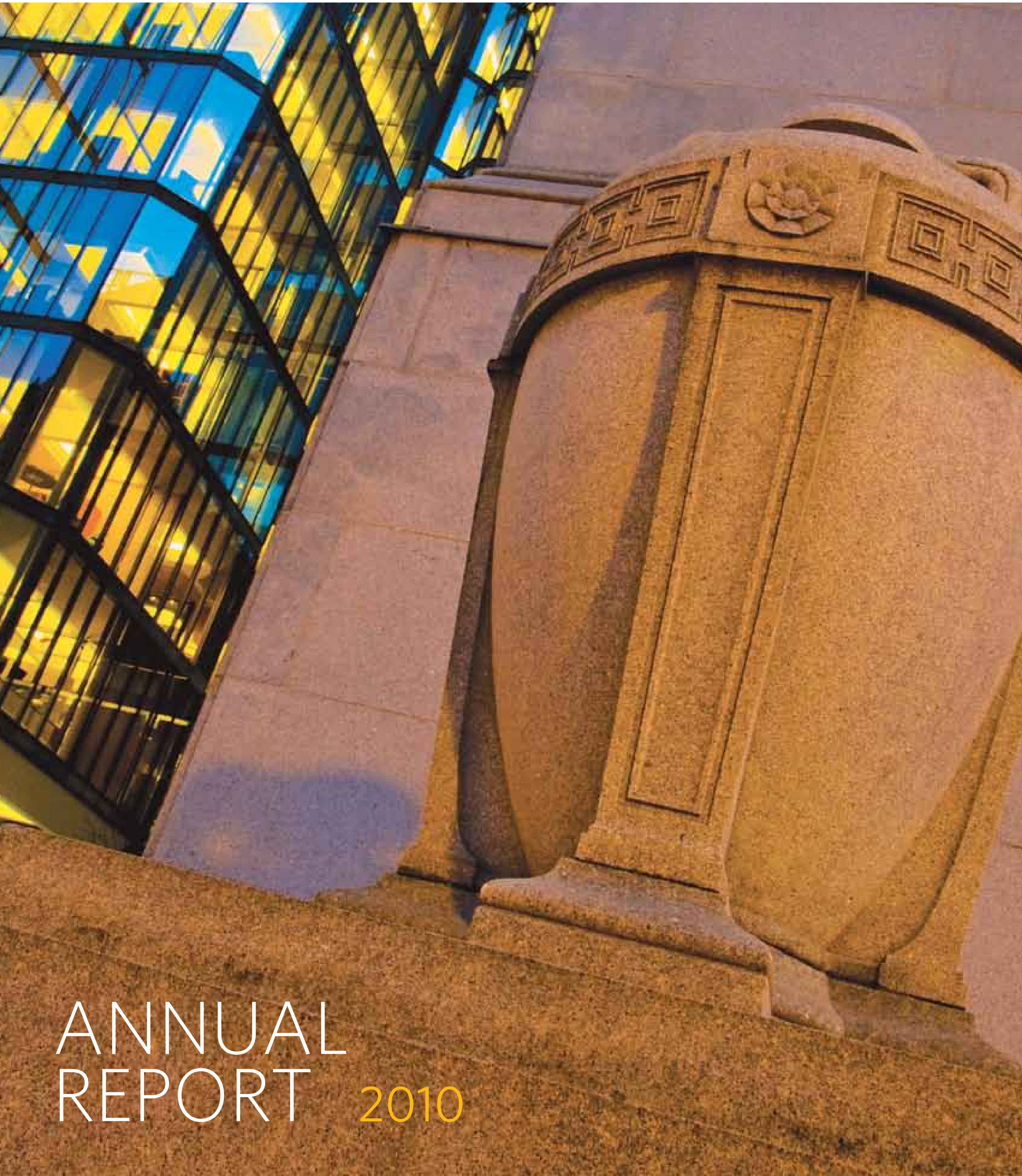
BANK OF CANADA
BANQUE DU CANADA



ANNUAL REPORT 2010

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BANK OF CANADA
BANQUE DU CANADA

Mark Carney
Governor – Gouverneur

28 February 2011

The Honourable James M. Flaherty, PC, MP
Minister of Finance
140 O'Connor Street
21st Floor
Ottawa, Ontario
K1A 0G5

Dear Minister,

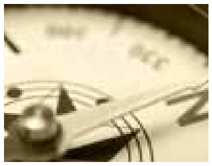
In accordance with the provisions of the Bank of Canada Act, I am submitting the Bank of Canada's *Annual Report* for the year 2010 and the Bank's audited financial statements as at 31 December 2010.

Yours sincerely,

Celebrating 75 years

The Bank of Canada was established in 1935 during the Great Depression. In 2010, the Bank celebrated its 75th anniversary.

For 75 years, against a backdrop of enormous change, the Bank has remained steadfast in working to promote the economic and financial welfare of Canadians.



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
- promote the safety and efficiency of Canada's financial system
- supply quality bank notes that are readily accepted and secure against counterfeiting
- 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 talents and careers
- recognize those who live up to our commitments
- respect one another and our lives outside work

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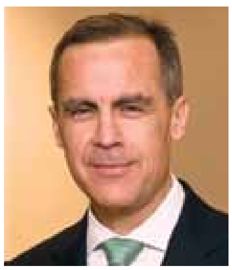
Message from the Governor



In the Depression years of the early 1930s, on discovering that Canada could not directly settle its own international balances, Prime Minister R. B. Bennett decided "that this country was going to have a central bank because there must be some financial institution that can, with authority, do business for the whole of the Dominion with other nations of the world."

Bennett's wish became a reality in 1935, when the Bank of Canada began operations. In the seven and a half decades since—against a backdrop of tremendous change—the Bank has worked hard to fulfill its mandate "to promote the economic and financial welfare of Canada."

Because Canada is a small, open economy subject to immense and sometimes volatile global forces, the Bank has often had to be nimble. All of our actions, however quick, are grounded in rigorous analysis and guided by principles-based policy frameworks. Whether in pioneering the adoption of a floating exchange rate, making price stability the goal for monetary policy in the 1980s, introducing an inflation target in the early 1990s, or, more recently, developing a comprehensive framework for the conduct of unconventional monetary policy during the financial crisis, the Bank has always been guided by robust, evidence-based policy frameworks.

This commitment has helped the Bank to meet our mandate in good times and bad. It is manifest in our actions to achieve low, stable and predictable inflation and to support a stable and efficient financial system. It guides us when we respond to shocks, and when we carry out the longer-term work that lays the foundation for future prosperity. And it has underpinned some recent achievements.

In response to the sharp, synchronous global recession, the Bank lowered the policy interest rate rapidly over the course of 2008 and early 2009 to its lowest possible level. We almost doubled our balance sheet to provide the financial sector with exceptional liquidity. With our commitment, conditional on the outlook for inflation, to keep the policy interest rate at an extremely low level until the end of the second quarter of 2010, we provided exceptional guidance on the likely path of the policy rate. These measures provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the Canadian economy.

During 2010, Canada's economic recovery became firmly entrenched. The economy grew by 3.1 per cent, and nearly 300,000 jobs were created. With the initial rapid narrowing of the output gap, the return of employment toward its pre-crisis peak, the highly effective transmission of monetary policy in Canada and the sustained momentum in household borrowing, the need for emergency monetary policies passed. Consequently, the Bank unwound the last of its exceptional liquidity measures, removed the conditional commitment and raised the target for the overnight rate by 75 basis points to 1 per cent.

Despite the challenging backdrop, total CPI inflation averaged 1.8 per cent, close to the 2 per cent target. Inflation expectations remained well anchored, and Canadians could make financial decisions with confidence.

The first of the three priorities in the Bank's 2010–12 medium-term plan is to conduct the leading research and policy analysis required to respond to increasingly complex changes in the economy and financial system. Effective research supported our efforts in several key areas over the past year.

The Bank continued to play an important role in efforts to strengthen the global financial system. For example, working with the Office of the Superintendent of Financial Institutions, the Bank was at the centre of the development of the new Basel standards for bank capital and liquidity. The final package will make the global system more Canadian, with higher levels and better quality of capital and a new leverage ratio. The system will also include important Canadian innovations such as contingent capital and counter-cyclical buffers. The stakes are high: the Bank estimates that the net economic benefit for Canada from improving the safety and robustness of the Canadian and international financial systems approaches $200 billion—equivalent to about 13 per cent of Canada's GDP.

Domestically, in support of G-20 commitments, the Bank helped to enhance financial system infrastructure. In particular, it is working closely with the public and private sectors to develop a central counterparty for Canadian repo markets and is devoting considerable resources to the redesign of over-the-counter derivatives markets. These initiatives will help ensure that core markets operate continuously, even in times of stress.

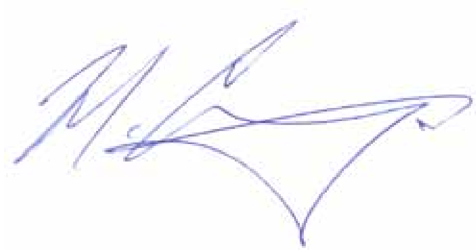
During 2010, research continued on Canada's inflation-targeting framework in preparation for the 2011 renewal of the joint agreement on inflation control between the Government of Canada and the Bank. Research on the financial system helped to identify the indicators that might be used to inform the operation of macroprudential instruments such as counter-cyclical buffers. The Bank strengthened its framework for managing the federal government's debt by enhancing its modelling and debt-structure metrics. The Bank also conducted important research in its currency function in 2010—research that is helping us to design and develop the country's next generation of bank notes. The new series, to be introduced in 2011, will be printed on a polymer material—a first for Canada—and will employ world-leading security features aimed at further reducing counterfeiting.

The Bank's second medium-term priority is to strengthen the resilience of our critical operations. In 2010, the Bank split its payment and settlement operations across two physical locations, a significant advance in ensuring that, even if problems are experienced at one location, the Bank can still fulfill its central role in these critical systems.

The third medium-term priority is to attract, retain and engage talented staff. In 2010, the Bank renewed its total compensation framework, strengthened its recruitment processes and made significant strides in improving the effectiveness of its corporate administration. I was very pleased that, in 2010, the Bank was named a "Top 100" employer in Canada. The designation helps to publicize what staff already know—that the Bank not only plays a central role in the economic well-being of the country, but also is a great place to work.

The Bank is also working to update its publishing and communication practices. To that end, this annual report marks a departure from its predecessors. It is more concise and designed for easy navigation on the web. Additional information on many topics covered in this report can be found by following the links embedded in the text.

I will conclude by recalling the words of Governor Graham Towers, who emphasized in the Bank's first annual report that "any central bank worthy of the name cannot but be of vital importance in the economic life of the country." I am pleased to report that the Bank has lived up to that expectation over the past year, as it has throughout its long history.



Mark Carney

Governor

The Year at a Glance

- The economic recovery in Canada became more firmly entrenched in 2010, with aggregate output surpassing its pre-recession level.
- The Bank effected a smooth and orderly exit from the extraordinary monetary policy measures and the exceptional provision of liquidity to the financial system that were introduced during the crisis.
- Despite challenging economic conditions, total CPI inflation averaged 1.8 per cent in 2010, very close to the 2 per cent target.
- Significant progress was made in the Bank's multi-year research program to examine possible improvements to its monetary policy framework in preparation for the 2011 renewal of the inflation-control agreement with the federal government.
- Internationally, the Bank played an important role in promoting the G-20 agenda for strong, sustainable and balanced growth, as well as reform of the international monetary system, and participated actively in various forums to strengthen the resilience of the global financial system—contributing in particular to the new international standards for bank capital and liquidity.
- The Bank was also engaged domestically in implementing Canada's commitments under the G-20 agenda for reform of the international financial system, most notably, the development of financial system infrastructure.
- Confidence in bank notes remained high, and concerted efforts helped to drive the level of counterfeiting to well below the target of 50 parts per million.
- All milestones were reached in preparation for the issuance of the next generation of bank notes, which will be more secure, last longer and have a reduced environmental impact.
- The business resilience of the Bank's funds-management operations was strengthened by implementing split operations for payment and settlement activities.
- The Bank celebrated its 75th anniversary.

The Bank in 2010

The Bank of Canada's Mandate

The Bank of Canada Act describes the Bank's legislative framework and sets out the governance of the Bank, as well as its mandate to "promote the economic and financial welfare of Canada."

The Bank strives to meet its mandate through its work in four core areas of responsibility:

Monetary policy. The Bank contributes to solid economic performance and rising living standards for Canadians by keeping inflation low, stable and predictable. Since 1991, the Bank's monetary policy actions toward this goal have been guided by a clearly defined inflation target.

Financial system. The Bank promotes a stable and efficient financial system in Canada and internationally. To this end, the Bank oversees Canada's key payment, clearing and settlement systems; acts as lender of last resort; assesses risks to financial stability; and contributes to the development of financial system policies.

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

Funds management. The Bank provides effective and efficient funds-management services for the Government of Canada, as well as on its own behalf and for other clients. For the government, the Bank provides treasury-management services and administers and advises on the public debt and foreign exchange reserves. In addition, the Bank provides banking services to critical payment, clearing and settlement systems.

The Medium-Term Plan

To meet its mandate in a changing environment, the Bank develops a medium-term plan every three years. The current plan, *Achieving Excellence Together*, sets priorities for the 2010–12 period (available on the Bank's website: About the Bank>Management and corporate governance).

The plan sets out the key priorities for each of the Bank's four main functions: monetary policy, financial system, currency and funds management. At the corporate level, the plan also identifies three main priorities for 2010–12:

(i) **Conducting leading research and policy analysis**. To improve its capacity to respond to increasingly complex challenges in the economy and the financial system, the Bank conducts research and analysis to enhance its policy frameworks and strengthen its contributions to international discussions of economic and financial policy issues. Important areas of focus in 2010–11 are to complete the Bank's research agenda on inflation targeting and the monetary policy framework, and to continue research on and analysis of issues concerning system-wide financial stability.

(ii) **Strengthening business resilience and infrastructure**. The Bank must be able to carry out its critical business functions without interruption, even during disruptions such as power outages and pandemic alerts. To that end, the Bank will continue to increase the resilience and robustness of its business-continuity arrangements, notably by implementing “split operations” and pursuing plans to house the Bank’s primary and secondary data centres. The Bank is also renewing its infrastructure by updating key elements of its head office complex and by refining its information technology strategy.

