BANK OF CANADA
BANQUE DU CANADA

2013 ANNUAL REPORT

The *Annual Report* is available on the Bank of Canada's website at **bankofcanada.ca**.

For further information, contact:

Public Information Office
Communications Department
Bank of Canada
234 Laurier Avenue West
Ottawa, Ontario K1A 0G9
Telephone: **613 782-8111**; **1 800 303-1282** (toll free in North America)
Email: **info@bankofcanada.ca**
Website: **bankofcanada.ca**

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BANK OF CANADA
BANQUE DU CANADA

Stephen S. Poloz
Governor – Gouverneur

28 February 2014

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 2013 and the Bank's audited financial statements as at 31 December 2013.

Yours sincerely,

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

2013 proved to be a challenging year for the Bank of Canada. Inflation continued to drift below target, and the economy failed to move onto a more sustainable track. It was also a year of transition. Governor Carney departed to become Governor of the Bank of England, which meant recruiting, briefing and adapting to a new Governor. Four of our independent Board members retired or left the Board and were replaced. And more than 1,300 staff had to move out of our Ottawa headquarters to allow for a major three-year renovation.

Although these stresses tested the mettle of the organization, the Bank's staff and Board of Directors once again rose to the occasion. If nothing else, 2013 will stand as a testament to the Bank's commitment to excellence. Our goal to be second to none among central banks is more than mere words—it means that the Bank's staff work as an effective team to advance the economic and financial welfare of Canadians. Indeed, largely because of this collegial and supportive work environment, the Bank has been chosen as one of Canada's Top 100 Employers for the past four years.

Monetary policy is by far the highest-profile function that the Bank carries out. In this respect, 2013 began on a fairly optimistic note. Most of the post-crisis repairs had been done, the ingredients for more self-sustaining growth were coming together and it seemed likely that market interest rates would begin to rise toward more normal levels reasonably soon.

By summer, however, our optimism had dimmed. This was partly due to circumstances external to Canada, as the U.S. economy was underperforming. But domestic issues—three in particular—also played a role. First, Canada's non-commodity exports were tracking lower than our models had predicted, even after taking into account moderate global economic growth and the strong Canadian dollar. Second, investment spending on machinery and equipment by Canadian companies was lagging our expectations. And third, inflation in Canada was inexplicably low.

What these three issues have in common is a weakening in the performance of our economic models. Perhaps this should not be surprising, given the unusual circumstances we face. We are working hard to refine those models, but this experience is also leading us to put increased emphasis on anecdotal evidence—real conversations with real Canadians making real economic decisions. This approach includes surveys, both ours and those done by others, and numerous meetings with many business associations. In addition, I personally conducted CEO roundtables in Toronto, Montréal, Halifax, Calgary and Vancouver to add colour to our economic analysis.

The Bank's outlook is that exports will gather strength on the back of an increasingly robust U.S. economy, that this will lead naturally to more business investment, and that this will cause inflation to reverse course and move back up toward the middle of the 1 to 3 per cent target range. Private sector inflation expectations remain reasonably well anchored at close to 2 per cent, and our goal is to validate those expectations as soon as we are able by returning inflation to its target. Meanwhile, debt-fuelled household spending, which has carried the economy through a period of sub-par exports and investment, will moderate and foster a constructive evolution of household imbalances. But as the evidence came in over the course of 2013, it became clear that this scenario would take much longer to unfold than previously expected.

This change in the Bank's view required a significant shift in communications in the second half of 2013, when we adopted a neutral stance and dropped our warning about rising interest rates. At the same time, heightened uncertainty around our forecasts led us to incorporate confidence bands explicitly into our portrayal of policy. Our shift to a neutral policy stance, therefore, represented a balance between the risk that inflation might fall even further below target and the risk that lower interest rates might exacerbate household imbalances. Our belief was and remains that these risks are balanced, not just at present, but in prospect, as both risks are projected to ease over the next couple of years. This new portrayal helped to shift the policy dialogue toward an exercise in risk management, as opposed to mechanical engineering, and, at the same time, allowed us to drop our use of forward guidance.

Meanwhile, 2013 saw some meaningful developments in financial system architecture, both globally and in Canada. There is little doubt that the global financial system is safer today than it was in 2007, and the Bank recognized this by lowering its overall risk rating in its December *Financial System Review*. Domestically, the Bank worked with its partners in the Department of Finance, the Office of the Superintendent of Financial Institutions, the Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada, as well as the securities regulators, to fulfill its commitments to the G-20 and the Financial Stability Board to implement the agreed reforms. These include clearing and reporting of derivatives transactions, managing risk in clearing systems, reducing reliance on credit ratings, and developing an enhanced resolution framework for large financial institutions.

2013 was also a big year for the currency that Canadians carry around with them, with the launch of the $5 and $10 notes in the new *Polymer* series, which features images capturing key Canadian accomplishments. Counterfeiting rates are low, and we are hopeful that the new notes will prove to be even more durable than anticipated. Work on the next series of bank notes is already under way, beginning with a review of the process that the Bank follows to formulate recommendations for new bank notes, which will take place in the first half of 2014.

Finally, as fiscal agent for the Government of Canada, the Bank worked to increase the government's liquidity cushion from $10 billion to $20 billion in 2013. This meant a significant increase in the size of the Bank's balance sheet, but this has no macroeconomic consequences. Managing these government balances, as well as managing the continual turnover in the government's outstanding stock of debt and foreign exchange reserves, is done by the Bank in a highly professional manner, using the latest analytical tools.

The Bank's commitment to excellence in all of these areas never faltered, despite the need to relocate our entire head office staff during 2013. The Bank's home consists of the original 1938 granite building surrounded and partially enclosed by two elegant glass towers and an atrium built in the mid-1970s. The original building was designed by S.G. Davenport in collaboration with the firm Marani, Lawson and Morris, and the glass towers and central atrium were designed by Arthur Erickson, also in collaboration with Marani, Lawson and Morris. Our head office complex is truly unique and widely admired.

Nevertheless, the glass towers now require significant investments to ensure the health and safety of Bank staff. The three-year renovation will bring our buildings up to seismic, fire and other safety requirements, but will leave the exterior intact and restore Erickson's original vision for an open office plan. The East Plaza will be developed to offer a more visible entrance to the Currency Museum and a multi-functional public space.

Moving more than 1,300 people to locations around Ottawa was a significant undertaking. The temporary accommodations are tight but comfortable, and staff were able to go home on a Friday and resume working at their new space on the following Monday—a remarkable achievement in logistics and teamwork.

All of this adds up to a job well done in 2013. Although the Canadian economy has fallen short of our expectations, we must acknowledge that, as economists, we are in uncharted territory. Since the crisis, Bank staff have been working hard to adapt to this new reality, testing a variety of new models and methodologies, and updating their forecasts eight times per year. Although the job is not done, the tempo has largely normalized, and this allowed the Bank to transition from "firefighting mode" to a more contemplative one in the second half of 2013. Full forecast exercises are now back to a quarterly frequency, with more time dedicated in between to rigorous analysis and new research, based on the lessons of the past five traumatic years.

Looking forward, it is our intention to build on this experience to redefine central banking for the post-crisis era. While our core mission and commitment to Canadians are timeless, the world has clearly changed since the global financial crisis. We will reformulate the central bank's role in promoting monetary and financial stability. We will establish new principles and practices, as appropriate, for achieving these ends and for communicating with the public. Remaining at the leading edge of central banking will depend more than ever on the outstanding quality of the Bank's staff and its independent Board, and we are committed to maintaining a high-quality work environment and investing even more in leadership development.

I wish to thank the Bank's Board members for their confidence, advice and encouragement in 2013. These people give us a lot and ask very little in return. Special thanks are due to David Laidley, who was Lead Director for most of the year and also held the responsibility for managing the recruitment of a new Governor. David's term expired in late 2013, along with those of William Black and Jock Finlayson. Daniel Johnson also left the Board. They move on, but they will remain Bank alumni. Most importantly, I want to thank the Bank's staff for their hard work and dedication—and their patience in adapting to a new leader. They should be very proud of what they achieved in 2013.

Stephen S. Poloz

Governor

2013 at a Glance

- In a challenging and uncertain global environment, monetary policy supported growth in the Canadian economy in 2013. Inflation expectations remained well anchored, despite an inflation rate significantly below the Bank's 2 per cent target.
- The Bank made influential contributions to international discussions on monetary policy frameworks, the economic impacts of unconventional monetary policy, and the policy actions needed to achieve strong, sustainable and balanced global economic growth.
- The Bank contributed significantly to regulatory reform of the global financial system, through the Financial Stability Board and other international bodies. Substantial progress was made by Canadian authorities in the implementation of these reforms in Canada.
- The International Monetary Fund (IMF), in its Financial Sector Assessment Program, concluded that the Canadian financial system remains sound and well regulated. The Bank developed the assessment's approach and methodology for stress testing Canadian banks, which were described by the IMF as both novel and leading edge.
- The Bank completed the issuance of the *Polymer* series of bank notes, which are safer, cheaper and greener than any previous series, with the successful launch of the final two denominations, the $5 and $10 notes.
- The counterfeiting level for all bank notes in circulation was 29 parts per million (ppm) in 2013, meeting the Bank's objective of maintaining counterfeiting levels below 30 ppm. The level for polymer bank notes, which have leading-edge security features that are easy to verify and hard to counterfeit, was below 1 ppm.
- The Bank began carrying out independent, internal credit-risk assessments of investments held in the government's Exchange Fund Account, consistent with international commitments to promote financial stability through reduced reliance on credit ratings.
- The Bank worked with the Government of Canada to implement the government's prudential liquidity-management plan, which was completed a year ahead of schedule in June 2013. Under this plan, the government built up a callable deposit of $20 billion at the Bank of Canada.
- Approximately 1,300 Bank staff moved to temporary locations in Ottawa in 2013 in preparation for the renewal of the Bank's head office complex over the next three years. The relocation process went smoothly and Bank operations continued as planned.
- The Bank was recognized as a Top 100 Employer in Canada for the fourth consecutive year.
- Stephen S. Poloz was appointed Governor of the Bank for a seven-year term, and assumed the role on 3 June.

The Bank of Canada's Mandate

Promote the economic and financial welfare of Canada

Our four core areas of responsibility are:

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-control 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 Bank in 2013

Monetary Policy

Keeping inflation low, stable and predictable is the most important contribution that monetary policy can make to the economic welfare of Canadians. Since 1991, the Bank's monetary policy actions toward this objective have been guided by a clearly defined inflation-control target. In 2011, this target—2 per cent for total CPI inflation—was renewed by the Bank and the Government of Canada and extended to 2016.

Monetary policy decisions are made within a flexible inflation-targeting framework and 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. Given the structure of Canada's economy, analysis of the external environment plays an important role in formulating monetary policy.

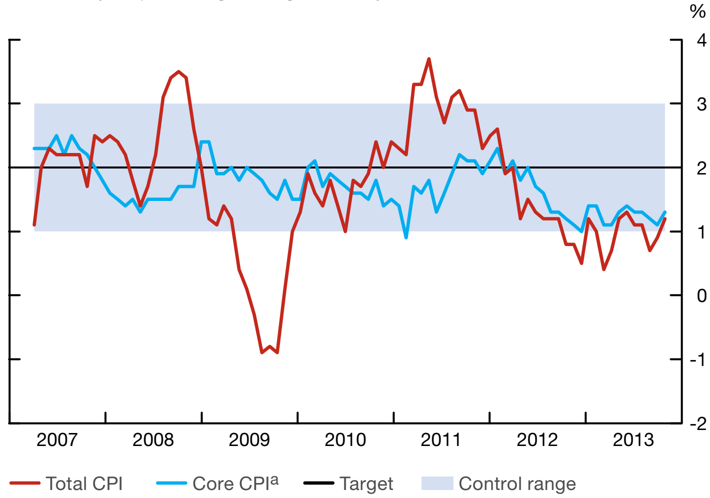
A weak global economy and elevated levels of uncertainty continued to dampen activity in Canada in 2013. Global economic growth was restrained by fiscal austerity and ongoing deleveraging in a number of countries. These factors also weighed on business and consumer confidence. However, as the year progressed, there were indications that these headwinds were starting to ease. Although long-term bond yields in international financial markets rose in the latter part of the year as the U.S. economy gained momentum and the U.S. Federal Reserve laid plans to slow the pace of asset purchases, global financial conditions remained very accommodative.

Real economic activity in Canada in 2013 was disappointing, as the anticipated rebalancing of demand toward exports and investment spending failed to materialize. While part of the softness in exports can be explained by weaker-than-expected growth in foreign demand and ongoing competitiveness challenges, unfavourable developments in the energy sector also played an important role. Household spending, in contrast, evolved in a more constructive fashion, pointing to a gradual unwinding of imbalances that had developed in the housing sector and a flatter profile for household debt-to-income ratios.

Significant excess supply in the economy and heightened competitiveness pressures in the retail sector contributed to hold down inflation in Canada. Measures of core inflation were consistently in the bottom half of the Bank's 1 to 3 per cent inflation-control range through 2013 (**Chart 1**). Total CPI inflation averaged slightly below 1 per cent, restrained by weaker core inflation, declines in mortgage interest costs and modest increases in gasoline prices.

Chart 1: Total CPI and core inflation were close to 1 per cent through much of 2013

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 2013

In its monetary policy decisions, the Bank considered the downside risks to inflation, which became increasingly important as inflation remained below target and decreased further in the second half of the year. At the same time, lowering the policy interest rate would risk exacerbating already-elevated household imbalances. Balancing these two sets of risks, the Bank judged that the substantial monetary policy stimulus already in place was appropriate. As a result, the target for the overnight rate remained at 1 per cent throughout the year. Detailed economic analysis and an explanation of the Bank's monetary policy are provided quarterly in the *Monetary Policy Report*.

Key Achievements

- In a challenging and uncertain global environment, monetary policy supported growth in the Canadian economy in 2013. Inflation expectations remained well anchored, despite inflation rates significantly below the Bank's 2 per cent target.
- The analytic tools used to support monetary policy decision making were expanded and improved. A wide range of current analysis tools and policy models were developed and implemented, enhancing the Bank's analytic, monitoring and forecasting capabilities.
- Bank staff produced research and analysis on a wide range of policy issues, including alternative monetary policy frameworks, the economic impacts of unconventional monetary policies, the impact of uncertainty on business investment decisions, vulnerabilities in emerging-market economies and their implications for global economic growth, real economic and financial linkages, and the determinants of world commodity prices.
- The Bank also made important contributions to policy discussions in international forums such as the G-20 and the International Monetary Fund, providing effective guidance on monetary reform, the benefits and costs of unconventional monetary policy, and the need for a timely rebalancing of global demand.

The Bank of Canada's Fellowship Program

The Bank of Canada's Fellowship Program[1] helps to foster research excellence in areas important to its mandate, and to develop partnerships with experts outside the Bank. Through this program, two types of resea rch awards are available for academics working at Canadian universities.

The **Fellowship Award** is for a five-year term, subject to an annual review and confirmation process. It recognizes excellence among well-established researchers in Canada. In 2013, the recipient was **Professor Peter Christoffersen** of the University of Toronto's Rotman School of Management, a leading researcher in the areas of risk management, financial volatility modelling and financial engineering. His ambitious research agenda, related to the measurement of systemic risk, structural modelling of household defaults, improvement of stress-testing techniques, and the design of optimal risk-management strategies, is not only timely and influential, but also highly relevant to global policy-makers.

The **Governor's Award** is for a two-year period, subject to an annual review and confirmation process. It recognizes outstanding academics at a relatively early stage in their careers. The 2013 recipient of the Governor's Award was **Professor James MacGee** of Western University. Professor MacGee has published leading-edge research in the areas of consumer bankruptcy and household debt dynamics, the Great Depression, and the evolution of consumer debt markets. His current research plans focus on the propagation of international economic shocks, the impact of high levels of consumer debt on the effectiveness of monetary policy, and the sources and consequences of changes in consumer debt markets.

1 Additional details can be found on the Bank's website.

Financial System

The Bank promotes the stability and efficiency of Canada's financial system by providing liquidity, overseeing payment clearing and settlement systems that are systemically important, participating in the development of financial system policies in Canada and globally, and assessing and communicating risks to the overall stability of the financial system.

The Bank shares responsibility for the stability of the financial system with federal financial regulatory authorities. Ultimately, the Minister of Finance is responsible for the sound stewardship of the financial system.

The Bank communicates its assessments of financial system risk in its semi-annual *Financial System Review* and in speeches by members of the Governing Council. Working with federal and provincial agencies, the Bank assesses these risks and helps to develop policies to mitigate them.

While the Canadian financial system has faced an elevated level of risk during the past several years, these risks declined in 2013. This decline is, in part, a reflection of progress toward creating a more resilient financial system, both globally and in Canada, by reducing leverage and strengthening liquidity management in the banking system, making core funding markets more robust, and working toward ensuring that no financial institution is "too big to fail." It also reflects important global developments: prospects for the euro area improved, reducing the risk of another crisis there; and global long-term interest rates began to normalize.

At the same time, some significant elements of risk remain. Within Canada, the most important source of risk is the combination of high household indebtedness and housing market imbalances. These imbalances are likely to stabilize and gradually unwind, however, as mortgage interest rates begin to normalize.

Key Achievements

- The Bank completed its Auctions and Markets Applications Program (AMAP), which updated and strengthened the technological tools used to carry out market operations, especially those that may be needed to support financial stability in times of stress. AMAP will help the Bank better manage the risks associated with such operations.
- The Bank contributed significantly to the reform of the global and Canadian financial systems through key international organizations, particularly: enhancing the transparency and resilience of over-the-counter derivatives markets; strengthening bank leverage and liquidity standards and establishing resolution regimes for systemically important financial institutions; improving the governance of financial market benchmarks; and developing a regulatory framework for repurchase agreements and securities-financing transactions.
- To help contain systemic risk and increase transparency, the Bank worked with provincial securities regulators and industry on reforms of over-the-counter derivatives markets and a strengthened oversight framework for central counterparty clearing of repurchase agreements.
- New tools developed and implemented for monitoring systemic risk included an early-warning model for assessing financial sector vulnerabilities, a projection model for household credit, and a policy model to analyze the interaction between monetary and system-wide financial policies.
- As part of the IMF's Financial Sector Assessment Program, the Bank participated in a stress-testing exercise for Canadian banks under a scenario involving a severe macroeconomic shock. The IMF complimented the Bank's approach and methodology for stress-testing Canadian banks as both novel and leading edge.

Currency

The Bank of Canada is responsible for supplying Canadians with bank notes that they can use with confidence. The Bank's currency strategy rests on four pillars:

- developing bank notes that are difficult to counterfeit and easy to authenticate;
- increasing the routine verification of bank notes by retailers and the public;
- promoting the deterrence of counterfeiting in partnership with law-enforcement agencies and prosecutors; and
- focusing on quality throughout the life cycle of a bank note—from production to efficient distribution to destruction and replacement.

In 2013, key priorities for the Currency function were to issue the final two denominations—the $5 and $10 notes—in the new *Polymer* series of bank notes, to manage the relocation of Currency activities due to the Head Office Renewal Program, and to plan and implement changes to the Currency function resulting from the issuance of the more durable polymer notes.

The Bank continued its collaboration with international working groups and research partnerships focused on bank note development and security, such as the Central Bank Counterfeit Deterrence Group (a group of 32 central banks); the Four Nations Group (Australia, Canada, the United Kingdom, Mexico and, more recently, the United States); and the Reproduction Research Centre (an anti-counterfeiting laboratory operated by central banks).

Domestically, the Bank continued its work with the RCMP and other partners in law enforcement, as well as with stakeholders in the retail and financial sectors, to promote bank note authentication and counterfeit deterrence.

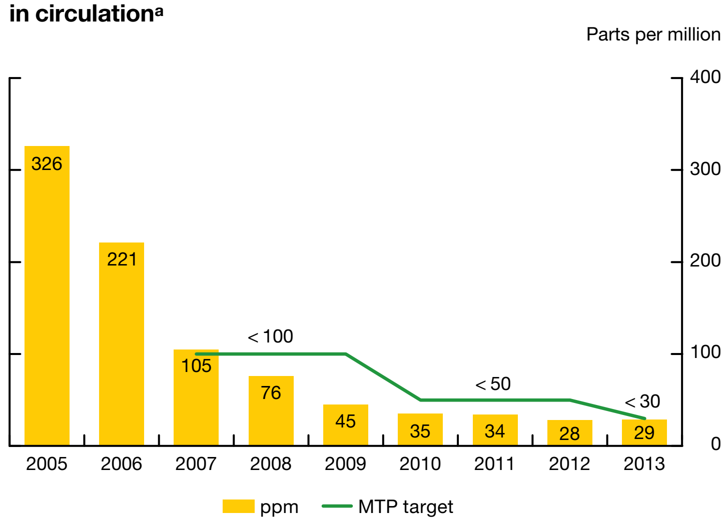
At year-end, there were approximately 2 billion bank notes in circulation, with a total value of $66.6 billion. The volume and value of bank notes are consistent with the figures reported for 2012. By the end of 2013, polymer notes accounted for 51 per cent of notes in circulation (excluding the $1, $2 and $1,000 denominations that are no longer issued but still outstanding).

In its 2013–15 medium-term plan (MTP), the Bank set a target of below 30 counterfeits detected annually for each million genuine bank notes in circulation (reported as parts per million, or ppm).

Key Achievements

- The Bank met its objective of issuing all five denominations in the *Polymer* series of bank notes within a 24-month period, with the successful launch of the final two denominations on 7 November (see **Box 1**).
- Business processes in the Currency function were reviewed and improved to take advantage of the longer life of polymer bank notes, as well as lower counterfeiting levels. Processing operations have been successfully transitioned to the new polymer environment, and quality criteria have been established for polymer notes.
- The counterfeiting level for all bank note series in circulation (**Chart 2**) was 29 ppm in 2013, meeting the Bank's objective of maintaining counterfeiting levels below 30 ppm. The level for polymer bank notes, which have leading-edge security features that are easy to verify and hard to counterfeit, was below 1 ppm.

Chart 2: Number of counterfeit bank notes detected per million notes in circulation[a]



a. The target for the 2013–15 medium-term plan (MTP) is below 30 ppm.

