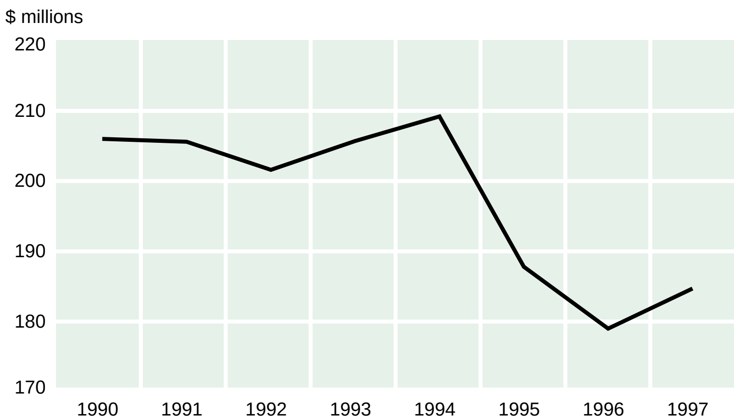
Financial Summary

The Bank has undertaken significant change over the past few years to sharpen its focus on those activities central to the Bank's public policy role, on the needs of its clients, and on the efficiency and effectiveness of its operations. This has involved new approaches to delivering services, such as the new method for the distribution of bank notes across the country, and has resulted in significant reductions in staff, the sale of a number of the Bank's buildings, and reduced expenses. But the strategy has also necessitated new investments in technology, in staff, and in infrastructure to ensure that the Bank can continue to deliver effective and efficient services into the next century.

Total operating expenses



The Bank's expense profile (excluding one-time expenses) since 1994 shows the net impact of these new investments, on the one hand, and the gains associated with streamlining, increased efficiency, and a sharper focus on core business, on the other. From 1994 to 1996, savings associated with a fundamental review of operations far exceeded new investment outlays. In 1997, expenses associated with the Bank's investments more than offset further savings accruing from the earlier review of operations.

Operating expenses

Total operating expenses rose by 3 per cent in 1997. Excluding expenses for retail debt, which the Bank began to recover from the Department of Finance at midyear, operating expenses were flat. Because the recovery of retail debt expenses started in 1997, the year-on-year comparison for net expenses is not meaningful.

Underlying the increase in total expenses were investments in four broad areas: new technology to support the retail debt program, the banking services function, and information systems; currency research, development, and education; the Bank's new regional presence program; and the Year 2000 challenge.

Savings in 1997 were generated by the implementation of the new bank note distribution system and the consolidation of bond and banking services. Also, staff benefits costs were lower, owing to the strong investment returns on pension fund assets.

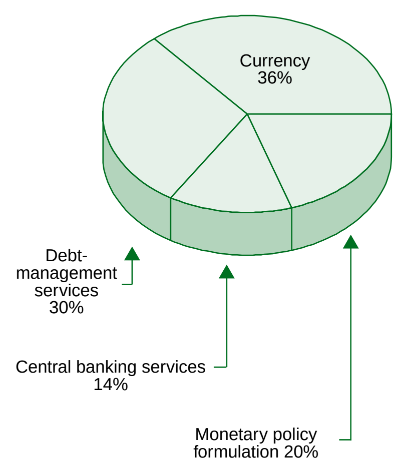
Operating expenses by function

Millions of dollars

	1994	1995	1996	1997
Monetary policy	33.8	33.0	35.0	37.4
Central banking services	19.3	20.8	22.8	25.5
Currency	101.4	80.0	69.6	65.7
Debt-management services				
Market debt services	14.0	12.3	9.9	8.4
Retail debt services	40.7	41.7	41.7	47.7
Total operating expenses	**209.2**	**187.8**	**179.0**	**184.7**
Less: Recovery for retail debt services	–	–	–	(28.9)
Other expenses (revenue)	–	33.0	34.7	(11.6)
Net expenses	**209.2**	**220.8**	**213.7**	**144.2**

Salary costs were about $72 million in 1997, or $1 million above the 1996 level. Regular staff costs were lower, primarily because of agency closures. At the same time, there was an increase in the cost of temporary and contract staff to support the retail debt program and to meet the Bank's need for specialized computer systems analysts. Although 1997 marked the end of the federal public sector salary freeze, the Board of Directors decided not to implement a general increase in Bank salary ranges for that year. Rather, increases averaging one per cent of total payroll were limited to lower-paid employees, senior officers, and critical-skill areas (information technology and economist groups) where market pressures were strong and compensation significantly lagged the market. Performance-based progression within pay ranges was also restored starting on 1 January 1997.

Operating expenses by function



When establishing salary policy, the Bank's objective is to ensure that it has a competitive, equitable salary structure consistent with its responsibilities as a public sector institution. For 1998, the Board of Directors has approved a general increase of 2 per cent in salary ranges, with some further adjustments for certain groups to make compensation more competitive.

Other expenses, which this year amounted to a net revenue of $11.6 million, relates mainly to a gain of $10.1 million from the sale during 1997 of Bank buildings in Vancouver, Halifax, Calgary, and Regina. Because of the new bank note distribution arrangements and the consolidation of bond and banking services, these buildings are no longer needed. These sales are also reflected in a reduction in the value of *Bank premises* on the balance sheet. Also included in *Other expenses* is a $4 million recovery of out-of-pocket expenses incurred over the course of the liquidation of the Canadian Commercial Bank as part of the final settlement to the Bank as a secured creditor. Partially offsetting the gains is an expense of $2.5 million associated with the Bank's Workforce Adjustment Program. This amount was provided for in 1997 to cover the estimated cost of termination benefits associated with plans developed in 1997 to eliminate a further 50 positions over two years.

Revenue

Total revenue was $1.6 billion in 1997, approximately the same as revenue in 1996. The Bank's main source of revenue is interest earned on its holdings of federal government securities that are financed primarily by the bank notes that are issued by the Bank. Net revenue paid to the Government of Canada in 1997 was $1.4 billion, the same as the previous year.

Net revenue is not a good indicator of the Bank's management performance. The Bank deals in financial markets to achieve policy goals, not to maximize its revenues, and revenues are highly dependent on the level of interest rates. For these reasons, the level of operating expenses is judged to be a better indicator of the Bank's stewardship of public resources.