(iii) **Attracting, retaining and engaging quality staff**. In response to demographic trends, an increased need for specialized skills and changing labour markets, the Bank is focused on attracting, retaining and engaging staff. The Bank has renewed its total compensation strategy and is strengthening its talent-acquisition and career-development programs, promoting leadership effectiveness, improving the management of information, and refining its succession-planning strategy.

In 2010, the Bank launched a Corporate Effectiveness Program. The program is designed to ensure that the Bank can achieve its priorities while being consistent with federal guidelines to contain expenditures and hold operational spending at 2010 levels through 2012. Further information on this program can be found in the Corporate Capabilities section of this report (page 22), as well as in the Discussion of Financial Results (page 25).

The following section summarizes key achievements in 2010 in each of the Bank’s four main functions.

Key Achievements

Monetary Policy

Experience has shown that the most important contribution that monetary policy can make to the economic welfare of Canadians is to keep inflation low, stable and predictable. Since 1991, the Bank’s monetary policy actions toward this objective have been guided by a clearly defined inflation-control target, established jointly with the Government of Canada. The current target, to be renewed in 2011, is 2 per cent, the midpoint of a 1 to 3 per cent inflation-control range.

Monetary policy decisions must be forward looking. They rely importantly on the current analysis, forecasting and research activities of the Bank’s economists, as well as on information drawn from external sources. In normal times, monetary policy is implemented through changes to the Bank’s target for the overnight interest rate, which are in turn transmitted to interest rates on other, longer-term instruments, as well as the exchange rate.

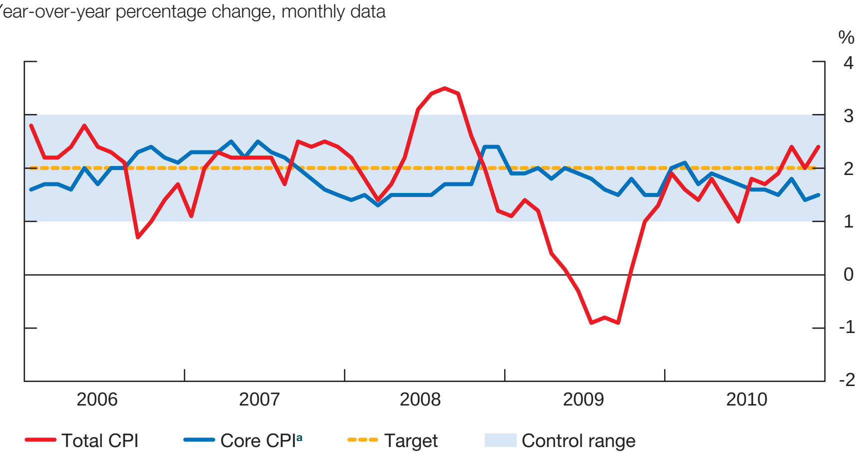
However, the recent financial crisis and ensuing severe recession required an exceptional monetary policy response. In April 2009, the Bank decided to use, for the first time, an unconventional tool to reinforce the significant stimulus that it had already provided by lowering the overnight interest rate to its effective lower bound of 0.25 per cent. The unconventional tool was a commitment on the Bank’s part to keep the overnight rate at the effective lower bound until the end of the second quarter of 2010, conditional on the outlook for inflation and the need to achieve the 2 per cent target for inflation.

With definite signs that economic growth was returning by early 2010, the main monetary policy challenge facing the Bank was to unwind these extraordinary measures in a timely and orderly manner, while supporting the nascent recovery.

Key Achievements in 2010

- Canada's economic recovery became more firmly entrenched in 2010, with growth in real GDP taking aggregate output beyond its pre-recession level by the third quarter.
- Despite the challenging domestic and international environment, inflation expectations remained well anchored, and total CPI inflation stayed close to 2 per cent through most of the year, after rebounding sharply from a level well below the target (Chart 1).
- The Bank executed a smooth and timely exit from the extraordinary monetary policy measures that it had undertaken in response to the crisis (see Box 1, page 13).
- The Bank played an important role in international forums such as the G-7 and the G-20, helping to promote strong, sustainable and balanced global economic growth, as well as reform of the international monetary system.
- In preparation for the 2011 renewal of the inflation-control agreement with the Government of Canada, the Bank focused its research on three key questions: (i) whether the 2 per cent inflation target should be lowered; (ii) whether a price-level target should be adopted in place of the inflation target; and (iii) whether the monetary policy framework should be modified to give greater recognition to financial-stability concerns. As part of this process, the Bank hosted a workshop and conference to share the results of its research with academics and policy-makers.

Chart 1: On Average, Total and Core Inflation Remained Close to the 2 Per Cent Target during 2010
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

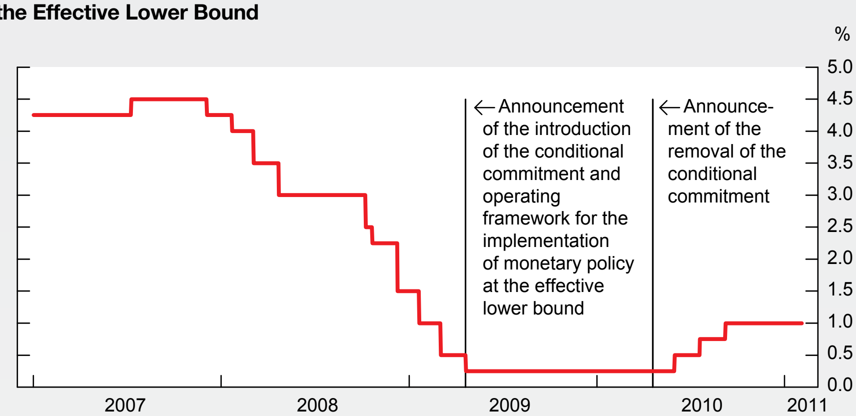
Source: Statistics Canada

Last observation: December 2010

Box 1: Exiting from Extraordinary Monetary Policy Measures

- In 2009, the Bank lowered the target overnight rate to 0.25 per cent—its effective lower bound—and introduced a framework for providing additional stimulus to the economy, if needed, using one or more of the unconventional policy instruments at the Bank's disposal. (See the April 2009 issue of the *Monetary Policy Report* for details on the framework.) As part of its aggressive response to the crisis, the Bank also provided extraordinary liquidity support to the financial system through 2007–10 (see Box 2, "Bank of Canada Liquidity Facilities and Liquidity Provision in 2010," page 15).
- Ultimately, only one unconventional monetary policy measure was used—a commitment to keep the target for the overnight rate at 0.25 per cent until the end of the second quarter of 2010, conditional on the outlook for inflation and the need to achieve the 2 per cent inflation target.
- Responding to the improved economic outlook, the Bank removed its conditional commitment on 20 April 2010 and raised the policy interest rate from the effective lower bound on 1 June 2010, thereby re-establishing the standard operating framework for implementing monetary policy (see chart below). Bank of Canada research[1] suggests that the conditional commitment was effective in reducing longer-term market interest rates, thus providing additional stimulus to the Canadian economy at a critical time.

In 2010, the Bank of Canada Raised the Target Overnight Rate to 1 Per Cent from the Effective Lower Bound



Source: Bank of Canada

Last observation: 3 February 2011

1. See Z. He, "Evaluating the Effect of the Bank of Canada's Conditional Commitment Policy," Discussion Paper No. 2010-11, Bank of Canada, 2010.

The Bank of Canada's Fellowship Program

The Bank of Canada's Fellowship Program helps to foster excellence in research and analysis and to develop partnerships with experts outside the Bank in areas important to its mandate. Through this program, two research awards are available for academics working at Canadian universities.

The **Fellowship Award** is designed to recognize established researchers in Canada and is granted for a five-year term. In 2010, the recipient of this award was Professor Paul Beaudry of the University of British Columbia. Professor Beaudry's current research focuses on income distribution and the business cycle, as well as job creation and debt-fuelled expansion and financial crises.

The **Governor's Award** recognizes outstanding academics at a relatively early stage in their careers and is granted for a two-year period. The 2010 recipient of the Governor's Award was Professor Federico Ravenna of HEC Montréal. Professor Ravenna's current research focuses on labour markets and optimal monetary policy.

Additional details about the Fellowship Program, as well as a list of previous recipients of Fellowship and Governor's awards, can be found on the Bank's website (Publications and Research>Research>Fellowship Program).

Financial System

A sound financial system is essential to a well-functioning economy.

The Bank promotes the stability and efficiency of the Canadian financial system by providing liquidity; overseeing key domestic payment, clearing and settlement systems; participating in the development of financial system policies in Canada and globally; and assessing risks to the overall stability of the financial system. The Bank shares responsibility for the stability of the financial system with other federal financial regulatory authorities. Ultimately, the Minister of Finance is responsible for the sound stewardship of the financial system.

In 2010, the major challenges were: (i) to ensure that international regulatory reforms proceeded on a sound basis; (ii) to strengthen the resilience of Canada's financial infrastructure; and (iii) to assess the evolution of risks to the stability of the financial system in light of changing economic and financial conditions.

Key Achievements in 2010

- During the first half of the year, the exceptional liquidity support that had been provided to the Canadian financial system in response to the financial crisis was phased out and monetary policy operations were normalized (Box 2). The Bank took the opportunity to reassess its framework for liquidity provision, making adjustments to its collateral policies.[1]

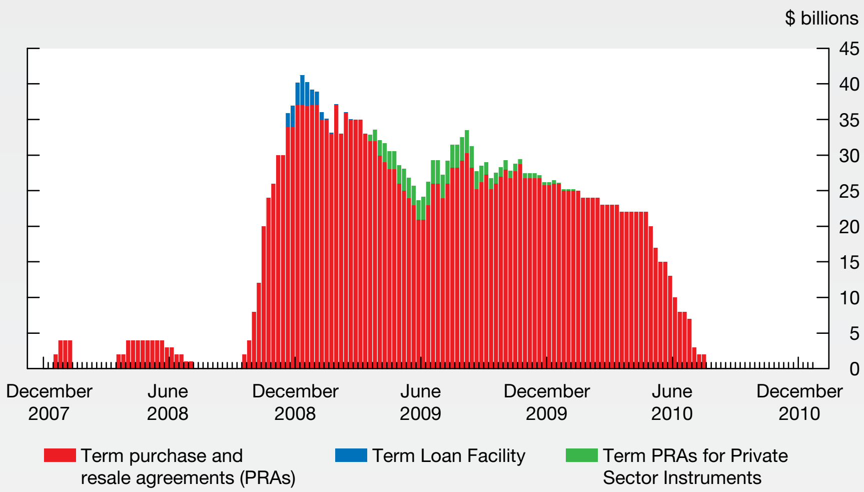
1. See Bank of Canada press releases: "Changes to Eligible Securities and Margin Requirements for the Bank of Canada's Standing Liquidity Facility," 17 June 2010; and "Changes to Requirements for Assets Accepted as Collateral under the Bank of Canada's Standing Liquidity Facility," 16 July 2010. Available on the Bank's website under Markets>Market Notices.

Box 2: Bank of Canada Liquidity Facilities and Liquidity Provision in 2010

During the financial crisis, the Bank's liquidity facilities played an important role in supporting the efficient functioning of the Canadian financial system (see chart below). As funding conditions continued to improve in 2010, the Bank reduced and eventually ended its extraordinary liquidity support. Effective 19 January 2010, the frequency of regular term purchase and resale agreement (PRA) operations was reduced to a monthly basis (from a biweekly basis as of November 2009), and the list of acceptable collateral was returned to the traditional set.

In addition to providing liquidity support to ease tensions in funding markets, the term PRA facility had been used for monetary policy purposes since 21 April 2009 to reinforce the Bank's commitment to keep the target overnight rate at 25 basis points until the end of the second quarter of 2010, conditional on the outlook for inflation. On 20 April 2010, in conjunction with the termination of the conditional commitment, the Bank announced the end of the extraordinary term PRA operations, the final operation having been conducted on 12 April. The value outstanding under the facility decreased through the first six months of the year and fell to zero on 22 July 2010.

Weekly Par Value Outstanding at Bank of Canada Liquidity Facilities



Source: Bank of Canada

Last observation: 3 February 2011

- The Bank also reassessed its facilities for conducting market operations and developed plans to modernize them. Once implemented, these improvements will strengthen the Bank's ability to undertake market operations in response to a broader range of needs and conditions.
- Internationally, the Bank contributed effectively to discussions of policy reforms aimed at enhancing global financial stability—discussions that were organized by the G-20, the Financial Stability Board, the Committee on the Global Financial System, the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, and related working groups. In particular, international agreement was reached on new standards for bank capital and liquidity, with important contributions by the Bank on counter-cyclical capital buffers and analysis of the macroeconomic consequences of these new standards

(Box 3). Other significant contributions were made to international initiatives examining the systemic implications of margin requirements and policies to mitigate moral hazard and address the "too big to fail" problem. Within Canada, the Bank participated actively in discussions on financial system policies.

Box 3: Impact of Stronger International Capital and Liquidity Requirements on the Canadian Economy

In August 2010, the Bank published its assessment of the impact on Canada of the proposed international standards for capital and liquidity. The Bank estimated that the benefits to Canada associated with a reduction in the frequency and severity of financial crises at the global level, net of the costs to the economy of higher interest rate spreads associated with the more stringent standards, were about 13 per cent of GDP in present-value terms. The report, "Strengthening International Capital and Liquidity Standards: A Macroeconomic Impact Assessment for Canada," is available on the Bank's website (see Publications and Research>Press Releases, 18 August 2010).

- The development and strengthening of core financial market infrastructure intensified in late 2010. Progress was made toward introducing central counterparties for repurchase agreements (repos) and over-the-counter (OTC) derivatives, as well as same-day settlement for Canadian-dollar foreign exchange transactions at CLS Bank. (For more information, see "Strengthening the Infrastructure of Over-the-Counter Derivatives Markets" and "Central Counterparties and Systemic Risk" in the December 2010 *Financial System Review*, available on the Bank's website.)
- The Bank gave greater prominence to its assessment of the risks to the Canadian financial system, judging the overall level of risk to be elevated. The risk assessment in the Bank's semi-annual *Financial System Review* was sharpened and reinforced by speeches and other publications.
- The Bank's work on the financial system continued to be supported by extensive research, current analysis and policy analysis.