Box 1

The New Polymer $5 and $10 Notes

On 7 November 2013, for the first time since 1954, the Bank of Canada issued two new bank notes on the same day, completing the *Polymer* series of bank notes. The development of this latest series builds on a long tradition of Canadian innovation and achievement. Safer, cheaper and greener than any previous series, the polymer notes combine transparency, holography and other sophisticated security elements that make them unique among world currencies. Throughout the preparation and issuance of the new series, the Bank worked closely with key stakeholders to support a smooth transition to the new design and polymer material.

These notes will last at least 2.5 times longer than those made with cotton-based paper, delivering both economy and a smaller environmental footprint. At the same time, their state-of-the-art security features will deter counterfeiters and ensure that Canadians can continue to use bank notes with complete confidence.

The back of the $5 note highlights Canada's ongoing contribution to the International Space Station program and demonstrates our commitment to space exploration. The note was publicly unveiled in April by Canadian astronaut Chris Hadfield, Commander of the International Space Station, while in orbit. The illustration features the Canadian-built Mobile Servicing System—a sophisticated robotics suite composed of the Mobile Base, *Canadarm2* and *Dextre*—that was used to assemble the International Space Station.

The image on the reverse of the $10 note illustrates the expansion of Canada's railway in the 1880s. The completion of this project, which, at the time, was the longest railway system ever built, was hailed as a remarkable feat of engineering for a country with a varied and often treacherous terrain. The illustration of the *Canadian* train winding its way through the Rockies showcases Canada's natural beauty and symbolizes our accomplishments as a young nation.

Funds Management

As the federal government's fiscal agent and banker, the Bank of Canada administers and advises on the government's debt and reserves. The Bank also works with the Department of Finance to develop policies and programs for managing the federal government's borrowing and investment activities. The Bank's goal is to provide fiscal-agent and related banking services effectively and efficiently, within a strong risk-management framework.

The Bank manages Government of Canada cash balances held at the Bank of Canada and other financial institutions, which averaged about $30 billion in 2013, as well as Canada's official international reserves of approximately US$70 billion in 2013.

The Bank also manages the risks associated with its own balance sheet, and the assets held by its employee 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.

As the Bank is a key member of the payment system in Canada, a significant challenge for the funds-management function in 2013 was the need to maintain operational continuity during the transition to the Bank's temporary head office facility. Detailed risk-mitigation strategies ensured that the Bank continued to provide secure and efficient services throughout the move.

Key Achievements

- The process for managing Canada's foreign reserves continued to be strengthened through increased clarity of roles and procedures, significant progress toward the development of a strategic benchmark for the foreign reserves portfolio, and a proposal to strengthen the collateral framework supporting the swap funding program.
- A number of steps were announced to reduce the risks associated with the management of the government's cash balances, most notably the requirement that all cash balances offered through the morning Receiver General auction be available only on a fully-secured basis.
- Significant progress was made toward implementing the 2010 recommendations of the Financial Stability Board to eliminate the mechanistic use of credit ratings. In 2013, the Bank began to implement a framework for independent, internal credit-risk assessment of sovereign investments in its funds-management activities.
- The Bank continued to work with the Government of Canada to ensure that the government retains sufficient funds to conduct ongoing operations in both normal and stressed market conditions. The implementation of the government's prudential liquidity-management plan was completed in June 2013, a year ahead of schedule, with callable deposits raised to $20 billion.
- Banking operations continued to be delivered with high levels of efficiency and cost-effectiveness, with no serious events or outages. Fees for services provided to financial market infrastructures and other central banks were reviewed and revised to ensure that cost-recovery objectives are achieved.

- Research and analysis contributed to the development of policy advice by:
  - furthering the understanding of the effects of other payment options on the efficiency and stability of retail payment systems, and on the demand for currency;
  - providing guidance to the government on the management of the stock of federal debt; and
  - enhancing the governance framework for the investment of the government's foreign exchange reserves.

Unclaimed Balances

An "unclaimed balance" is a Canadian-dollar deposit or negotiable instrument, issued or held by a federally regulated bank or trust company, which has been inactive for a period of 10 years and whose owner cannot be contacted by the institution holding or administering it. It can be in the form of a deposit account, bank draft, certified cheque, deposit receipt, money order, GIC, term deposit, positive credit card balance or traveller's cheque.

These balances are turned over to the Bank of Canada, which acts as custodian on behalf of the owners. Balances are transferred to the Bank of Canada once a year, on 31 December.

Under its unclaimed balances service (UCBS), the Bank of Canada holds unclaimed balances of less than $1,000 for 30 years after they have been transferred to the Bank. Balances of $1,000 or more will be held for 100 years. If the balance remains unclaimed at the end of the prescribed custody period, the Bank of Canada transfers the funds to the Receiver General for Canada.

Owners of these accounts can claim their money if they are able to provide proof of ownership. Over the past 10 years, the Bank has paid out approximately $135 million to claimants representing about 75,000 unclaimed balances, the largest account being $600,000. In addition, during this time frame, the Bank transferred $15 million to the federal government.

At the end of 2013, the Bank was the custodian of 1.4 million of these accounts, which had a total value of approximately $533 million.

During 2013, the Bank discovered that $1.6 million had been inappropriately paid to an organization as a result of multiple claims submitted by that organization. The Bank has taken action to recover the funds, and the accounts have been reinstated on the UCBS registry.

As a result, the Bank undertook a review of its processes for administering claims for unclaimed balances. Procedures have been strengthened, particularly those related to the processing of complex multi-account claims made by corporate entities, which have a greater risk of error.

Building on Excellence: Progress on Our Medium-Term Plan

To meet its mandate in a changing environment, the Bank develops a medium-term plan (MTP) every three years.

The Bank's current plan, *Building on Excellence: Strength, Stability and Confidence*, builds on the achievements of earlier plans, setting out priorities for 2013 through 2015 that will position the Bank for continued success. These priorities provide a focus for work across diverse functions and help to ensure that the Bank can fulfill its mandate in an effective manner. The plan also includes a commitment to adhere to the spirit and intent of the government's Deficit Reduction Action Plan.

The three strategic priorities identified in the Bank's 2013–15 medium-term plan are:

- Performing superior policy analytics
- Building a resilient financial system
- Delivering excellent services

A number of initiatives are being undertaken across the Bank in support of these priorities, several of which are highlighted in the preceding sections of this *Report*. Good progress was made in all areas in 2013, and some of the key achievements in each of the priority areas are summarized below.

Strategic priority	Key achievements in 2013
Performing superior policy analytics: remaining at the forefront of central bank practice	The Bank produced important research on a wide range of policy issues, which was influential in its own work and in policy discussions in a variety of international forums. The Bank improved the tools and policy models it uses in the analysis, monitoring and forecasting of the global and Canadian economies. The discussion of risks and uncertainty in the *Monetary Policy Report* was enhanced. Significant progress was made in the Bank's research on electronic money and payments, including the development of economic models to understand the impact of alternative payment technologies.

Strategic priority	Key achievements in 2013
Building a resilient financial system: in Canada and globally	The Bank made notable contributions to domestic and international financial sector reform initiatives. This included work on the development of a statutory bail-in model for domestic systemically important banks, and internationally, on shaping the margining requirements for bilateral over-the-counter (OTC) derivatives transactions. Tools for assessing financial stability risks and to support policy advice were developed and/or enhanced. The MacroFinancial Risk Assessment Framework, which is used to measure risks in the Canadian banking system, was identified by the IMF as being at the frontier of stress-testing models. The London-based central counterparty, SwapClear, was designated as subject to ongoing regulatory oversight by the Bank under the Payment Clearing and Settlement Act.
Delivering excellent services: to meet the evolving needs of Canadians, the Government of Canada and financial markets	A major advance in bank note security was achieved with the issuance of the new *Polymer* series of bank notes. Significant progress was made on enhancing the governance framework for foreign reserves management, and on developing internal credit-rating assessment capabilities. In the Bank's fiscal-agent, retail debt and banking operations, a high standard of operational excellence was maintained.

In 2013, expenses were managed within the underlying financial plan and in line with medium-term commitments. More information on the Bank's 2013 financial results is presented in the Management's Discussion and Analysis section of this *Report*.

The medium-term plan also includes investments in the Bank's supporting infrastructure, most notably the multi-year renewal of the head office facility in Ottawa. Investments in people and the work environment, particularly in leadership development, are also an important part of the plan. An engaged and motivated workforce, equipped with the right skills, tools and work environment, will enable the Bank to achieve its priorities and meet the challenges of the future.

Our People and Work Environment

As Canada's central bank, we are a one-of-a-kind institution that plays a critical role in the Canadian and global economies. We depend on our employees for our success, and every individual has a role in fulfilling the Bank's mandate to promote the economic and financial welfare of our country and its people.

Our 1,250 regular employees are located primarily in Ottawa, but also at offices in Halifax, Montréal, Toronto, Calgary, Vancouver and New York City, and operations centres in Montréal and Toronto.

We have employees who focus on highly specialized aspects of the economy and the functioning of the financial system—both within Canada and internationally. But that is only part of the story: the Bank brings together many varied talents. To be effective, all employees—including those who are part of the administrative and operational functions—need to understand the unique nature of the Bank and its goals and objectives. We benefit from an environment of respect in which everyone appreciates the importance of working together to meet our mandate.

We are proud of the talented people who work here, and strive to provide them with challenging work, distinctive development opportunities and competitive compensation. The opportunities to learn about the broad range of work within our institution are varied and encouraged through interdepartmental projects, temporary assignments, and conferences and seminars to support ongoing learning and development. As well, we interact with our peers internationally, participating in working committees, meetings and conferences to share perspectives and knowledge.

Recruitment is always an important focus for the Bank, particularly our annual university recruitment campaign. In 2013, we strengthened the campaign by providing better access to information about the Bank and increasing the engagement of senior leadership. A Deputy Governor now chairs the campaign, working with members of senior management to match the talents of the applicants with the needs of the Bank.

We recognize that strong leaders are essential to ensuring the engagement of our people and the creation of a positive work environment. In 2013, we began a process to increase the learning opportunities and capabilities of our leaders, and this will remain an important priority in 2014.

The Bank aims to provide a superior work environment that is built on our values:

Excellence—We engage in leading-edge research and analysis, through collaboration within the Bank and with outside organizations, and through innovation in all aspects of our work.

Integrity—We communicate our objectives openly and effectively and are accountable to each other and to Canadians for our words and actions.

Respect—We succeed by recognizing the value of diversity in people and ideas, and by respecting our lives outside of work.

To celebrate employees who best reflect the Bank's values of excellence, integrity and respect, the Bank launched a renewed recognition program in 2013. A new awards program will honour individuals and teams who made outstanding contributions toward achieving the Bank's objectives and enhancing our work environment. Our first Awards of Excellence will be granted in 2014.

The Bank is proud to have been designated a Top 100 Employer in Canada for the fourth consecutive year. The evaluators highlighted the Bank's exceptional work environment, which includes an in-house fitness centre; a room for meditation or prayer; indoor bicycle parking; and a downtown head office close to parks, shopping, the Rideau Canal and Parliament Hill. Maintaining these elements of our work environment in our temporary head office location in downtown Ottawa was a priority in 2013.

Other aspects of the work atmosphere, including excellent internal communications that keep Bank employees informed not only of corporate priorities but also fun events such as "Take Our Kids to Work Day," photo contests, and charity fundraising campaigns, added to the Bank's high marks.

Our support for career development—including a tuition-reimbursement subsidy, a wide range of internal and external learning opportunities, and a mentoring program that pairs employees who are new to their roles with experienced staff—was also noted as a particular strength of the Bank as an employer.

Canada's Top 100 Employers 2014

See more on why the Bank is one of Canada's Top 100 Employers at www.eluta.ca/top-employer-bank-of-canada.

National Capital Region's Top Employers • Les meilleurs employeurs de la région de la capitale • 2014

The Bank was also recognized as one of the National Capital Region's Top Employers.

Who We Are:
Staff Demographics at a Glance

As of 31 December 2013 for regular employees

FIRST OFFICIAL LANGUAGE

67% ENGLISH

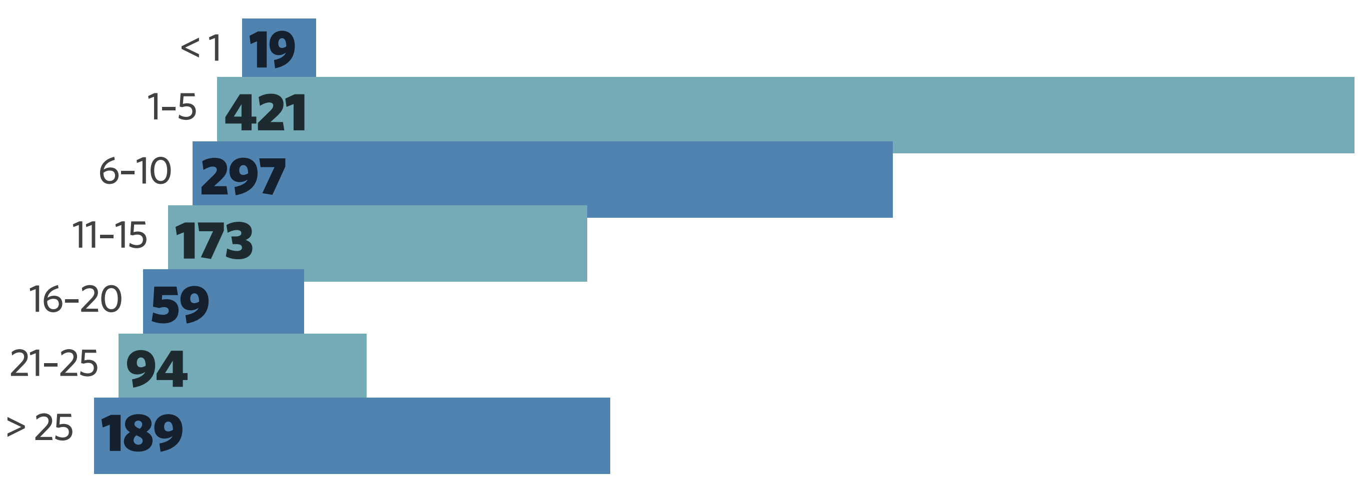
33% FRENCH

GENDER BREAKDOWN

49% MALE

51% FEMALE

YEARS OF SERVICE | NUMBER OF EMPLOYEES



Box 2

Head Office Renewal

The Bank is renewing its head office complex with a clear commitment to preserving the architectural heritage and integrity of the original buildings, while exercising sound stewardship of public funds.

Our head office at 234 Wellington Street, designed by S.G. Davenport in collaboration with the firm Marani, Lawson and Morris, has been the Bank's home since 1938. In the 1970s, Arthur Erickson's elegant towers and atrium, also designed in collaboration with Marani, Lawson and Morris, were added. We understand what a privilege it is to occupy these beautiful buildings, and our responsibility to maintain them.

We are modernizing the space—so that it will be a safe, comfortable and productive place to work for decades to come—in a way that enhances its best features and remains true to the architects' original vision.

A resilient work facility is critical for the Bank to continue to fulfill its mandate to promote the economic and financial welfare of Canada. The Bank of Canada's head office complex is in need of extensive renovation to align with modern health and safety standards and requirements for seismic stability, and to better meet the Bank's evolving security and business requirements. Renewing the head office is also an opportunity to make it more energy-efficient, cost-effective and environmentally sustainable.

The estimated cost of the construction is $460 million. A committee of senior Bank staff oversees the project, and it is also closely monitored by the Bank's independent directors, who are appointed by the federal government to provide general oversight of the management and administration of the Bank. The goals and details of the project can be found on the Bank's website.

In 2013, head office staff were temporarily relocated to 234 Laurier Avenue West and two other locations in the Ottawa area. The moves took place on schedule and Bank activities continued as planned throughout the relocation. Vacating the head office buildings allows the Bank to complete the renovations more rapidly, shortens the period of disruption, lessens the risk of a system failure and lowers program costs.

Risk Management

Managing financial, business and enterprise risks that may directly or indirectly affect the Bank's ability to deliver on its mandate and strategic objectives is an important element of management's responsibilities. The Bank has a well-established framework for identifying, managing and monitoring these risks, involving staff across the institution. This framework is described in the Management's Discussion and Analysis section, together with the Bank's 2014 risk profile.

2013 Risk-Management Highlights

In 2013, the corporate risk profile was elevated, given the risks associated with the renewal of the head office complex. This project involved preparing temporary facilities and moving approximately 1,300 people and all assets, while maintaining business continuity. The Bank devoted considerable effort to identifying, analyzing and managing the risks related to the initiative, and held regular risk workshops with key internal and external stakeholders. The relocation was accomplished smoothly, and critical operations continued to function without interruption.

Other notable highlights included the successful completion of two major initiatives to strengthen the resilience of the Bank's operations:

- the Enhanced Business-Continuity Program, a multi-year initiative to build and operationalize new primary and secondary data centres, and to upgrade the Bank's infrastructure and operational resilience; and
- the Auctions and Markets Applications Program, a five-year initiative that has reduced risk in the operations supporting the Bank's financial system function.

The risk level associated with the introduction of the new *Polymer* series of bank notes was reassessed and lowered from cautionary to acceptable, reflecting the successful launch of all denominations and the positive experience with the new series in circulation.

Finally, the Bank made significant strides in 2013 in developing its credit-risk-assessment capabilities and reducing reliance on credit-rating agencies in its funds-management activities.

Financial Highlights

Table 1 presents highlights of the Bank's 2013 financial statements and provides comparative figures. Further explanation and commentary are found in the Management's Discussion and Analysis section of this *Report*. Additional information about the Bank's balance sheet is available on the Bank's website.

Table 1: Financial Statement Highlights
(Millions of dollars)

	Value at 31 December		
	2013	2012[a]	2011[a]
Total assets and ***Total liabilities and equity***	91,305.7	77,807.3	64,247.2
Significant Financial Statement items			
ASSETS			
Loans and receivables	2,214.9	1,905.6	1,530.8
Investments	88,577.1	75,607.3	62,424.2
LIABILITIES			
Bank notes in circulation	66,615.9	63,700.0	61,028.8
Deposits	23,823.5	13,291.3	2,481.0
Comprehensive income			
Total Income	1,580.0	1,575.4	1,606.8
Total Expenses	574.0	491.3	353.1
Other comprehensive income (loss)	221.4	(48.0)	(178.9)
Comprehensive income	1,227.4	1,036.1	1,074.8

a. Effective 1 January 2013 and as required by International Financial Reporting Standards, the Bank adopted amendments to IAS 19 Employee Benefits. 2012 comparative results were restated to conform to the requirements of the amended standard. Results for the year ended 31 December 2011 were not restated, and expenses are not presented on a comparable basis to the following years (2012 and 2013).

The Bank's balance sheet has increased by 42 per cent since 2011. This expansion was mainly due to the federal government's decision to build a prudential liquidity-management deposit of up to $20 billion at the Bank of Canada. This deposit grew by $10 billion in 2012 and by a further $10 billion in 2013, driving the increase in the Bank's balance sheet over those years.

Bank notes are the principal liability on the Bank's balance sheet. The value of bank notes in circulation increased by 5 per cent in 2013, roughly in line with the growth of nominal GDP.

Total income for 2013 was broadly consistent with the previous year. Operating expenses were managed within the underlying financial plan and in line with medium-term commitments. Total expenses increased by $82.7 million compared with 2012, mainly as a result of costs associated with the production of polymer bank notes and the Head Office Renewal Program.

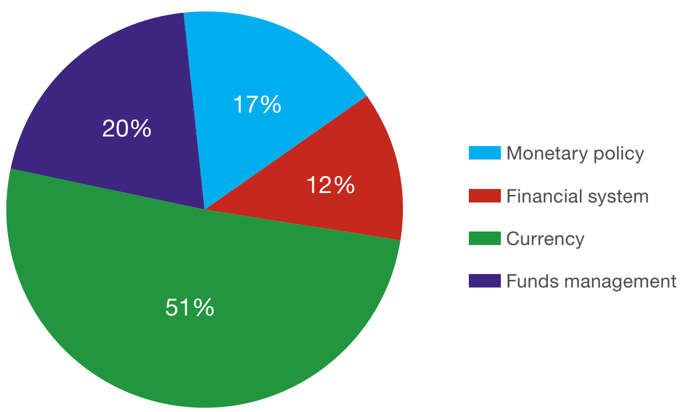
The *Other comprehensive income* recorded in 2013 mainly comprises actuarial gains related to the Bank's deferred employee benefit plans, reflecting a 90-basis-point increase in the discount rate used to value the defined-benefit obligations and higher returns on plan assets.

Expenses by function

The composition of the Bank's 2013 expenses by function (excluding costs associated with the Head Office Renewal Program) is shown in **Chart 3** below.

Costs related to the Currency function represent the largest portion of the Bank's expenses (51 per cent) and include the cost of producing bank notes. These costs increased in 2013 owing to the production of polymer notes, including the $5 and $10 denominations that were launched in November 2013.

Chart 3: Operating expenses, by function[a]



a. Expenses exclude the non-recurring program costs associated with the Head Office Renewal Program.

Key Priorities for 2014

Monitor and assess the ongoing transformation of the Canadian and global economies

…including the key drivers of inflation, structural changes in labour markets, developments in the energy sector and the factors affecting Canada's trade performance.

Research monetary policy frameworks for the renewal of the inflation target in 2016

…including post-crisis views on alternative policy frameworks, the role of financial stability considerations, the effects of unconventional monetary policy, and linkages between the real and financial sectors of the economy.

Review the framework for the Bank's financial market operations

…to reflect the evolving financial system, and to continue to provide effective support for financial stability and monetary policy decisions.

Contribute to regulatory initiatives

…to create a more resilient financial system globally and in Canada, and to support the implementation of reforms agreed to by G-20 leaders.

Strengthen Canada's framework for managing the investment of foreign reserves

…by implementing a strategic benchmark for Canada's foreign reserves portfolio.

Review and update the Government of Canada's medium-term debt strategy

…in collaboration with the Department of Finance, to reflect the structural changes that are occurring in the demand for and supply of Canadian government debt.

