FINANCIAL
SUMMARY

Stone currency from the South Pacific island of Yap, Bank of Canada Garden Court

REVENUE AND EXPENSES

Revenue from Investments

Total revenue from investments declined in 2002 by 6 per cent, to $2.0 billion, because of a lower rate of interest on the Bank's securities holdings. With overall expenses of $0.2 billion, net revenue paid to the Government of Canada in 2002 was $1.8 billion, compared with $2.0 billion in 2001.

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.

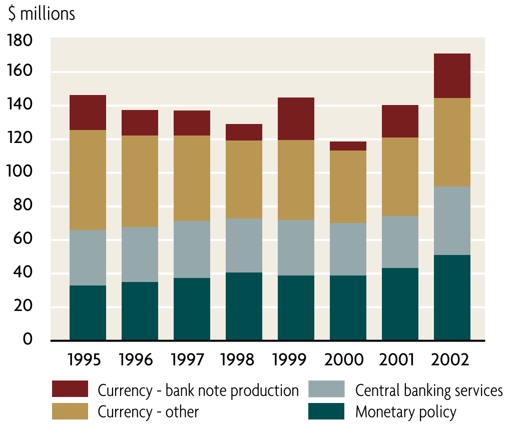
Operating Expenses

Monetary Policy, Currency, and Central Banking Services

Activities involving the Bank's main functions—monetary policy, currency, and central banking services—are regularly reviewed from the perspective of the Bank's role as a public policy organization, the needs of its clients, and the efficiency and effectiveness of its operations. From 1994 to 2000, operating expenses in each of these areas were reduced, with the exception of 1999, when additional expenditures were incurred in preparation for the year-2000 changeover. In 2001, and again in 2002, operating expenses in these core functions rose in response to the new demands and priorities described in previous sections of this *Annual Report.*

Total operating expenses for the Bank's main functions rose by $30.8 million, or 22 per cent, in 2002. As discussed in the previous stewardship sections of this *Report,* the Bank has begun to implement several new strategic priorities: broadening its research on issues affecting the macroeconomy; expanding its regional offices; implementing the new strategy for the currency function; enhancing its involvement in financial market development; and investing in new initiatives and technology to continue to provide operational

Operating Expenses
Monetary policy, currency, and central banking services



excellence and risk management for funds-management activities. Support costs associated with these initiatives increased in 2002 as did the costs for employee benefits. Increases in the Bank's expenses were partially offset by savings resulting from the restructuring of the Bank's corporate services, which will continue in 2003.

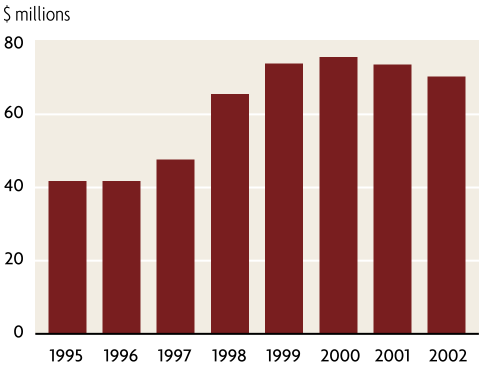
Given the Bank's medium-term plan for the period 2003 to 2005, a further increase in operating expenses for these core functions is expected in 2003.

Retail Debt Services

The Bank has provided "back-office" services to Canada Investment and Savings—the agency of the Department of Finance responsible for the government's retail debt program—since the agency's inception in 1996. In September 2001, the Bank outsourced retail debt operations to EDS Canada Inc. (EDS) and established an internal Debt Administration Office to oversee contracts with third-party suppliers and to ensure that all responsibilities are fulfilled.

In 2002, despite an increase in processing volumes, expenses for retail debt declined by $3.3 million, or over 4 per cent, as a result of efficiency gains from outsourced operations. Direct expenditures required to support the retail debt program, as well as those invoiced by EDS, are recovered from the federal government. Coincident with the outsourcing of retail debt operations, a portion of general corporate administration expenses previously recovered from the federal government is now borne by the Bank. Also associated with the outsourcing was a shift in Bank expenses from salaries to service costs.

Operating Expenses
Retail debt services



Corporate Services Restructuring

Following the outsourcing of retail debt operations, the Bank launched a restructuring initiative focused on creating an integrated approach to corporate services in order to deliver these services cost-effectively to a smaller Bank. One-time expenses for restructuring were $14.3 million in 2002, bringing the total costs over the past two years to $28.2 million. Operational savings from this initiative began in 2002 and are expected to exceed the project investment by 2005.

Salaries and Benefits

The Bank's total salary expenses decreased by over 16 per cent in 2002. This decline reflected a reduced number of staff because of retail debt outsourcing and corporate services restructuring. The decline in salary expenses from these sources was partially offset by additional staff hired to support the Bank's new strategic priorities and by salary-range adjustments to maintain market competitiveness. With these program changes, the composition of the Bank's staff has shifted significantly towards analytic and research professionals.

The Bank provides its staff with defined-benefit pension plans, to which employees contribute at specified rates, and a flexible benefits program covering medical and insurance benefits. The total cost of these benefits increased in 2002, largely because of changes to keep the pension plans market competitive and the rising cost of medical and other insurance plans.

The assets of the Bank's pension plans exceed the accrued benefit obligation. Under the guidelines of the Canadian Institute of Chartered Accountants, the amount of the pension surplus can vary considerably from year to year. On this basis, as shown in the Bank's financial statements, the surplus at the end of 2002 was about \$27 million compared with \$204 million the previous year. To assess the pension plan on a long-term-funding basis, the Bank concentrates on periodic actuarial valuations. The most recent valuation showed a surplus of approximately \$180 million at the end of 2001, and the surplus is estimated to be about \$130 million at the end of 2002.

Salary Expenses
Monetary policy, currency, central banking services, and retail debt services