Currency

The Bank is responsible for supplying Canadians with bank notes that they can use with confidence. To maintain confidence in bank notes, the Bank has developed a four-part strategy: (i) developing bank notes that are difficult to counterfeit; (ii) increasing the routine verification of bank notes by retailers; (iii) promoting the deterrence of counterfeiting by law-enforcement agencies and prosecutors; and (iv) ensuring a focus on quality throughout the life cycle of a bank note—from production to efficient distribution to the withdrawal of worn and obsolete notes for destruction and replacement.

For the 2010–12 medium-term period, the Bank has set a target of 50 counterfeits detected annually for each million genuine bank notes in circulation—a more ambitious goal than the previous target of fewer than 100 counterfeits per million genuine notes.

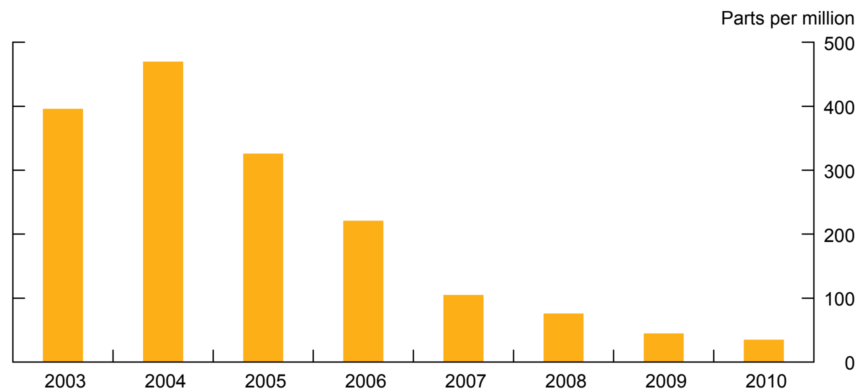
The demand for bank notes continued to rise in 2010, roughly in line with the growth of the economy. At year-end, there were 1.9 billion bank notes in circulation, an increase of 44 million over 2009. The total value of these bank notes was $57.9 billion, an increase of $2.4 billion over 2009.

In 2010, a key priority for the Currency function was to move forward with preparations for issuing the next generation of bank notes, starting in 2011. As part of its ongoing efforts to deter counterfeiting, the Bank periodically issues a new series of bank notes, and the innovative security features incorporated in the new notes will mark a significant advance in this respect.

Key Achievements in 2010

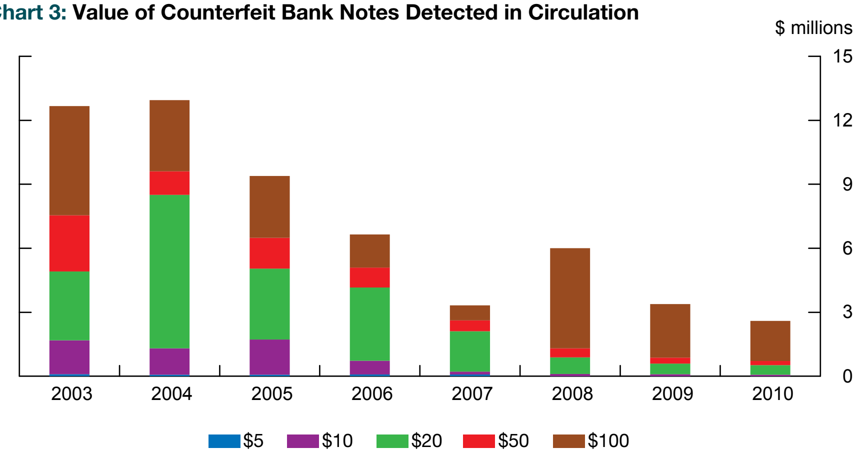
- The number of counterfeits detected for each million notes in circulation continued to decline, from 45 parts per million in 2009 to 35 parts per million in 2010—well below the target (Chart 2). The face value of counterfeits detected decreased from $3.4 million in 2009 to $2.6 million in 2010 (Chart 3).

Chart 2: Number of Counterfeit Bank Notes Detected Per Million Notes in Circulation[a]



a. Medium-term plan target for 2010–12: 50 ppm

Chart 3: Value of Counterfeit Bank Notes Detected in Circulation



- Confidence in bank notes, as measured by surveys of retailers and analysis of media coverage, remained strong.
- Milestones were met in preparing for the next generation of bank notes, which the Bank will begin issuing in 2011. These milestones included the launch of a project to update infrastructure at the Bank's operations centres, print trials to test the new technology incorporated in the notes and the completion of a communications plan.

- The Bank Note Distribution System (BNDS) operated smoothly throughout the year. A review of the BNDS was completed, and a pilot project was implemented to improve the monitoring of the quality of bank notes in circulation.
- The Bank continued its research into the role of bank notes as a means of payment, both to understand how the use of bank notes is changing and to assess the possible impact of new methods of payment, such as prepaid cards and mobile phone payment systems.

International Collaboration Supports the Canadian Bank Note System

Although most countries issue their own bank notes, many central banks pool their resources and compare experiences to better understand threats, develop or evaluate means of protecting their bank notes, and ensure that their investments in bank notes are as effective as possible. The Bank of Canada plays a leading role in a number of international organizations, such as:

- the **Central Bank Counterfeit Deterrence Group**, a group of 31 currency issuers that has worked to prevent the use of personal computers to counterfeit bank notes;
- the **Four Nations Group** (Australia, Canada, England and Mexico), a partnership to exchange information on counterfeiting threats and to collaborate on the research and development of security features for bank notes; and
- the **International Users Group** of countries that use a common platform for the high-speed processing and authentication of bank notes.

In addition, the Bank has a number of important bilateral relationships with individual central banks and shares the results of its technical, policy and economics research with its peers at conferences and meetings for central banks and the bank note industry.

Funds Management

As the federal government's fiscal agent and banker, the Bank administers and advises on the federal government's debt and reserves. The Bank also works with the Department of Finance to develop the principles, policies and programs to manage the federal government's borrowing and investment programs. The Bank's goal is to provide fiscal-agent and related banking services effectively and efficiently within a strong risk-management framework. In 2010, Government of Canada cash balances held at the Bank of Canada and with other financial institutions averaged $13.5 billion, compared with $30.1 billion in 2009, with the decrease primarily due to the unwinding of special liquidity facilities (see Box 2, "Bank of Canada Liquidity Facilities and Liquidity Provision in 2010," page 15). Total official international reserves of the Government of Canada were US$57 billion in 2010, compared with US$54 billion in 2009. The Bank acts as the government's agent in the management of these reserves, which are not held on the Bank's balance sheet.

The Bank also manages the risks associated with its own balance sheet, and manages and administers the assets held by its pension fund. In addition, the Bank undertakes banking activities on behalf of other central banks and international organizations, and provides banking services to financial institutions and designated payment, clearing and settlement systems.

In 2010, the main challenges were to complete the research and analysis required to establish a new medium-term borrowing strategy for the government, enhance the resilience of the Bank's payment and settlement operations, and actively manage the financial risks associated with the government's foreign exchange reserves during a period of heightened global economic uncertainty.

Key Achievements in 2010

- The Bank successfully split its payment and settlement operations between two physical locations. As a result, if problems are experienced in one location, transactions can be processed at the other, thus ensuring that the Bank can fulfill its key role in these critical systems.
- The framework for assessing the trade-off between cost and risk in the federal government's debt-management decisions was enhanced by improving the Bank's debt-modelling capabilities and the associated debt-structure metrics.
- The excellence of Canada's management of the federal debt was recognized when Canada's 10-year euro-denominated bond issue was named "Sovereign Deal of the Year" by *International Financing Review* and "Overall Bond Deal of the Year" by *EuroWeek*.
- Efficiency initiatives reduced the costs of administering the Canada Savings Bond program by $2 million.
- In the Bank's ongoing work to enhance the management of government assets, there were three achievements of note: (i) the analytic framework for evaluating sovereign credit risk was strengthened; (ii) work was undertaken to further refine the investment framework for Canada's foreign exchange reserves; and (iii) improvements were made to the federal government's framework for investing in liquid financial assets.

Unclaimed Balances

When a Canadian bank account has been inactive for 10 years, and the relevant financial institution has been unable to contact the owner, the assets of the account are transferred to the Bank of Canada.

If you think that you (or someone you know, living or deceased) may have money in a forgotten account, you can go to the Bank of Canada's website, type in "unclaimed balances," and use the tool provided to see whether such an account exists. The Bank is currently the custodian of more than 1,000,000 of these accounts, which have a total value of about $430 million.

Owners of these accounts can claim their money if they can provide proof of ownership. In 2010, the Bank released more than $12.7 million of this money to the rightful owners.

Corporate Capabilities

The Bank's ability to meet its mandated responsibilities is underpinned by the effectiveness of its corporate governance and the talents of its staff.

Organizational Structure

- Under the Bank of Canada Act, the Governor is both Chief Executive Officer of the Bank and Chair of the Board of Directors.
- The Board of Directors oversees the management and administration of the Bank, especially with respect to strategic planning and risk management, finance and accounting, human resources, and other internal policies. Further information on the Board is available on pages 61–64 of this report, as well as on the Bank's website (see About the Bank>Management and corporate governance).
- The Governing Council is the Bank's policy-making body. It consists of the Governor, the Senior Deputy Governor and four Deputy Governors and is responsible for monetary policy, decisions aimed at promoting a sound and stable financial system, and the strategic direction of the Bank. In 2010, three new members joined the Governing Council. Tiff Macklem was appointed Senior Deputy Governor and Chief Operating Officer of the Bank for a seven-year term, following the retirement of Senior Deputy Governor Paul Jenkins. The appointments of Deputy Governors Jean Boivin and Agathe Côté filled vacancies created by the retirements of Deputy Governors David Longworth and Pierre Duguay.

Governing Council (*left to right*): Tiff Macklem, Senior Deputy Governor; Agathe Côté, Deputy Governor; Timothy Lane, Deputy Governor; Mark Carney, Governor; John Murray, Deputy Governor; Jean Boivin, Deputy Governor

- The Management Council provides leadership and guidance on strategic management issues and corporate policies, as well as oversight of all Bank operations. Chaired by the Senior Deputy Governor, the Council consists of two Deputy Governors, two Advisers, the General Counsel and Corporate Secretary, and the Chief of Financial Services, who is also the Chief Accountant.
- The Bank is organized into 12 departments plus a Data and Statistics Office. The departments are: Audit, Canadian Economic Analysis, Communications, Corporate Services, Currency, Executive and Legal

Services, Financial Markets, Financial Services, Financial Stability, Funds Management and Banking, Information Technology Services, and International Economic Analysis.

The Bank's Staff

The Bank relies on talented staff to conduct research, analyze complex issues, provide services and carry out operations.

- Most of the Bank's 1,300 regular employees work at the head office in Ottawa; about 10 per cent are located at operations centres in Montréal and Toronto, and in regional offices in Vancouver, Calgary, Toronto, Montréal, Halifax and New York.
- Staff come from a wide range of professional and operational backgrounds, and are recruited from across Canada and internationally.
- Bank staff are guided by the values reflected in the Bank's Compass (see **Compass, page 2**).

The Bank's Staff in 2010

Comparable figures for 2009 are in parentheses.

- Number of regular employees: 1,305 (1,311)
- Average number of years of service: 12.8 (13.1)
- Number of regular employees hired: 69 (119)
- Internal learning and development (temporary assignments, promotions and lateral transfers): 277 (283)
- Number of employees who retired: 42 (41)

Top 100 Employers in Canada

The Bank was named one of Canada's Top 100 Employers for 2011, based on an assessment of its work practices, policies and communications. See http://www.eluta.ca/top-employer-bank-of-canada.

Canada's Top 100 Employers 2011

Strengthening Corporate Capabilities in 2010

In 2010, significant progress was made on several fronts.

- The Bank renewed its total compensation framework and improved its recruitment outreach to support the attraction and retention of staff.

New recruitment materials that reflect the Bank's strengths as an employer were introduced in 2010.

- IT infrastructure was enhanced, particularly in support of the Bank's economic analysis and currency operations.
- Improvements were made in the management of email, electronic documents and records.
- Business-continuity arrangements were strengthened, including the implementation of split operations for payment and settlement activities; the introduction of a new system for managing critical incidents; and an agreement with a private sector partner to provide space for a secondary data centre.

Corporate Effectiveness Program

Following its medium-term plan helps the Bank to maintain a focus on allocating resources to priorities that add the highest value. In 2010, the Bank launched a Corporate Effectiveness Program to ensure that these priorities are met while being consistent with federal guidelines to contain expenditures and hold operational spending at 2010 levels through 2012.

The Corporate Effectiveness Program has three long-term goals: (i) to improve the delivery of key corporate administrative services; (ii) to strengthen the partnership between corporate administration, the economic functions and operations; and (iii) to enhance the Bank's overall effectiveness as an organization. Through this program, management will re-examine spending in all areas of the Bank. Relevant corporate policies and work procedures will be assessed to ensure that they are effective. In addition, consistent with the federal guidelines, the Bank has restricted spending on travel, hospitality and conferences to 2009 levels. The program's initiatives are expected to result in a reduction of 80 to 95 positions over a 12-month period.

Key Corporate Priorities for 2011

The Bank of Canada sets annual work priorities with reference to both its medium-term plan and the changing environment. The Bank's main priorities for 2011 are as follows:

Conducting leading research and policy analysis

- reach agreement with the government on a renewed monetary policy framework, building on the lessons from the major research effort of the past five years and from recent experience;
- strengthen the Bank's analysis of linkages between the financial system and the real economy to better inform monetary policy decisions;
- contribute to the domestic and international reform of financial regulation, including initiatives to strengthen infrastructure in core financial markets; and
- continue to enhance the Bank's analytic framework for assessing risks to the stability of the Canadian financial system.

Strengthening business resilience and infrastructure

- further improve the resilience of the Bank's critical payment and funds-management operations; and

- move forward with improvements to the Bank's infrastructure, including plans for the renovation of the head office complex, and the enhancement of information technology systems supporting economic analysis and financial market operations.

Attracting, retaining and engaging talented staff

- continue to strengthen the Bank's strategy for attracting, retaining and engaging staff by implementing the final phase of the renewed compensation program and enhancing performance management and talent development.

Finally, an additional key corporate priority for 2011 is to unveil a new series of bank notes and issue the first denomination in that series.