Further reduce the Bank's reliance on credit-rating agencies for the government's funds-management activities

…by expanding internal capacity for credit-risk assessments across all treasury activities that the Bank performs as fiscal agent for the government.

Conduct bank note research and development initiatives

…to enhance the Bank's capacity to design, issue and protect future series of bank notes.

Study the implications of e-money

…for payments, public policy and the role of the central bank.

Focus on leadership development

…to ensure that the Bank's leaders are equipped with the tools and training they need to excel.

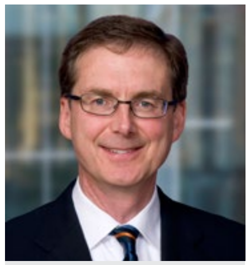
Renew the Bank's head office facility

…employing effective governance and sound financial management, while preserving the architectural heritage and integrity of the original buildings.

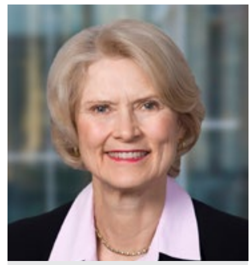
Corporate Governance

Board of Directors

Stephen S. Poloz[2*]
Governor



Tiff Macklem[2, 7*]
Senior Deputy Governor



Phyllis Clark[4*, 7]
Edmonton, Alberta

Philip Deck[1, 2, 5, 6*]
Toronto, Ontario

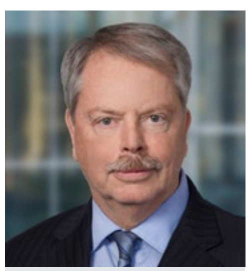
Colin Dodds[7, 8]
Halifax, Nova Scotia

Douglas Emsley[4, 5]
Regina, Saskatchewan

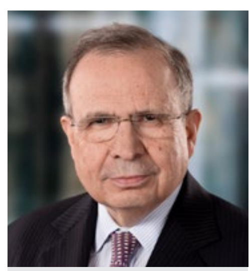
Brian Henley[2, 3, 5*]
St. John's, Newfoundland and Labrador

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

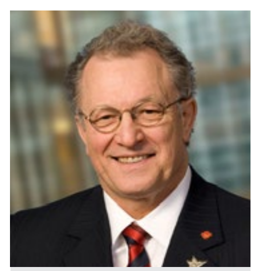
Claire Kennedy[3*, 4, 6]
Toronto, Ontario



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

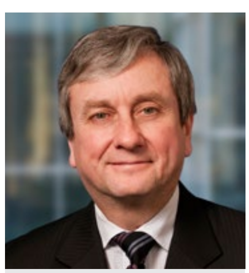


Hassan Khosrowshahi[4, 5]
Vancouver, British Columbia



Leo Ledohowski[5, 6]
Winnipeg, Manitoba

Richard McGaw[6, 7]
Fredericton, New Brunswick



Michael Horgan[2]
Deputy Minister of Finance, Member ex officio

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

* Indicates committee chair

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 bank notes, the provision of liquidity to the financial system, and oversight of Canada's major clearing and settlement systems, as set out in the Payment Clearing and Settlement Act.

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 the Bank's corporate governance.

Board Composition and Activities

The Board is composed of the Governor, the Senior Deputy Governor and 12 independent directors appointed for three-year renewable terms by the Governor in Council (the Cabinet). The Deputy Minister of Finance is an ex officio, non-voting member of the Board.

The Board and each of its committees meet regularly throughout the year. In 2013, the Board met six times, including one meeting outside of Ottawa to gain an understanding of local concerns and to explain the Bank's policies. This year, the meeting was held in Burlington, Ontario.

Written terms of reference set out committee responsibilities, as well as the responsibilities of the committee chairs. The committees in turn adopt written work plans for each calendar year.

Board Committees and Activities[1]

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

Committee	Chair	Mandate	Number of meetings in 2013
Audit and Finance Committee	Daniel Johnson[a]	Oversees the financial affairs of the Bank, including its medium-term plan, annual budget and expenditures, as well as the activities of the Bank's internal and external auditors	6
Human Resources and Compensation Committee	Philip Deck	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	4
Corporate Governance Committee	Jock Finlayson[b]	Oversees the Bank's corporate governance practices, including annually assessing the Board's effectiveness, providing oversight on the Board education program,[c] and reviewing both the composition of committees and the terms of reference of the Board and its committees	2
Capital Projects Committee	Brian Henley	Provides Board oversight for significant capital projects being undertaken by the Bank, including oversight of the Bank's Head Office Renewal Program	5
Pension Committee	Senior Deputy Governor Tiff Macklem	Advises the Board regarding the Bank's responsibilities as sponsor and administrator of the Bank of Canada pension plan, including plan investment policies, plan administration, communication and stakeholder relations[d]	4

a. Prior to November 2013

b. To September 2013

c. In addition to the Board education program, newly appointed directors receive comprehensive orientation presentations.

d. The Pension Committee is composed of three independent directors, the Senior Deputy Governor and three other members of management.

In addition, the Bank of Canada Act provides for an Executive Committee to act in the place of the Board. The Executive Committee met in February to receive its regular annual report on staffing from the Human Resources and Compensation Committee, and in July to receive an in-depth economic briefing from senior management (all Board members are invited to this meeting).

An independent director acts as Chair of the Nominating Committee of the Bank's Fellowship Program. Jock Finlayson chaired this committee prior to November 2013. Highlights of this year's Fellowship Program are provided in the Monetary Policy section of this *Report*.

1 Attendance data are available on the Bank's website: About the Bank>Management and Corporate Governance>Board of Directors.

In May 2013, a Special Committee composed of independent directors completed the process leading to the appointment of Stephen S. Poloz as Governor for a seven-year term, effective 3 June 2013. The Special Committee's mandate ended in June 2013. Board members also participated in the selection of Lawrence Schembri as Deputy Governor.

Board Independence

Since the Governor is both Chair of the Board of Directors and Chief Executive Officer, the independent (non-management) directors elect a Lead Director for a two-year renewable term to represent their interests and act as a link between them and the Governor.

As well, both the Board and its committees regularly hold sessions without management or non-independent directors present. Each committee of the Board, except 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 Financial Officer and Chief Accountant. The Board and its committees have the right to retain independent advisers at the Bank's expense.

Director Compensation

Independent directors are paid within the ranges established under the *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations* administered by the Privy Council Office. In addition, all independent directors are reimbursed for travel, accommodation and meal expenses incurred while attending meetings of the Board, its committees or other Board-related events. The Governor, the Senior Deputy Governor and the Deputy Minister of Finance receive no compensation with respect to their duties as members of the Board.

Selected 2013 Information

Board membership changes (October 2013)

Appointments: Colin Dodds, Monique Jérôme-Forget, Hassan Khosrowshahi

Departures: William Black, David Laidley, Jock Finlayson

Resignations: Daniel Johnson

Changes in member responsibilities

Lead Director: Philip Deck succeeded David Laidley (September 2013)

Corporate Governance Committee Chair: Claire Kennedy succeeded Jock Finlayson (September 2013)

Audit and Finance Committee Chair: Phyllis Clark succeeded Daniel Johnson (November 2013)

Compensation

Annual retainer: $8,000

Additional Executive Committee retainer: $3,000

Additional Committee Chair retainer (excluding Corporate Governance): $1,000

Additional Corporate Governance Committee Chair retainer: $2,000

Per diem for meeting attendance: $625

Management of the Bank

The Governing Council is the Bank's policy-making body. It consists of the Governor, the Senior Deputy Governor and four Deputy Governors. Under the direction of the Governor, it is responsible for monetary policy, decisions aimed at promoting a sound and stable financial system, and the strategic direction of the Bank.

Governing Council (*left to right*): Tiff Macklem, Senior Deputy Governor; John Murray, Deputy Governor; Stephen S. Poloz, Governor; Lawrence Schembri, Deputy Governor; Agathe Côté, Deputy Governor; Timothy Lane, 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, the Chief of the Human Resources Department, and the Chief Financial Officer and Chief Accountant.

The Chiefs' Committee streamlines the Bank's decision-making processes by strengthening the partnership between departments with shared responsibilities for responses to operational issues. The Committee is composed of the Chiefs of all Bank departments and the Adviser responsible for Head Office Renewal.

The Bank is organized into 13 departments: Audit, Canadian Economic Analysis, Communications, Corporate Services, Currency, Executive and Legal Services, Financial Markets, Financial Services, Financial Stability, Funds Management and Banking, Human Resources, Information Technology Services, and International Economic Analysis.

The following changes impacting the Bank's senior management occurred in 2013:

- In January, the role of Chief Risk Officer was assumed by Sheila Niven, Adviser and member of Management Council.
- Lawrence Schembri was appointed Deputy Governor in February.
- In June, Stephen S. Poloz began a seven-year term as Governor of the Bank.

Management's Discussion and Analysis

31 December 2013

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides additional contextual information to help readers more fully understand the business of the Bank, its performance and its expense projections. It helps in evaluating the appropriateness of management's business strategies and risk assessment and it allows the reader to see the Bank through the eyes of its management.

This MD&A should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2013.

Understanding the Bank of Canada's Financial Operations

The Bank of Canada is the nation's central bank. It is not a commercial bank and does not offer banking services to the public. The Bank is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of Finance, and governed by the Bank of Canada Act (the Act). The Act describes the Bank's legislative and governance framework, as well as its broad mandate to "promote the economic and financial welfare of Canada."

The Bank develops and implements policy within its mandate, specifically in relation to its four core functions: monetary policy, the financial system, currency and funds management. The Bank's activities and operations are undertaken in support of its core mandate, and not with the objective of generating revenue or profits. Additional details and perspectives concerning the full range of the Bank's policy activities and achievements in 2013 are provided in The Bank in 2013 section of this *Report*.

The Bank has the exclusive right to issue Canadian bank notes, and the face value of these bank notes is the most significant liability on the Bank's balance sheet. The Bank issues bank notes to financial institutions, which then credit the Bank with the face value of the bank notes.

In addition, in connection with the Bank's funds-management activities, the Government of Canada holds deposits at the Bank.

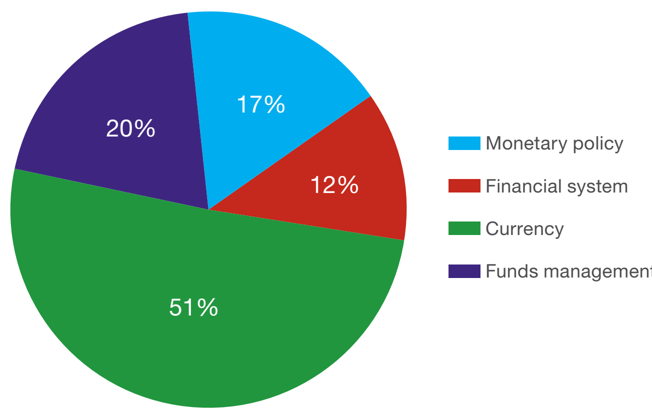
The proceeds from bank note issuance and government deposits are used to purchase Government of Canada securities (treasury bills and bonds). The Bank acquires these securities on a non-competitive basis at auction and structures its holdings to broadly reflect the composition of the federal government's stock of domestic marketable debt. These assets enable the Bank to execute its responsibilities for the monetary policy and financial system functions.

Interest income derived from these Government of Canada securities is also the Bank's primary source of revenue. The income generated from the assets backing the bank notes in circulation (net of bank note production and distribution costs) is referred to as "seigniorage," which provides a stable and constant source of funding for the Bank's operations, enabling it to function independently of government appropriations. Other sources of revenue include interest earned on lending facilities and deposits, safekeeping and custodial fees, as well as dividends received from the Bank for International Settlements (BIS).

The Bank's operations are not constrained by its cash flow or by its holdings of liquid assets, since its seigniorage income is predictable and exceeds its expenses. The balance of this income, less agreed reserves and deductions, is remitted to the Receiver General for Canada. This amount was $1,230.7 million in 2013.

Costs related to the Currency function represent the largest portion of the Bank's expenses (51 per cent) and include the cost of producing bank notes. These costs increased in 2013 for the production of polymer notes, including the $5 and $10 denominations that were launched in November 2013.

Operating expenses, by function[a]



a. Expenses exclude the non-recurring program costs associated with the Head Office Renewal Program.

Performance Against Plan

On a triennial basis, the Bank establishes a strategic plan (the medium-term plan, MTP) that provides a road map for the next three years. The 2013–15 medium-term plan, *Building on Excellence: Strength, Stability and Confidence*, focuses on three strategic priorities: performing superior policy analytics; building a resilient global and domestic financial system; and delivering excellent services to meet the evolving needs of Canadians, financial markets and the Government of Canada. The Bank's progress against its strategic priorities can be found in the Building on Excellence: Progress on Our Medium-Term Plan section of this *Report*.

The MTP also includes strategic investments in people, infrastructure and resilience, together with a continued commitment to carefully manage public funds, especially in the current context of fiscal restraint. The financial plan, the infrastructure and resilience plan, and the human resources plan support the Bank's day-to-day activities, as well as the achievement of its strategic and functional priorities. The following sections discuss the progress made against the enabling plans in 2013.

Financial Plan: Results for 2013

The Bank monitors its expenses based on two key financial management indicators: total operating expenses as reported in the Bank's financial results (in accordance with International Financial Reporting Standards, IFRS) and MTP operating expenses.[1]

MTP operating expenses are a subset of the Bank's total operating expenses and exclude specific expenses that have a history of volatility:

- costs related to the production of bank notes, which vary with note volumes;
- expenses for non-current deferred employee benefits, which are subject to volatility largely because of changes in discount rates; and
- one-time costs associated with the Head Office Renewal Program.

The Financial Plan takes into account the Bank's responsibility, as a public institution, to always exercise prudent financial management and ensure that resources are allocated to priorities that add the most value. The Plan also reflects the Bank's commitment to adhere to the spirit and intent of the government's Deficit Reduction Action Plan by embedding reduced operating costs in the 2013–15 Financial Plan. Accordingly, the Plan incorporates growth of 2 per cent between 2012 and 2015, or zero real growth, consistent with inflation averaging 2 per cent—the Bank's target. Real increases necessary to ensure the delivery of the Bank's mandate are matched by equivalent reductions.

Operating expenses in 2013, the first year of the Plan, were expected to grow by 5 per cent relative to the 2012 budget. This growth results in part from new non-discretionary operating costs to enhance the Bank's business resilience, as well as investments to refocus and reconfigure some of its business models and operations to achieve future savings.

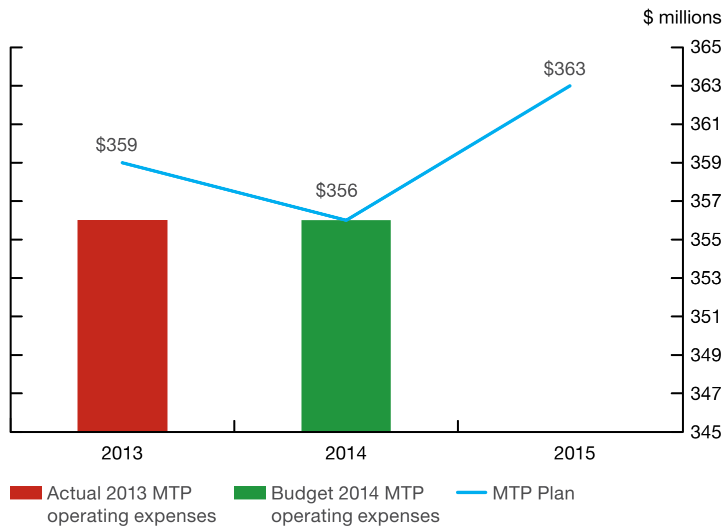
2013 results—MTP operating expenses

The Bank made significant progress in 2013 against the objectives set out in the medium-term plan, while managing operating expenses of $356 million within the Plan estimates.

The 2014 MTP expense budget is level with actual 2013 MTP operating expenses. Cost increases have been offset with savings, reflecting the Bank's commitment to adhere to the spirit of the government's Deficit Reduction Action Plan.

For a complete analysis of the Bank's 2013 expenses and the 2014 plan for operating expenses, refer to the Financial Discussion section in this *Report*.

MTP operating expenses



1 MTP operating expenses is a subset of total expenses. It is considered a non-IFRS measure that does not have a standardized meaning.

Progress Against Infrastructure and Resilience Plan

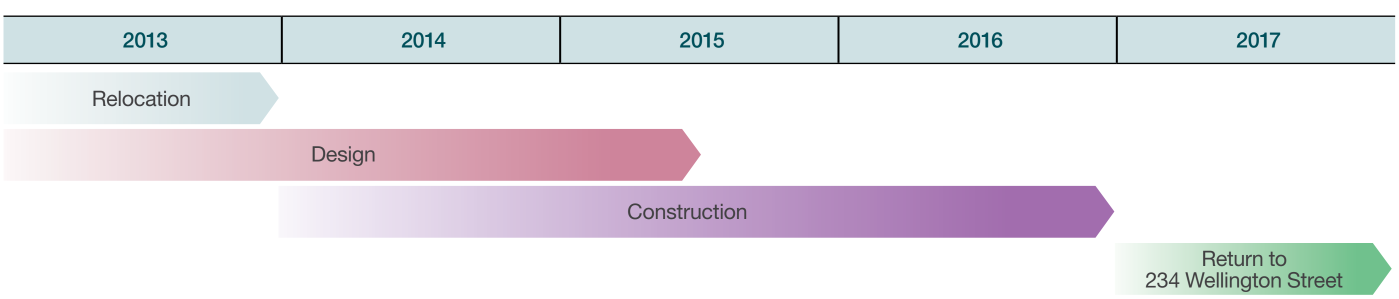
The Infrastructure and Resilience Plan ensures that the Bank's systems and infrastructure meet the needs of the institution today and in the future. Areas of focus include the continued development of the Bank's technology infrastructure, as well as its security and resilience. The Plan also includes the development of tools to help Bank staff work effectively and efficiently.

A number of the Bank's projects were completed in 2013, as highlighted in the following table:

Portfolio initiative	Target completion	Benefits to be realized	Status and 2013 achievements
Enhanced Business-Continuity Program	2013	Enhance the Bank's resilience with respect to the operations of critical payment clearing and settlement systems, and the resilience of its data centres	Completed in 2013
Auctions and Markets Applications Program	2013	Provide a new consolidated solution for acquiring, deriving and distributing market data within the Bank to facilitate the integration between external/internal data providers and data users within the Bank	Completed in 2013
Currency Systems Evolution Program	2013	Provide consolidated reporting of bank note inventories, inventory-management systems and the management-control processes supporting the new *Polymer* series, and enhance efficiencies	Completed in 2013
Tri-Agency Database System Renewal	2014	Implement a solution that improves data-management capabilities and the flexibility to capture, manage and report on new and different types of data from financial institutions	Implementation for deposit-taking institutions was completed in 2013
Enterprise Content Management Program	2015	Replace the Bank's current file-management system, enabling users to easily store, manage, share and locate electronic information	Overall design completed and initial deployment to users began in 2013Q4
Analytic Environment Evolution Upgrade	2015	Upgrade applications and consolidate time-series data into one warehouse, retiring most of the remaining legacy databases for economic time series	Management approval obtained to modernize the system (specialized time-series software and database used to support economic analysis)

An important project in the Infrastructure and Resilience Plan is the Head Office Renewal Program to overhaul and modernize the Bank's head office facility. The program was approved by the Bank's Board of Directors in the autumn of 2012, and in 2013, all head office employees were successfully relocated to temporary premises. This undertaking required careful planning and intense collaboration between all Bank departments to: (i) ensure continuity of operations, (ii) coordinate the substantial construction work required to accommodate the Bank's specialized activities and (iii) transform internal services to make the transition to landlord-managed facilities. The relocation also relied on the successful implementation of a new IT infrastructure and migration of operations to new data centres. The successful negotiation of a guaranteed maximum price contract with the general contractor hired to renew the facility at 234 Wellington Street is an important accomplishment that establishes the basis for the construction work that will take place over the next three years. Further information related to the Head Office Renewal Program can be found on page 20 of this *Report*.

Head Office Renewal Program Project Timeline



Progress Against Human Resources Plan

As a knowledge-based institution, the Bank relies on its employees to deliver on its mandate and achieve its strategic priorities. The Human Resources Plan focuses on building the Bank's capacity to attract and retain highly talented staff. Achievements in 2013 are discussed in Our People and Work Environment on page 17 of this *Report*.

Financial Discussion: Year-Over-Year

The Bank's assets and liabilities support its functional mandates by providing an independent revenue stream. Activities and operations are not undertaken to maximize the net income of the Bank, but rather to support policy objectives.

Highlights of the Statement of Comprehensive Income

Income

Income highlights as per the Statement of Comprehensive Income for the year ended 31 December
(Millions of Canadian dollars)

	2013	2012
Interest revenue	**1,779.5**	1,653.1
Interest expense	**(210.6)**	(87.8)
Other revenue	**11.1**	10.1
Total income	**1,580.0**	1,575.4

Total income for 2013 was $1,580.0 million, an increase of $4.6 million, or 0.3 per cent, compared with the previous year. Total income for 2013 was broadly consistent with the previous year.

The Bank's primary source of revenue is *Interest revenue* from investments, which is derived from investments in Government of Canada securities and fluctuates with market conditions. In 2013, the Bank recorded $1,770.7 million in interest revenue from treasury bills and bonds, an increase of $124.6 million over the previous year. The growth in *Interest revenue* is due mainly to the higher level of investments, which is partially offset by lower yields on newly acquired bonds compared with yields on investments that have matured. The remaining component is interest earned on purchase and resale agreements (PRAs) and dividend revenue from the Bank's investment in the BIS, which are both consistent with 2012 levels.

Income is reported net of interest paid on Government of Canada deposits. The higher level of Government of Canada deposits increased the *Interest expense* on deposits by $122.8 million compared with 2012. Interest rates paid on deposits are based on market-related rates and have not changed significantly from 2012.

Revenues from remaining sources increased slightly from 2012 levels, owing mainly to higher revenues from securities lending and other miscellaneous fees.

