



ABOUT
THE BANK



THE BUSINESS OF THE BANK

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

Monetary Policy

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

Currency

Designs Canada's bank notes (including anti-counterfeiting features), issues and distributes new bank notes, and replaces worn notes

Central Banking Services

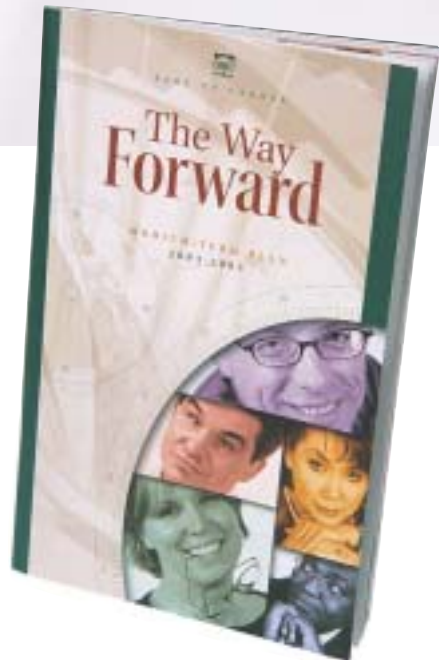
Promotes financial system stability and provides efficient funds-management services to the federal government

Retail Debt Services

Ensures that all holders of Canada Savings Bonds and Canada Premium Bonds have their information registered and their accounts serviced through efficient operations and systems support

Corporate Administration

Provides expertise in a range of services, such as human resources, technology, finance, communications, and administration



LOOKING AHEAD

The Medium-Term Plan

In 2002, the Bank established an ambitious new medium-term plan that describes its objectives for the next three years. Three major themes emerge and apply Bankwide: leading-edge research, partnerships with outside organizations and individuals, and clear communication among our ourselves and with Canadians.

To implement the plan, three Bankwide priorities were identified: to develop methods to enhance the effective sharing of knowledge throughout the organization; to attract,

engage, and retain quality staff; and to provide certainty and soundness in our work environment through effective risk management and comprehensive measures for business continuity.

The Way Forward

Implementation of the plan will affect all of the Bank's functional areas as well as its regional offices.

Monetary Policy

The Bank will broaden its research and analysis on structural and sectoral issues affecting the economy. It will also strengthen its regional presence to enhance its contacts with provincial governments, industry, educational institutions, and the public. By augmenting our research capability in the regions we hope to improve our understanding of regional and sectoral economic trends.

Currency

A new bank note strategy will focus on increasing the security of bank notes, educating Canadians to recognize counterfeits, and raising the awareness of police officers and prosecutors with regard to the economic and social costs of counterfeiting.

Central Banking Services

Here, the Bank will conduct research and develop policy approaches regarding payment, clearing, and settlement systems, financial markets, and its role as lender of last resort.

As fiscal agent for the Government of Canada, the Bank will be increasing its research and analytic capacity in the area of managing the government's foreign exchange reserves, treasury, and domestic debt. It will also be introducing new policy frameworks, performance benchmarks, and information and transactions-processing systems to enhance operational excellence and improve risk management.

Retail Debt Services

The Bank will oversee operations that have been outsourced, strive for further efficiencies, and provide solid policy advice to the Department of Finance and its agency, Canada Investment and Savings, regarding the retail debt program.

Corporate Administration

This function will continue to restructure its operations to enhance its focus on the specialized work of human resources, technology, finance, and communications to reduce costs and provide staff throughout the Bank with what they need to accomplish their goals.



The Bank continued to use the World Wide Web in 2002 as a key means of communicating its monetary policy messages to the public. Use of the Bank's Web site increased throughout the year, reaching an average of 125,000 visits (360,000 page hits) per week.

In January, the Bank began a regular schedule of live audio "Webcasts" of the Governor's speeches, press conferences, and other public appearances. These have proven particularly popular with the media and the markets, making "real-time" access to such events more convenient.

Nearly 3,400 subscribers have signed on to "Bank Messenger," a service launched in January that allows the public to receive immediate e-mail notification of new speeches, research papers, press releases, and other publications or events.

Another new feature, *Research at the Bank of Canada* (which will be updated annually), describes key aspects of the Bank's research program, including its broad themes for 2002 and brief summaries of work being conducted in support of each of the Bank's functions.