Risk Management

The Bank has a well-established framework for identifying, managing and monitoring pertinent areas of risk.

Risk-Governance Structure

The Bank's risk-management framework is supported by the following governance structure:

- The **Board of Directors** ensures that the Bank has a robust risk-management process in place. The Board is briefed annually on the key risks facing the Bank and receives regular briefings on the risks to each of the Bank's core functions. In addition, the Board's Audit and Finance Committee reviews financial risks associated with the Bank's balance sheet and the adequacy of internal controls over financial reporting, and the Capital Projects Committee oversees the implementation of major projects.
- **Senior Management** annually reviews and discusses with the Governing Council and the Management Council areas of corporate risk and the approaches to managing those risks. As part of the Bank's ongoing monitoring of performance, the Management Council reviews any significant changes in the levels of risk and in risk-mitigation measures.
- The **Financial Risk Office**, which is independent of operations, monitors and reports on the financial risks relating to the Bank of Canada's balance sheet. In addition, this Office reports to the Department of Finance and to the Bank on risks arising from, and the investment performance relating to, the management of the government's debt and foreign reserves.
- **Financial Services** is responsible for financial planning, accounting and reporting, and for ensuring that appropriate systems of internal control are used to safeguard the Bank's assets and the accuracy of financial reports.
- **Internal Audit** conducts periodic reviews of 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.

- The **Risk-Management Working Group**, made up of senior representatives from across the Bank and chaired by the Chief Risk Officer, facilitates the Bank's annual process of risk self-assessment. Members meet on a quarterly basis to review the corporate risk profile and discuss risk-management initiatives within their respective departments.

Key Areas of Risk

The Bank pays special attention to four key areas of risk:

- **Financial risk** (credit risk, market risk and liquidity risk) is associated with the management of the Bank's assets and liabilities. During 2010, the winding down of the Bank's special liquidity facilities reduced the levels of both credit and market risk. As well, the Bank reviewed and updated its collateral policies to mitigate potential credit and market risk associated with future use of the Bank's liquidity facilities. As fiscal agent of the Government of Canada, the Bank also manages the financial risk associated with the government's financial assets and liabilities. The financial risk associated with the management of the government's foreign exchange reserves is mitigated by means of a comprehensive framework that matches assets and liabilities and sets out strict credit and collateral criteria. In addition, the analytic framework for evaluating sovereign credit risk was further strengthened in 2010 to place less reliance on rating agencies.
- **Business risk** arises from a number of sources, including uncertainties in the global economy and the international financial system. To mitigate this risk, the Bank has well-defined policy frameworks and an extensive body of research to guide its analysis and policy decisions, participates in a number of key international forums, and collaborates with other major central banks. As well, there are security risks associated with the production, distribution and destruction of bank notes. The Bank has a broad range of measures in place to mitigate this risk, including clear custody and control procedures, incident monitoring and reporting, and independent assessments of internal controls. The issuance of a new series of bank notes introduces other business risks. To mitigate these risks, the Bank has carried out a great deal of research and development; created a comprehensive project plan, collaborating with key partners and suppliers; and conducted extensive pre-production testing.
- **People risk** results from demographic changes and other challenges in attracting and retaining staff with the talent and skills needed to meet the Bank's business requirements. To mitigate this risk, the Bank is implementing a renewed approach to compensation; improving processes related to talent acquisition, career development and knowledge transfer; and promoting leadership effectiveness.
- **Operational risk** is inherent in many aspects of the Bank's operations, including its information technology and business-continuity arrangements. To manage this risk, the Bank is making investments over the medium term to increase the resilience of its infrastructure. In 2010, upgrades were made to the Bank's critical payment and settlement operations, which were split across two sites. Related to operational risk are project risks associated with some complex strategic initiatives under way at the Bank. To mitigate these risks, the Bank has been enhancing its project-management practices.

The Bank's medium-term plan identifies specific areas of risk for each of its functions.

Discussion of Financial Results

The results presented in the Bank's financial statements are shaped by the activities that the Bank undertakes to support its mandate (see page 10 of this report). Revenues are not driven by profit-seeking objectives. Further information about the Bank's balance sheet is available on the Bank's website (About the Bank>Management and corporate governance).

The Bank's Balance Sheet—Highlights

At the close of 2010, the Bank had assets of $60,885 million in the form of *Loans and receivables*, *Investments* and other assets. Compared with year-end 2009, assets decreased by $10,470 million, primarily because of the withdrawal of the extraordinary liquidity provided during the financial crisis.

Selected balance-sheet information $ millions	**2010**	**2009**	**2008**	**2007**
Loans and receivables	**2,087**	25,377	37,234	4,002
Investments	**58,495**	45,708	41,023	49,679
Bank notes in circulation	**57,874**	55,468	53,731	50,565
Deposits	**2,557**	15,550	24,413	2,981

Assets and Liabilities

To provide extraordinary liquidity to the financial system during the recent financial crisis, the Bank used term purchase and resale agreements (term PRAs), which are included in *Loans and receivables*. As funding conditions improved in 2010, the Bank unwound these term PRAs (see Box 2, "Bank of Canada Liquidity Facilities and Liquidity Provision in 2010," page 15), resulting in a decrease in assets of $25,375 million during the year.

Term PRAs are also used for balance-sheet management purposes, such as managing seasonal demand for bank notes. The only term PRAs outstanding at year-end were used for this purpose. These term PRAs, with a total value of $2,062 million, were set to mature in the first half of January 2011.

Generally, as term PRA balances are reduced, there is a corresponding decrease in *Deposits* and/or an increase in the Bank's *Investments*. In 2010, Government of Canada *Deposits* (which had increased in tandem with term PRA operations during the financial crisis) fell by $9,978 million, and the Bank's *Investments* increased by $12,787 million. Net deposits from members of the Canadian Payments Association also decreased by $2,974 million in 2010, reflecting the return to normal monetary policy operations (see Box 1, "Exiting from Extraordinary Monetary Policy Measures," page 13).

The total value of bank notes in circulation was $57,874 million in 2010, an increase of 4 per cent over the previous year. Consistent with past years, this balance was slightly elevated at the end of the year, owing to the rise in demand typically experienced during the Christmas holiday season; this higher balance drops back to lower levels in January.

Statements of Net Income and Changes in Capital—Highlights

Net Income and Retained Earnings

Typically, *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 Canada. Prior to 2010, the Bank did not hold any *Retained earnings*. Effective 1 January 2010, in accordance with an agreement with the Minister of Finance, the Bank holds within *Retained earnings* an amount equal to the unrealized losses on available-for-sale assets (see Notes to the Financial Statements). At the end of the year, the Bank's treasury bill portfolio had unrealized investment losses of $2 million; the Bank therefore withheld $2 million from its remittance of 2010 earnings to offset this unrealized loss. The agreement will be updated in 2011 to account for changes resulting from the Bank's adoption of International Financial Reporting Standards (IFRS).

Statement of Income — Highlights $ millions	**2010**	**2009**	**2008**
Revenue	**1,544**	1,721	2,239
Expenses	**391**	377	387
Net income	**1,153**	1,344	1,852

Note: Comparative figures have been reclassified to conform to the current-year presentation.

Revenue

Revenue for 2010 was $1,544 million, a decrease of $177 million, or 10 per cent, compared with the previous year. The decline in revenue can be attributed to:

- a reduction in revenue from treasury bills and bonds, primarily because of lower yields on short-term investments; and
- lower interest revenue earned on purchase and resale agreements as a result of the lower average balances held throughout the year.

Changes in the composition of the Bank's sources of revenue are shown in Chart 4a and Chart 4b.

Chart 4a: 2010 Revenue

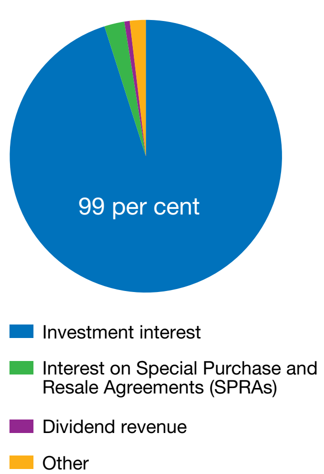
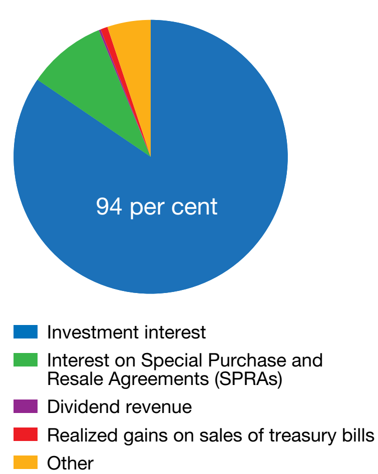


Chart 4b: 2009 Revenue



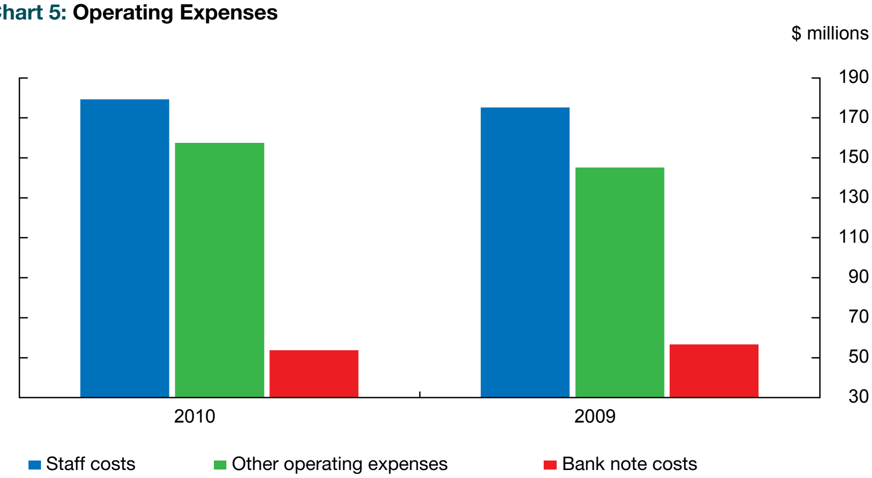
Revenue for the Bank is reported net of interest paid on Government of Canada and other deposits held by the Bank. The decline in revenue was offset by lower interest expenses, owing to the lower average level of Government of Canada deposits.

Operating Expenses

Total operating expenses for 2010 were $391 million, an increase of $14 million, or 4 per cent, over 2009 operating expenses (Chart 5). This increase is the result of:

- An overall increase in staff costs of $4 million, or 2 per cent, associated with the following three factors:
  - (i) an increase in employee severance costs of $11 million related to two restructuring initiatives—the Corporate Effectiveness Program, which will result in the reduction of 80 to 95 positions in corporate administration in 2011; and the sale in 2011 of the Bank's Optical Security Material operations and all related assets, which will result in the elimination of 16 positions;
  - (ii) a decrease in deferred employee benefits costs of $12 million, predominantly the result of an increase in the discount rate used to calculate the 2010 benefits expense; and
  - (iii) an increase of approximately $5 million related to annual compensation and staffing levels.
- An increase in other operating expenses of $13 million. Approximately $5 million is attributable to the introduction of the harmonized sales tax (HST) in Ontario and British Columbia, which came into effect on 1 July 2010. With the new tax regime, the Bank incurred tax on services that were previously not taxable. The remaining increase is mainly associated with a higher level of investment during the year for the renewal of the Bank's systems and infrastructure.
- A decrease of $3 million in costs related to bank notes, largely because of the lower volumes of notes received during the year.

Chart 5: Operating Expenses



Critical Accounting Estimates

The Bank's significant accounting policies are described in the Notes to the Financial Statements on page 40.

The Bank's financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), and this requires that management use judgment to make estimates and assumptions. The Bank's critical accounting estimates are primarily in the areas of the fair value of financial instruments and of pension and other future benefits costs, and are described in notes 2b and 2g, respectively, to the financial statements.

Internal Controls over Financial Reporting

The Bank of Canada has established a framework of internal controls over financial reporting that is consistent with best practices. In 2010, the Bank assessed the design and implementation of its internal controls over financial reporting and found them to be appropriate.

Medium-Term Plan 2010–12: Financial Discussion and Outlook

It is important to note that the expense profile in the Bank's medium-term plan (MTP) differs from the expenses reported in the audited financial statements, since the plan excludes expenses associated with both non-current deferred employee benefits and the production of bank notes. These expenses are excluded because of changes in discount rates and the volatility of expenses related to bank note volumes. The 2010–12 financial plan also excludes costs associated with two significant capital projects: (i) the enhancement of business-continuity arrangements, and (ii) the renewal of the Bank's head office complex in Ottawa.

Updated Medium-Term Plan

Since the Bank's current medium-term plan was approved by the Board of Directors in June 2009, two significant external factors have had an impact on the plan's financial profile:

- the introduction of the harmonized sales tax (HST) by the provinces of Ontario and British Columbia, effective 1 July 2010; and
- the adoption of International Financial Reporting Standards (IFRS).

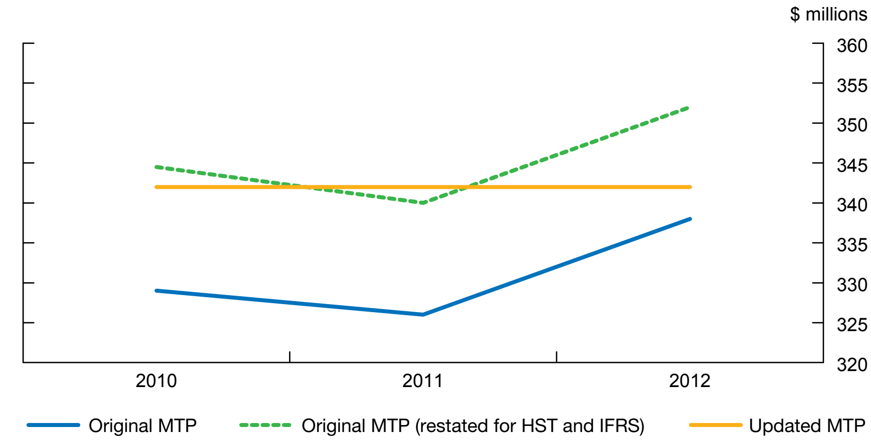
The most important impact of IFRS on the Bank's medium-term plan is a change in the reporting of miscellaneous operating revenues. Previously, these revenues (fees for services) were reported net of related operating expenses. While this change is treated simply as a reporting change, it increases the profiles of both *Other revenue* and *Operating expenses* by approximately $10 million. Other expense differences connected with IFRS result from changes to depreciation, as well as expenses related to deferred employee benefits.

