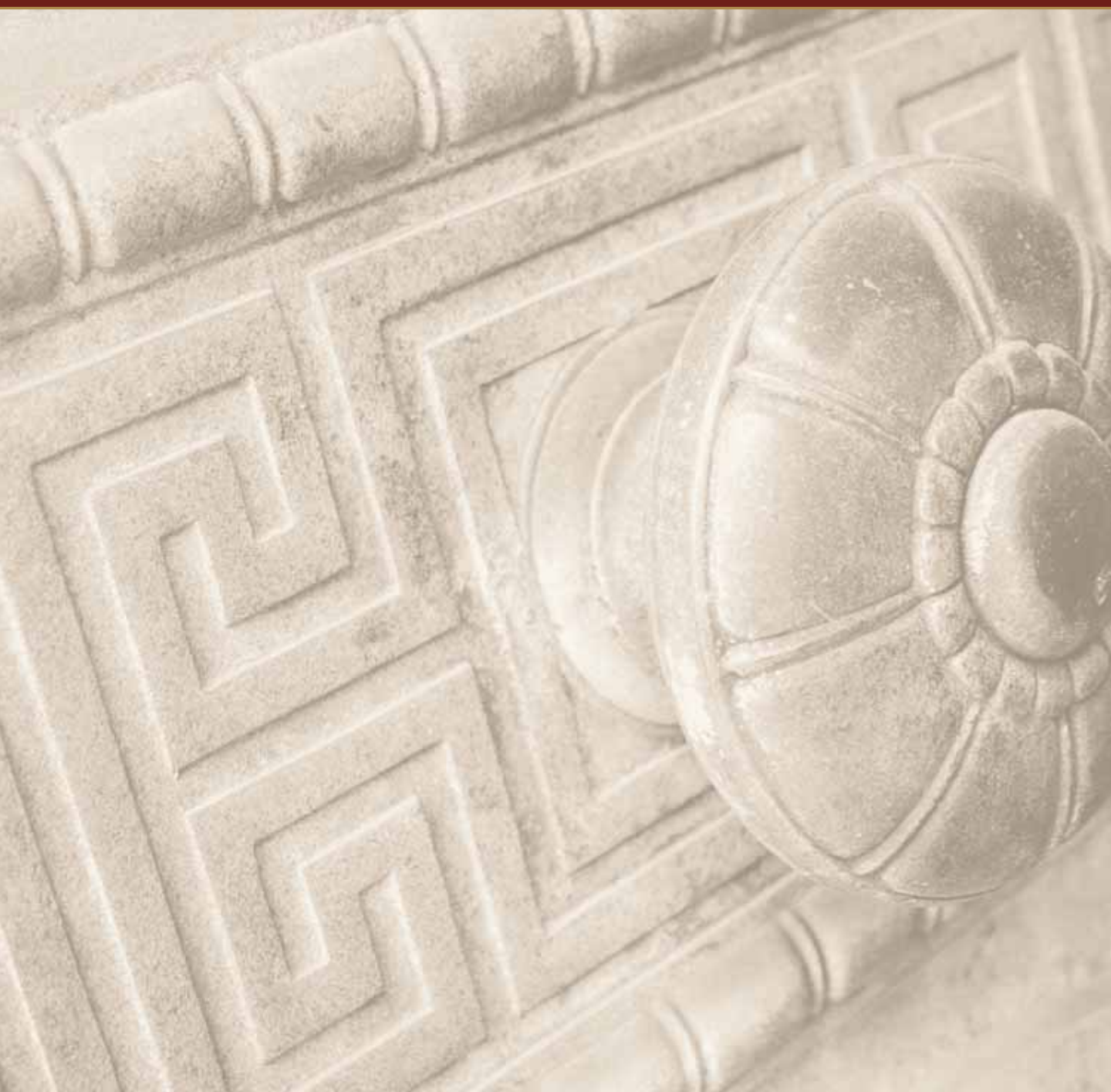


ORGANIZATION AND GOVERNANCE





THE BUSINESS OF THE BANK

The Bank of Canada opened for business in 1935 with a mandate critical to the economic well-being of all Canadians that has remained essentially unchanged over the years. The Bank aims to keep inflation low, stable, and predictable; to supply safe and secure bank notes; to promote a stable and efficient financial system; and to oversee key clearing and settlement systems. Since its creation, the Bank has also been the Government of Canada's fiscal agent, managing its foreign exchange reserves and the public debt.

The work of the Bank is accomplished by a staff of 1,200 employees dedicated to excellence. The majority of the staff is located at the head office in Ottawa, while about 100 others are at operations centres in Toronto and Montréal. As well, about

50 employees work on a range of economic, financial market, and currency issues at regional offices in Vancouver, Calgary, Toronto, Montréal, and Halifax. The Bank also has a financial markets representative in New York.