The Web site also helps Bank watchers to anticipate the general direction of monetary policy by offering a growing array of data on various key indicators. A significant step in this respect was the addition in October of a new data set, *Indicators of Capacity and Inflation Pressures for Canada*. This includes both standard indicators—such as the CPI, wages and costs, and labour market information—and data from business surveys conducted by our regional offices.

In December, the Bank's Currency Museum launched a new site that offers on-line visitors a virtual tour of the Museum's collection as well as a detailed history of the evolution of money.

Financial Requirements

To achieve the goals outlined in the medium-term plan, there will be an increase in operating expenses over the next three years, which will be partly offset by savings from further planned changes to the delivery of corporate services. The net increase in expenditures will support the Bank's expanded research program, a new bank note strategy, its enhanced role in funds management, and Bankwide initiatives in talent and knowledge management and technology.





Board meeting at Head Office



CORPORATE STRUCTURE: PROVIDING LEADERSHIP

Board of Directors

The Bank's Board is responsible for the governance of the Bank and has specific duties related to finance, human resources, and administration. The Governor is responsible for monetary policy and the other business of the Bank.

The Board is composed of 12 Directors from outside the Bank, plus the Governor and the Senior Deputy Governor. The Deputy Minister of Finance sits on the Board as a non-voting member. The outside Directors come from across Canada and provide an important link to the various regions of the country. Directors are appointed for three-year terms by the Minister of Finance and may be reappointed at the end of their terms. If an appointment decision is delayed, Directors continue to fulfill their responsibilities as Board members until a new Director is named.

Board Stewardship in 2002

During 2002, the Board took an active role in developing the Bank's new medium-term plan. This included exploring the overall direction of the plan, its priorities, and the resources required to meet the plan's objectives. The Board continued to take a particular interest in the restructuring of the Corporate Services Department as a follow-up to the outsourcing of the operations and systems supporting retail debt services in 2001.

Given the increased incidence of counterfeiting, members of the Board formed an Advisory Group on Currency in 2002 to work closely with management and the Bank's currency experts on the new bank note strategy incorporated in the Bank's medium-term plan. A review of the Advisory Group's mandate is planned for the end of 2003.

The Board's oversight includes an interest in the Bank's risk-management framework, as well as in measures developed to ensure the security and continuity of the Bank's critical business operations following any unexpected events. Efforts in both these areas were enhanced in 2002 in light of uncertainties in the external environment.

The Board has also been closely following the Bank's new approach to developing the talent required to meet its business objectives and future leadership needs, especially in the



THE BOARD OF DIRECTORS



David Dodge

David Dodge
Governor



Malcolm Knight

Malcolm Knight
Senior Deputy Governor



Paul J. Massicotte

Paul J. Massicotte
Montréal, Quebec
Appointed in June 1995
Lead Director

Raymond Garneau
Westmount, Quebec
Appointed in March 1996

James S. Hinds
Sudbury, Ontario
Appointed in March 1996

J. Spencer Lanthier
Toronto, Ontario
Appointed in March 2000



Raymond Garneau



James S. Hinds



J. Spencer Lanthier



Winston Baker



Kit Chan



Walter Dubowec



Daniel F. Gallivan



Barbara Hislop



Aldéa Landry



Barbara Stevenson



Kevin Lynch

*Winston Baker*¹

St. John's, Newfoundland
Appointed in March 1996

Kit Chan

Calgary, Alberta
Appointed in April 1999

*Walter Dubowec*²

Winnipeg, Manitoba
Appointed in March 1996

Daniel F. Gallivan

Halifax, Nova Scotia
Appointed in July 2000

Barbara Hislop

Vancouver, British Columbia
Appointed in March 1998

Aldéa Landry

Moncton, New Brunswick
Appointed in March 1996

Barbara Stevenson

Charlottetown, Prince Edward Island
Appointed in October 1994

Kevin Lynch

Deputy Minister of Finance
Member *Ex officio*

¹ On 10 December, Paul Dicks of Corner Brook, Newfoundland was appointed by Order-in-Council to replace Mr. Baker.

² On 10 December, Armin Martens of Winnipeg, Manitoba was appointed by Order-in-Council to replace Mr. Dubowec.

One position was vacant on 31 December 2002.