The overall effect of the HST and IFRS adjustments is an increase in budgeted expenditures of approximately $14 million, resulting in a restated 2010 budget for operating expenses of $342 million.

In March 2010, the federal government issued guidelines on levels for operating expenditures for the two upcoming fiscal years. With these guidelines in mind, the Bank reduced its medium-term plan spending targets for 2011 and 2012 to $342 million, the operating spending level for 2010. The Bank aims to achieve this revised spending profile, while meeting the objectives of the medium-term plan, through the Corporate Effectiveness Program (see the sections on the Medium-Term Plan, page 10, and Corporate Capabilities, page 20).

The impact of these changes is shown in **Chart 6**.

Chart 6: 2010–12 Medium-Term Plan: Operating Expenses



Actual Expenses in 2010 Compared with Medium-Term Plan

The 2010 operating expenses that are covered by the medium-term plan were $344 million. This figure is within 1 per cent of the $342 million estimate in the updated medium-term plan, with the variance primarily the result of the divestiture of the Bank's Optical Security Material operations. These expenses are a subset of the $391 million in total operating expenses reported in the financial statements.

New Bank Notes

Starting in 2011, the cost of producing bank notes will increase significantly, primarily because of the higher cost of the new, more secure polymer bank notes compared with the cost of paper notes. However, because the polymer notes are expected to last at least 2.5 times longer than paper notes, fewer notes will be printed in future years, and the lifetime cost of a bank note will decline.

Renewal of Head Office Facilities

The Bank is renewing its head office facilities in Ottawa, which are 35 to 40 years old. Efforts in 2010 focused on assessing the condition of the buildings, evaluating business needs and analyzing available options. In 2011, the Bank will move forward with a business proposal and design requirements. The costs to be incurred in future stages of the project are expected to be predominantly capital in nature.

Enhanced Business Continuity

The Enhanced Business Continuity program was launched to review and update the Bank's plan to split critical business operations and house its data centres. The basic design work was substantially completed in 2010, and the construction of the primary off-site data centre is scheduled to start in 2011. The costs to be incurred are expected to be predominantly capital in nature.

International Financial Reporting Standards

On 28 October 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting standards requiring government business entities to report under IFRS for the years beginning on or after 1 January 2011. As a government business entity, the Bank's first annual IFRS financial statements will be for the year ending 31 December 2011, and, for comparison purposes, will include restated figures for 2010.

The Bank commenced its IFRS conversion project in 2009. The Audit and Finance Committee of the Board of Directors and key stakeholders were kept informed of the anticipated effects of the IFRS transition.

While the final quantitative impact of converting to IFRS cannot be confirmed at present, the following section provides a preliminary assessment of how the adoption of IFRS will affect the Bank's balance sheet as at 1 January 2010 (the Bank's date of transition to IFRS). Explanations of the key areas affected by the transition from Canadian GAAP to IFRS are based on the published standards that existed on the Bank's date of transition. Any revisions or changes to the standards issued by the International Accounting Standards Board after this date could contribute to a material change in the actual results.

Preliminary Assessment of IFRS Changes

Overall, the transition to IFRS is expected to result in an *Equity* increase of $432 million. The key components of this increase, and the impact of IFRS on each, are as follows:

Financial Instruments

The Bank's investment in shares of the Bank for International Settlements (BIS) is classified as available-for-sale and was carried at cost under Canadian GAAP, but is expected to be recorded at fair value in accordance with IFRS. The net impact will be an increase in the carrying amount of the BIS shares at 1 January 2010 of $281 million.

Property and Equipment

Under IFRS, each component of an item of *Property and equipment*, with a cost that is significant in relation to the total cost of the item, is amortized separately. The effect of this on the Bank's *Property and equipment* is expected to result from retroactive changes to the useful lives over which these assets are amortized. The net impact will be an increase in the carrying amount of the Bank's buildings at 1 January 2010 of $28 million.

Employee Benefits

Upon transition to IFRS, the Bank plans to immediately recognize all actuarial gains and losses on post-employment defined benefits in *Other comprehensive income*, as well as other long-term benefits in *Profit and loss*. At the date of transition, all previously unamortized transitional obligations and assets, vested past-service costs and credits, and net actuarial losses will be recognized. The Bank is also expecting, upon transition to IFRS, to use discount rates determined by reference to the market yields of AA-rated corporate bonds. The net impact of these changes will be an increase in the carrying amount of the pension asset by $113 million and will reduce the carrying amount of non-pension liabilities by $10 million.

Estimated Impact on 2010 Operating Results

The above-noted changes to accounting policy will affect the Bank's operating results in 2010, but the overall impact is not expected to be material.

Financial Statements

As at 31 December 2010

FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with Canadian generally accepted accounting principles and contain certain items that reflect 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 recorded, 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 overseeing that management's responsibilities for financial reporting and internal controls are fulfilled and exercises this oversight 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 external auditors who are appointed by Order-in-Council. The Audit and Finance Committee has established processes to evaluate the independence of the Bank's external auditors and reviews 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 for the year ended 31 December 2010 have been audited by the Bank's external auditors, KPMG LLP and PricewaterhouseCoopers LLP, and their report is presented herein. The external auditors have full and unrestricted access to the Audit and Finance Committee to discuss their audit and related findings.

M. Carney, Governor

S. Vokey, CA, Chief Accountant

15 February 2011
Ottawa, Canada

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 balance sheet as at 31 December 2010 and statements of net income, comprehensive income, changes in capital, and cash flows for the year then ended, and 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 Canadian generally accepted accounting principles, 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 the 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 the auditors' 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, the auditors 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 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 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
KPMG LLP
Chartered Accountants
Licensed Public Accountants

PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
Licensed Public Accountants

15 February 2011
Ottawa, Canada

BALANCE SHEET

As at 31 December
(Millions of dollars)

	2010	2009
ASSETS		
Cash and foreign deposits (note 3)	**4.7**	20.4
Loans and receivables		
Securities purchased under resale agreements (note 4a)	**2,062.4**	25,374.8
Advances to members of the Canadian Payments Association (note 4b)	**22.5**	-
Other receivables	**2.1**	2.2
	2,087.0	25,377.0
Investments (note 5)		
Treasury bills of Canada	**24,906.1**	13,684.0
Government of Canada bonds	**33,550.6**	31,986.2
Other investments	**38.0**	38.0
	58,494.7	45,708.2
Property and equipment (note 7)	**149.3**	150.5
Other assets (note 8)	**149.1**	98.6
	60,884.8	71,354.7
LIABILITIES AND CAPITAL		
Bank notes in circulation (note 9)	**57,874.2**	55,467.9
Deposits (note 10)		
Government of Canada	**1,869.4**	11,847.6
Members of the Canadian Payments Association	**47.5**	2,999.6
Other deposits	**639.9**	703.0
	2,556.8	15,550.2
Other liabilities (note 11)	**323.8**	199.8
	60,754.8	71,217.9
Capital (note 13)	**130.0**	136.8
	60,884.8	71,354.7

Commitments, contingencies, and guarantees (note 15)

M. Carney, Governor

S. Vokey, CA, Chief Accountant

On behalf of the Board

David H. Laidley, FCA,
Chair, Audit and Finance Committee

W. A. Black,
Lead Director

(See accompanying notes to the financial statements.)

STATEMENT OF NET INCOME

Year ended 31 December
(Millions of dollars)

	2010	2009
REVENUE		
Interest earned on investments	**1,525.3**	1,619.8
Interest earned on securities purchased under resale agreements	**38.4**	178.2
Dividend revenue	**10.1**	4.5
Realized gains on sales of treasury bills of Canada	**-**	16.1
Other revenue	**11.5**	11.1
Interest expense on deposits	**(42.0)**	(109.0)
	1,543.3	1,720.7
EXPENSE by function (notes 1 and 14)		
Monetary policy	**75.4**	75.2
Financial system	**54.8**	51.8
Currency	**148.5**	144.8
Funds management	**111.8**	105.2
	390.5	377.0
NET INCOME	**1,152.8**	1,343.7

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December
(Millions of dollars)

	2010	2009
NET INCOME	**1,152.8**	1,343.7
OTHER COMPREHENSIVE INCOME		
Change in net unrealized gains on available-for-sale assets	**(8.5)**	(60.0)
Reclassification of gains on available-for-sale assets realized during year	**-**	(16.1)
	(8.5)	(76.1)
COMPREHENSIVE INCOME	**1,144.3**	1,267.6

(See accompanying notes to the financial statements.)

STATEMENT OF CHANGES IN CAPITAL

Year ended 31 December
(Millions of dollars)

	2010	2009
SHARE CAPITAL	**5.0**	5.0
STATUTORY RESERVE	**25.0**	25.0
SPECIAL RESERVE	**100.0**	100.0
RETAINED EARNINGS		
Balance, beginning of year	**-**	-
Net income	**1,152.8**	1,343.7
Transfer to Receiver General for Canada	**(1,151.1)**	(1,343.7)
Balance, end of year	**1.7**	-
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**6.8**	82.9
Other comprehensive income	**(8.5)**	(76.1)
Balance, end of year	**(1.7)**	6.8
CAPITAL (note 13)	**130.0**	136.8

(See accompanying notes to the financial statements.)

STATEMENT OF CASH FLOWS

Year ended 31 December
(Millions of dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	**1,606.0**	2,000.3
Dividends received	**10.1**	4.5
Other income received	**11.8**	13.0
Interest paid	**(42.0)**	(109.0)
Payments to suppliers and employees	**(403.3)**	(390.4)
Net (increase) decrease in advances to members of the Canadian Payments Association	**(22.5)**	1,900.6
Net increase in deposits	**(12,993.4)**	(8,862.9)
Proceeds from maturity of securities purchased under resale agreements	**60,784.5**	236,367.8
Acquisition of securities purchased under resale agreements	**(37,506.3)**	(226,463.2)
Repayments of securities sold under repurchase agreements	**(470.0)**	(724.8)
Proceeds from securities sold under repurchase agreements	**470.0**	724.8
Net cash provided by operating activities	**11,444.9**	4,460.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in Treasury bills of Canada	**(11,180.9)**	(2,177.3)
Purchases of Government of Canada bonds	**(5,924.2)**	(6,537.8)
Proceeds from maturity of Government of Canada bonds	**4,302.2**	3,817.4
Purchase of property and equipment	**(15.1)**	(25.9)
Net cash used in investing activities	**(12,818.0)**	(4,923.6)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in Bank notes in circulation	**2,406.3**	1,736.6
Amount paid to Receiver General for Canada	**(1,048.6)**	(1,372.3)
Net cash provided by financing activities	**1,357.7**	364.3
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY	**(0.3)**	(0.5)
NET DECREASE IN CASH AND FOREIGN DEPOSITS	**(15.7)**	(99.1)
CASH AND FOREIGN DEPOSITS, BEGINNING OF YEAR	**20.4**	119.5
CASH AND FOREIGN DEPOSITS, END OF YEAR	**4.7**	20.4

(See accompanying notes to the financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010
(Amounts in the notes to the financial statements are in millions of Canadian dollars, unless otherwise stated.)

1. The business of the Bank of Canada

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

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

Financial system
Promotes a safe, sound and efficient financial system, both within Canada and internationally.

Currency
Designs, produces, and distributes Canada's bank notes, focusing on counterfeit deterrence through research on security features, public education, and partnership with law enforcement; replaces and destroys worn notes.

Funds management
Provides high-quality, effective and efficient funds-management services: for the Government of Canada, as its fiscal agent; for the Bank; and for other clients.

2. Significant accounting policies

The financial statements of the Bank are in accordance with Canadian generally accepted accounting principles (GAAP) and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's bylaws. The significant accounting policies of the Bank are summarized below. These standards have been consistently applied to both years, unless otherwise stated.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions based on information available at the financial statement date. Actual results could differ from these estimates. These estimates are primarily in the area of pension and other employee future benefits and fair values of certain financial instruments and collateral taken.

a) Translation of foreign currencies
Investment income denominated in foreign currencies is translated at the rate in effect at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the balance-sheet dates. The resulting gains and losses are included in *Other revenue*.

b) Financial instruments
Financial instruments are measured at fair value on initial recognition. Subsequent to initial recognition, they are accounted for based on their classification. Transaction costs are expensed as incurred for all classes of financial instruments. The Bank accounts for all financial instruments using settlement date accounting.

Subsequent to initial recognition, financial assets classified as available-for-sale (AFS) are measured at fair value using quoted market prices or at cost if the instruments are not traded in an active market. Unrealized changes in values of AFS financial assets held at fair value are recognized in *Other Comprehensive Income*.

The Bank's financial assets designated as AFS consist of the *Treasury bills of Canada* and *Other investments* portfolios.

Subsequent to initial recognition, financial assets classified as held-to-maturity (HTM) are measured at amortized cost less any impairment losses using the effective interest method. The Government of Canada bonds portfolio is classified as HTM.

The Bank has not classified any of its financial assets as held-for-trading (HFT).

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.

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 as HFT.

c) Securities purchased under resale agreements

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 recorded on the balance sheet at the amounts at which the securities were originally acquired plus accrued interest.

d) Securities sold under repurchase agreements

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 recorded on the balance sheet at the amounts at which the securities were originally sold plus accrued interest.

e) Securities-Lending Program

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

f) Property and equipment

Property and equipment consists of land, buildings, computer hardware, other equipment, intangible assets, and projects in progress. Property and equipment is recorded at cost less accumulated amortization, except for land which is not amortized, and is net of any related impairment loss. Projects in progress are recorded at cost but not amortized until the asset is available for use. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Intangible assets are non-monetary assets without physical substance. The Bank's intangible assets consist of computer software and computer software components included in projects in progress. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in management's best estimate, provide a future economic benefit to the Bank are recognized as intangible assets (note 7).

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer hardware	3 to 7 years
Other equipment	5 to 15 years
Intangible assets	3 to 15 years

When completed, projects in progress are classified according to the above categories.

g) Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to its eligible employees. The Bank accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs and the obligations of the plans are actuarially determined using the projected benefit method and using management's best estimate of the expected investment performance of the plans, salary escalation, retirement ages of employees, and expected health-care costs.