Expenses

Expense highlights as per the Statement of Comprehensive Income for the year ended 31 December
(Millions of Canadian dollars)

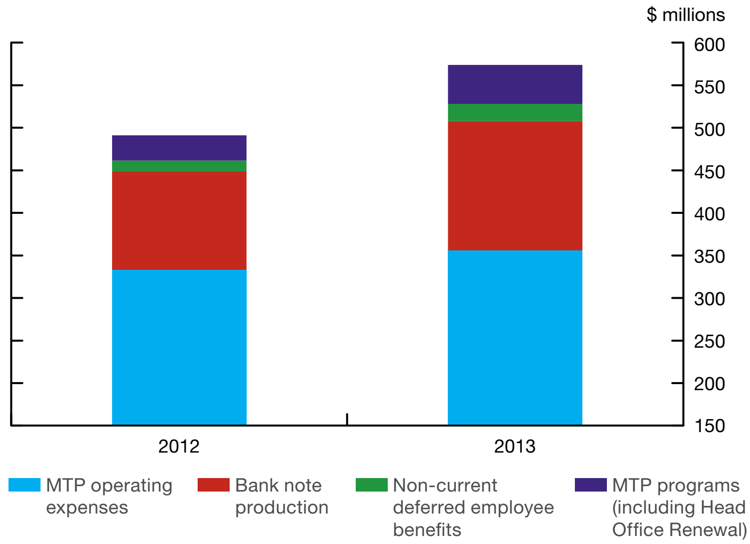
	2013	2012
Bank note research, production and processing	**158.8**	123.4
Staff costs (includes salaries and employee benefits)	**213.6**	191.4
Other expenses	**201.6**	176.5
Total expenses	**574.0**	491.3

Operating expenses were in line with expectations for 2013 and increased by $82.7 million compared with the previous year, mainly as a result of costs associated with the production of polymer bank notes. Although the initial cost of producing the polymer notes is higher, they are expected to last at least 2.5 times longer than the previous cotton-based paper notes. Costs associated with bank note production increased by $35.4 million from 2012 levels, owing to the higher volume of polymer notes received from the printers. In 2013, the Bank received 733 million notes compared with 580 million notes received in 2012.

Excluding the impact of the new bank notes, the increase in expenses is $47.3 million and is broadly distributed among staff costs, technology costs, premises costs and depreciation.

Staff costs for 2013 rose by $22.2 million, owing primarily to higher benefit costs associated with the Bank's deferred employee benefit plans. Deferred employee benefit costs increased by $9.4 million, largely as a result of a 60-basis-point reduction in the discount rate[2] used to calculate the 2013 benefit expenses. The remainder of the increase reflects resourcing in support of plan initiatives, restructuring costs incurred as a result of changing business requirements and salary adjustments to maintain market-competitive compensation.

2013 expenses (strategic plan view)



Within *Other expenses*, higher technology costs of $8.7 million resulted from investments made to improve the Bank's information technology systems. *Depreciation and amortization* costs increased by $22.4 million compared with 2012. Following the approval of the Head Office Renewal Program in 2012, depreciation of the 234 Wellington Street facility was aligned to coincide with the expected start of construction in 2014. Lease costs incurred in 2013 as a result of the move to temporary facilities were offset by lower costs for outsourced services and provisions.

As noted in the Performance Against Plan section, the Bank also monitors expenses in connection with its three-year medium-term plan. The chart above summarizes the Bank's 2013 expenses based on this view.

Net income

Highlights of Comprehensive Income for the year ended 31 December
(Millions of Canadian dollars)

	2013	2012
Net Income	**1,006.0**	1,084.1
Other Comprehensive Income (Loss)	**221.4**	(48.0)
Comprehensive Income	**1,227.4**	1,036.1

Other Comprehensive Income of $221.4 million consists of a remeasurement gain on the net defined-benefit liability/asset of $224.7 million on the Bank's defined-benefit plans and a decrease of $3.3 million in the fair values of available-for-sale assets.

Remeasurement gains/losses are affected by the return on plan assets (excluding net interest), and changes in the discount rate used to determine defined-benefit obligations. The gain recorded in 2013 is the result of an increase of 90 basis points during the year in the discount rate used to value the defined-benefit obligation and higher returns on plan assets. The 90-basis-point increase in the discount rate reflects the change in AA-corporate bond yields over the past 12 months.

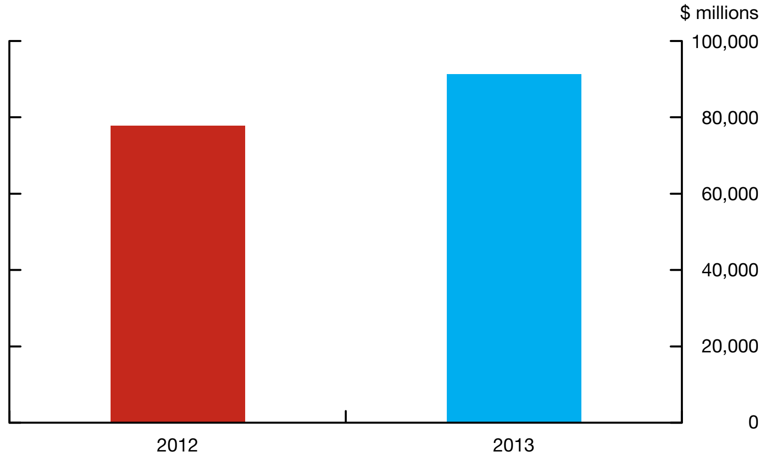
Available-for-sale assets are composed of Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for available-for-sale assets within the Bank's *Equity*. As at 31 December 2013, this reserve totalled $305.2 million and consisted primarily of the fair-value change in the Bank's investment in the BIS. The fair value of the Bank's investment in the BIS was $337.1 million at 31 December 2013, representing a decrease of $5.6 million since year-end 2012. The balance is a gain from fair-value changes in the Bank's portfolio of treasury bills.

2 Expenses associated with the defined-benefit plans are measured using the discount rate in effect at the previous year-end. Expenses for 2013 are based on a discount rate of 4.0 per cent (4.6 per cent in 2012).

Financial position

The Bank's balance-sheet assets increased by $13 billion (17 per cent) during 2013 compared with year-end 2012. This expansion was mainly the result of the federal government's decision, announced in 2011, to build up a prudential liquidity-management deposit of up to $20 billion at the Bank of Canada. This deposit grew by $10 billion during the year and reached its intended maximum amount in June 2013, driving the increase in the balance sheet. The Bank purchased a higher level of *Investments* during the year to match the growth in the deposits liability.

Bank of Canada assets



Significant financial statement items
(Millions of Canadian dollars)

	As at 31 December 2013	As at 31 December 2012
Assets		
Loans and receivables	**2,214.9**	1,905.6
Investments	**88,577.1**	75,607.3
Other assets[a]	**513.7**	294.4
Total assets	**91,305.7**	77,807.3
Liabilities and Equity		
Bank notes in circulation	**66,615.9**	63,700.0
Deposits	**23,823.5**	13,291.3
Other liabilities	**431.1**	377.5
Equity	**435.2**	438.5
Total liabilities and equity	**91,305.7**	77,807.3

a. *Property and equipment*, *Intangible assets* and *Other assets* (as reported in the financial statements) were combined for purposes of this summary table.

Loans and receivables increased by $309.3 million since 31 December 2012, in connection with term purchase and resale agreement (PRA) operations outstanding at year-end. These operations are undertaken to offset the seasonal demand for bank notes, which historically peaks during the winter holiday season. The Bank issued two term PRAs in December 2013 for general balance-sheet-management purposes, related to this seasonal demand for bank notes (the 31 December 2012 figure presented for comparison also includes term PRAs issued for the same purpose).

Investments increased by $12,969.8 million, owing primarily to purchases of Government of Canada securities to match a higher level of deposits held for the government's prudential liquidity-management plan. Government of Canada bonds increased by $10,376.3 million, and Government of Canada treasury bills increased by $2,599.1 million, with the balance of the change in *Investments* resulting from fair-value changes in the Bank's investment in the BIS.

The increases in *Property and equipment* and *Intangible assets* resulted from capital spending of $84.8 million, which was offset by depreciation and amortization of $46.2 million. Of this amount, spending related to the Head Office Renewal Program totalled $55.8 million. In addition, $12.5 million relates to bank note inspection equipment that was acquired through a finance lease arrangement. The balance was spent primarily on initiatives to upgrade aging systems as outlined in the MTP, and for ongoing capital expenditures.

Other assets increased by $182.5 million since 31 December 2012, owing mainly to a higher net asset associated with the Bank's pension plan as a result of remeasurement gains recorded in 2013. The gains resulted from a rise in the discount rate[3] used to value the defined-benefit obligations and higher returns on plan assets.

The *Bank notes in circulation* liability increased by $2,915.9 million (5 per cent), reflecting typical growth in the demand for bank notes.

Deposits at 31 December 2013 rose by $10,532.2 million compared with year-end 2012, mainly as a result of the growth in the interest-bearing deposit for the prudential liquidity-management plan. The main components of the *Deposits* liability are $2,329.9 million held for the Government of Canada for operational balances and $20,000 million held for the government's prudential liquidity-management plan. The operating portion of the deposit is dependent on the cash needs of the Government of Canada, as well as on fluctuations resulting from cash-flow management decisions.

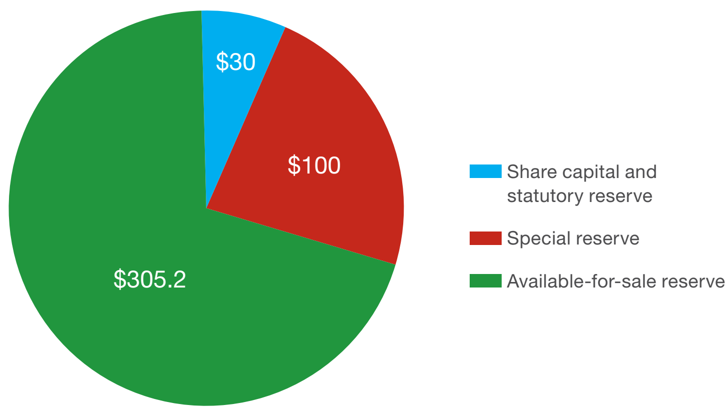
Other liabilities increased by $53.6 million compared with year-end 2012. Increased liabilities resulted from a higher accrued profit to be transferred to the Receiver General for Canada, partially offset by lower post-employment benefit obligations because of an increase in the discount rate used to value the benefit obligations.

Equity and Reserves

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

Bank of Canada equity

$ millions



Reserves

Because of volatility arising from fluctuations in the fair value of the available-for-sale assets, as well as remeasurement gains and losses on the Bank's post-employment benefit plans (which are recorded in *Other Comprehensive Income*), the Bank has the following agreement and reserves in place to prevent the possibility of a capital deficiency.

Memorandum of Understanding with the Department of Finance

The remittance agreement with the Minister of Finance allows the Bank to deduct from its remittances to the Receiver General and hold within retained earnings an amount equal to unrealized losses on available-for-sale assets, unrealized remeasurement losses on post-employment defined-benefit plans, and other unrealized or non-cash losses.

As a result of actuarial gains on the defined-benefit plans in 2013, the Bank paid $224.7 million relating to amounts previously withheld. The outstanding balance withheld, relating to unrealized remeasurement losses incurred in previous years, amounted to $25.5 million at 31 December 2013.

Special reserve

The Bank of Canada Act authorizes the Bank to create a special reserve to offset any unrealized valuation losses arising from changes in the fair value of the Bank's available-for-sale assets. This reserve is currently $100 million but may be increased by the Board of Directors to a maximum of $400 million. Management and the Board of Directors review the adequacy of this reserve annually.

Available-for-sale reserve

Fair-value changes related to the Bank's investment in the BIS and the portfolio of Government of Canada treasury bills are reported in *Other Comprehensive Income* and are accumulated in the available-for-sale reserve within *Equity*.

Since 31 December 2012, the Bank's *Available-for-sale reserve* has decreased by $3.3 million. As at 31 December 2013, this reserve totalled $305.2 million and consisted primarily of the cumulative fair-value change in the Bank's investment in the BIS.

Remeasurements reserve

The remeasurements reserve ($Nil at 31 December 2013) was established to accumulate remeasurement gains and, to the extent possible, to cover remeasurement losses related to the Bank's post-employment defined-benefit plans.

3 The net defined-benefit asset is based on the discount rate as at period-end. The rate in effect at 31 December 2013 was 4.9 per cent (4.0 per cent at 31 December 2012).

Looking Ahead to 2014

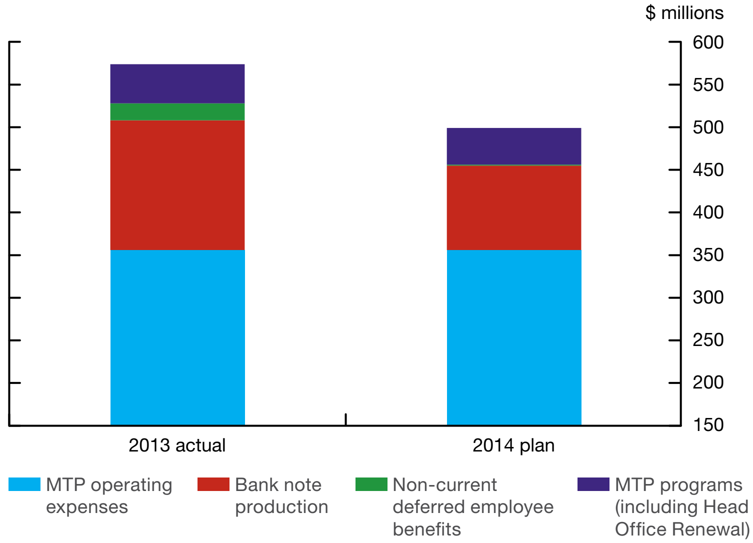
The Bank's forecasts for its operations do not include projections of net income and financial position. Such projections would require assumptions about interest rates, which could be interpreted as a signal of future monetary policy.

MTP operating expenses for 2014 are consistent with the MTP financial plan and are in line with 2013. The benefits of investments made in previous years will begin to be realized, and the savings achieved will enable the Bank to meet its commitment to adhere to the spirit of the federal government's Deficit Reduction Action Plan.

Total operating expenses in 2014 are expected to decrease by $75 million from 2013 levels. Expenses related to bank note production will be lower than in 2013 as a result of lower production volumes. Operating costs associated with the Bank's defined-benefit plans will decrease as a result of a higher discount rate used to value the benefit obligations at 31 December 2013.

In 2014, the Bank also expects to incur $116 million in capital expenditures, the majority of which relates to the Head Office Renewal Program.

Projected expenses—2014



Accounting and Control Matters

Critical accounting policies and estimates

The Bank's significant accounting policies are presented in note 3 to the financial statements.

The preparation of financial statements requires that management use judgment to make estimates and assumptions. The Bank's significant 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 7 and 14, respectively, to the financial statements. They are summarized below.

Investment in the Bank for International Settlements

The Bank records its investment in the BIS at fair value. The fair value is estimated to be 70 per cent of the Bank's interest in the net asset value of the BIS at the reporting date, based on the most recently available information from the BIS. This formula is equivalent to the methodology applied by the BIS to determine the pricing of any new shares issued.

The Bank expects the value of the BIS shares to fluctuate over time, in conjunction with the strength of the BIS balance sheet and the exchange rate.

Employee benefits

The costs of providing deferred employee benefits are charged to the Statement of Comprehensive Income over the period during which benefit is derived from an employee's services.

The key assumptions used to determine the benefit obligation include the discount rate, mortality rate, inflation rate, medical cost trend rate and the rate of compensation increase. Changes in the discount rate can occur more frequently than changes in the other key assumptions; however, the Bank follows guidance issued by the Canadian Institute of Actuaries and the requirements of International Financial Reporting Standards (IFRS) in the establishment of its discount rate. A rise of 10 basis points in the discount rate, for example, would result in a decrease in the net pension obligation of the pension plans of approximately $19.1 million and a decrease in the benefit expense of $2.0 million.

Funding of deferred employee benefit plans

The Bank sponsors a funded defined-benefit pension plan (the registered pension plan) to provide retirement income benefits to eligible employees. The Bank also sponsors a funded defined-benefit supplementary pension arrangement[4] and other unfunded benefit plans. These plans are funded in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit obligations.

4 The Supplementary Pension Arrangement was established to pay pension benefits to employees with annual earnings above the amount covered by the registered pension plan, as provided under the Income Tax Act (Canada).

The registered pension plan

The Bank has been conducting annual actuarial valuations of the plan for funding purposes since 2008, with the latest completed valuation as at 31 December 2012. On a going-concern basis (which assesses the plan over the long term on the assumption that it will operate indefinitely), the funding status of the plan at 31 December 2012 was an actuarial surplus ratio of 112 per cent. On a solvency basis (which assesses the plan on the assumption that it would be terminated on the date of the valuation), the funding status of the plan was an actuarial solvency ratio of 94 per cent.

The funding requirements of the plan are determined by the going-concern valuation. In addition, the Bank is making additional contributions toward eliminating the solvency deficit within five years. The Bank's estimated funding requirement for 2014 is $23.8 million, which consists of $19.5 million in regular contributions to cover current service costs and $4.3 million toward the elimination of the solvency deficit within five years.

Financial controls

The Bank maintains a certification regime to evaluate the design and effectiveness of internal controls over financial reporting, as well as disclosure controls and procedures to provide reasonable assurance about the reliability of financial reporting and the preparation of the financial statements. As of 31 December 2013, the Governor and the Chief Financial Officer and Chief Accountant assessed the design and effectiveness of the Bank's internal controls over financial reporting, and found them to be appropriately designed and operating effectively.

Significant contracts and agreements

The Bank of Canada, in conjunction with the Bank of England, the Bank of Japan, the European Central Bank, the U.S. Federal Reserve and the Swiss National Bank, converted existing bilateral liquidity swap facilities to standing arrangements in January 2014. The existing arrangements, which were set to expire on 1 February 2014, were replaced with these new arrangements. The Bank and the U.S. Federal Reserve also agreed to remove the US$30 billion limit on their reciprocal facility.

During March 2013, the Bank entered into an agreement for bank note inspection services and equipment. The agreement included a finance lease arrangement for bank note inspection equipment that was included in *Property and equipment* (net carrying value of $11.3 million at 31 December 2013). The related lease obligation was recorded in *Other liabilities*.

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, both through its ability to fund its own operations without external assistance and through its management and governance.

In the normal course of its operations, the Bank enters into transactions with those related parties, and material transactions and balances are reported as described in note 18 to the financial statements. The Bank provides funds-management, fiscal-agent and banking services to the federal government, and the costs of these services are recorded within the Bank's expenses. The assets and liabilities that are managed on behalf of the government are not included in the Bank's financial statements since they do not represent assets or liabilities of the Bank.

Risk Management

Risk-Management Framework

The Bank manages risk by identifying, assessing and mitigating risks that could compromise the fulfillment of its responsibilities and the achievement of the strategic objectives and desired outcomes that are set out in the medium-term plan. The Bank's enterprise-risk-management (ERM) framework has been in place since the late 1990s.

Deputy Governors and Department Chiefs are accountable to the Governor and Senior Deputy Governor for the management of risk in their areas of responsibility. The Chief Risk Officer works closely with management to identify and assess changes in the environment that could affect the level of risk faced by the Bank and to identify emerging risks. Ineffective management of risks could not only have a financial impact or hinder the Bank's ability to achieve its corporate objectives, but could also affect the Bank's reputation, leading to a loss of confidence in its ability to fulfill its responsibilities.

Through a self-assessment process, senior managers in each functional area identify and assess the key risks for each function—monetary policy, the financial system, currency, funds management and corporate administration. The broad categories of risk assessed are financial, business and enterprise (cross-functional) risks.

Staff in each function identify approaches for managing risks. Taking into account the risk-mitigation measures, assessments are made of the residual severity of the potential consequences and the likelihood of their occurrence. The results of these assessments are shared with the Management Council to incorporate its views and perspectives. The Board of Directors receives semi-annual risk reports and in-depth briefings on each function during the year.

As part of its ongoing monitoring, Management Council also reviews any significant changes in the levels of risk or any new risks that arise during the year, and shares these with the Board of Directors on a timely basis.

The Audit Department conducts periodic reviews of Bank operations, including the Bank's risk-management processes, assessing the appropriateness and effectiveness of the risk-mitigation measures in place, to provide reasonable assurance that objectives will be achieved.

The Bank's Risk Profile

The Bank's risk profile reflects short- to medium-term challenges and uncertainties in the external and internal environments. Risks for 2013 were expected to be elevated and have generally evolved as anticipated through the year. An overview of the Bank's risk-management activities in 2013 is provided in the Risk Management section of this *Report*. Overall, 2014 will see a focus on stabilization and risk reduction following the significant changes introduced in 2013. In addition, as the design for the renewed head office complex advances and construction begins, the risk-management activities are shifting to the monitoring and management of risks related to this phase of the Head Office Renewal Program, many of which are different from those experienced during the 2013 staff relocation.

The following summary identifies the key areas of risk the Bank will face in 2014 and highlights the mitigating strategies in place.

Residual Risk Ratings: Legend	
Acceptable: Appropriate risk management is already in place.	
Cautionary: Active monitoring and/or enhanced risk-mitigation measures are required, as well as oversight by senior management.	
Serious concern: Immediate and significant strengthening of risk-mitigation measures is required, as well as active monitoring and reporting to senior management and the Board of Directors.	

Financial Risks

The Bank's asset portfolio consists of securities that are primarily direct obligations of the Government of Canada. Owing to the nature of these securities, financial risk is assessed as low. However, these securities do expose the balance sheet to credit, market and liquidity risks. For further information about the Bank's financial risks, see note 7 to the financial statements.

