FINANCIAL SUMMARY

Financial Summary

Operating expenses

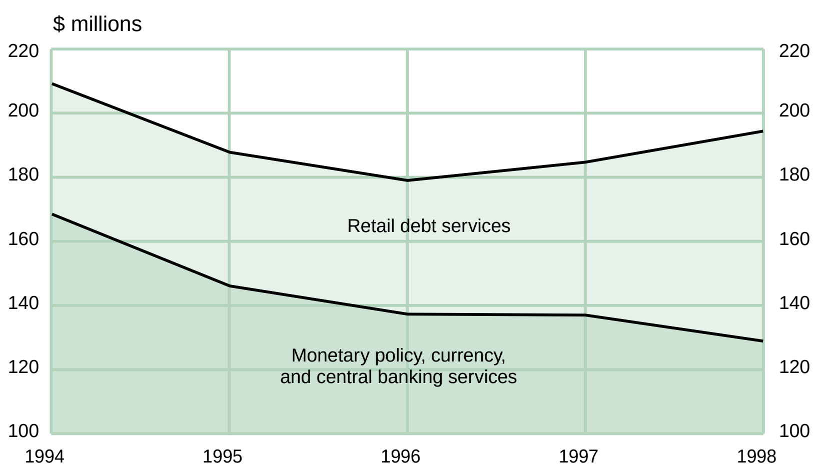
Monetary policy, currency, and central banking services

In the past few years, the Bank's core functions—monetary policy, currency, and central banking services—have been extensively reviewed and restructured to focus more sharply on the Bank's public policy activities, the needs of its clients, and the efficiency and effectiveness of its operations. This strategy has yielded cost savings, a reduction in regular staff, and the sale of 9 of the 13 buildings owned by the Bank.

At the same time, the review and restructuring required new investments in technology and staff training, as well as spending to improve communications and expand regional offices. The net result has been a saving of more than $39 million, or 24 per cent, in 1998 compared with expenditures in 1994.

In 1998, expenses for monetary policy, currency, and central banking services were more than $8 million lower than in 1997, a 6 per cent saving. This was mainly due to a decrease in the number of bank notes printed and other cost savings from the rationalization of operations and service delivery.

Operating Expenses by Function



The financial impact of the restructuring concluded in 1998. Several new programs in currency and central banking services are expected to increase expenditures over the next few years. There will also be some increase in the cost for bank notes in 1999 due to the buildup of additional inventories, but these will be offset by lower costs in 2000.

Retail debt services

The Bank also provides services for Canada Investment and Savings—the agency responsible for the retail debt program. Legislation was changed in mid-1997 to allow the Bank to charge for these services in order to clarify accountability for the program. The first full year of cost recovery was 1998.

Like other functions of the Bank, retail debt services has been restructured over the past several years. In 1998, expenses were $18 million higher than in 1997 because of significant changes to major computing systems and expenditures to support new services. At the same time, there have been savings from the introduction of new technology and the consolidation of bond transactions.

Salary expenses

In 1998, the Bank adjusted salaries on average 3 per cent, consistent with its objective of assuring a competitive, equitable salary structure. In addition, salary expenses increased by a further 4 per cent as a result of higher costs for information technology professionals. These increases were largely due to market pressures created by the need to prepare computer systems for the year 2000.

Other expenses/revenue

The Bank had one-time net revenue of $8.3 million. This was mainly from the sale of four Bank buildings in Winnipeg, Montreal, Toronto, and Saint

John, N.B. These buildings were no longer needed because of the new bank note distribution system and the consolidation of bond and banking services. The gain from the sale was partly offset by a $1.0 million expense associated with the completion of the Bank's workforce adjustment program in 1998.

Revenue from investments

Total revenue from investments was $1.8 billion in 1998, an increase of 14 per cent from 1997. The main source of revenue is interest earned on holdings of federal government securities, financed primarily by the bank notes that are issued by the Bank. Net revenue paid to the Government of Canada in 1998 was $1.7 billion, an increase of 17 per cent from 1997.

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 these revenues are highly dependent on interest rates. For these reasons, the level of operating expenses is a better indicator of the Bank's stewardship of public resources.

Operating expenses by function

Millions of dollars

	1998	1997	1996	1995	1994
Monetary policy	40.7	37.6	35.0	33.0	33.8
Currency	56.0	65.7	69.6	80.0	101.4
Central banking services	32.2	33.7	32.7	33.1	33.3
	128.9	137.0	137.3	146.1	168.5
Retail debt services	65.5	47.7	41.7	41.7	40.7
Retail debt recoveries*	(65.5)	(28.9)			
Other expenses / (revenue)	(8.3)	(11.6)	34.7	33.0	
Net operating expenses	**120.6**	**144.2**	**213.7**	**220.8**	**209.2**

* See page 42, note 1: Retail debt services.