The benefit plan expense (income) for the year consists of the current service cost, the interest cost, the expected return on plan assets, and the amortization of unrecognized past service costs, actuarial losses (gains), as well as the transitional obligation (asset). Calculation of the expected return on assets for the year is based on the market value of plan assets using a market-related value approach. The market-related value of plan assets is determined using a methodology where the difference between the actual and expected return on the market value of plan assets is amortized over five years.

The excess of the net accumulated actuarial loss (gain) over 10 per cent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service lifetime (EARSL) of plan members. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the EARSL at the date of amendments.

On 1 January 2000, the Bank adopted the new accounting standard on employee future benefits using the prospective application method. The initial transitional balances are amortized on a straight-line basis over the EARSL, as at the date of adoption.

h) Bank notes

The cost of finished bank notes is expensed as incurred.

i) Revenue recognition

Investments

Interest revenue earned on treasury bills and bonds is recorded using the effective interest method.

Dividend revenue on the Bank for International Settlements (BIS) shares is recorded as dividends are declared.

Realized gains on the sale of treasury bills of Canada are recorded at the time of sale as a reclassification from *Other Comprehensive Income* and are calculated as the excess of proceeds over the amortized cost.

Other

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

Other revenue is comprised mostly of interest earned on advances to members of the Canadian Payments Association and is recorded using the effective interest method.

j) Future accounting changes

International Financial Reporting Standards (IFRS)

On 28 October 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting standards requiring government business entities to report under IFRS for the years beginning on or after 1 January 2011. As a government business entity, the Bank will be required to report under IFRS beginning with the year ended 31 December 2011, and to present its 2010 comparative figures in compliance with IFRS, which will then be reconciled to the Canadian GAAP figures previously reported.

The Bank continues to evaluate the impact of these new standards on the recognition, measurement, presentation, and disclosure of financial statement items.

As a result of work completed to the reporting date, management anticipates that employee future benefits, financial instruments and property and equipment will be the areas of the financial statements most significantly affected.

The International Accounting Standards Board (IASB) has several projects under way, some of which will have an impact on standards that are relevant to the Bank. In particular, the Bank is closely monitoring the progress of projects on financial instruments, employee benefits and leases that may result in revised standards being issued during 2011. Any revisions made to these standards may cause management to revisit its assessment of transitional impacts.

3. Cash and foreign deposits

Cash and foreign deposits is composed of highly liquid demand deposits with other central banks or international institutions and Canadian-dollar demand deposits used for operational purposes. Included in this balance is Can$1.2 million (Can$3.3 million in 2009) of U.S. dollars.

4. Loans and receivables

Loans and receivables are comprised primarily of securities purchased under resale agreements and, if any, advances to members of the Canadian Payments Association. These transactions are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. Financial risks related to these instruments are discussed in note 6.

a) Securities purchased under resale agreements

Securities purchased under resale agreements for terms of one business day are acquired through buyback transactions with primary dealers in Government of Canada securities to reinforce the target overnight interest rate.

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

Balances outstanding at 31 December consist of agreements with original terms to maturity ranging from 20 to 34 days. (Balances outstanding at 31 December 2009 consist of agreements with original terms to maturity ranging from 84 to 363 days.)

b) Advances to members of the Canadian Payments Association

Advances to members of the Canadian Payments Association is typically comprised 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.

In 2009, these advances included term advances made through the Bank's Term Loan Facility. This facility ended in October 2009.

5. Investments

In *Other investments*, the Bank holds 9,441 BIS shares in order to participate in the BIS and in international initiatives generally. Ownership of the 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. BIS shares are classified as AFS but are measured at cost, since they do not have a quoted market value in an active market.

Financial risks relating to *Investments* are discussed in note 6.

6. Financial instruments and risk

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the Canadian Payments Association, other receivables, investments, bank notes in circulation, deposits, and other liabilities (net of post-employment and post-retirement obligations).

Fair value of financial instruments

a) Carrying amount and fair value of financial instruments

The fair values of financial assets and liabilities are presented in the following table.

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and foreign deposits	**4.7**	**4.7**	20.4	20.4
Securities purchased under resale agreements	**2,062.4**	**2,062.4**	25,374.8	25,377.5
Advances to members of the Canadian Payments Association	**22.5**	**22.5**	-	-
Other receivables	**2.1**	**2.1**	2.2	2.2
Treasury bills of Canada	**24,906.1**	**24,906.1**	13,684.0	13,684.0
Government of Canada bonds	**33,550.6**	**36,296.4**	31,986.2	34,128.0
Other investments	**38.0**	**305.9**	38.0	307.1
	60,586.4	**63,600.1**	71,105.6	73,519.2
Financial liabilities				
Bank notes in circulation	**57,874.2**	**57,874.2**	55,467.9	55,467.9
Deposits	**2,556.8**	**2,556.8**	15,550.2	15,550.2
Other financial liabilities	**175.6**	**175.6**	61.7	61.7
	60,606.6	**60,606.6**	71,079.8	71,079.8

b) Financial instruments measured at fair value

Treasury bills of Canada are measured at fair value using unadjusted quoted market prices in an active market.

c) Financial instruments not measured at fair value

Fair values of securities purchased under resale agreements are determined using market yields to maturity for similar instruments available at the balance sheet date.

Fair values of Government of Canada bonds are determined based on unadjusted quoted market prices in an active market.

The fair value of the BIS shares is estimated as being 70 per cent of the Bank's interest in the net asset value ("NAV") of the BIS as of 30 November 2010. This 30 per cent discount to NAV is based on a decision by the International Court at the Hague relating to a share repurchase by the BIS in 2001 and has been used by the BIS to determine the pricing of any new shares issued since that time.

The amortized cost of advances to members of the Canadian Payments Association, other receivables, deposits, and other financial liabilities (which is composed of other liabilities, excluding the portion representing accrued post-retirement and post-employment benefits liabilities as described in note 12) approximates fair value, given their short-term nature. The face value of bank notes in circulation is equal to their fair value.

Financial risk

The Bank is exposed to credit risk, market risk, and liquidity risk as a result of holding financial instruments. The following is a description of those risks and how the Bank manages its exposure to them.

a) 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 investment portfolio, advances to members of the Canadian

Payments Association, 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 Canadian Payments Association and securities purchased under resale agreements are fully collateralized loans. Collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements 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 Bank's investment portfolio, representing 97 per cent of the carrying value of its total assets (64 per cent in 2009), is essentially free of credit risk because the securities held are primarily direct obligations of the Government of Canada. The Bank's advances to members of the Canadian Payments Association and securities purchased under resale agreements, representing 3 per cent of the carrying value of its total assets (36 per cent in 2009), are collateralized obligations of various Canadian-based financial institutions.

Collateral is concentrated in the following major categories:

	2010		2009	
	$	**%**	$	%
Securities issued or guaranteed by the Government of Canada	**2,126.9**	**100.0**	15,517.3	58.3
Securities issued or guaranteed by a provincial government	-	-	8,621.4	32.3
Securities issued by a municipality	-	-	239.6	0.9
Corporate securities	-	-	1,918.5	7.2
Asset-backed commercial paper	-	-	359.0	1.3
Total fair value of collateral pledged	**2,126.9**	**100.0**	26,655.8	100.0
As a percentage of amortized cost	**103%**		105%	

b) 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 treasury bills and bonds acts as a counterpart to 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 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 treasury bills. The aforementioned instruments are short term in duration. The fair value of the treasury bills of Canada portfolio held by the Bank is exposed to fluctuations owing to changes in market interest rates since these securities are classified as AFS and are measured at fair value. Unrealized gains and losses on the treasury bills of Canada portfolio are recognized in *Accumulated Other Comprehensive Income* in the *Capital* section of the balance sheet until they mature or are sold. All other financial assets or liabilities are carried at amortized cost or at face value.

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

The figures below show the effect at 31 December 2010 of an (increase)/decrease of 25 basis points in interest rates on the fair value of the treasury bill portfolio and other comprehensive income.

	2010	2009
Treasury bills of Canada	**$ (21.3) / 20.0**	$ (11.4) / 10.3

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 in 2010 of an increase/(decrease) of 25 basis points in interest rates on the interest expenses paid on Government of Canada deposits.

	2010	2009
Interest expense on Government of Canada deposits	**$17.8 / (17.8)**	$ 50.8 / (50.8)

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

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

As at 31 December 2010

	Weighted-average interest rate %	Total	Non-interest-sensitive	1 business day to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS								
Cash and foreign deposits	0.13	4.7	-	4.7	-	-	-	-
Loans and receivables								
Advances to members of the CPA	1.50	22.5	-	22.5	-	-	-	-
Securities purchased under resale agreements	1.02	2,062.4	-	2,062.4	-	-	-	-
Other receivables		2.1	2.1	-	-	-	-	-
Investments								
Treasury bills of Canada	0.85	4,498.8	-	4,498.8	-	-	-	-
	0.94	8,835.7	-	-	8,835.7	-	-	-
	1.17	11,571.6	-	-	-	11,571.6	-	-
	1.03	24,906.1						
Government of Canada bonds[1]	9.40	212.7	-	-	212.7	-	-	-
	4.08	5,226.8	-	-	-	5,226.8	-	-
	3.41	14,683.7	-	-	-	-	14,683.7	-
	4.74	13,427.4	-	-	-	-	-	13,427.4
	4.08	33,550.6						
Shares in the BIS		38.0	38.0	-	-	-	-	-
		60,586.4	40.1	6,588.4	9,048.4	16,798.4	14,683.7	13,427.4
FINANCIAL LIABILITIES								
Bank notes in circulation		57,874.2	57,874.2	-	-	-	-	-
Deposits								
Government of Canada	1.13	1,869.4	-	1,869.4	-	-	-	-
Members of the CPA	1.00	47.5	-	47.5	-	-	-	-
Other deposits								
Unclaimed balances		433.5	433.5	-	-	-	-	-
Other	0.81	206.4	-	206.4	-	-	-	-
Other financial liabilities		175.6	175.6	-	-	-	-	-
		60,606.6	58,483.3	2,123.3	-	-	-	-
Interest rate sensitivity gap		(20.2)	(58,443.2)	4,465.1	9,048.4	16,798.4	14,683.7	13,427.4

1. Carrying amounts of Government of Canada bonds include accrued interest.

As at 31 December 2009

	Weighted-average interest rate %	Total	Non-interest-sensitive	1 business day to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS								
Cash and foreign deposits	0.09	20.4	-	20.4	-	-	-	-
Loans and receivables								
Securities purchased under resale agreements	0.27	3,141.8	-	3,141.8	-	-	-	-
	0.27	4,003.2	-	-	4,003.2	-	-	-
	0.38	18,229.8	-	-	-	18,229.8	-	-
		25,374.8						
Other receivables		2.2	2.2	-	-	-	-	-
Investments								
Treasury bills of Canada	0.51	1,999.9	-	1,999.9	-	-	-	-
	0.41	4,548.8	-	-	4,548.8	-	-	-
	0.48	7,135.3	-	-	-	7,135.3	-	-
	0.46	13,684.0						
Government of Canada bonds[1]	9.77	26.1	-	-	26.1	-	-	-
	4.57	4,319.9	-	-	-	4,319.9	-	-
	4.02	14,746.1	-	-	-	-	14,746.1	-
	4.85	12,894.1	-	-	-	-	-	12,894.1
	4.43	31,986.2						
Shares in the BIS		38.0	38.0	-	-	-	-	-
		71,105.6	40.2	5,162.1	8,578.1	29,685.0	14,746.1	12,894.1
FINANCIAL LIABILITIES								
Bank notes in circulation		55,467.9	55,467.9	-	-	-	-	-
Deposits								
Government of Canada	0.34	11,847.6	-	11,847.6	-	-	-	-
Members of the CPA	0.25	2,999.6	-	2,999.6	-	-	-	-
Other deposits								
Unclaimed balances		395.5	395.5	-	-	-	-	-
Other	0.05	307.5	-	307.5	-	-	-	-
Other financial liabilities		61.7	61.7	-	-	-	-	-
		71,079.8	55,925.1	15,154.7	-	-	-	-
Interest rate sensitivity gap		25.8	(55,884.9)	(9,992.6)	8,578.1	29,685.0	14,746.1	12,894.1

1. Carrying amounts of Government of Canada bonds include accrued interest.

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.

Consistent with 2009, at 31 December 2010, the Bank did not hold a significant amount of U.S. dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Bank, currency risk is not considered material.

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 factors affecting all similar financial instruments traded in the market. The Bank is not exposed to significant other price risk.

c) 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. As shown in the following table, the Bank's largest liability is *Bank notes in circulation*. 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, the Bank has the ability to settle the obligation by selling its assets.

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

The 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 *Balance Sheet*, since the table presents all cash flows on an undiscounted basis.

As at 31 December 2010	Total	No fixed maturity	1 business day	1 business day to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS								
Cash and foreign deposits	4.7	4.7	-	-	-	-	-	-
Loans and receivables								
Advances to members of the CPA	22.5	-	22.5	-	-	-	-	-
Securities purchased under resale agreements	2,062.9	-	-	2,062.9	-	-	-	-
Other receivables	2.1	-	-	2.1	-	-	-	-
Investments								
Treasury bills of Canada	25,000.0	-	-	4,500.0	8,850.0	11,650.0	-	-
Government of Canada bonds[1]	33,072.1	-	-	-	206.6	5,200.9	14,585.8	13,078.8
Shares in the BIS	38.0	38.0	-	-	-	-	-	-
	60,202.3	42.7	22.5	6,565.0	9,056.6	16,850.9	14,585.8	13,078.8
FINANCIAL LIABILITIES								
Bank notes in circulation	57,874.2	57,874.2	-	-	-	-	-	-
Deposits								
Government of Canada	1,869.4	1,869.4	-	-	-	-	-	-
Members of the CPA	47.5	-	47.5	-	-	-	-	-
Other deposits								
Unclaimed balances	433.5	433.5	-	-	-	-	-	-
Other	206.4	206.4	-	-	-	-	-	-
Other liabilities	175.6	-	-	175.6	-	-	-	-
	60,606.6	60,383.5	47.5	175.6	-	-	-	-
Net maturity difference	(404.3)	(60,340.8)	(25.0)	6,389.4	9,056.6	16,850.9	14,585.8	13,078.8

1. Interest payments on Government of Canada bonds are classified according to their coupon date.

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 above table is prepared according to agreements currently in place.