Financial risks	Ratings for 2014	Ratings for 2013	Measures to reduce financial risks
Credit: The Bank's investment portfolio is subject to credit risk, or the risk that a counterparty will fail to discharge its obligations in accordance with agreed-upon terms. The maximum exposure to credit risk is the carrying amount of the portfolio. Advances and securities purchased under resale agreements are offset by collateral taken in accordance with the Bank's publicly disclosed policies. Additional risk arises when the Bank undertakes extraordinary liquidity operations in support of financial system stability and monetary policy. Operations may include exceptional buyback transactions, purchases of an expanded range of securities and Emergency Lending Assistance[a] to solvent members of the Canadian Payments Association. The terms and conditions for these operations are approved by the Governing Council.	●	●	The Financial Risk Office, which is independent of operations, is responsible for monitoring and reporting on financial risks relating to the Bank's balance sheet. Collateral policies are reviewed and updated regularly in connection with the Bank's liquidity operations. With respect to the Bank's overall operations, management has established and actively monitors a system of internal controls, and periodic reviews are conducted to assess the appropriateness and effectiveness of these controls.
Market: The Bank is exposed to market risk primarily through its available-for-sale investments, including Government of Canada treasury bills and the Bank's investment in the BIS, which are held at fair value. The investment in the BIS is subject to currency risks and other price risk, since the fair value of the shares is estimated on the basis of the net asset value of the BIS translated into Canadian dollars on the reporting date. These variations would not affect the Bank's ability to fulfill its obligations, since its income greatly exceeds its expenses.	●	●	
Liquidity: The Bank's largest liability is *Bank notes in circulation*, which are non-interest-bearing with no fixed maturity. In the event of an unexpected redemption of bank notes or a significant withdrawal from the Government of Canada's prudential liquidity-management plan deposit, the Bank has the ability to settle the obligation by selling its portfolio of highly liquid interest-bearing securities.	●	●	

a. The last such event occurred in 1986.

Business Risks

Business risks arise from strategy, policy, governance or operational issues or from external factors that directly affect the Bank's ability to carry out its four core functions: monetary policy, financial system, currency and funds management.

Business risks	Ratings for 2014	Ratings for 2013	Measures to reduce business risks
Monetary policy: Risks arise from a number of sources, including uncertainty in the global and domestic economic outlooks and the global financial system, the complexity of the analysis required, as well as challenges in attracting a sufficient number of skilled and experienced staff.	▲	▲	To manage business risks, the Bank has well-established policy frameworks, and an extensive research program, as well as analytical models that are enhanced on a regular basis. The Bank also participates in a number of key international forums, and collaborates with other major central banks and with Canadian and international financial sector regulatory partners. In addition, a comprehensive communications strategy informs Canadians about the goals and objectives of the Bank's policy decisions, and financial system issues and potential vulnerabilities. As well, the Bank invests in IT systems to address evolving business needs and to enhance resilience. See also: Enterprise Risks—People and capacity.
Financial system: Policy, oversight, communications and operations risks arise from the expanding nature of the Bank's role, changes being implemented in the domestic and international financial systems, oversight of designated systems and new financial market infrastructures, and challenges in attracting qualified staff.	▲	▲	
Funds management: Risks are mainly associated with operations, the payment clearing and settlement system, the management of foreign exchange reserves, and the operations of safekeeping services.	▲	▲	
Currency: Risks relate mainly to operations and the possibility that the new *Polymer* series of bank notes does not meet program objectives. The risk level associated with the new polymer notes decreased following the successful issue of all denominations and the growing positive experience with the series.	●	▲	Risk-mitigation measures include robust planning, contracting, quality control and oversight, close collaboration with key internal and external stakeholders, and a focused Business Excellence Program that draws upon the Canadian Progressive Excellence Program, the International Organization for Standardization (ISO) and the "balanced scorecard" approach.

Enterprise Risks

All of the Bank's activities are exposed to enterprise risks, which may affect the delivery of the Bank's business functions. **Despite similar risk ratings to 2013, enterprise risks are assessed to be lower overall going into 2014.** This is the result of the completion of several risk-mitigation initiatives, and the completion of the head office relocation, which was a significant draw on capacity in 2013.

Enterprise risks	Ratings for		Measures to reduce enterprise risks
	2014	2013	
People and capacity: Risks relate to changes in the senior ranks of the Bank, the increasing complexity of the Bank's work, changes in the mix of skills required, the limited labour market pool for economists and financial system specialists (especially at the mid-career level), and demographics. Capacity was particularly constrained in 2013 with the relocation of the Bank's head office and related business-process changes; this will not be a factor in 2014.	△	△	The Bank continues to strengthen its recruitment strategy and has a special focus on leadership development and succession planning. Positions have been added where core responsibilities have expanded, and capacity planning has been enhanced.
Project-related risks: Risks relate to the complexity of initiatives under way, the interdependence of projects, and some challenges in transitioning projects to operations. These risks are assessed to be diminishing with the successful completion of several significant projects in 2013.	△	△	The Bank mitigates risks with a sound information technology governance structure, project monitoring and reporting, portfolio-management practices, and the use of external expertise, where appropriate. A renewed focus on successfully transitioning projects to operations has been implemented.
Continuity of critical business processes: Business-continuity risks pertain to the possibility that the Bank would be unable to carry out its critical business processes, owing to the unavailability of staff, information, IT systems, and other infrastructure (including cyber risks).	△	△	A multi-year initiative to enhance resilience (including the operationalization of two new data centres and infrastructure upgrades) was successfully completed in 2013. The Bank's Continuity-of-Operations Program (COOP) is tested regularly. Ongoing training on operational processes and systems is carried out to ensure the availability of adequately cross-trained staff, including through the use of split operations for critical operations.
Head Office Renewal Program: In 2013, risks related primarily to the relocation of the Bank's head office to 234 Laurier Avenue West. Relocation was completed on schedule in 2013. The focus for 2014 will be on the completion of the design for the renewed head office complex and the start of construction.	△	△	The Bank has a comprehensive governance and oversight framework for managing this initiative, and has engaged external expertise to support the work and to provide independent advice on the project. The structure of the contract is designed to limit the Bank's financial risks. Regular risk workshops are held with key stakeholders to assess ongoing risks and identify and manage any emerging risks.

Supplemental Information: The Impact of the Bank's Core Functions on Its Financial Statements

The Bank's activities and operations are undertaken in support of its core mandate, and not with the objective of generating revenue or profits. This section describes the different tools used by the Bank in achieving its mandate and demonstrates how these items appear on the Bank's financial statements.

Monetary Policy

The objective of monetary policy is to keep inflation close to an inflation-control target, thereby supporting sustainable economic growth. The inflation-control target is set out in a written agreement with the Government of Canada[5] and establishes the inflation target as the 2 per cent midpoint of a 1 to 3 per cent inflation-control range.

In implementing monetary policy based on an inflation target and a flexible exchange rate, the Bank focuses on influencing short-term interest rates through the setting of the overnight rate. On each fixed announcement date, the Bank of Canada announces the target overnight rate, which is the interest rate that financial institutions charge each other for overnight loans. The operating range for this rate is set by policy.

The Bank also uses the following tools, when required, to maintain the overnight rate close to target.

Tool used by the Bank	Impact on the Bank's financial results
Direct-clearing members of the Canadian Payments Association (CPA) can hold surplus deposits with the Bank (referred to as settlement balances) and take advances on an overnight basis. Deposits earn interest at the target rate minus 25 basis points, and collateralized advances are charged interest at the target rate plus 25 basis points.	The Bank currently targets $150 million in net settlement balances but can adjust this amount as warranted to provide required liquidity to the financial system in virtually unlimited amounts. See the Financial System section below for details on the impact of settlement balances on the Bank's financial statements.
When required, the Bank offers term purchase and resale agreements and sale and repurchase agreements to designated counterparties.	These agreements are recorded as collateralized lending transactions[6] or as collateralized borrowing transactions[7] at the amounts at which the securities were acquired or sold, plus accrued interest.
Receiver General cash balances are invested through an auction process with participating financial institutions that is administered by the Bank.	Receiver General cash balances held at the Bank are liabilities on the balance sheet.[8]

Financial System

The Bank of Canada works with other agencies and market participants to promote the safe and efficient operation of the key elements of the financial system (financial institutions, financial markets and payment systems). The Bank is responsible for: (i) providing liquidity; (ii) overseeing systemically important payment clearing and settlement systems; (iii) participating in the development of financial system policies in Canada and globally; and (iv) assessing and communicating risks to the overall stability of the financial system.

Under the Payment Clearing and Settlement Act (PCSA), the Bank is responsible for the oversight of payment and other clearing and settlement systems in Canada. The systems that have been designated as subject to oversight under the PCSA are the Large Value Transfer System (LVTS), CDSX, the Continuous Linked Settlement Bank, the Canadian Derivatives Clearing Service and SwapClear.[9]

The Bank's financial assets are also used to support the financial system function, as described below. Financial institutions typically allocate liquidity without having to make significant use of the Bank's collateralized advance and deposit facilities. However, in exceptional circumstances, the Bank may be required to provide emergency lending assistance to a financial institution that does not have sufficient liquidity.

5 The current agreement was renewed in 2011 for a five-year term.

6 These transactions are recorded in *Loans and receivables* on the Statement of Financial Position.

7 These amounts are recorded in *Other liabilities* on the Statement of Financial Position.

8 Receiver General balances appear on the Statement of Financial Position as *Deposits—Government of Canada*.

9 Effective 2 April 2013, SwapClear became subject to ongoing oversight by the Bank under the Payment Clearing and Settlement Act.

Services provided by the Bank	Impact on the Bank's financial results
Settlement balances Typically, participants in the LVTS settle net payment positions among themselves on a daily basis. Where required, participants can hold deposits or take advances from the Bank through the Standing Liquidity Facility.	Settlement balances appear as liabilities[10] or assets[11] on the Bank's balance sheet.
Standing Liquidity Facility Advances to financial institutions at a rate of 25 basis points above the target rate are routine under this facility. The framework for the target overnight interest rate provides an incentive for financial intermediaries to allocate liquidity among themselves without having to make significant use of the Bank's deposit facilities and collateralized advances.	These advances[12] are assets for the central bank, and interest on these advances is included in the Bank's revenue.
Securities-lending program The Bank operates a securities-lending program to support the efficiency of the market for Government of Canada securities by providing a temporary, secondary source of securities. When specific Government of Canada treasury bills or bonds are in short supply in the secondary market, the Bank will lend up to 50 per cent of its holdings in these securities on an overnight basis in exchange for other securities.	Securities-lending transactions are fully collateralized by securities. The securities loaned by the Bank continue to be accounted for as assets. Lending fees[13] are included in the Bank's revenue.
Securities purchased or sold under repurchase agreements In the normal course of managing its balance sheet, the Bank needs to undertake repurchase operations from time to time. These assets are typically acquired to offset seasonal flows of bank notes, but can be used for other temporary purposes.	For the impact on the financial statements, see the Monetary Policy section on page 45.
Emergency Lending Assistance (ELA) The Bank has the ability to provide ELA to a participant that is judged to be solvent but requires short-term liquidity. Under the Bank of Canada Act, the Bank can provide collateralized ELA to a member of the Canadian Payments Association. Under the Payment Clearing and Settlement Act, the Bank may also provide liquidity loans to a clearing house or a central counterparty. The provision of ELA is extremely rare; the last instance occurred in 1986.	ELA would appear as a collateralized loan receivable. Interest would be recorded as revenue.

Currency

The Bank has exclusive responsibility for supplying Canadians with bank notes that they can use with confidence.

Impact of bank note production on the Bank's financial results
***Bank notes in circulation* liability** *Bank notes in circulation* is the largest liability on the Bank's balance sheet. This liability tends to increase over time with the growth in demand for bank notes and is also subject to important seasonal variations (typically reaching its lowest level at the end of the first quarter and peaking in the second and fourth quarters around holiday periods).
Bank note production The costs of producing bank notes are expensed as the bank notes are produced and received in finished form by the Bank. The raw materials purchased by the Bank for the production of notes are recorded as *Inventory* on the Bank's balance sheet until they are used in note production.

10 Recorded as *Deposits—Members of the Canadian Payments Association* on the Statement of Financial Position.

11 Recorded as *Advances to members of the Canadian Payments Association* on the Statement of Financial Position.

12 Advances appear on the Statement of Financial Position as *Advances to members of the Canadian Payments Association*.

13 Lending fees are recorded as *Other revenue* on the Statement of Comprehensive Income.

Funds Management

The Bank manages the investments and liabilities that are reported on its own balance sheet, as well as the investments held by its pension fund (which are held and maintained in a pension trust separate from the Bank).

In addition, the Bank provides funds-management services for the Government of Canada and for other central banks and international organizations, including securities settlement and custodial services, as well as custodial services for gold. Assets held under custody agreements do not appear as assets on the Bank's balance sheet; however, fees earned for these services are included in the Bank's income.

The Bank's fiscal-agent responsibilities relating to the management of public funds are presented below.

<table>
<tr><th>Fiscal-agent responsibilities of the Bank</th><th>Impact on the Bank's financial results</th></tr>
<tr><td>Government banker and treasury manager

The Bank manages the accounts of the Receiver General, ensures that there are sufficient funds in these accounts to meet the government's daily requirements and invests any surplus in term deposits.</td><td>The Receiver General accounts are shown as liabilities on the Bank's balance sheet.[14]</td></tr>
<tr><td>Foreign exchange reserves

Canada's official international reserves are held in the Exchange Fund Account, which the Bank manages on behalf of the Government of Canada. Unlike many central banks, the Bank does not hold foreign exchange reserves on its balance sheet and holds only minimal foreign cash balances.</td><td rowspan="2">None. The foreign reserves assets and the debt liabilities are reported by the government in the Public Accounts of Canada and do not appear in the Bank's financial statements.

The costs associated with the provision of these fiscal-agent services are part of the Bank's expenses. No fees are earned for these services.</td></tr>
<tr><td>Debt management

The Bank advises the Department of Finance on the efficient management of the public debt (treasury bills and bonds) and sells the securities at auction to financial market distributors.

The Bank advises the Department of Finance on the government's retail debt program (consisting of Canada Savings Bonds and Canada Premium Bonds) and administers the program (including operations and system support services, accounting, and sales and marketing initiatives).</td></tr>
</table>

14 Amounts are recorded as *Deposits—Government of Canada* on the Statement of Financial Position.

Financial Statements

FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with International Financial Reporting Standards and contain certain items that reflect the best estimates and judgments of management. The integrity and reliability of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the *Annual Report* is consistent with the financial statements.

In support of its responsibility for the integrity and reliability of these financial statements and for the accounting system from which they are derived, management has developed and maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized and recognized, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively. The Bank has an internal Audit Department whose functions include reviewing internal controls, including accounting and financial controls and their application.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and exercises this responsibility through the Audit and Finance Committee of the Board. The Audit and Finance Committee is composed of members who are neither officers nor employees of the Bank and who are financially literate. The Audit and Finance Committee is therefore qualified to review the Bank's annual financial statements and to recommend their approval by the Board of Directors. The Audit and Finance Committee meets with management, the Chief Internal Auditor, and the Bank's independent auditors who are appointed by Order-in-Council. The Audit and Finance Committee has established processes to evaluate the independence of the Bank's independent auditors and oversees all services provided by them. The Audit and Finance Committee has a duty to review the adoption of, and changes in, accounting principles and procedures that have a material effect on the financial statements, and to review and assess key management judgments and estimates material to the reported financial information.

These financial statements have been audited by the Bank's independent auditors, KPMG LLP and Deloitte LLP, and their report is presented herein. The independent auditors have full and unrestricted access to the Audit and Finance Committee to discuss their audit and related findings.

Stephen S. Poloz,
Governor

S. Vokey, CPA, CA,
Chief Financial Officer and Chief Accountant

Ottawa, Canada
13 February 2014

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance, registered shareholder of the Bank of Canada (the "Bank")

We have audited the accompanying financial statements of the Bank, which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
Licensed Public Accountants

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
13 February 2014

STATEMENT OF FINANCIAL POSITION

(Millions of Canadian dollars)

	31 December 2013	As at 31 December 2012
ASSETS		
Cash and foreign deposits (note 4)	**5.0**	6.8
Loans and receivables		
Securities purchased under resale agreements (note 5a)	**2,205.9**	1,838.3
Advances to members of the Canadian Payments Association (note 5b)	**-**	61.8
Other receivables	**9.0**	5.5
	2,214.9	1,905.6
Investments (notes 6, 7)		
Government of Canada treasury bills	**21,586.4**	18,987.3
Government of Canada bonds	**66,653.6**	56,277.3
Other investments	**337.1**	342.7
	88,577.1	75,607.3
Property and equipment (note 8)	**232.4**	190.4
Intangible assets (note 9)	**52.2**	55.6
Other assets (note 10)	**224.1**	41.6
Total assets	**91,305.7**	77,807.3
LIABILITIES AND EQUITY		
Bank notes in circulation (notes 7, 11)	**66,615.9**	63,700.0
Deposits (notes 7, 12)		
Government of Canada	**22,329.9**	11,701.5
Members of the Canadian Payments Association	**186.7**	186.4
Other deposits	**1,306.9**	1,403.4
	23,823.5	13,291.3
Other liabilities (note 13)	**431.1**	377.5
	90,870.5	77,368.8
Equity (note 15)	**435.2**	438.5
Total liabilities and equity	**91,305.7**	77,807.3

Commitments, contingencies and guarantees (note 17)

Stephen S. Poloz,
Governor

S. Vokey, CPA, CA,
Chief Financial Officer and Chief Accountant

Philip Deck,
Lead Director, Board of Directors

Phyllis Clark,
Chair, Audit and Finance Committee

(See accompanying notes to the Financial Statements.)

STATEMENT OF COMPREHENSIVE INCOME

(Millions of Canadian dollars)

	For the year ended 31 December	
	2013	**2012**
		(restated — note 3)
INCOME		
Net interest income		
Interest revenue		
Interest earned on investments	**1,770.7**	1,646.1
Dividend revenue	**4.7**	4.4
Interest earned on securities purchased under resale agreements	**3.8**	2.3
Other interest revenue	**0.3**	0.3
	1,779.5	1,653.1
Interest expense		
Interest expense on deposits	**(210.6)**	(87.8)
	1,568.9	1,565.3
Other revenue	**11.1**	10.1
Total income	**1,580.0**	1,575.4
EXPENSES		
Staff costs	**213.6**	191.4
Bank note research, production and processing	**158.8**	123.4
Premises costs	**38.3**	40.8
Technology and telecommunications	**42.1**	33.4
Depreciation and amortization	**46.2**	23.8
Other operating expenses	**75.0**	78.5
Total expenses	**574.0**	491.3
NET INCOME	**1,006.0**	1,084.1
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified to net income		
Remeasurements of the net defined-benefit liability/asset	**224.7**	(61.9)
Items that may subsequently be reclassified to net income		
Change in the fair value of available-for-sale financial assets	**(3.3)**	13.9
Other comprehensive income (loss)	**221.4**	(48.0)
COMPREHENSIVE INCOME	**1,227.4**	1,036.1

(See accompanying notes to the Financial Statements.)

STATEMENT OF CHANGES IN EQUITY

(Millions of Canadian dollars)

For the year ended 31 December	Share capital	Statutory reserve	Special reserve	Available-for-sale reserve	Remeasurements reserve	Retained earnings	Total
Balance, 1 January 2013	**5.0**	**25.0**	**100.0**	**308.5**	**-**	**-**	**438.5**
Comprehensive income for the year							
Net income	**-**	**-**	**-**	**-**	**-**	**1,006.0**	**1,006.0**
Remeasurements of the net defined-benefit liability/asset	**-**	**-**	**-**	**-**	**-**	**224.7**	**224.7**
Change in the fair value of available-for-sale financial assets	**-**	**-**	**-**	**(3.3)**	**-**	**-**	**(3.3)**
	-	**-**	**-**	**(3.3)**	**-**	**1,230.7**	**1,227.4**
Transfer to Receiver General for Canada	**-**	**-**	**-**	**-**	**-**	**(1,230.7)**	**(1,230.7)**
Balance, 31 December 2013	**5.0**	**25.0**	**100.0**	**305.2**	**-**	**-**	**435.2**
Balance, 1 January 2012	5.0	25.0	100.0	294.6	-	-	424.6
Comprehensive income for the year							
Net income *(restated—note 3n)*	-	-	-	-	-	1,084.1	1,084.1
Remeasurements of the net defined-benefit liability/asset *(restated—note 3n)*	-	-	-	-	-	(61.9)	(61.9)
Change in the fair value of available-for-sale financial assets	-	-	-	13.9	-	-	13.9
	-	-	-	13.9	-	1,022.2	1,036.1
Transfer to Receiver General for Canada	-	-	-	-	-	(1,022.2)	(1,022.2)
Balance, 31 December 2012	5.0	25.0	100.0	308.5	-	-	438.5

(See accompanying notes to the Financial Statements.)

STATEMENT OF CASH FLOWS

(Millions of Canadian dollars)

	For the year ended 31 December 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received (*restated note 19*)	**1,817.0**	1,686.5
Dividends received	**4.7**	4.4
Other revenue received	**7.3**	6.1
Interest paid	**(210.6)**	(87.8)
Payments to or on behalf of employees/suppliers and to CPA members	**(515.7)**	(450.9)
Net increase in advances to members of the Canadian Payments Association	**61.8**	19.7
Net increase in deposits	**10,532.2**	10,810.3
Proceeds from maturity of securities purchased under resale agreements	**57,969.7**	40,109.3
Acquisition of securities purchased under resale agreements	**(58,337.3)**	(40,500.2)
Repayments of securities sold under repurchase agreements	**(3,653.9)**	-
Proceeds from securities sold under repurchase agreements	**3,653.9**	-
Net cash provided by operating activities	**11,329.1**	11,597.4
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in Government of Canada treasury bills	**(2,582.0)**	(449.8)
Purchases of Government of Canada bonds	**(18,213.5)**	(17,766.7)
Proceeds from maturity of Government of Canada bonds (*restated note 19*)	**7,780.0**	5,010.0
Additions of property and equipment	**(66.3)**	(31.2)
Additions of intangible assets	**(6.0)**	(17.5)
Net cash used in investing activities	**(13,087.8)**	(13,255.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in bank notes in circulation	**2,915.9**	2,671.2
Remittance of ascertained surplus to the Receiver General for Canada	**(1,159.2)**	(1,018.4)
Net cash provided by financing activities	**1,756.7**	1,652.8
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY	**0.2**	0.1
DECREASE IN CASH AND FOREIGN DEPOSITS	**(1.8)**	(4.9)
CASH AND FOREIGN DEPOSITS, BEGINNING OF YEAR	**6.8**	11.7
CASH AND FOREIGN DEPOSITS, END OF YEAR	**5.0**	6.8

(See accompanying notes to the Financial Statements.)