Managing Risk at the Bank

The Bank has a well-established, integrated risk-management framework for identifying, managing, and monitoring key areas of risk, including business, reputational, financial, operational, and security risks. Through an annual self-assessment process, senior managers identify and assess the key risks that could impede the fulfillment of the Bank's responsibilities and the achievement of its objectives. Cost-effective, risk-mitigation strategies are put in place to manage and monitor these risks. The Board of Directors oversees these processes. The Bank also has an Audit Department, which reports functionally to the Audit Committee of the Board. The Department conducts periodic reviews of Bank operations, including the Bank's risk-management process, to assess the appropriateness and effectiveness of the systems of internal control implemented by management to mitigate risk, and thus to provide reasonable assurance that objectives will be achieved.

In addition, the Bank has a Financial Risk Office, independent of operations, that is responsible for monitoring and reporting to the Department of Finance and to the Bank

on risks and investment performance arising from the management of the government's debt and foreign reserves.

The Bank keeps abreast of international best practices in the area of risk management. Staff members have presented the Bank's risk-management practices at conferences in Canada and abroad.



GOVERNING COUNCIL





(left to right)

TIFF MACKLEM
Deputy Governor

PAUL JENKINS
*Senior Deputy
Governor*

DAVID LONGWORTH
Deputy Governor

SHERYL KENNEDY
Deputy Governor

DAVID DODGE
Governor

PIERRE DUGUAY
Deputy Governor

THE GOVERNING COUNCIL *takes collective responsibility for monetary policy. The Governing Council, along with the General Counsel/Corporate Secretary (Mark Jewett), the Chief of the Communications Department (Denis Schuthe), and the Adviser responsible for Regulatory Analysis (Clyde Goodlet), make up the Bank's Financial System Committee.*

Corporate Governance

Progress on the medium-term plan

A key element in the Bank's accountability framework is the development, implementation, and monitoring of a medium-term plan. The current plan, which extends from 2003 through 2006, sets out ambitious objectives in the areas of leading-edge research, building partnerships with outside organizations and individuals, creating more secure bank notes, and continuing to improve the Bank's effectiveness as a public institution.

Looking towards the final year of the plan in 2006, the Bank took stock of the progress made

and began the process of identifying strategic priorities for the next plan, which will be finalized this year.

The current assessment is that the plan is on track and that the Bank will have achieved almost all of its strategic objectives by the end of the planning period. In the area of monetary policy, the goals of maintaining inflation within the target range and increasing research in areas critical to the Bank's policy needs have been met. Considerable progress has also been made in implementing a strategy to improve the security of bank notes, and counterfeiting levels have started to decline, although they remain unacceptably high. The Bank has successfully implemented improved governance practices and increased operational

EXECUTIVE MANAGEMENT COMMITTEE



SHEILA NIVEN
Chief of the Corporate Services Department

TIFF MACKLEM
Deputy Governor

PAUL JENKINS
Senior Deputy Governor

DAVID LONGWORTH
Deputy Governor

MARK JEWETT
General Counsel/Corporate Secretary

SHERYL KENNEDY
Deputy Governor

DAVID DODGE
Governor

PIERRE DUGUAY
Deputy Governor

SHEILA VOKEY
Chief of the Financial Services Department

JANET COSIER
Adviser on Strategic Planning and Risk Management

THE EXECUTIVE MANAGEMENT COMMITTEE is responsible for matters related to the strategic direction and management of all the functions of the Bank.

efficiencies in the areas of funds management and retail debt. The Bank has also made significant progress in meeting its objectives for promoting the stability and efficiency of the financial system. In each area, open communication enhanced the effectiveness of the Bank's work.

Management of the Bank

The Board of Directors, as defined in the Bank of Canada Act, contributes to the governance of the Bank mainly in the areas of finance, human resources, and administration. More specifically, the Board is responsible for appointing and evaluating senior management, overseeing the strategic planning and budget processes, and promoting effective corporate governance practices. The Board also monitors internal-control frameworks and provides oversight and advice on how the Bank fulfills its responsibilities under the Act. The Governor, who chairs the Board, is responsible for monetary policy and the other businesses of the Bank. For these functions, and to support the work of the Board, the Governor draws on the Governing Council and the Executive Management Committee, whose members contribute expertise related to the Bank's business lines and corporate administration. The Governing Council meets regularly to be briefed on economic matters and to make decisions, announced on eight scheduled dates each year, on the target overnight interest rate. The Executive Management Committee oversees all the operations of the Bank and ensures that matters related to its strategic direction and management receive close attention at the executive level. The Financial System Committee takes policy decisions in areas specific to the Bank's responsibility in the financial system.

Board of Directors

The Board works towards best governance practices and has taken special note of the report by the federal government on its review of Crown corporation governance. Given the Bank's unique governance framework (reflecting its responsibilities in the conduct of monetary policy), the measures in the report do not apply to the Bank. Nevertheless,

the Board intends to adhere to the principles underlying the report in order to ensure that the Bank's corporate governance practices continue to be leading edge.

The Board has six standing committees to deal with matters brought before it for consultation or decision. In 2005, the terms of reference of each Committee were reviewed, as well as the policies related to the Board. On occasion, an Advisory Group of several directors is created to provide a forum for discussion of issues of particular interest. At this time, two Advisory Groups exist to discuss currency and pension matters.