THE BOARD OF DIRECTORS

David Dodge

Governor

Malcolm Knight

Senior Deputy Governor

Paul J. Massicotte

Lead Director, Chair, Corporate Governance Committee, and member, Executive Committee and Advisory Group on Currency

Chartered Accountant

- President and Chief Executive Officer, Alexis Nihon REIT
- Member, Board of Directors of the Council for Canadian Unity
- Member, Board of Directors of St. Anne's Hospital Foundation

Raymond Garneau

Member, Audit Committee

- Chairman of the Board of Industrial Alliance, Insurance and Financial Services and its subsidiaries, National Life of Canada and Industrial Alliance Pacific Insurance and Financial Services
- Member of the boards of directors of several corporations, including MAAX Inc. and Canadian Life and Health Insurance Ombudservice

James S. Hinds

Member, Audit Committee, Human Resources and Compensation Committee, Premises Committee, and Pension Trust Funds

Lawyer

- Partner, Hinds and Sinclair

J. Spencer Lanthier

Chair, Audit Committee and Advisory Group on Currency, and member, Executive Committee and Corporate Governance Committee

Chartered Accountant

- Vice-Chair and Board Member, TSX Group Inc.
- Member, Board of Directors, Gerdau AmeriSteel Inc.
- Member, Board of Directors, Ellis-Don Inc.
- Member, Board of Directors, Bruce Power Inc.
- Member, Board of Directors, Intertape Polymer Group Inc.
- Member, Board of Directors, The Canada Life Assurance Company and Canada Life Financial Corporation
- Member, Board of Directors, TorStar Corporation

Winston Baker

Member, Audit Committee and Human Resources and Compensation Committee

Former educator and politician

- President, WB Holdings Ltd.

Kit Chan

Chair, Premises Committee, and member, Human Resources and Compensation Committee and Advisory Group on Currency

- Principal, KBC Enterprises Ltd.
- Co-Chair, 2003 United Way Campaign for United Way of Calgary and Area
- Director and Corporate Secretary of ACT Cinemage Group Ltd.
- Partner, Canada Education Inc.
- Partner, Good Earth Art

Walter Dubowec

Member, Human Resources and Compensation Committee and Premises Committee

Chartered Accountant

- Former Office Managing Partner, Deloitte & Touche LLP
- Chairman and President, The Joe Brain Foundation Inc. and its subsidiary, J.M.B. Canadian Explorations Ltd.
- Treasurer, Foundation for Health Inc.
- Director, Manitoba Medical College Foundation
- Director and Treasurer, The Antonia Kotowich Foundation Inc.
- Member, The Associates, Asper School of Business
- Member and Advisor, Saint John's Haven Inc.
- Member of the Canadian Club of Winnipeg
- Lay member of the Financial Council of the Ukrainian Catholic Archeparchy of Winnipeg

Daniel F. Gallivan

Member, Audit Committee, Premises Committee, and Advisory Group on Currency

Lawyer

- Partner, Cox Hanson O'Reilly Matheson
- Director, Ombudsman for Banking Services and Investments
- Director, ASCO Canada Ltd. and ASCO (K&D) Ltd.
- Secretary, NovaScotian Crystal Limited
- Director, Nova Scotia Sports Hall of Fame

Barbara Hislop

Member, Executive Committee, Corporate Governance Committee, and Human Resources and Compensation Committee

- Officer, Canfor Corporation
- President and CEO, Genus Resource Management Technologies Inc.
- Director, Forintek Canada Corporation
- Director, Hudson's Bay Company
- Director, Vancouver Board of Trade

Aldéa Landry

Chair, Planning and Budget Committee and Nominating Committee (Fellowship Program), and member, Executive Committee and Corporate Governance Committee

Lawyer

- President, Landal Inc.
- President, J.F.L. Arbitration Services Inc.
- Director, The Shaw Group of Halifax
- Chair, TVA National Advisory Group (National Television Network)
- Vice-Chair, Atlantic Venture Network Group
- Director, Beauséjour Medical Research Institute
- Member, Atlantic Provinces Economic Council
- Member of the Board, YMCA

Barbara Stevenson

Chair, Human Resources and Compensation Committee, and member, Audit Committee

Lawyer

- Partner, Carr, Stevenson & MacKay
- Director, CSM Holdings Company Ltd.
- Director, Island Home & Mortgage Services Ltd.
- First Vice-President, Heart and Stroke Foundation of Prince Edward Island

Kevin Lynch

Deputy Minister of Finance

(Ex officio)

- Member, Executive Committee

area of succession planning. Other initiatives of interest to the Board included the enhancement of research and analytical capabilities over the medium term and a review of the Bank’s pension plan.