NOTES TO THE FINANCIAL STATEMENTS OF THE BANK OF CANADA

For the year ended 31 December 2013

(Amounts in the notes to the Financial Statements of the Bank of Canada are in millions of Canadian dollars, unless otherwise stated.)

1. The business of the Bank of Canada

The Bank of Canada (the Bank) is the nation's central bank. The Bank is a corporation under the Bank of Canada Act, is wholly owned by the Government of Canada and is exempt from income taxes. The Bank is a Government Business Enterprise as defined by the Public Sector Accounting Board Handbook and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Canadian Institute of Chartered Accountants (CICA).

The responsibilities of 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 the stability and efficiency of Canada's financial system, both within Canada and globally.

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

Funds management
Provides effective and efficient funds-management services for the Government of Canada, and administers and advises on the public debt and foreign exchange reserves. In addition, the Bank provides banking services to foreign central banks, as well as to critical payment clearing and settlement systems.

2. Basis of preparation

Compliance with International Financial Reporting Standards (IFRS)

These financial statements have been prepared in accordance with IFRS and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's bylaws.

The Board of Directors approved the financial statements on 13 February 2014.

Measurement base

The financial statements have been prepared on the historical cost basis, except for the available-for-sale (AFS) financial assets, which are measured at fair value, and the net defined-benefit liability/asset of employee benefit plans, which is recognized as the net of the fair value of plan assets and the present value of the defined-benefit obligation.

Significant accounting estimates and judgments in applying accounting policies

The preparation of the financial statements requires management to make judgments, estimates and assumptions based on information available at the statement date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, as well as related information. Actual results could differ from these estimates. In such cases, the impact will be recognized in the financial statements of a future fiscal period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates are primarily in the area of employee benefit plans (note 14) and the fair values of certain financial instruments and collateral taken (note 7).

Functional and presentation currency

The Bank's functional and presentation currency is the Canadian dollar.

Fiscal-agent and custodial activities

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the Government) and the Department of Finance. In this fiscal-agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas. The assets, liabilities, expenditures and revenues to which this support relates are those of the Government of Canada and are not included in the financial statements of the Bank.

Securities safekeeping and gold custodial activities are provided to foreign central banks and international organizations. The assets, and income arising therefrom, are excluded from these financial statements, since they are not assets or income of the Bank.

3. Significant accounting policies

The significant accounting policies of the Bank are summarized below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Translation of foreign currencies

Investment income and expenses denominated in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Fair-value items denominated in foreign currencies are translated at the exchange rate in effect at the date of the fair-value measurement. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the end of the reporting period. The resulting gains and losses are included in *Other revenue*. Gains or losses on equity investments classified as available for sale (AFS), along with any exchange-related gains or losses, are recognized in the available-for-sale reserve within *Other Comprehensive Income*.

b) Financial instruments

The Bank accounts for all financial instruments using settlement-date accounting. Financial instruments are measured at fair value on initial recognition, plus transaction costs, if any, for all financial assets not carried at fair value through net income. Subsequent to initial recognition, they are accounted for based on their classification.

Subsequent to initial recognition, financial assets classified as AFS are measured at fair value using quoted market prices, with the exception of the Bank for International Settlements (BIS) shares, which are measured using significant non-observable inputs. Unrealized changes in the values of AFS financial assets measured at fair value are recognized in *Other Comprehensive Income* and accumulated in the available-for-sale reserve in equity until the financial asset is derecognized or becomes impaired. At that time, the cumulative unrealized gain or loss previously recognized in *Other Comprehensive Income* is reclassified from equity to net income. The Bank's financial assets designated as AFS consist of Government of Canada treasury bills and other investments, which include BIS shares.

Financial assets that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity (HTM). Subsequent to initial recognition, financial assets classified as HTM are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method uses the rate inherent in a financial instrument that discounts the estimated future cash flows over the expected life of the financial instrument so as to recognize interest on a constant-yield basis. Government of Canada bonds are classified as HTM.

The Bank has not classified any of its financial assets as fair value through net income, other than cash and foreign deposits.

All other financial assets are classified as loans and receivables. Subsequent to initial recognition, these are measured at amortized cost less any impairment losses using the effective interest method of amortization.

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in net income.

The Bank has classified its financial liabilities as other liabilities. These liabilities are initially recognized at fair value. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value. The Bank has not classified any of its financial liabilities as fair value through net income.

The Bank derecognizes financial liabilities when the Bank’s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in net income.

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 recognized on the Statement of Financial Position 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 recognized on the Statement of Financial Position 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 the market with a secondary and temporary source of these securities. These securities-lending transactions are fully collateralized by securities and are generally one business day in duration. 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 equipment, other equipment and related projects in progress. *Property and equipment* is measured at cost less accumulated depreciation, except for land, which is not depreciated, and is net of any related impairment losses. Projects in progress are measured at cost but are not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Upon replacing a significant part of an item of property and equipment, the carrying amount of the replaced part is derecognized.

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Buildings	25 to 65 years
Computer equipment	3 to 7 years
Other equipment	5 to 15 years

Leasehold improvements (included in *Other equipment*) are depreciated over the lesser of: the useful life or the term of the lease.

g) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. The Bank's intangible assets consist of computer software internally developed or externally acquired.

Costs that are directly associated with the internal development of identifiable software are recognized as intangible assets if, in management's best estimate, the asset can technically be completed and will provide a future economic benefit to the Bank. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software assets that are acquired by the Bank and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, which may vary from 3 to 15 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

h) Bank note inventory

Bank note inventory consists of production materials, including polymer substrate and ink, and is measured at the lower of: the cost or the net realizable value. The cost to produce finished bank notes is expensed as incurred.

i) Leases

Where the Bank is a lessee

Leases of equipment where the Bank has assumed substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of: the fair value of the leased asset or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in *Other liabilities*. Each lease payment is allocated between the liability and finance charges to achieve a constant rate of return on the finance lease obligation outstanding. Equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term.

Other leases are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Where the Bank is a lessor

Leases granted on the Bank's property were assessed and classified as operating leases, because the risks and rewards of ownership are not transferred to the lessees. Operating lease income is recognized on a straight-line basis over the period of the lease.

j) Impairment

Impairment of financial assets

For financial assets that are not classified as fair value through net income, the Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of assets is impaired. Once impaired, financial assets carried at amortized cost are remeasured at the net recoverable amount, with the amount of impairment recognized in net income. Unrealized losses on impaired AFS financial assets are recognized in net income at the time of impairment.

Impairment of non-financial assets

Non-financial assets, including property and equipment, and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount.

Intangible assets under development are assessed for impairment on an annual basis.

k) Employee benefits

Short-term employee benefits

Short-term employee benefits include cash salary, bonus, annual leave, health benefits, dental care and statutory benefits and are measured on an undiscounted basis.

Long-term employee benefits

The Bank sponsors a long-term disability program.

The liability recognized in respect of this plan amounts to the present value of the defined-benefit obligation. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates on high-quality corporate bonds with terms to maturity approximating the estimated duration of the obligation. The expense recognized for the period-end consists of current service costs, interest costs, remeasurement gains and losses, and past service costs.

The current service costs and the benefit obligations of the plan are actuarially determined on an event-driven accounting basis. Remeasurement gains and losses, as well as past service costs arising from plan amendments, are recognized immediately on the Statement of Comprehensive Income in the period in which they occur.

Post-employment defined-benefit plans

The Bank sponsors a funded defined-benefit pension plan (the Bank of Canada Registered Pension Plan) and a funded defined-benefit supplementary pension arrangement (the Bank of Canada Supplementary Pension Arrangement), which are designed to provide retirement income benefits to eligible employees.

The Bank also sponsors other unfunded post-employment defined-benefit plans, which include life insurance and eligible health and dental benefits, as well as a long-service benefit program for employees hired before 1 January 2003.

The net asset or liability of these plans is recognized on the Statement of Financial Position. The net asset or liability recognized at period-end in respect of these plans is composed of the present value of the defined-benefit obligation less the fair value of plan assets, where applicable. The present value of the defined-benefit obligation is calculated by discounting estimated future cash flows using interest rates on high-quality corporate bonds with terms to maturity approximating the estimated duration of the obligation. The expense recognized for the reporting period consists of current service costs, past service costs, net interest on the net defined-benefit liability/asset, gains or losses arising on settlement (if applicable) and administrative costs. Net interest is calculated by applying the discount rate to the net defined-benefit liability/asset.

The current service costs and the benefit obligations of the plans are actuarially determined using the projected unit credit method. Remeasurements comprise actuarial gains and losses, the return on plan assets, and the effect of the asset ceiling (if applicable). They exclude amounts included in net interest on the net defined-benefit liability/asset. Remeasurements are recognized immediately in *Other Comprehensive Income* in the period in which they occur. Past service costs are recognized at the earlier of: when the plan amendment or curtailment occurs, or when the entity recognizes related restructuring costs or termination benefits. Plan assets of funded benefit plans are determined according to their fair value at the end of the reporting period.

Termination benefits

A liability for termination benefits is recognized at the earlier of: when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

l) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the statement of financial position date, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are included under *Other liabilities* (note 13).

m) Revenue recognition

Interest revenue earned on Government of Canada treasury bills and bonds is recognized in net income using the effective interest method. Dividend revenue on the BIS shares is recognized as dividends are declared.

Realized gains (losses) on the sale of Government of Canada treasury bills are recognized at the time of sale as a reclassification from O*ther Comprehensive Income* and are calculated as the excess of proceeds over the amortized cost at the transaction date.

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

Other revenue is composed mostly of interest earned on advances to members of the Canadian Payments Association (CPA) and is recognized using the effective interest method.

n) Changes in accounting policies

Effective 1 January 2013, the Bank adopted the following new and amended standards:

IAS 19 *Employee Benefits*

The amendments to IAS 19 require the following:

- immediate recognition in *Other Comprehensive Income* of actuarial gains and losses, and the return on plan assets, excluding amounts included in net interest on the net defined-benefit liability/asset;
- immediate full recognition of past service costs in profit or loss;
- recognition of the expected return on plan assets in profit or loss, to be calculated based on the rate used to discount the defined-benefit obligation;
- recognition of termination benefits at the earlier of: when the entity recognizes costs for a restructuring within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or when the entity can no longer withdraw the offer of the termination benefits; and

- additional disclosures that explain the characteristics of the entity's defined-benefit plans and risks associated with the plans: disclosures that describe how defined-benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any strategies for asset-liability matching used to manage risks.

The amendments to IAS 19 have been applied retrospectively. The net impact of the changes on previously reported financial information is summarized as follows:

	Year ended 31 December 2012
Statement of Comprehensive Income	
Increase in staff costs—benefit plan expenses	(15.7)
Decrease in remeasurements of the net defined-benefit liability/asset	15.7

IFRS 11 *Joint Arrangements*

IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

There was no material impact on the financial statements as a result of the retrospective adoption of IFRS 11.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

There was no material impact on the financial statements as a result of the retrospective adoption of IFRS 12.

IFRS 13 *Fair Value Measurement*

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair-value measurements. Disclosures are provided in note 7.

There was no material impact on the financial statements as a result of the retrospective adoption of IFRS 13.

IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation*

The amendments to IFRS 7 and IAS 32 provide additional accounting requirements and disclosures related to the offsetting of financial assets and financial liabilities. The new disclosures under IFRS 7 are effective for annual and interim financial statements for periods beginning on or after 1 January 2013. The clarifying amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014, but were early adopted as at 1 January 2013.

There was no material impact on the financial statements as a result of the retrospective adoption of the amendments to IFRS 7 and IAS 32.

IAS 1 *Presentation of Financial Statements*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntary comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the third balance sheet) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

There was no material impact on the financial statements as a result of the retrospective adoption of IAS 1.

o) Future changes in accounting policies

The following new standard issued by the International Accounting Standards Board (IASB) has been assessed as having a possible effect on the Bank in the future. The Bank is currently determining the impact of this standard on its financial statements.

IFRS 9 *Financial Instruments*

IFRS 9, as issued in November 2009 and revised in October 2010, and the related consequential amendments will replace International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 relates to the recognition and derecognition and measurement of financial assets and financial liabilities.

IFRS 9 eliminates the existing financial asset categories and requires all financial assets to be classified on initial recognition, either at amortized cost or at fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Gains and losses on financial assets measured at fair value will be recognized through net income, with the exception of equity investments not held for trading, which the Bank elects on initial recognition to have gains or losses recognized directly in equity.

The new standard also requires the use of a single impairment method for financial assets based on expected losses and incurred losses, replacing the multiple impairment methods in IAS 39.

IFRS 9 requires all financial liabilities not designated at fair value through net income to be subsequently measured at amortized cost using the effective interest method.

The IASB has not set a mandatory effective date for IFRS 9, although early adoption is permitted. The Bank is currently evaluating the impact of IFRS 9 on its financial statements, and will continue to do so as the remaining stages of this project are finalized.

4. Cash and foreign deposits

Cash and foreign deposits is composed of cash on hand as well as highly liquid demand deposits in foreign currencies with other central banks or international financial institutions. Included in this balance is Can$4.6 million (Can$6.7 million at 31 December 2012) of foreign deposits.

5. Loans and receivables

Loans and receivables are composed primarily of securities purchased under resale agreements and, if any, advances to members of the CPA. These transactions are fully collateralized in accordance with publicly disclosed collateral eligibility and margin requirements. Financial risks related to these instruments are discussed in note 7.

a) Securities purchased under resale agreements

Securities purchased under resale agreements for terms of one business day are acquired to reinforce the target overnight interest rate. Securities are acquired through buyback transactions with primary dealers where the counterparties may accept an amount up to their pre-specified limit.

Securities purchased under resale agreements for terms of longer than one business day are acquired through an auction process. 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 2013 consist of agreements with original terms to maturity of 21 days. (Balances outstanding at 31 December 2012 consist of agreements with original terms to maturity ranging from 23 to 24 days.)

b) Advances to members of the Canadian Payments Association

Advances to members of the CPA are typically composed of liquidity loans made under the Bank's Standing Liquidity Facility. These advances mature the next business day. Interest on overnight advances is calculated at the Bank Rate. The Bank Rate is the rate of interest that the Bank charges on one-day loans to major financial institutions.

6. Investments

The Bank operates a Securities Lending Program to support the liquidity of Government of Canada securities by providing the market with a secondary and temporary source of these securities. At 31 December 2013, the Bank's investments included loaned securities with a fair market value of $129.7 million ($Nil at 31 December 2012) and an amortized cost of $119.5 million ($Nil at 31 December 2012). Collateral held against investments loaned under securities lending at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $133.0 million, representing 102 per cent of the fair market value of the securities loaned.

In *Other investments*, the Bank holds 9,441 BIS shares (9,441 BIS shares at 31 December 2012) in order to participate in the BIS. 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.

7. Financial instruments and risk management

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the CPA, other receivables, investments (consisting of Government of Canada treasury bills, Government of Canada bonds and shares in the BIS), bank notes in circulation, deposits and other liabilities (excluding the net defined-benefit liability for pension benefit plans and other employee benefit plans).

Cash and foreign deposits, Government of Canada treasury bills, and BIS shares are measured at fair value. All other financial instruments are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value.

a) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

The carrying amount and fair value of financial assets and liabilities are presented in the following table:

	31 December 2013		31 December 2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and foreign deposits	**5.0**	**5.0**	6.8	6.8
Securities purchased under resale agreements	**2,205.9**	**2,205.9**	1,838.3	1,838.3
Advances to members of the Canadian Payments Association	**-**	**-**	61.8	61.8
Other receivables	**9.0**	**9.0**	5.5	5.5
Government of Canada treasury bills	**21,586.4**	**21,586.4**	18,987.3	18,987.3
Government of Canada bonds[1]	**66,653.6**	**68,622.2**	56,277.3	61,120.7
Other investments	**337.1**	**337.1**	342.7	342.7
Total financial assets	**90,797.0**	**92,765.6**	77,519.7	82,363.1
Financial liabilities				
Bank notes in circulation	**66,615.9**	**66,615.9**	63,700.0	63,700.0
Deposits	**23,823.5**	**23,823.5**	13,291.3	13,291.3
Other financial liabilities	**254.4**	**254.4**	174.6	174.6
Total financial liabilities	**90,693.8**	**90,693.8**	77,165.9	77,165.9

[1] The carrying amounts and fair value of Government of Canada bonds include accrued interest. The fair value of Government of Canada bonds as of 31 December 2012 has been restated to include accrued interest of $238.9 million.

(ii) Financial instruments measured at fair value

Financial instruments measured at fair value are classified using a fair-value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. In measuring fair value, a financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value as at 31 December 2013				
Cash and foreign deposits	**5.0**	**-**	**-**	**5.0**
Government of Canada treasury bills	**21,586.4**	**-**	**-**	**21,586.4**
BIS shares	**-**	**-**	**337.1**	**337.1**
	21,591.4	**-**	**337.1**	**21,928.5**
Financial assets at fair value as at 31 December 2012				
Cash and foreign deposits	6.8	-	-	6.8
Government of Canada treasury bills	18,987.3	-	-	18,987.3
BIS shares	-	-	342.7	342.7
	18,994.1	-	342.7	19,336.8

There were no transfers of amounts between levels in 2013.

The fair value of the BIS shares is estimated to be 70 per cent of the Bank's interest in the net asset value (NAV) of the BIS at the reporting date. This formula is equivalent to the methodology applied by the BIS to determine the pricing of any new shares issued. While the Bank considers that the 30 per cent discount against the net asset value of the BIS continues to be the appropriate basis for valuation, the valuation inputs are not considered to be observable, and a 5 per cent change in the discount to the NAV would not have a material impact on the fair value of the BIS shares. There were no changes to the valuation technique during the year.

The following table reconciles the estimated fair value of the BIS shares determined using Level 3 fair-value measurements:

	31 December 2013	31 December 2012
Opening balance at beginning of year	**342.7**	325.3
Change in fair value recognized through *Other Comprehensive Income*	**(5.6)**	17.4
Closing balance at end of year	**337.1**	342.7

(iii) 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 date of the Statement of Financial Position.

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

The carrying amount of advances to members of the CPA, other receivables, deposits, and other financial liabilities (which are composed of other liabilities, excluding the portion representing the net defined-benefit liability, as described in note 14) approximates fair value, given the short-term nature. The face value of bank notes in circulation is equal to their fair value.

b) Financial risk

The Bank has a well-established framework for identifying, managing and monitoring pertinent areas of risk. This framework is supported by the Board of Directors, which ensures that the Bank has a robust risk-management process in place. The Bank is exposed to financial risk (credit risk, market risk and liquidity risk) associated with the management of the Bank's financial assets and liabilities. The Financial Risk Office, which is independent of operations, monitors and reports on the financial risks relating to the Bank's balance sheet. The following is a description of those risks and how the Bank manages its exposure to them.

(i) Credit risk

Credit risk is the risk that a counterparty to a financial contract will fail to discharge its obligations in accordance with agreed-upon terms.

The Bank is exposed to credit risk through its cash and foreign deposits, investment portfolio, and advances to members of the CPA, and through market transactions conducted in the form of securities purchased under resale agreements and loans of securities. The maximum exposure to credit risk is estimated to be the carrying value of the items listed above. There are no past due or impaired amounts.

Advances to members of the CPA, securities purchased under resale agreements and securities loaned are fully collateralized loans. Collateral is taken in accordance with the Bank's publicly disclosed eligibility criteria and margin requirements, which are accessible on its website. Strict eligibility criteria are set for all collateral, and the Bank requires excess collateral relative to the size of the loan provided.

In the unlikely event of a counterparty default, collateral can be liquidated to offset credit exposure. The credit quality of collateral is managed through a set of restrictions based on asset type, term to maturity and the credit ratings of the securities pledged.

Concentration of credit risk

The credit risk associated with the Bank's investment portfolio, representing 97 per cent of the carrying value of its total assets (97 per cent in 2012), is low because the securities held are primarily direct obligations of the Government of Canada, which holds a credit rating of AAA. The Bank's advances to members of the CPA and securities purchased under resale agreements, representing 2 per cent of the carrying value of its total assets (2 per cent in 2012), are collateralized obligations of various Canadian-based financial institutions.

Collateral held against securities purchased under resale agreements at the end of the reporting period was in the form of securities issued or guaranteed by the Government of Canada. The fair value of collateral held totalled $2,250.6 million, representing 102 per cent of the amortized cost of $2,205.9 million ($1,864.0 million, representing 101 per cent of the amortized cost at 31 December 2012).

Large Value Transfer System (LVTS) guarantee

The Bank is exposed to credit risk through its guarantee of the LVTS. The maximum exposure under this guarantee is described in note 17, *Commitments, contingencies and guarantees*.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's investment in Government of Canada treasury bills and bonds counteracts the non-interest-bearing bank notes in circulation liability and supports the Bank's operational independence to conduct monetary policy. These assets are acquired in proportions that broadly resemble the structure of the Government of Canada's domestic debt outstanding in order to reduce interest rate risk from the perspective of the Government of Canada.

The Bank's exposure to fair-value interest rate risk arises principally through its investment in Government of Canada treasury bills, which are short term in duration, and Government of Canada bonds. The fair value of the Government of Canada treasury bills portfolio held by the Bank is exposed to fluctuations owing to changes in market interest rates. Unrealized gains and losses on the Government of Canada treasury bill portfolio are recognized in the *Available-for-sale reserve* in the *Equity* section of the Statement of Financial Position until they mature or are sold. Government of Canada bonds are carried at amortized cost and are acquired with the intention of holding them to maturity. All other financial assets or liabilities with an interest rate component 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 of an (increase)/decrease of 25 basis points in interest rates on the fair value of the Government of Canada treasury bill portfolio and on other comprehensive income.

