Canada Deposit Insurance Corporation

Summary of the Corporate Plan

1998/99 to 2002/03

To present the Summary of the Corporate Plan in an electronic format, some minor modifications have been made to the original text.

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Canada Deposit Insurance Corporation

Summary of the Corporate Plan

1998/99 to 2002/03

Summary

This document reflects the five-year direction of the Canada Deposit Insurance Corporation (CDIC or the Corporation). In order to obtain a complete and continuous overview of CDIC's performance from year to year, this plan should be read in conjunction with the Corporation's Annual Report.

Nineteen ninety-seven was the first year since 1989 that there were no member institution failures. CDIC member institutions continue to report strong profits, asset growth, and improved asset quality, a reflection of a favourable economic environment.

Strategic issues that may affect CDIC are discussed in Chapter 2. These include the Task Force on the Future of the Canadian Financial Services Sector, industry consolidation and conglomeration, unregulated financial services providers, global competition, changes in deposits, and the impact of technology. CDIC's planning and economic assumptions for the next five years and an update on member institutions are also covered in this chapter.

Chapter 3 outlines the Corporation's strategic direction over the planning period through the eight corporate priorities approved by the Board of Directors. The major emphasis continues to be the repayment of all borrowings from the Consolidated Revenue Fund and the elimination of the deficit. CDIC's progress toward achieving each priority is documented, as are its future plans for each priority.

CDIC's financial plan for the next five years is presented in Chapter 4. The plan forecasts that CDIC will repay its CRF borrowings and eliminate its deficit by March 31, 1999, and March 31, 2000, respectively. Also included in this chapter are an analysis of CDIC's performance against its budgets for the past two years, the 1998/99 operating and capital budgets, and the Corporation's borrowing plan.

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Planning Environment 1998/99-2002/03

2.1 Strategic Issues

CDIC has identified certain strategic issues that may affect its operations in the future.

2.1.1 The Task Force on the Future of the Canadian Financial Services Sector

In December 1996, the Minister of Finance created the Task Force on the Future of the Canadian Financial Services Sector to examine public policies affecting the financial services sector and to make recommendations to the Government to enhance the sector's efficiency, competitiveness, and its ability to take advantage of technological innovations to meet new competitive challenges. The Task Force's final report to the Minister of Finance is expected in the fall of 1998.
The Task Force's work also includes an examination of CDIC and other compensation arrangements such as CompCorp and the Canadian Investor Protection Fund. The compensation arrangement matters to be examined are as follows:

- whether deposit insurance detracts from the effective operation of the market and therefore the efficiency of the financial system;
- whether there is uniformity between compensation schemes in terms of the availability or unavailability of a government guarantee;
- whether consumers have different perceptions of compensation under various protection schemes; and
- whether any problems arise because of the different types of protection offered.

The extent to which government policy decisions flowing from the Task Force Report will affect the financial sector is unknown at this time.

2.1.2 Industry Consolidation and Conglomeration

Consolidation among the once compartmentalized financial sector is a trend that is likely to continue as institutions attempt to capture market share by moving into new lines of business and offering a wider range of products. For supervisors and regulators, this trend presents unique risk management challenges because an institution's overall risk profile may change as it enters new lines of business.
At the international level, the trend is toward global financial conglomerates or corporate groups, which provide a wide range of financial services, such as deposit-taking, insurance, and securities. Conglomeration offers new opportunities for Canada's financial institutions by allowing them to enter new markets and by giving them the ability to provide service to their customers whose businesses are likewise operating on a global basis. However, conglomeration is also a process that challenges supervisors and regulators to develop new ways of assessing risk and co-operating with foreign regulators. In general, the challenges relate to gathering and interpreting information, the safety and soundness of the international financial system, and, in the event of a failure and liquidation, dealing with businesses and creditors on an

international scale.

2.1.3 Unregulated Financial Service Providers and Global Competition

An important development in recent years has been the increased competition to regulated financial institutions by non-regulated financial services companies. Companies operating on an unregulated basis are pursuing strategies that tend to focus on providing credit in certain specialized areas, such as equipment leasing or consumer products. By concentrating on specific market niches, these companies have been able to develop efficient delivery systems, which ultimately provide fast, low-cost service to customers. As a result, these companies are capturing an increasing share of the financial services market and are coming to dominate some market segments.

These non-regulated entities compete with CDIC's member institutions in such areas as electronic payments processing and service delivery on the Internet. The issue of whether software providers will develop strategic alliances with financial institutions or offer alternatives to them remains to be seen.

Moreover, Canadian deposit-takers are likely to find themselves competing more vigorously with foreign financial institutions. Recently announced entry options will allow foreign banks to open branches in Canada, under certain conditions, thereby bringing the full resources of the foreign bank to bear on the Canadian marketplace.