- Executive Committee,
Chair – David Dodge (Governor)
- Corporate Governance and Nominating Committee,
Chair – Spencer Lanthier (Lead Director)
- Human Resources and Compensation Committee, Chair – Daniel Gallivan
- Audit Committee,
Chair – Spencer Lanthier
- Planning and Budget Committee,
Chair – Jean-Guy Desjardins
- Pension Committee,
Chair – Paul Jenkins (Senior Deputy Governor)

Directors are paid according to a fee structure recommended by the government and approved by Order-in-Council. For 2005, the total remuneration to independent directors was \$297,700.

Board Stewardship in 2005

The Board's Corporate Governance and Nominating Committee continued the practice, established last year in response to a government initiative, of contributing to the identification of candidates for nomination as directors to the Board. The Committee engaged an executive recruitment firm to assist in this process, which led to the appointment of several new directors to fill vacancies on the Board and to replace directors whose terms had expired.

THE BOARD OF DIRECTORS





(left to right)

RONALD J. KEEFE
*President and CEO,
Diagnostic Chemicals Limited
Charlottetown, Prince Edward Island
Appointed in October 2003*

PAUL JENKINS
Senior Deputy Governor

DANIEL F. GALLIVAN
*CEO and Managing Partner,
Cox Hanson O'Reilly Matheson
Halifax, Nova Scotia
Appointed in August 2000*

BARBARA HISLOP
*Corporate Director
Vancouver, British Columbia
Appointed in March 1998*

J. SPENCER LANTHIER
*Lead Director
Corporate Director
Toronto, Ontario
Appointed in March 2000*

THOMAS J. RICE
*Chairman, Jovian Capital Corp.
Winnipeg, Manitoba
Appointed in June 2005*

PAUL D. DICKS (SEATED)
*Counsel, Benson Myles
St. John's, Newfoundland and Labrador
Appointed in December 2002*

GILLES LEPAGE
*Corporate Director
Caraquet, New Brunswick
Appointed in May 2005*

IAN E. BENNETT
*Deputy Minister of Finance
Member Ex Officio*

JEAN-GUY DESJARDINS
*Chairman and CEO, Centria Inc.
Montréal, Quebec
Appointed in March 2003*

KIT CHAN
*President, Canada Education Inc.
Calgary, Alberta
Appointed in April 1999*

JOCELYNE PELCHAT (SEATED)
*President and CEO, Entreprises Pelchat Moïse Inc.
Sutton, Quebec
Appointed in February 2005*

DAVID DODGE
Governor

JAMES S. HINDS
*Partner, Hinds and Sinclair
Sudbury, Ontario
Appointed in March 1996*

DAVID T. BARNARD
*President and CEO, iQmedX
Regina, Saskatchewan
Appointed in February 2005*

The Board was active in guiding the Bank's evaluation of its progress towards achieving the objectives of the medium-term plan. The Board has also engaged in several stages of consultation towards the development of a new medium-term plan, to be presented for approval in 2006.

Over the year, the Board provided guidance on a number of initiatives relating to the effective management of the Bank's human resources, including a review of direct compensation and of measures to respond to the results of a staff survey on the work environment. The Board also engaged in an annual review of succession planning to ensure effective continuity in the management of the Bank. As part of this responsibility, the Board met regularly with senior staff of the Bank through presentations to the Board, as well as through more informal events.

An important part of the Board's oversight is carried out through the Audit Committee, which is chaired by an independent director and consists of independent directors with particular knowledge of financial matters. The Audit Committee is responsible for overseeing the Bank's internal control and risk-management framework and for ensuring that the external and internal audit functions are carried out in an appropriate manner.

The external auditors report directly to the Audit Committee. The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the Office of the Governor. The Audit Committee meets privately (without management present) with the Chief Internal Auditor and with

the external auditors on a regular basis, and has the authority to engage outside expertise as required. In 2005, the Board supported continuing efforts to proactively disclose such information as contracts and travel costs on the Bank's website.

The Board's oversight of financial matters and risk management included their participation in the Pension Committee, which provides regular updates to the Board and to plan members regarding the pension plan's investment and administrative arrangements. The Board also received updates on the Bank's plans and actions to ensure the continuity of internal operations and briefings on its role in operations supporting payment and settlement systems.

The Board's broad oversight responsibility also includes monitoring the effectiveness of the process for formulating monetary policy. To this end, the Board met in private session with Special Adviser, Christopher Ragan, an academic whose knowledge of macroeconomics contributed to his advice to the Bank's management for a one-year period ending in July 2005.

In 2005, the Board continued its long-standing practice of holding private sessions of independent directors at the conclusion of each Board meeting, chaired by the Lead Director, to promote full discussion without management present. Finally, as an annual practice, the Board conducted a self-evaluation of its own stewardship to ensure that best practices of corporate governance are incorporated in its plans.



BOARD OF DIRECTORS *meeting*