	31 December 2013	**31 December 2012**
Government of Canada treasury bills	**(17.6) / 17.0**	(16.2) / 15.4

The Bank's exposure to interest rate risk in the form of fluctuations in future cash flows of existing financial instruments is limited to Government of Canada deposits, and cash and foreign deposits, since these instruments are subject to variable interest rates. The remainder of the Bank's financial assets and liabilities have either fixed interest rates or are non-interest-bearing.

The figures below show the effect at 31 December of an increase/(decrease) of 25 basis points in interest rates on the interest expenses paid on Government of Canada deposits.

	31 December 2013	**31 December 2012**
Interest expense on Government of Canada deposits	**51.3 / (51.3)**	20.5 / (20.5)

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 2013
	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	0.01	5.0	-	5.0	-	-	-	-
Loans and receivables								
Advances to members of the CPA	-	-	-	-	-	-	-	-
Securities purchased under resale agreements	1.03	2,205.9	-	2,205.9	-	-	-	-
Other receivables		9.0	9.0	-	-	-	-	-
Investments								
Government of Canada treasury bills	1.01	4,748.2	-	4,748.2	-	-	-	-
	0.97	6,390.3	-	-	6,390.3	-	-	-
	1.04	10,448.0	-	-	-	10,448.0	-	-
	1.01	21,586.5						
Government of Canada bonds[1]	1.75	3,489.4	-	-	3,489.4	-	-	-
	1.92	10,216.9	-	-	-	10,216.9	-	-
	1.86	32,040.8	-	-	-	-	32,040.8	-
	3.62	20,906.5	-	-	-	-	-	20,906.5
	2.41	66,653.6						
Shares in the BIS		337.1	337.1	-	-	-	-	-
		90,797.1	346.1	6,959.1	9,879.7	20,664.9	32,040.8	20,906.5
FINANCIAL LIABILITIES								
Bank notes in circulation		66,615.9	66,615.9	-	-	-	-	-
Deposits								
Government of Canada	1.03	22,329.9	-	22,329.9	-	-	-	-
Members of the CPA	0.75	186.7	-	186.7	-	-	-	-
Other deposits								
Unclaimed balances		532.7	532.7	-	-	-	-	-
Other	1.01	774.2	-	774.2	-	-	-	-
Other financial liabilities		254.4	254.4	-	-	-	-	-
		90,693.8	67,403.0	23,290.8	-	-	-	-
Interest rate sensitivity gap		103.3	(67,056.9)	(16,331.7)	9,879.7	20,664.9	32,040.8	20,906.5

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

								As at 31 December 2012
	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	0.14	6.8	-	6.8	-	-	-	-
Loans and receivables								
Advances to members of the CPA	1.25	61.8	-	61.8	-	-	-	-
Securities purchased under resale agreements	1.03	1,838.3	-	1,838.3	-	-	-	-
Other receivables		5.5	5.5	-	-	-	-	-
Investments								
Government of Canada treasury bills	0.99	3,049.2	-	3,049.2	-	-	-	-
	1.02	7,039.2	-	-	7,039.2	-	-	-
	1.09	8,898.9	-	-	-	8,898.9	-	-
	1.05	18,987.3						
Government of Canada bonds[1]	1.87	1,840.3	-	-	1,840.3	-	-	-
	2.75	5,987.2	-	-	-	5,987.2	-	-
	2.02	30,439.4	-	-	-	-	30,439.4	-
	4.59	18,010.4	-	-	-	-	-	18,010.4
	2.90	56,277.3						
Shares in the BIS		342.7	342.7	-	-	-	-	-
		77,519.7	348.2	4,956.1	8,879.5	14,886.1	30,439.4	18,010.4
FINANCIAL LIABILITIES								
Bank notes in circulation		63,700.0	63,700.0	-	-	-	-	-
Deposits								
Government of Canada	1.03	11,701.5	-	11,701.5	-	-	-	-
Members of the CPA	0.75	186.4	-	186.4	-	-	-	-
Other deposits								
Unclaimed balances		496.1	496.1	-	-	-	-	-
Other	0.98	907.3	-	907.3	-	-	-	-
Other financial liabilities		174.6	174.6	-	-	-	-	-
		77,165.9	64,370.7	12,795.2	-	-	-	-
Interest rate sensitivity gap		353.8	(64,022.5)	(7,839.1)	8,879.5	14,886.1	30,439.4	18,010.4

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.

The Bank is exposed to currency risk primarily by holding shares in the BIS. These shares are denominated in Special Drawing Rights (SDRs). The SDR serves as the unit of account for the International Monetary Fund (IMF) and its value is based on a "basket" of four major currencies: the euro, the U.S. dollar, the pound sterling and the Japanese yen. SDRs are translated into Canadian-dollar equivalents at the rates prevailing on the date when the fair value is determined.

Consistent with 2012, at 31 December 2013, the Bank did not hold a significant amount of foreign currencies.

Given the small size of the Bank's net foreign currency exposure relative to its total assets, currency risk is not considered significant.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The Bank is exposed to other price risk through its investment in the BIS. For accounting purposes, the Bank treats BIS shares as available for sale and the fair value of these shares is estimated on the basis of the net asset value of the BIS, less a discount of 30 per cent. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Canadian dollar. The other price risk faced on BIS shares is incidental to the general reasons for holding them and is immaterial compared with other market risks faced by the Bank.

(iii) 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 table on page 72, 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 or a significant withdrawal from the Government of Canada's deposit for the prudential liquidity-management plan, the Bank has the ability to settle the obligation by means of several tools.

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

LVTS guarantee

The Bank is exposed to liquidity risk through its guarantee of the LVTS. The maximum exposure under this guarantee is described in note 17, *Commitments, contingencies and guarantees*.

The following table presents a maturity analysis of the Bank's financial assets and liabilities. The balances in this table do not correspond to the balances in the Statement of Financial Position, since the table presents all cash flows on an undiscounted basis.

								As at 31 December 2013
	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	5.0	5.0	-	-	-	-	-	-
Loans and receivables								
Advances to members of the CPA	-		-					
Securities purchased under resale agreements	2,205.9	-	-	2,205.9	-	-	-	-
Other receivables	9.0	-	-	9.0	-	-	-	-
Investments								
Government of Canada treasury bills	21,650.0	-	-	4,750.0	6,400.0	10,500.0	-	-
Government of Canada bonds[1]	65,764.6	-	-	-	3,469.0	10,165.0	31,971.8	20,158.8
Shares in the BIS	337.1	337.1	-	-	-	-	-	-
	89,971.6	342.1	-	6,964.9	9,869.0	20,665.0	31,971.8	20,158.8
FINANCIAL LIABILITIES								
Bank notes in circulation	66,615.9	66,615.9	-	-	-	-	-	-
Deposits								
Government of Canada	22,329.9	22,329.9	-	-	-	-	-	-
Members of the CPA	186.7	-	186.7	-	-	-	-	-
Other deposits								
Unclaimed balances	532.7	532.7	-	-	-	-	-	-
Other	774.2	774.2	-	-	-	-	-	-
Other liabilities	254.4	-	-	254.4	-	-	-	-
	90,693.8	90,252.7	186.7	254.4	-	-	-	-
Net maturity difference	(722.2)	(89,910.6)	(186.7)	6,710.5	9,869.0	20,665.0	31,971.8	20,158.8

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 in place as at 31 December 2013.

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 2012
	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	6.8	6.8	-	-	-	-	-	-
Loans and receivables								
Advances to members of the CPA	61.8		61.8					
Securities purchased under resale agreements	1,838.3	-	-	1,838.3	-	-	-	-
Other receivables	5.5	-	-	5.5	-	-	-	-
Investments								
Government of Canada treasury bills	19,050.0	-	-	3,050.0	7,050.0	8,950.0	-	-
Government of Canada bonds[1]	55,344.6	-	-	-	1,830.0	5,950.0	30,295.8	17,268.8
Shares in the BIS	342.7	342.7	-	-	-	-	-	-
	76,649.7	349.5	61.8	4,893.8	8,880.0	14,900.0	30,295.8	17,268.8
FINANCIAL LIABILITIES								
Bank notes in circulation	63,700.0	63,700.0	-	-	-	-	-	-
Deposits								
Government of Canada	11,701.5	11,701.5	-	-	-	-	-	-
Members of the CPA	186.4	-	186.4	-	-	-	-	-
Other deposits								
Unclaimed balances	496.1	496.1	-	-	-	-	-	-
Other	907.3	907.3	-	-	-	-	-	-
Other liabilities	174.6	-	-	174.6	-	-	-	-
	77,165.9	76,804.9	186.4	174.6	-	-	-	-
Net maturity difference	(516.2)	(76,455.4)	(124.6)	4,719.2	8,880.0	14,900.0	30,295.8	17,268.8

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

8. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
2013				
Cost				
Balances, 31 December 2012	**240.7**	**27.2**	**95.7**	**363.6**
Additions	**20.8**	**7.4**	**50.6**	**78.8**
Disposals	**(37.8)**	**(1.1)**	**(65.8)**	**(104.7)**
Transfers to other asset categories	**(2.3)**	**2.3**	**-**	**-**
Balances, 31 December 2013	**221.4**	**35.8**	**80.5**	**337.7**
Depreciation				
Balances, 31 December 2012	**(89.4)**	**(7.1)**	**(76.7)**	**(173.2)**
Depreciation expense	**(13.8)**	**(4.9)**	**(9.8)**	**(28.5)**
Disposals	**30.8**	**0.6**	**65.0**	**96.4**
Transfers to other asset categories	**-**	**-**	**-**	**-**
Balances, 31 December 2013	**(72.4)**	**(11.4)**	**(21.5)**	**(105.3)**
Carrying amounts				
At 31 December 2012	**151.3**	**20.1**	**19.0**	**190.4**
At 31 December 2013	**149.0**	**24.4**	**59.0**	**232.4**
Projects in progress 2013				
Included in *Carrying amounts* at 31 December 2013	**19.7**	**2.0**	**0.1**	**21.8**
Additions during 2013	**17.8**	**1.8**	**0.4**	**20.0**
Commitments at 31 December 2013	**41.4**	**0.1**	**5.7**	**47.2**

Projects in progress consist primarily of $19.7 million related to the Head Office Renewal Program (31 December 2012—$8.2 million), $1.8 million related to the High Availability Renewal Program (31 December 2012—$Nil) and $0.3 million related to the Tri-Agency Database System Renewal (31 December 2012—$Nil). The Currency equipment adaptation (31 December 2012—$2.3 million) and the Enhanced Business-Continuity Initiative (31 December 2012—$42.3 million) were put in service in 2013 and removed from *Projects in progress*.

On 1 October 2012, as a result of the program to overhaul and modernize the head office facility (Head Office Renewal Program), the estimated useful lives of the components related to the existing facility were adjusted to reflect the start of the construction on 31 December 2013. The impact of this change was an increase to depreciation expenses of $15.5 million for the year ending 31 December 2013.

Leasehold improvements totalling $30.1 million incurred in 2013 related to the program to overhaul and modernize the head office facility are included in *Other equipment*.

Other equipment additions include $12.5 million for bank note inspection equipment, which was obtained through a finance lease arrangement (note 16b). The net carrying amount of the equipment at 31 December 2013 was $11.3 million ($Nil at 31 December 2012).

In December 2013, the Bank signed a memorandum of understanding with the construction manager that establishes a guaranteed maximum price for future construction at the head office facility. At 31 December 2013, the Bank had formalized $42.3 million in contractual commitments toward this construction agreement.

	Land and buildings	Computer equipment	Other equipment	Total
2012				
Cost				
Balances, 31 December 2011	218.2	30.8	99.5	348.5
Additions	23.6	5.6	2.0	31.2
Disposals	(4.2)	(9.2)	(2.7)	(16.1)
Transfers to other asset categories	3.1	-	(3.1)	-
Balances, 31 December 2012	240.7	27.2	95.7	363.6
Depreciation				
Balances, 31 December 2011	(85.1)	(12.1)	(74.7)	(171.9)
Depreciation expense	(8.5)	(4.0)	(4.7)	(17.2)
Disposals	4.2	9.0	2.7	15.9
Transfers to other asset categories	-	-	-	-
Balances, 31 December 2012	(89.4)	(7.1)	(76.7)	(173.2)
Carrying amounts				
At 31 December 2011	133.1	18.7	24.8	176.6
At 31 December 2012	151.3	20.1	19.0	190.4
Projects in progress 2012				
Included in *Carrying amounts* at 31 December 2012	48.2	6.9	2.1	57.2
Additions during 2012	23.6	4.2	1.7	29.5
Commitments at 31 December 2012	22.2	3.4	3.0	28.6

9. Intangible assets

	Internally generated software	Other software	Total
2013			
Cost			
Balances, 31 December 2012	**42.8**	**55.8**	**98.6**
Additions	**0.4**	**5.6**	**6.0**
Disposals	**-**	**-**	**-**
Balances, 31 December 2013	**43.2**	**61.4**	**104.6**
Amortization			
Balances, 31 December 2012	**(29.7)**	**(13.3)**	**(43.0)**
Amortization expense	**(4.1)**	**(5.3)**	**(9.4)**
Disposals	**-**	**-**	**-**
Balances, 31 December 2013	**(33.8)**	**(18.6)**	**(52.4)**
Carrying amounts			
At 31 December 2012	**13.1**	**42.5**	**55.6**
At 31 December 2013	**9.4**	**42.8**	**52.2**

Projects in progress 2013			
Included in *Carrying amounts* at 31 December 2013	**-**	**4.1**	**4.1**
Additions during 2013	**-**	**2.7**	**2.7**
Commitments at 31 December 2013	**-**	**-**	**-**

Projects in progress consist primarily of $4.1 million related to the Tri-Agency Database System Renewal (31 December 2012—$1.4 million). The Auctions and Markets Applications Program (31 December 2012—$21.7 million), the Currency equipment adaptation (31 December 2012—$1.7 million) and the data-management stream of the Analytic Environment Program (31 December 2012—$7.7 million) were put in service in 2013 and removed from *Projects in progress*.

	Internally generated software	Other software	Total
2012			
Cost			
Balances, 31 December 2011	42.8	40.2	83.0
Additions	-	17.5	17.5
Disposals	-	(1.9)	(1.9)
Balances, 31 December 2012	42.8	55.8	98.6
Amortization			
Balances, 31 December 2011	(25.8)	(12.6)	(38.4)
Amortization expense	(3.9)	(1.9)	(5.8)
Disposals	-	1.2	1.2
Balances, 31 December 2012	(29.7)	(13.3)	(43.0)
Carrying amounts			
At 31 December 2011	17.0	27.6	44.6
At 31 December 2012	13.1	42.5	55.6
Projects in progress 2012			
Included in *Carrying amounts* at 31 December 2012	-	32.8	32.8
Additions during 2012	-	16.1	16.1
Commitments at 31 December 2012	-	0.1	0.1

10. Other assets

	31 December 2013	31 December 2012
Bank note inventory	**11.9**	32.1
Net defined-benefit asset (note 14)	**197.7**	0.8
All other assets	**14.5**	8.7
Total other assets	**224.1**	41.6

11. Bank notes in circulation

In accordance with the Bank of Canada Act, the Bank has the sole authority to issue bank notes for circulation in Canada. A breakdown by denomination is presented below.

	31 December 2013	31 December 2012
$5	**1,103.4**	1,130.5
$10	**1,263.8**	1,204.1
$20	**17,229.7**	17,202.1
$50	**10,744.3**	10,144.8
$100	**35,039.3**	32,742.5
Other bank notes	**1,235.4**	1,276.0
Bank notes in circulation	**66,615.9**	63,700.0

Other bank notes include denominations that are no longer issued but continue to be legal tender. Bank notes in circulation are non-interest-bearing liabilities and are due on demand.

12. Deposits

The liabilities within *Deposits* consist of $23,823.5 million in Canadian-dollar demand deposits ($13,291.3 million at 31 December 2012). The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at short-term market rates, and interest expense on deposits is included in the Statement of Comprehensive Income. Further information on the rates of interest is presented in the interest rate risk table in note 7.

Deposits from the Government of Canada consist of $2,329.9 million for operational balances and $20,000.0 million held for the prudential liquidity-management plan ($1,701.5 million and $10,000.0 million, respectively, at 31 December 2012).

13. Other liabilities

	31 December 2013	31 December 2012
Accrued transfer payment to the Receiver General for Canada	**153.7**	82.2
Net defined-benefit liability (note 14)		
Pension benefit plans	**16.8**	20.1
Other benefit plans	**159.9**	182.7
All other liabilities and provisions	**100.7**	92.5
Total other liabilities	**431.1**	377.5

The accrued transfer payment to the Receiver General for Canada of $153.7 million (31 December 2012—$82.2 million) is included in the $1,230.7 million *Transfer to the Receiver General* for the year presented in the Statement of Changes in Equity (31 December 2012—$1,022.2 million).

For the year ended 31 December 2013, an amount of $82.2 million related to 2012 net income and $1,077.0 million related to 2013 net income was paid to the Receiver General for Canada ($78.4 million related to 2011 net income and $940.0 million related to 2012 net income was paid in 2012).

As a result of the program to overhaul and modernize the head office facility, provisions totalling $15.1 million for the final year of the five-year lease agreement for temporary office space and for site restoration costs were recognized in 2012 and are included under *Other liabilities*.

14. Employee benefit plans

The Bank sponsors a funded defined-benefit pension plan (the Bank of Canada Registered Pension Plan) and a funded defined-benefit supplementary pension arrangement (the Bank of Canada Supplementary Pension Arrangement), which are designed to provide retirement income benefits to eligible employees. Benefits provided under these plans are calculated based on years of service and average full-time salary for the best five consecutive years and are indexed to reflect changes in the consumer price index on the date payments begin and each 1 January thereafter.

Effective 1 January 2012, the plan bylaws were amended to reflect a new defined-benefit plan design for eligible employees hired after that date and for current plan members who selected the new design for service from that date forward. The amendment increased the age at which members are entitled to receive pension benefits, removed the bridge benefit and adjusted employee contributions.

The Bank is the administrator of the pension plans. The Bank's Board of Directors has established a Pension Committee and has delegated to it the responsibility for carrying out the Bank's duties as administrator of the plans, including adherence to the guidelines established in the Statement of Investment Policy and Procedures (SIPP), which is approved annually by the Board. A separate trust fund has been established for each plan to receive and invest contributions and pay benefits due under the plans.

The most recent actuarial valuation for funding purposes of the Registered Pension Plan was done as of 1 January 2013, and the next required valuation will be as of 1 January 2014.

The Bank also sponsors other unfunded benefit plans, which include life insurance and eligible health and dental benefits and a long-term disability program, as well as a long-service benefit program for employees hired before 1 January 2003.

The Bank measures its defined-benefit obligations and the fair value of plan assets for accounting purposes as at 31 December of each year.

The changes in plan assets and defined-benefit obligations for the year are as follows:

	Pension benefit plans[1]		Other benefit plans	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Fair value of plan assets				
Fair value of plan assets at beginning of year	**1,266.5**	1,143.1	**-**	-
Interest income[2]	**50.7**	52.8	**-**	-
Remeasurement gains/(losses)				
Return on plan assets (excluding net interest)[2]	**84.3**	63.8	**-**	-
Bank contributions	**41.3**	42.0	**-**	-
Employee contributions	**10.2**	11.9	**-**	-
Benefit payments and transfers	**(46.6)**	(45.7)	**-**	-
Administration costs[2]	**(1.5)**	(1.4)	**-**	-
Fair value of plan assets at end of year	**1,404.9**	1,266.5	**-**	-
Defined-benefit obligation				
Benefit obligation at beginning of year	**1,285.8**	1,127.7	**182.7**	164.7
Current service cost	**33.2**	25.9	**7.5**	7.4
Interest cost	**52.7**	52.1	**7.2**	7.4
Employee contributions	**10.2**	11.9	**-**	-
Remeasurement (gains)/losses				
Actuarial (gains)/losses arising from changes in demographic experience[2]	**66.1**	(5.6)	**6.6**	-
Actuarial (gains)/losses arising from changes in financial assumptions[2]	**(179.0)**	119.6	**(34.9)**	12.5
Past service costs	**1.6**	-	**-**	0.6
Benefit payments and transfers	**(46.6)**	(45.8)	**(9.2)**	(9.9)
Defined-benefit obligation at end of year	**1,224.0**	1,285.8	**159.9**	182.7
Net defined-benefit asset/(liability)	**180.9**	(19.3)	**(159.9)**	(182.7)
Net defined-benefit asset	**197.7**	0.8	**-**	-
Net defined-benefit liability	**(16.8)**	(20.1)	**(159.9)**	(182.7)
Net defined-benefit asset/(liability)	**180.9**	(19.3)	**(159.9)**	(182.7)

1. For the Supplementary Pension Arrangement, in which the defined-benefit obligation exceeds plan assets, the defined-benefit obligation and the fair value of plan assets totalled $85.8 million ($83.2 million at 31 December 2012) and $69.0 million ($63.1 million at 31 December 2012), respectively.

2. On 1 January 2013, the amendments to IAS 19 eliminated the recognition of the expected return on plan assets in net income; instead, interest income on plan assets is calculated using the discount rate to measure the pension obligations. The return on plan assets includes plan administration costs only if those costs relate to the management of plan assets and if other administration costs are expensed. The amendments to IAS 19 also require remeasurement gains and losses affecting the defined-benefit obligation to be classified based on their nature: those arising from changes in demographic experience, those arising from changes in demographic assumptions and those arising from changes in financial assumptions. The change is applied retrospectively and results in a reclassification of $15.7 million to comparative figures in 2012.

Asset mix

The Plan's Statement of Investment Policy and Procedures requires that its investments be held in a diversified mix of asset types and also sets out requirements for investment eligibility. The diversification of assets serves to decrease the variations in the expected return performance of the portfolio. The current practice is to conduct an Asset-Liability Modelling (ALM) study every three years. The ALM assists the Pension Committee in establishing an asset allocation that is consistent with the pension plan's objectives and the Bank's risk tolerance.

The Plan's investments are subject to credit, liquidity and market risks. Of these risks, the most significant is asset volatility, since plan liabilities are calculated using a discount rate set with reference to the yield on Canadian AA-corporate bonds. If plan assets underperform this yield, a deficit will be created. Requirements for asset diversification and investment eligibility serve as basic risk-management tools for the investment portfolio as a whole.

