BANK OF CANADA
BANQUE DU CANADA

ADDENDUM: 2010–2012 MEDIUM-TERM FINANCIAL PLAN UPDATE

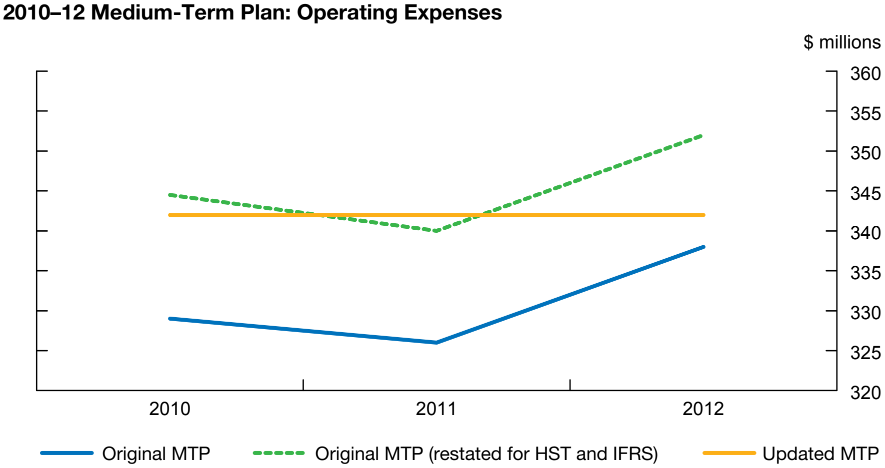
The Bank's current medium-term plan was approved by the Board in June 2009. Since then, three significant external factors have had an impact on the plan's financial profile:

- the introduction of the harmonized sales tax (HST) by the provinces of Ontario and British Columbia, effective 1 July 2010;
- the adoption of International Financial Reporting Standards (IFRS); and
- the federal government's guidance on operating expenditures for the two upcoming fiscal years.

The first two items, the introduction of the HST and the adoption of IFRS, resulted in an overall increase in budgeted expenditures. The adoption of IFRS had the most significant impact on the medium-term plan, since it required a change in the reporting of miscellaneous operating revenues. Previously, these revenues (fees for services) were reported net of related operating expenses. While this change is treated simply as a reporting change, it increased the profiles of both *Other revenue* and *Operating expenses* by approximately $10 million. Other expense differences related to the adoption of IFRS resulted from changes to depreciation, as well as expenses related to deferred employee benefits. The overall effect of the HST and IFRS adjustments is an increase in budgeted expenditures of approximately $14 million (see dotted line in chart below). The third item affecting the financial profile of the medium-term plan is the Bank's response to the March 2010 federal government guidelines to hold operational spending at 2010 levels through 2012. Consistent with these guidelines, the Bank reduced its medium-term plan spending targets for 2011 and 2012 to $342 million, the revised operating spending level for 2010. This response resulted in a flat updated expenditure profile over the medium-term plan period.

The impact of these changes to the Bank's Medium-Term-Plan Financial Plan is shown in the chart below.

2010–12 Medium-Term Plan: Operating Expenses



The Bank aims to achieve this revised spending profile, while meeting the objectives of the medium-term plan, through the Corporate Effectiveness Program (CEP). The CEP has three long-term goals: (i) to improve the delivery of key corporate administrative services; (ii) to strengthen internal partnerships; and (iii) to enhance the Bank's overall effectiveness as an organization.

The Bank remains firmly committed to achieving the three corporate priorities outlined in the medium-term plan: (i) conducting leading research and policy analysis; (ii) strengthening our business resilience and infrastructure; and (iii) attracting, engaging and retaining quality staff. With respect to the Financial Plan, the Bank continues to focus on being accountable for its use of public funds and on allocating resources to the priorities that add the highest value.