At the same time, liberalized foreign bank entry regimes have raised prudential concerns and challenged supervisors to develop ways of protecting creditors while coping with the problems of regulating an entity whose main operations are outside the regulator's jurisdiction.

2.1.4 Changes in Deposits

In the past few years, consumers have shifted away from deposit products such as guaranteed investment certificates, which are eligible for CDIC insurance, toward non-insurable financial products. Changes of this nature are particularly important for CDIC because CDIC's premium revenues are based on the level of insured deposits held by member institutions.

One factor that affects the demand for traditional deposits is interest rates. Low interest rates tend to make fixed-term deposits less attractive while simultaneously boosting returns and the attractiveness of close substitutes for deposits, such as money market mutual funds.

Other factors that seem to be having an impact on the level of insured deposits are the cost of deposit insurance, industry consolidation, consolidations of deposit accounts within member institutions and their subsidiaries, and the activities of specific institutions in aggregating, classifying, and marketing insured and uninsured deposits.

2.1.5 Impact of Technology

One of the most important factors driving change in the financial sector is technology. In recent years, technological developments have led to a number of significant changes in the way financial institutions operate, permitting them to offer new services or products and improve existing ones.

For example, a number of technological developments have enabled financial institutions to increase their efficiency. Initially, these developments allowed the financial services industry to manage sharp increases in the volume of transactions without proportionate increases in the cost. Recently, technological changes in clearing and settlement activities have led certain Canadian banks to merge these activities or to outsource them to specialist service providers capable of taking advantage of economies of scale.

Another important area is electronic money and commerce. Canadians' use of debit cards and automated banking machines is growing exponentially, and technological developments have made it possible to produce and distribute stored-value cards to the general public. The stored-value card has the same characteristics as travellers' cheques and is a close substitute for bank notes for face-to-face and small-value transactions.

A similar technology currently at its early stages of development is "network money" or "digital cash." This mechanism involves funds held on computer software that could be used to pay for purchases on the Internet. So far, most participants in such schemes have been software companies rather than major financial institutions. However, it is not clear whether these schemes, although technically feasible, will find widespread acceptance.

These new technologies raise the questions of who should be able to issue stored-value cards or operate network/digital cash companies. Stored-value cards also raise questions regarding security, consumer protection, and money laundering. Preliminary work on the public policy issues surrounding new payment mechanisms is just now beginning in Canada under the leadership of the Department of Finance.

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2.2 Planning Assumptions

The following planning assumptions have been used to prepare this five-year corporate plan.

Number of Member Institutions

At the end of 1997, CDIC had 113 member institutions. It has been assumed that this membership will decrease to approximately 100 members by the end of 2003. This assumption is based on legislation being implemented, as announced, to permit institutions to opt out of deposit insurance if they accept only wholesale deposits through either a subsidiary or a branch.

Member Institution Failures

The financial plan is based on the assumption that there will be no new losses absorbed by CDIC as a result of failures of member institutions. It is important to note, however, that a major failure or a substantial number of smaller ones could prevent CDIC from achieving its financial targets. Considerable protection against this exposure is provided for in the provision for insurance losses, which totalled $500 million as at March 31, 1997.

Borrowings

All borrowings from the Consolidated Revenue Fund (CRF), including interest, are projected to be repaid during 1998/99. No new borrowings are anticipated for the planning period. CDIC forecasts that premium revenue and recoveries from estates in liquidation will provide sufficient funding to meet outstanding obligations.

Deficit

CDIC's financial projections indicate that the accumulated deficit will be eliminated by March 2000. These projections are highly sensitive to losses resulting from a failure of a member institution.

Premium Revenue

The financial plan is based on the current premium revenue level (one-sixth of one percent of insured deposits in member institutions) until CDIC's deficit is eliminated. Once the loans from the CRF have been repaid and the deficit is eliminated, premium revenue at the current level will no longer be required as long as there are no significant future losses from the failure of member institutions. Therefore, premium rates for the most highly rated institutions - as defined in the proposed Premium By-law, discussed in section 3.3.3-can be expected to fall substantially. It should be noted that the Board of Directors annually recommends to the Government the level of premiums to be assessed, taking into account the circumstances at the time.

Use of Estimates

The Corporation's pro forma financial statements necessarily include estimates and assumptions that affect the amounts reported. The more significant areas requiring the use of estimates are the allowance for loss on loans and claims receivable, the provision for guarantees, and the provision for insurance losses. Each is described in more detail in the notes to the financial statements in CDIC's Annual Report.

Human Resources

CDIC projects that it will require 89 permanent employees during the planning period--one less than the level approved in last year's Corporate Plan. No growth is anticipated during the planning period. The actual number of permanent employees was 84 at December 31, 1997.