Plan assets consist of the following:

	31 December 2013				31 December 2012			
	Quoted	**Unquoted**	**Total**	**In %**	**Quoted**	**Unquoted**	**Total**	**In %**
Money market instruments	**11.2**	**-**	**11.2**	**0.8**	12.2	-	12.2	1.0
Equity instruments								
Canadian equity funds	**310.0**	**-**	**310.0**	**22.1**	279.9	-	279.9	22.0
Foreign equity funds	**517.4**	**-**	**517.4**	**36.8**	425.7	-	425.7	33.6
Debt instruments[1]								
Securities issued or guaranteed by the Government of Canada	**171.3**	**-**	**171.3**	**12.2**	171.4	-	171.4	13.5
Other securities	**295.0**	**-**	**295.0**	**21.0**	284.4	-	284.4	22.5
Real estate funds	**-**	**69.1**	**69.1**	**4.9**	-	63.1	63.1	5.0
Statutory deposit	**-**	**30.9**	**30.9**	**2.2**	-	29.8	29.8	2.4
	1,304.9	**100.0**	**1,404.9**	**100.0**	1,173.6	92.9	1,266.5	100.0

1. Debt instruments consist of fixed-income securities and inflation-linked assets.

Defined-benefit obligations and expenses

The defined-benefit obligation, presented in terms of membership, is as follows:

	Pension benefit plans		Other benefit plans	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Active members	**476.5**	546.6	**89.4**	105.7
Pensioners	**675.7**	658.2	**70.5**	77.0
Deferred members	**71.8**	81.0	**-**	-
Defined-benefit obligation	**1,224.0**	1,285.8	**159.9**	182.7

Benefit plan expenses recognized in the Statement of Comprehensive Income are composed of the following components:

	Pension benefit plans		Other benefit plans	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Current service cost, net of employee contributions	**33.2**	25.9	**7.5**	7.4
Past service costs	**1.6**	-	**-**	0.6
Net interest expense	**2.0**	(0.7)	**7.2**	7.4
Actuarial (gains)/losses arising from changes in financial assumptions	**-**	-	**(0.8)**	0.8
Administration costs	**1.5**	1.4	**-**	-
Benefit plan expense recognized in *Net Income*	**38.3**	26.6	**13.9**	16.2
Remeasurement on the net defined-benefit liability/asset:				
Return on plan assets (excluding net interest)	**(84.3)**	(63.8)	**-**	-
Actuarial (gains)/losses arising from changes in demographic experience	**66.1**	(5.6)	**6.6**	-
Actuarial (gains)/losses arising from changes in financial assumptions	**(179.0)**	119.6	**(34.1)**	11.7
Remeasurement (gains)/losses recognized in *Other Comprehensive Income*	**(197.2)**	50.2	**(27.5)**	11.7

Remeasurement gains and losses pertaining to post-employment benefit plans are recognized in *Other Comprehensive Income* and are accumulated in *Equity* in the *Remeasurements reserve*.

The cumulative remeasurement losses recognized in *Other Comprehensive Income* are as follows:

	Pension benefit plans		Other benefit plans	
	31 December 2013	**31 December 2012** *(restated—note 3)*	**31 December 2013**	**31 December 2012**
Cumulative remeasurement losses recognized, beginning of year	**(330.6)**	(280.4)	**(39.5)**	(27.8)
Remeasurement gains/(losses) recognized in current year	**197.2**	(50.2)	**27.5**	(11.7)
Cumulative remeasurement losses recognized, end of year	**(133.4)**	(330.6)	**(12.0)**	(39.5)

Total cash payments

Regulations governing federally regulated pension plans establish certain solvency requirements that assume that the plans are wound up at the valuation date. The actuarial valuation of the Registered Pension Plan completed at 1 January 2013 reported a solvency deficit of $83.0 million, and the Bank is making additional contributions to fund this solvency deficit over a period of five years. In 2013, $16.9 million of the employer contributions to the plan represented solvency deficit payments. Contributions in 2014 will be based on the actuarial valuation as at 1 January 2014, and are estimated to be $23.8 million, which consists of $19.5 million in regular contributions to cover current service costs and $4.3 million toward the elimination of the solvency deficit.

Assumptions

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

	Pension benefit plans		Other benefit plans	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Defined-benefit obligation				
Discount rate	**4.90%**	4.00%	**4.79%**	3.86%
Inflation rate[1]	**2.00%**	2.00%	**n.a.**	n.a.
Rate of compensation increase	**3.30% + merit**	3.30% + merit	**3.30% + merit**	3.30% + merit
Benefit plan expense				
Discount rate	**4.00%**	4.60%	**3.86%**	4.44%
Inflation rate[1]	**2.00%**	2.00%	**n.a.**	n.a.
Rate of compensation increase	**3.30% + merit**	3.30% + merit	**3.30% + merit**	3.30% + merit
Assumed medical cost trend				
Medical cost trend rate	**n.a.**	n.a.	**6.31% - 4.50%**	6.43% - 4.50%
Year that the rate reaches the ultimate trend rate	**n.a.**	n.a.	**2029**	2029

1. Other benefit plans does not include an inflation rate adjustment since it is a component of *Assumed medical cost trend*

The discount rate is determined by reference to Canadian AA-corporate bonds with terms to maturity approximating the duration of the obligation.

The weighted-average duration of the defined-benefit obligation is approximately 16 years for the Pension benefit plans and 6 to 18 years for the Other benefit plans.

The mortality assumptions used in the plan valuations were updated in 2013 based on draft tables issued by the Canadian Institute of Actuaries. Actuarial adjustments to the tables are applied when recommended by the plan's actuaries. In 2013, the assumption for life expectancy for the plan valuations assumes that a male member reaching 60 will live for approximately 27 years (2012: 25 years) and a female member approximately 29 years (2012: 27 years).

Sensitivity analysis

The following table outlines the potential impact of changes in certain key assumptions used in measuring the defined-benefit obligations and benefit costs. The sensitivity analysis presented in this table is hypothetical and should be used with caution.

	Change in obligation	
	Pension benefit plans	**Other benefit plans**
Discount rate	**4.90%**	**4.79%**
Impact of 0.10 percentage point increase	**(19.1)**	**(2.5)**
Impact of 0.10 percentage point decrease	**19.6**	**2.7**
Rate of compensation increase	**3.30%**	**3.30%**
Impact of 0.10 percentage point increase	**3.2**	**0.3**
Impact of 0.10 percentage point decrease	**(3.1)**	**(0.3)**
Mortality rate		
Impact of 0.10 percentage point increase	**23.1**	**(2.3)**
Impact of 0.10 percentage point decrease	**(20.9)**	**2.6**
Inflation rate	**2.00%**	**n.a.**
Impact of 0.10 percentage point increase	**17.1**	**n.a.**
Impact of 0.10 percentage point decrease	**(16.7)**	**n.a.**
Medical cost trend rates	**n.a.**	**6.31%**
Impact of 1.00 percentage point increase	**n.a.**	**27.9**
Impact of 1.00 percentage point decrease	**n.a.**	**(21.6)**

The above sensitivity analysis is based on a change in assumptions while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The method and types of assumptions used in preparing the sensitivity analysis did not change compared with the previous year.

15. Equity

The Bank's objectives in managing its capital are in compliance with the Bank of Canada Act and have not changed from the previous year. There were no other externally imposed capital requirements at the end of the reporting year.

The elements of equity are shown in the table below:

	31 December 2013	31 December 2012
Share capital	**5.0**	5.0
Statutory reserve	**25.0**	25.0
Special reserve	**100.0**	100.0
Available-for-sale reserve	**305.2**	308.5
Remeasurements reserve	**-**	-
Retained earnings	**-**	-
Total equity	**435.2**	438.5

Share capital

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and have been issued to the Minister of Finance, who holds them on behalf of the Government of Canada.

Statutory reserve

The statutory reserve was accumulated out of net income until it reached the stipulated maximum amount of $25.0 million in 1955.

Special reserve

The special reserve was created in 2007 further to an amendment to the Bank of Canada Act to offset potential unrealized valuation losses due to changes in the fair value of the Bank's available-for-sale portfolio. The amount held in the special reserve is reviewed regularly for appropriateness using value-at-risk analysis and scenario-based stress tests and may be amended, pursuant to a resolution passed by the Board of Directors. The value-at-risk analysis uses historical data to estimate the maximum possible extent of unrealized valuation losses of the Bank's treasury bill portfolio. The scenario-based stress tests assess the impact of a rapid increase in interest rates on the value of the Bank's treasury bill portfolio. This reserve is subject to a ceiling of $400 million; an initial amount of $100 million was established in September 2007.

Available-for-sale reserve

The available-for-sale reserve represents cumulative movements in the fair value of the Bank's available-for-sale portfolios, as shown below:

	31 December 2013	31 December 2012
Government of Canada treasury bills	**6.2**	3.9
BIS shares	**299.0**	304.6
Available-for-sale reserve	**305.2**	308.5

Remeasurements reserve

The remeasurements reserve was established on 1 January 2010, upon the Bank's transition to IFRS, at an initial amount of $119.7 million to cover future remeasurements of the net defined-benefit liability/asset and to accumulate the remeasurements of the net defined-benefit liability/asset related to the Bank's defined-benefit plans.

	31 December 2013	31 December 2012
Remeasurements reserve established on 1 January 2010	**119.7**	119.7
Accumulated remeasurements applied to the reserve	**(119.7)**	(119.7)
Remeasurements reserve	**-**	-

Retained earnings

The net income of the Bank, less any allocation to reserves, is considered to be ascertained surplus and is transferred to the Receiver General for Canada, consistent with the requirement of Section 27 of the Bank of Canada Act.

The Bank's remittance agreement with the Minister of Finance was designed to eliminate the risk of exposing the Bank to negative capital. This agreement allows the Bank to deduct from its remittances to the Receiver General and hold within *Retained earnings* an amount equal to unrealized losses on AFS financial assets, unrealized remeasurements of the net defined-benefit liability/asset on defined-benefit plans and other unrealized or non-cash losses arising as a result of changes in accounting standards or legislation. During 2013, the Bank paid $224.7 million for amounts withheld in previous years ($61.9 million during 2012 (*restated—note 3*)) and, as at 31 December 2013, $25.5 million ($250.3 million as at 31 December 2012 (*restated—note 3*)) in withheld remittances was outstanding.

16. Leases

a) Operating lease commitments

The Bank occupies leased premises in Ottawa, Halifax, Montréal, Toronto, Calgary and Vancouver. The minimum payments are determined at the beginning of the lease and may vary during the term of the lease. Contingent rent on premises leases is based on building operating costs; for office equipment leases, contingent rent is based on usage. The expiry dates vary for each lease, from August 2014 to October 2025.

As a result of the program to overhaul and modernize the head office facility, in 2012, the Bank signed a five-year lease agreement for temporary office space.

At 31 December 2013, the future minimum payments are $75.1 million for rent, real estate taxes and building operations. Lease payments expensed in the period are $12.2 million ($15.2 million as at 31 December 2012).

	31 December 2013	**31 December 2012**
Due within one year	**16.0**	8.8
Due within one to five years	**55.8**	63.2
Due later than five years	**3.3**	10.9
Total premises lease commitments	**75.1**	82.9

b) Finance Lease

As at 31 December 2013, the future minimum lease payments were $12.0 million for equipment obtained through a finance lease arrangement (note 8). The finance lease obligation amounted to $11.5 million at 31 December 2013 ($Nil as at 31 December 2012) and is recorded in *Other liabilities*.

17. Commitments, contingencies and guarantees

a) Long-term contracts other than leases

The Bank has a long-term contract with an outside service provider for retail debt services that expires in 2021. At 31 December 2013, fixed payments totalling $152.6 million remained, plus a variable component based on the volume of transactions.

The Bank has a long-term contract with an outside service provider for data centre services that expires in 2022. At 31 December 2013, fixed payments totalling $15.7 million remained.

Commitments related to the program to overhaul and modernize the head office facility are included in commitments for *Property and equipment* in note 8.

The total minimum annual payments for long-term contracts, other than leases, *Property and equipment*, and *Intangibles*, are as follows:

	Outsourced services
Due within one year	**22.1**
Due within one to three years	**44.2**
Due within three to five years	**44.2**
Thereafter	**57.8**
Total minimum annual payments	**168.3**

b) Foreign currency contracts

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

	Maximum available
Bilateral liquidity swap facilities with central banks	
Bank of Japan (denominated in Japanese yen)	**Unlimited**
Swiss National Bank (denominated in Swiss francs)	**Unlimited**
Bank of England (denominated in British pounds)	**Unlimited**
European Central Bank (denominated in euros)	**Unlimited**
Federal Reserve Bank of New York (denominated in U.S. dollars)	**Unlimited**
Other swap facilities	
Exchange Fund Account of Canada (denominated in Canadian dollars)	**Unlimited**
Federal Reserve Bank of New York (denominated in U.S. dollars)	**2,000.0**
Banco de México (denominated in Canadian dollars)	**1,000.0**

None of the liquidity or other swaps were accessed, by either party, in 2013 or 2012. No related commitments existed at 31 December 2013 ($Nil as at 31 December 2012).

Bilateral liquidity swap facilities with central banks

The bilateral liquidity swap facilities were established to provide liquidity in each jurisdiction in any of their currencies, should market conditions warrant.

The swap facilities with the Bank of Japan, the Swiss National Bank, the Bank of England, the European Central Bank and the Federal Reserve Bank of New York were converted to standing arrangements in January 2014. The Bank and the Federal Reserve Bank of New York also removed the US$30,000 million limit on their reciprocal facility.

These facilities can be structured as either a Canadian-dollar liquidity or a foreign currency liquidity swap arrangement and can be initiated by either party. The exchange rate applicable to the swap facilities is based on the prevailing market spot exchange rate as mutually agreed upon by the parties.

Other swap facilities

The other swap facilities established with the Federal Reserve Bank of New York and with the Banco de México, which expire on 12 December 2014, 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.

c) Contingency

The 9,441 shares in the BIS have a nominal value of 5,000 Special Drawing Rights per share, of which, 25 per cent (i.e., SDR1,250) is paid up. The balance of SDR3,750 is callable at three months' notice by a decision of the BIS Board of Directors. The Canadian equivalent of this contingent liability was $58.0 million at 31 December 2013 ($54.2 million at 31 December 2012), based on prevailing exchange rates.

d) Guarantees

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

LVTS guarantee

The LVTS is a large-value payment system, owned and operated by the CPA. Any deposit-taking financial institution that is a member of the CPA can participate in the LVTS, provided that it maintains a settlement account at the Bank of Canada, has the facilities to pledge collateral for LVTS purposes and meets certain technical requirements. The system's risk-control features, which include caps on net debit positions and collateral to secure the use of overdraft credit, are sufficient to permit the system to obtain the necessary liquidity to settle in the event of the failure of the single LVTS participant having the largest possible net amount owing. The Bank guarantees to provide this liquidity, and, in the event of a single-participant failure, the liquidity loan will be fully collateralized. In the extremely unlikely event that there were defaults by more than one participant during the LVTS operating day, in an aggregate amount in excess of the largest possible net amount owing by a single participant, there would not likely be enough collateral to secure the amount of liquidity that the Bank would need to provide to settle the system. This might result in the Bank having unsecured claims on the defaulting participants in excess of the amount of collateral pledged to the Bank to cover the liquidity loans. The Bank would have the right, as an unsecured creditor, to recover any amount of its liquidity loan that was unpaid. The amount potentially at risk under this guarantee is not determinable, since the guarantee would be called upon only if a series of extremely low-probability events were to occur. No amount has ever been provided for in the liabilities of the Bank, and no amount has ever been paid under this guarantee.

Other indemnification agreements

In the normal course of operations, the Bank provides indemnification agreements with various counterparties in transactions such as service agreements, software licences, leases and purchases of goods. Under these agreements, the Bank agrees to indemnify the counterparty against loss or liability arising from acts or omissions of the Bank in relation to the agreement. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such counterparties. No amount has ever been paid under such indemnifications.

e) Insurance

The Bank does not normally 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. However, in connection with the Head Office Renewal Program, the Bank has obtained insurance coverage for the period of construction to cover direct risks to the Bank's property.

Any costs arising from risks not insured are recognized in the accounts if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the statement of financial position date, and it is probable that an outflow of economic benefits will be required to settle the obligation.

18. Related parties

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

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 *Related Party Disclosures* (IAS 24).

The Bank provides funds-management, fiscal-agent and banking services to the Government of Canada, as mandated by the Bank of Canada Act, and does not recover the costs of these services.

Bank of Canada pension plans

The Bank provides management, investment and administrative support to the Bank of Canada Registered Pension Plan. Services in the amount of $0.6 million ($0.6 million in 2012) were fully recovered from the Plan in 2013.

Key management personnel and compensation

The key management personnel responsible for planning, directing and controlling the activities of the Bank are: the members of the Governing Council, the Management Council and the Board of Directors. The number of key management personnel as at 31 December 2013 was 21 (22 in 2012).

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

	31 December 2013	**31 December 2012**
Short-term employee benefits	**3.0**	3.2
Post-employment benefits	**0.9**	0.8
Directors' fees	**0.3**	0.3
Total compensation	**4.2**	4.3

Short-term employee benefits and post-employment benefits apply to Bank of Canada employees only.

There were no other long-term employee benefit costs or termination benefits related to key management personnel in 2013.

19. Comparative figures

Comparative figures have been reclassified, as described in note 3n, to conform with the presentation adopted for the current year. In addition, interest received decreased and proceeds from maturity of Government of Canada bonds increased by $10.0 million on the comparative Statement of Cash Flows.

Senior Officers

Governing Council

Stephen S. Poloz, *Governor*
Tiff Macklem, *Senior Deputy Governor**

Deputy Governors
John D. Murray,** Timothy Lane, Agathe Côté,**
Lawrence Schembri

Chief of Staff to the Governor and Senior Deputy Governor
Rosemarie Boyle

General Counsel and Corporate Secretary
Jeremy S.T. Farr**

Advisers
Don Coletti, Janet Cosier,[1] Allan Crawford, Dale Fleck,
Sharon Kozicki, Colleen Leighton,** Sheila Niven,** Carolyn Wilkins

Special Advisers
Lynn K. Patterson, Line Rivard

Audit
Julie Champagne, *Chief Internal Auditor*

Canadian Economic Analysis
Stephen Murchison, *Chief*
Rhys Mendes, *Deputy Chief*
Robert Amano, *Research Director*
Greg Bauer, *Research Director*
Pierre St-Amant, *Director*
Marc-André Gosselin, *Director*

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

Corporate Services
Dinah Maclean, *Chief*
John Robert Fortin, *Deputy Chief*
Susan Chibuk, *Project Director*
Robert Murray, *Director*
Arthur Berger, *Director*

Currency
Richard Wall, *Chief*
Yvonne de Lint, *Deputy Chief*
Ted Garanzotis, *Director*

Executive and Legal Services
Jeremy S.T. Farr, *General Counsel and Corporate Secretary***
Marie Bordeleau, *Deputy Corporate Secretary*
Pierre Roach, *Assistant General Counsel*
Rob Turnbull, *Special Counsel, Financial System*

Financial Markets
Paul Chilcott, *Chief*
Stéphane Lavoie, *Deputy Chief*
Scott Hendry, *Research Director*
Miville Tremblay, *Senior Representative, Director*
Eric Tuer, *Director*
Harri Vikstedt, *Director*
Ian Christensen, *Director*

Financial Services
Sheila Vokey, *Chief Financial Officer and Chief Accountant***
Rudy Wytenburg, *Deputy Chief*
Annie Guilbault, *Director*

Financial Stability
Ron Morrow, Chief
Césaire Meh, *Deputy Chief*
Graydon Paulin, *Director*
Carol Brigham, *Director*
Miguel Molico, *Research Director*

Funds Management and Banking
Grahame Johnson, *Chief*
Eric Wolfe,[2] *Deputy Chief*
Louise Hyland, *Director*

Human Resources
Alexis Corbett,** *Chief*

Information Technology Services
Sylvain Chalut, *Chief*
Maureen Carroll, *Deputy Chief*
Janne Shaw, *Director*
Pierre Laprise, *Director*
Jean-Sébastien Bessette, *Director*

International Economic Analysis
Eric Santor, *Chief*
Bob Fay, *Deputy Chief*
Mark Kruger, *Director*

Note: Positions as of 14 February 2014

* Chair of Management Council
** Member of Management Council
1. Also Chair of the Board of Directors of the Canadian Payments Association
2. Also Deputy Chair of the Board of Directors of the Canadian Payments Association

Bank of Canada Regional Offices

Atlantic Provinces
1701 Hollis Street, 13th Floor
Halifax, Nova Scotia B3J 3M8
David Amirault, *Senior Regional Representative (Economics)*
Monique LeBlanc, *Senior Regional Representative (Currency)*

Quebec
1501 McGill College Avenue, Suite 2030
Montréal, Quebec H3A 3M8
Miville Tremblay, *Senior Representative and Director (Financial Markets)*
Martin Coiteux, *Senior Regional Representative (Economics)*
Phuong Anh Ho Huu, *Senior Regional Representative (Currency)*

Ontario
150 King Street West, Suite 2000
Toronto, Ontario M5H 1J9
Lynn K. Patterson, *Special Adviser to the Governor, and Senior Representative*
Eric Tuer, *Director (Financial Markets)*
Jane Voll, *Senior Regional Representative (Economics)*
Manuel Parreira, *Senior Regional Representative (Currency)*

Prairie Provinces, Nunavut and Northwest Territories
308–4th Avenue S.W., Suite 2411
Calgary, Alberta T2P 0H7
Alexander Fritsche, *Senior Regional Representative (Economics)*
Ted Mieszkalski, *Senior Regional Representative (Currency)*

British Columbia and Yukon
200 Granville Street, Suite 2710
Vancouver, British Columbia V6C 1S4
Lori Rennison, *Assistant Chief (Regional Analysis Division)*
Farid Novin, *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.
Zahir Antia, *Senior Representative for the Bank of Canada*

For information about the Bank of Canada:

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**

Information on unclaimed balances
Telephone: **1 800 303-1282**
Fax: **613 782-7713**
Email: **info@bankofcanada.ca**