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 at 31 December 2009	Total	No fixed maturity	1 business day	1 business day to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS								
Cash and foreign deposits	20.4	20.4	-	-	-	-	-	-
Loans and receivables								
Securities purchased under resale agreements	25,406.4	-	-	3,142.1	4,005.0	18,259.3	-	-
Other receivables	2.2	-	-	2.2	-	-	-	-
Investments								
Treasury bills of Canada	13,700.0	-	-	2,000.0	4,550.0	7,150.0	-	-
Government of Canada bonds[1]	43,761.9	-	-	-	100.1	5,583.2	18,250.2	19,828.4
Shares in the BIS	38.0	38.0	-	-	-	-	-	-
	82,928.9	58.4	-	5,144.3	8,655.1	30,992.5	18,250.2	19,828.4
FINANCIAL LIABILITIES								
Bank notes in circulation	55,467.9	55,467.9	-	-	-	-	-	-
Deposits								
Government of Canada[2]	11,847.6	11,847.6	-	-	-	-	-	-
Members of the CPA	2,999.6	-	2,999.6	-	-	-	-	-
Other deposits								
Unclaimed balances	395.5	395.5	-	-	-	-	-	-
Other	307.5	307.5	-	-	-	-	-	-
Other liabilities	61.7	-	-	61.7	-	-	-	-
	71,079.8	68,018.5	2,999.6	61.7	-	-	-	-
Net maturity difference	11,849.1	(67,960.1)	(2,999.6)	5,082.6	8,655.1	30,992.5	18,250.2	19,828.4

1. Interest payments on Government of Canada bonds are classified according to their coupon date.
2. Included in these deposits were funds deposited with the Bank to support the provision of exceptional liquidity to the Canadian financial system.

7. Property and equipment

	31 December 2010			31 December 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Tangible						
Land and buildings	**201.3**	**119.6**	**81.7**	195.1	112.4	82.7
Computer hardware	**20.6**	**13.9**	**6.7**	26.1	16.1	10.0
Other equipment	**121.0**	**98.3**	**22.7**	126.1	99.5	26.6
Intangible						
Computer software	**44.0**	**33.7**	**10.3**	49.9	37.4	12.5
	386.9	**265.5**	**121.4**	397.2	265.4	131.8
Projects in progress						
Tangible	**12.2**	**-**	**12.2**	7.5	-	7.5
Intangible	**15.7**	**-**	**15.7**	11.2	-	11.2
	27.9	**-**	**27.9**	18.7	-	18.7
	414.8	**265.5**	**149.3**	415.9	265.4	150.5

Projects in progress consist primarily of the Analytic Environment Program ($16.5 million at 31 December 2010; $14.3 million at 31 December 2009) and building renovation projects ($5.9 million at 31 December 2010; $0.6 million at 31 December 2009).

In 2010, additions to intangible assets include $2.2 million in internally developed software and $2.2 million in externally acquired computer software.

During 2010, amortization expense includes $14.3 million related to tangible assets and $2.1 million related to intangible assets.

The net carrying amount of both tangible and intangible assets is reviewed when events or changes in circumstances indicate that future benefits may no longer be reasonably assured. During the year, fully depreciated assets amounting to $16.3 million were derecognized.

8. Other assets

Other assets include the accrued pension benefit asset of $137.7 million ($83.2 million in 2009) and other items related to the administrative functions of the Bank.

9. 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.

	2010	2009
$5	**1,038.4**	1,054.8
$10	**1,159.8**	1,125.7
$20	**16,808.2**	16,463.0
$50	**8,443.7**	7,773.0
$100	**28,964.9**	27,535.6
Other bank notes	**1,459.2**	1,515.8
	57,874.2	55,467.9

Other bank notes include denominations that are no longer issued but remain as legal tender. *Bank notes in circulation* are non-interest-bearing liabilities and have no fixed maturity.

10. Deposits

The liabilities within this category consist primarily of $2,556.8 million in Canadian-dollar demand deposits (Can$15,550.2 million in 2009). The Bank pays interest on the deposits for the Government of Canada, banks, and other financial institutions at market-related rates.

11. Other liabilities

Other liabilities include the following:

	31 December 2010	31 December 2009
Accrued post-retirement and post-employment benefit liabilities	**148.2**	138.1
Accrued transfer payment to the Receiver General for Canada	**126.1**	23.6
Accounts payable and accrued liabilities	**49.2**	37.9
Payroll liabilities	**0.3**	0.2
	323.8	199.8

The accrued transfer payment to the Receiver General for Canada is included in the $1,151.1 million transfer to the Receiver General for the year presented in the *Statement of Changes in Capital*.

12. Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to its eligible employees.

The pension plans provide benefits under a Registered Pension Plan and a Supplementary Pension Arrangement. The benefits are based on pensionable service and average pensionable earnings and accrue from the first day of eligible employment. The pension is indexed to reflect changes in the consumer price index on the date payments begin and each 1 January thereafter.

The Bank sponsors post-retirement health, dental, and life insurance benefits, as well as post-employment self-insured long-term disability and continuation of benefits to disabled employees. The Bank also sponsors a long-service benefit program for employees hired before 1 January 2003.

The Bank measures its accrued benefits obligations and fair value of plan assets for accounting purposes as at 31 December of each year. The most recent actuarial valuation for funding purposes of the Registered Pension Plan was done as of 1 January 2010 and the next required valuation will be as of 1 January 2011.

Information about the employee benefit plans is presented in the tables below.

Plan assets, benefit obligation, and plan status

	Pension benefit plans[1]		Other benefit plans	
	2010	2009	**2010**	2009
Plan assets				
Fair value of plan assets at beginning of year	**934.8**	792.4	**-**	-
Bank contributions	**64.2**	51.3	**-**	-
Employee contributions	**9.2**	8.0	**-**	-
Benefit payments and transfers	**(39.4)**	(35.3)	**-**	-
Actual return (loss) on plan assets	**113.0**	118.4	**-**	-
Fair value of plan assets[2]	**1,081.8**	934.8	**-**	-
Benefit obligation				
Benefit obligation at beginning of year	**1,073.8**	1,132.9	**177.4**	182.3
Current service cost	**32.3**	35.0	**7.5**	8.1
Employee contributions	**9.3**	8.0	**-**	-
Interest cost	**48.7**	45.5	**7.4**	6.5
Benefit payments and transfers	**(39.4)**	(35.3)	**(8.6)**	(6.7)
Actuarial (gain) loss	**205.6**	(112.3)	**13.5**	(12.8)
Benefit obligation	**1,330.3**	1,073.8	**197.2**	177.4
Plan status				
Deficiency of fair value of plan assets over benefit obligation at year-end	**(248.5)**	(139.0)	**(197.2)**	(177.4)
Unamortized net transitional obligation (asset)	**(12.9)**	(25.9)	**8.9**	11.4
Unamortized cost of amendments	**8.0**	10.3	**-**	-
Unamortized net actuarial loss	**391.1**	237.8	**40.1**	27.9
Accrued benefit asset (liability)	**137.7**	83.2	**(148.2)**	(138.1)

1. For the Supplementary Pension Arrangement, in which the accrued benefit obligation exceeds plan assets, the accrued benefit obligation and fair value of plan assets totalled $86.3 million ($67.3 million in 2009) and $56.6 million ($50.9 million in 2009), respectively.

2. The assets of the pension benefit plans were composed as follows: 56 per cent equities; 26 per cent bonds; 6 per cent real return Government of Canada bonds; 3 per cent other real return investments; 4 per cent real estate assets; and 5 per cent short-term securities and cash (56 per cent, 26 per cent, 8 per cent, 1 per cent, 4 per cent, and 5 per cent, respectively, in 2009).

The accrued benefit asset for the defined-benefit pension plans is included in the balance sheet category, *Other assets*. The accrued benefit liability for the other benefits plans is included in the balance sheet category, *Other liabilities*.

Benefit plan expense

	Pension benefit plans		Other benefit plans	
	2010	2009	**2010**	2009
Current service cost, net of employee contributions	**32.3**	35.0	**7.5**	8.1
Interest cost	**48.7**	45.5	**7.4**	6.5
Actual (return) loss on plan assets	**(113.0)**	(118.4)	**-**	-
Actuarial loss	**205.6**	(112.3)	**13.5**	(12.8)
Benefit plan expense (income), before adjustments to recognize the long-term nature of employee future benefit costs	**173.6**	(150.2)	**28.4**	1.8
Adjustments				
Difference between expected return and actual return on plan assets for the year	**47.8**	56.9	**-**	-
Difference between amortization of past service costs for the year and actual cost of plan amendments for the year	**2.3**	2.3	**-**	-
Difference between amortization of actuarial loss for the year and actuarial loss on accrued benefit obligation for the year	**(201.1)**	125.2	**(12.2)**	15.3
Amortization of transitional obligation (asset)	**(12.9)**	(12.9)	**2.5**	2.5
Benefit plan expense recognized	**9.7**	21.3	**18.7**	19.6

Significant assumptions

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

	Pension benefit plans		Other benefit plans	
	2010	2009	**2010**	2009
Accrued benefit obligation as at 31 December				
Discount rate	**3.50%**	4.50%	**3.50%**	4.10%
Rate of compensation increase	**3.50% + merit**	3.50% + merit	**3.50% + merit**	3.50% + merit
Benefit plan expense for year ended 31 December				
Discount rate	**4.50%**	4.00%	**4.10%**	3.50%
Expected rate of return on assets	**6.50%**	6.50%	**-**	-
Rate of compensation increase	**3.50% + merit**	3.50% + merit	**3.50% + merit**	3.50% + merit
Assumed health-care cost trend				
Initial health-care cost trend rate			**6.75%**	7.00%
Health-care cost trend rate declines to			**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate			**2029**	2029

2010 sensitivity of key assumptions

(Millions of dollars)

	Change in obligation	Change in expense
Impact of a 25 basis point increase/decrease in assumptions		
Pension benefit plans		
Change in discount rate	**(58.9) / 63.2**	**(5.9) / 6.3**
Change in long-term return on plan assets	**n.a. / n.a.**	**(2.5) / 2.5**
Other benefit plans		
Change in discount rate	**(7.8) / 8.3**	**(0.2) / 0.2**
Impact of a 100 basis point increase/decrease in assumptions		
Other benefit plans		
Change in the assumed health-care cost trend rates	**34.0 / (25.8)**	**2.6 / (1.9)**

The total cash payment from the Bank for employee future benefits for 2010 was $72.8 million ($58.0 million in 2009), consisting of $64.2 million ($51.3 million in 2009) in cash contributed by the Bank to its pension plans and $8.6 million ($6.7 million in 2009) in cash payments directly to beneficiaries for its unfunded other benefits plans.

Regulations governing federally regulated pension plans establish certain solvency requirements that assume that the plans are wound up at the valuation date. The actuarial valuation of the Registered Pension Plan completed at 1 January 2010 reported a solvency deficit of $122.0 million. The Bank is contributing an amount sufficient to fund this solvency deficit over a period of five years. In 2010, $34.6 million of the employer contributions to the plan reflect solvency deficit payments. Contributions will be based on the actuarial valuation as at 1 January 2011, and are estimated to be $20 million. The amount of contributions in future years is dependent on the investment experience of plan assets, as well as the discount rate used to value liabilities for solvency purposes.

13. Capital

The Bank's objective in managing its capital, the elements of which are outlined in the table below, is compliance with the externally imposed capital requirements of the Bank of Canada Act. The Bank is not in violation of any externally imposed capital requirements at the end of the reporting period. The Bank's objectives in managing its capital have not changed from 2009.

	31 December 2010	31 December 2009
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Retained earnings	**1.7**	-
Accumulated other comprehensive income	**(1.7)**	6.8
	130.0	136.8

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 is holding 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 on 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.

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 requirements of section 27 of the Bank of Canada Act. Prior to 2010, the Bank did not hold retained earnings. Effective 1 January 2010, based on an agreement signed with the Minister of Finance, the Bank will deduct from its remittances to the Receiver General and hold within retained earnings an amount equal to unrealized losses on available-for-sale assets.

Accumulated other comprehensive income

Accumulated other comprehensive income records and tracks unrealized valuation gains and losses on the Bank's available-for-sale portfolio, excluding BIS shares, which are recorded at cost.

14. Expense by class of expenditure

	2010	2009
Staff costs	**179.3**	175.2
Bank note research, production, and processing	**53.7**	56.6
Premises maintenance	**28.8**	26.2
Amortization	**16.4**	15.7
Other operating expenses	**112.3**	103.3
	390.5	377.0

In 2010, the Bank has recognized employee severance expenses in connection with two restructuring initiatives. The Bank has commenced implementation of a program to achieve greater operational efficiency and effectiveness which will also result in a reduction in the number of corporate administration employees in 2011. The Bank will sell its Optical Security Material operations and all of its related assets in 2011. In relation to the two restructurings, an expense of $11 million for employee severance costs has been recognized in *Staff costs* and is accrued in *Other liabilities*.

15. Commitments, contingencies and guarantees

a) Operations

The Bank has a long-term contract with an outside service provider for retail debt services, which expires in 2021. At 31 December 2010, fixed payments totalling $228.9 million remained, plus a variable component based on the volume of transactions.

In 2010, the Bank entered into a long-term agreement with an outside service provider for data centre services which commences in 2013 and expires in 2022. Fixed payments over the term of the agreement totalling $17.6 million will begin on 1 January 2013.

The Bank occupies leased premises in Halifax, Montréal, Toronto, Calgary and Vancouver. At 31 December 2010, the future minimum payments are $7.6 million for rent, real estate taxes and building operations. The expiry dates vary for each lease, from March 2011 to October 2020.

Minimum annual payments for long-term commitments

	Outsourced services	Leased space	Total
2011	**20.3**	**1.4**	**21.7**
2012	**20.3**	**1.3**	**21.6**
2013	**22.1**	**1.0**	**23.1**
2014	**22.1**	**0.9**	**23.0**
2015	**22.1**	**0.7**	**22.8**
Thereafter	**139.6**	**2.3**	**141.9**
	246.5	**7.6**	**254.1**

b) Foreign currency contracts

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

	Maximum available
Contracts denominated in U.S. dollars	
Federal Reserve Bank of New York	**30,000.0**
Federal Reserve Bank of New York	**2,000.0**
	32,000.0
Contracts denominated in Canadian dollars	
Banco de México	**1,000.0**

The US$30 billion facility with the Federal Reserve Bank of New York, which expired on 1 February 2010, was re-established on 17 May 2010 with an expiration date of 1 August 2011. The other facilities have indefinite terms and are subject to annual renewal.