The Board’s broad oversight responsibility includes monitoring the effectiveness of the process by which monetary policy is conducted, including the standards applied in gathering information, the quality of the staff, and the analysis they provide. To gain an independent, expert perspective on the Bank’s work, the Board met in private sessions with representatives of the International Monetary Fund and with Special Adviser, John Chant, an academic who worked with the Bank’s management team for a one-year period ending in July 2002.

Board Governance Practices

The Board continually monitors best governance practices appropriate to the Bank. After reviewing the Saucier report, *Beyond Compliance: Building a Governance Culture*, the Board made minor changes to the responsibilities of the Lead Director. Following this review, the Board was reassured that its current governance practices were in line with the best practices reflected in the report.

The Board has six standing committees and one advisory group to deal with the issues brought to it for consultation or decision:

- Executive Committee
- Corporate Governance Committee
- Human Resources and Compensation Committee
- Audit Committee
- Planning and Budget Committee
- Premises Committee
- Advisory Group on Currency

The Lead Director and the Chair of the Human Resources and Compensation Committee meet annually with the Governor and Senior Deputy Governor to review their performance and to discuss objectives for the coming year. The Corporate Governance Committee and the Board as a whole also contribute to the annual performance evaluations of the Deputy Governors, the General Counsel/Corporate Secretary, and the Chief Administrative Officer.

To ensure that the Board can operate independently of management, the Lead Director chairs private sessions of outside Directors at the conclusion of each Board meeting. In 2002, the Board continued the annual practice of evaluating its stewardship to ensure that best practices of corporate governance have been followed.

Directors are paid according to a fee structure recommended by the government and approved by Order-in-Council. For 2002, the total remuneration to outside Directors was \$260,400.

Governing Council

The Governor, the Senior Deputy Governor, and four Deputy Governors sit on the Governing Council, which takes responsibility for monetary policy and decisions concerning financial systems. The Council operates on a consensus basis when reaching policy decisions on the setting of the target for the overnight interest rate. These decisions are normally announced on eight scheduled dates each year.

GOVERNING COUNCIL (From left to right) ›

<p>PIERRE DUGUAY Deputy Governor Domestic economic issues/Bank notes</p>	<p>SHERYL KENNEDY Deputy Governor Financial markets</p>	<p>CHARLES FREEDMAN Deputy Governor Financial institutions/ Clearing and settlement systems</p>
<p>PAUL JENKINS Deputy Governor International economic and financial issues/ Public communications</p>	<p>MALCOLM KNIGHT Senior Deputy Governor Chief Operating Officer</p>	<p>DAVID DODGE Governor Chairman of the Board of Directors</p>





Executive Management Committee (left to right): Standing: Mark Jewett, Malcolm Knight, Sheryl Kennedy, Dan MacDonald, David Dodge, Paul Jenkins. Seated: Charles Freedman, Janet Cosier, Pierre Duguay, Gerry Gaetz

Executive Management Committee

The Executive Management Committee ensures that matters related to strategic direction and management receive close attention at the executive level. This Committee also supports a delegated and coordinated approach to decision-making. The Executive Management Committee includes the members of the Governing Council, the General Counsel/Corporate Secretary, the Chief Administrative Officer, the Adviser on Strategic Planning and Risk Management, and the Chief of the Corporate Services Department.

The Bank's operations are organized into ten departments. Department chiefs are responsible for the operations in their own areas and

for ensuring that the policies and priorities of the Bank are implemented. Each department chief has an agreement with a member of the Executive Management Committee that outlines the department's overall objectives and financial authority for the coming year.

Management Forum

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

BANK OF CANADA



REGIONAL OFFICES

VANCOUVER



CALGARY



OTTAWA
HEAD OFFICE

MONTRÉAL

HALIFAX

TORONTO



Regional Representatives

The Bank's regional offices strengthen its ties with industry, government, educational institutions, and other organizations and associations across the country. They make an important contribution to the Bank's understanding of financial markets and regional economic developments and to promoting awareness of bank note security features. Representatives in the Toronto and Montréal offices consult regularly with financial market participants across the country. In 2002, the Bank established a post in New York to enhance communication with the financial community there.