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

These swap facilities were not used in 2010 or 2009 and, therefore, there were no related commitments at 31 December 2010.

c) Contingency

The 9,441 shares in the BIS have a nominal value of 5,000 special drawing rights (SDRs) 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 decision of the BIS Board of Directors. The Canadian equivalent of this contingent liability was $54.6 million at 31 December 2010, based on prevailing exchange rates.

d) Guarantees

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

Large Value Transfer System (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, 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 having the largest possible net amount owing. The Bank guarantees to provide this liquidity, and in the event of the 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.

e) Insurance
The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from risks not insured are recorded in the accounts at the time they can be reasonably estimated.

16. Related-party transactions

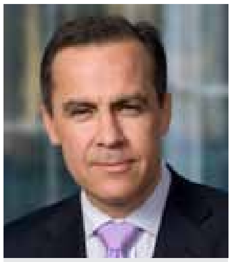
The Bank is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. To achieve its monetary policy objectives, the Bank maintains a position of structural and functional independence from the Government of Canada through its ability to fund its own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

All related-party transactions are recorded at their exchange amounts, which is the amount of consideration established and agreed upon by the related parties. Related-party transactions with the Government of Canada are disclosed as part of the financial statements or the relevant notes.

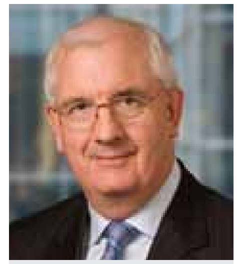
17. Comparative Figures

Comparative figures have been reclassified where necessary to conform to the presentation adopted for the current year.

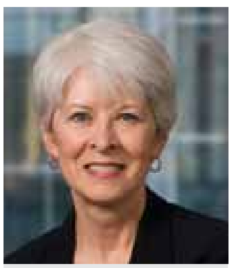
Board of Directors: Role and Activities

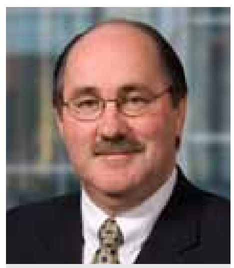

Mark Carney[6*]
Governor,
Chairman of the Board

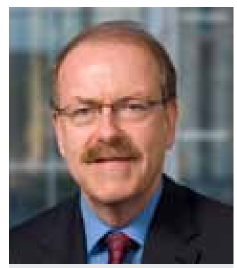

Tiff Macklem[6, 7*]
Senior Deputy Governor


William Black[1, 6]

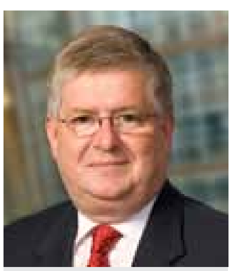

Philip Deck[3, 5]

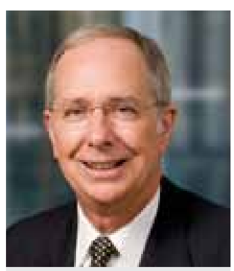

Bonnie DuPont[3*, 4, 6]

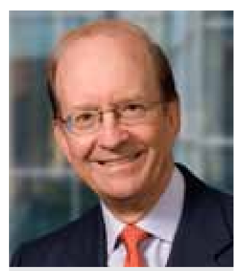

Douglas Emsley[2, 5*, 6]

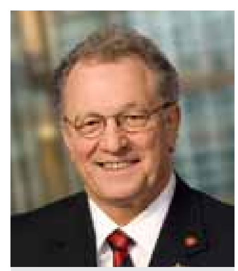

Jock Finlayson[3, 4]

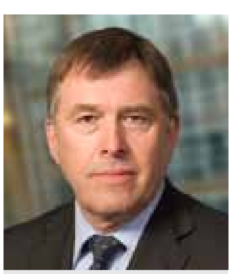

Carol Hansell[2, 3]

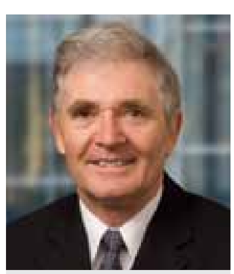

Brian Henley[5, 7]

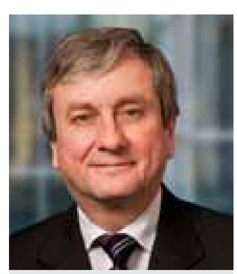

Daniel Johnson[2, 4*]


David Laidley[2*, 4, 6]


Leo Ledohowski[2, 5]


Richard McGaw[4, 7]


Michael O'Brien[3, 7]


Michael Horgan[6]
Deputy Minister of Finance,
Member ex officio

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

* Indicates committee chair

Role of the Board

Under the statutory governance framework established in the Bank of Canada Act, the Governor is the Chief Executive Officer of the Bank and Chair of its Board of Directors. The Governor has specific authority and responsibility for the business of the Bank, notably with respect to the formulation and implementation of monetary policy, the provision of fiscal-agent services to the government, the issuance of currency and the provision of liquidity to the financial system.[2]

The Board of Directors provides general oversight of the management and administration of the Bank with respect to strategic planning, financial and accounting matters, risk management, human resources, and other internal policies. The Board and the Governor work in close co-operation, since the oversight of financial and administrative matters by the Board is important to the conduct of the business of the Bank by the Governor.

The Board and the Bank regularly review and consider the relevant best practices of other public institutions, central banks and private sector organizations with a view to continuously improving and achieving excellence in its corporate governance.

Board Composition and Activities

The Board is composed of the Governor, the Senior Deputy Governor and 12 independent directors appointed to 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 and its committees meet regularly throughout the year in accordance with a schedule determined in consultation with management and directors.

The Board and each of its committees have adopted written terms of reference setting out their various responsibilities, as well as the responsibilities of the committee chairs. The Board and each committee agree on written work plans prior to the commencement of the calendar year.

Board Committees

The Board has established the following standing committees to enable it to more effectively carry out its responsibilities:

- The **Audit and Finance Committee**, chaired by David Laidley, oversees the financial affairs of the Bank, including its medium-term plan, annual budget and expenditures. The committee oversees the activities of the Bank's internal audit function and is responsible for overseeing the relationship with the Bank's co-auditors.
- The **Human Resources and Compensation Committee**, chaired by Bonnie DuPont, provides Board oversight with respect to the Bank's human resources policies and practices, compensation policies, succession planning and senior executive performance, as well as, subject to approval by the Governor in Council, the compensation of the Governor and the Senior Deputy Governor.

2. The Governor also has statutory responsibilities for the oversight of Canada's payment, clearing and settlement systems as set out in the Payment Clearing and Settlement Act.

- The **Corporate Governance Committee**, chaired by Daniel Johnson, is responsible for the oversight of the Bank's corporate governance practices, including annually assessing the Board's effectiveness, reviewing committee composition, and reviewing the terms of reference of the Board and its committees.
- The **Pension Committee**, chaired by the Senior Deputy Governor, is responsible for advising the Board regarding the Bank's responsibilities as sponsor and administrator of the Bank of Canada pension plan, including plan investment policies, plan administration, and communication and stakeholder relations. The committee is composed of three independent directors, three members of management and the Senior Deputy Governor. Any quorum of the committee must include at least two independent directors.
- The **Capital Projects Committee**, chaired by Douglas Emsley, provides Board oversight for significant capital projects being undertaken by the Bank.

In addition, the Bank of Canada Act provides for an Executive Committee to act in place of the Board.

In February 2010, a Special Committee composed of the independent directors completed the process leading to the appointment of Tiff Macklem as Senior Deputy Governor for a seven-year term commencing 1 July 2010. The Special Committee's mandate ended in April 2010. Board members also participated in the selection of the two Deputy Governors appointed in 2010: Jean Boivin and Agathe Côté.

Meetings and Attendance

In 2010, the Board met six times; the Executive Committee, twice; the Audit and Finance Committee, seven times; the Corporate Governance Committee, three times; the Capital Projects Committee, five times; the Human Resources and Compensation Committee, six times; the Pension Committee, five times; and the Special Committee, three times.

Board Independence

Since the Governor is both Chairman of the Board and Chief Executive Officer, the independent directors have elected a Lead Director to represent their interests and act as a link between them and the Governor. The Board has adopted written terms of reference outlining the Lead Director's responsibilities. Both the Board and its committees regularly hold sessions without management or non-independent directors present. Each committee of the Board, except for the Pension Committee, consists solely of independent directors. The Audit and Finance Committee meets privately on a regular basis with the co-auditors, the Chief Internal Auditor and the Chief Accountant. The Board and its committees have the right to retain independent advisers at the Bank's expense.

Board Effectiveness and Education

The Board regularly conducts a self-assessment of its effectiveness by means of a survey that solicits directors' views on various elements of the Board's operations, governance and effectiveness. The surveys are completed electronically, and aggregated results are distributed to directors for discussion in open session. New directors are provided with comprehensive orientation briefings when they join the Board. The Board regularly examines its education requirements and receives training on matters pertinent to its duties.

Annually, the Board convenes a meeting outside of Ottawa and uses the opportunity to gain an understanding of local concerns and to explain the Bank's policies. In 2010, the meeting was held in Charlottetown. To enhance understanding of the Bank's various activities, the Board receives private briefings from Special Advisers visiting the Bank.

Additional Information

Further information relating to the Board and its activities during 2010, including Board and committee mandates, Board and committee composition, director attendance and compensation is available on the Bank's website (About the Bank>Management and corporate governance).

Senior Officers

Governing Council

Mark Carney, *Governor*
Tiff Macklem, *Senior Deputy Governor**

Deputy Governors

Jean Boivin, Agathe Côté, Timothy Lane,**
John D. Murray**

General Counsel and Corporate Secretary

W. John Jussup**

Advisers

Janet Cosier,**, [1] Allan Crawford, Sheila Niven,**
Lawrence Schembri, David Wolf, Prasanna Gai,[2]
Timothy Hodgson[3]

Audit

Carmen Prévost Vierula, *Chief Internal Auditor*

Canadian Economic Analysis

Sharon Kozicki, *Chief*
Stephen Murchison, *Deputy Chief*
Robert Amano, *Research Director*
Césaire Meh, *Research Director*
Pierre St-Amant, *Research Director*

Communications

Jill Vardy, *Chief*
Glen Nichols, *Deputy Chief*

Corporate Services

Colleen Leighton, *Chief*
Janice Gabie, *Deputy Chief*
Frances Boire-Carrière, *Adviser*
Alexis Corbett, *Director*
John Reinburg, *Director*
Susan Chibuk, *Project Director*

Currency

Gerry T. Gaetz, *Chief*
Lorna Thomas, *Deputy Chief*
Nicole Poirier, *Director*
Charles Spencer, *Director*
Richard Wall, *Director*

Data and Statistics Office

Dinah Maclean, *Director*

Executive and Legal Services

W. John Jussup, *General Counsel and Corporate Secretary***
Marie Bordeleau, *Deputy Corporate Secretary*
Pierre Roach, *Assistant General Counsel*

Financial Markets

Donna Howard, *Chief*
Grahame Johnson, *Deputy Chief*
Carolyn Wilkins, *Special Director*
Scott Hendry, *Research Director*
Stéphane Lavoie, *Director*
Miville Tremblay, *Senior Representative*, *Director*
Eric Tuer, *Director*

Financial Services

Sheila Vokey, *Chief and Chief Accountant***
Rudy Wytenburg, *Deputy Chief*
Andreas Lorenz, *Acting Deputy Chief*[4]

Financial Stability

Mark Zelmer, *Chief*
Toni Gravelle, *Deputy Chief*
Paul Chilcott, *Director*
Carol Ann Northcott, *Director*
Graydon Paulin, *Director*

Funds Management and Banking

Ron Morrow, *Chief*
Eric Wolfe,[5] *Deputy Chief*
Louise Hyland, *Director*
Miguel Molico, *Research Director*

Information Technology Services

Dale Fleck, *Acting Chief*
Pierre Gagnon, *Director*
Daniel Lamoureux, *Director*
Jan Pilbauer, *Director*
Janne Shaw, *Director*

International Economic Analysis

Donald Coletti, *Chief*
Eric Santor, *Deputy Chief*
René Lalonde, *Research Director*

Note: Positions as of 14 February 2011

* Chair of Management Council

** Member of Management Council

1. Also Chair of the Board of Directors of the Canadian Payments Association
2. Visiting Special Adviser
3. Special Adviser to the Governor
4. Temporary Assignment
5. Also Deputy Chair of the Board of Directors of the Canadian Payments Association

Bank of Canada Regional Offices

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Monique LeBlanc, *Senior Regional Representative (Currency)*

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Laurent Martin, *Senior Regional Representative (Economics)*
Phuong Anh Ho Huu, *Senior Regional Representative (Currency)*

Ontario
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Brigid Brady, *Assistant Chief, Regional Analysis Division, Canadian Economic Analysis Department*
Eric Tuer, *Director (Financial Markets)*
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Manuel Parreira, *Senior Regional Representative (Currency)*

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404–6th Avenue SW, Suite 200
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Ted Mieszkalski, *Senior Regional Representative (Currency)*

British Columbia and Yukon
200 Granville Street, Suite 2710
Vancouver, British Columbia V6C 1S4
Farid Novin, *Senior Regional Representative (Economics)*
Lori Rennison, *Senior Regional Representative (Economics)*
Trevor Frers, *Senior Regional Representative (Currency)*

New York Office
Canadian Consulate General
1251 Avenue of the Americas
New York, NY 10020-1175 U.S.A.
Scott Kinnear, *Consul and Senior Representative for the Bank of Canada*

Note: Positions as of 14 February 2011

For information about the Bank of Canada:

Internet
www.bankofcanada.ca
Provides timely access to press releases, speeches by the Governor, the Bank's major publications, and current financial data.

Public Information
For general information on the role and functions of the Bank of Canada, contact our Public Information Office.
Telephone: **1 800 303-1282**
Fax: **613 782-7713**
Email: info@bankofcanada.ca

For information on unclaimed balances:
Telephone: **1 888 891-6398**
Fax: **613 782-7802**
Email: ucbalances@bankofcanada.ca