Operating Budget

(i) Operating Expenses

CDIC's 1998/99 budget for operating expenses is $14.9 million. Since the removal of the five-year government wage freeze, salaries have accounted for the majority of increases in CDIC's costs.

Since 1995, the costs associated with new legislation and compliance requirements have increased significantly while the cost of monitoring problem institutions has decreased because of fewer members on the problem list. Furthermore, CDIC's membership is expected to decrease during the planning period. These trends continue to necessitate the redeployment of resources from monitoring to risk assessment and compliance.

A joint Board/management planning committee will be established early in 1998/99 to review CDIC's strategic direction and priorities, its organizational structure, and its resource needs in the light of evolving circumstances.

(ii) Intervention Costs

The financial plan for 1998/99 includes $3.4 million for intervention costs. CDIC is forecasting outstanding loans and claims receivable of $423 million and a provision for guarantees of $606 million as at March 31, 1998. Most of these intervention costs are attributable to ongoing litigation and monitoring of the liquidation process associated with these loans, claims, and guarantees.

Capital Budget

CDIC's capital expenditures are mostly for office equipment and information systems hardware and software. The capital budget has been reduced significantly over the last five years, from $844,000 in 1992 to $375,000 in 1998/99.

Leases

The financial plan reflects CDIC's commitment to 10-year leases for its Ottawa and Toronto premises, which expire in 2000 and 2001, respectively.

2.3 Economic Assumptions

The revenue that CDIC receives from the deposit insurance premiums it charges member institutions is based on the insured deposits held by member institutions. Insured deposit growth is affected by a variety of factors, including overall economic activity, interest rates, disposable income growth, and the choices consumers make when allocating their income and savings into a variety of financial instruments. The figures in the table below have been assumed for planning purposes.

Forecast of Insured Deposits, Three-Month Treasury Bills, Consumer Price Index, and Gross Domestic Product (percent change, fiscal year)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Insured Deposits	-3.35	0.90	2.00	3.00	2.50	2.50
3-M T-Bills (%)	3.21	4.05	4.23	4.40	4.21	4.21
CPI	1.82	1.98	2.12	2.17	2.24	2.24
Real GDP	3.65	3.71	2.96	2.74	2.59	2.59

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2.4 Membership Issues

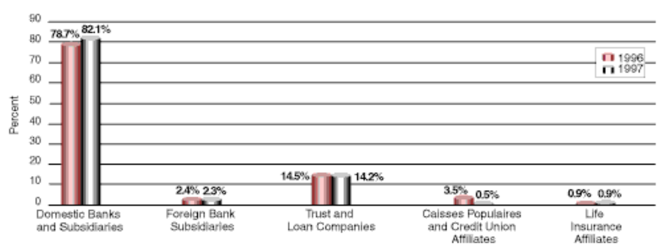
In relative terms, the number of CDIC member institutions remained constant over the last year, decreasing by only two from 115 members at October 15, 1996, to 113 at December 31, 1997 (see Exhibit 2-1). In 1997, CDIC added six new members: First Nations Bank of Canada, ING Trust Company of Canada, Citizens Trust Company, MBNA Canada Bank, Rabobank Canada, and Services Hypothécaires CIBC Inc. This increase was offset by various amalgamations of financial institutions and by the cancellation of the deposit insurance policy of three members, whose assets were purchased and deposit liabilities assumed by other financial institutions.

Exhibit 2-1 CDIC Membership

	Number of Members		Insured Deposits ($ Millions)		Percentage of Total Insured Deposits		Total Deposits ($ Millions)		Insured Deposits/Total Deposits (%)	
Institution Type	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Domestic Banks and Subsidiaries	30	28	260,001	258,266	82.1%	78.7%	675,805	590,279	38.5%	43.8%
Foreign Bank Subsidiaries	47	47	7,321	8,022	2.3%	2.4%	56,167	54,650	13.0%	14.7%
Trust and Loan Companies	23	24	44,960	47,729	14.2%	14.5%	57,585	57,055	78.1%	83.7%
Caisses Populaires and Credit Union Affiliates	7	10	1,711	11,365	0.5%	3.5%	1,934	13,099	88.5%	86.8%
Life Insurance Affiliates	6	6	2,779	2,941	0.9%	0.9%	3,037	3,141	91.5%	93.6%
Total	113	115	316,772	328,323	100.0%	100.0%	794,528	718,224	39.9%	45.7%

Differences in the 1996 totals from last year's Corporate Plan are due to amendments filed by the institution in 1997 for the 1996 Return of Insured Deposits.
Insured and total deposits as at April 30 of 1996 and 1997.
Membership as at October 15, 1996, and December 31, 1997.

Percentage of Insured Deposits - 1996 and 1997



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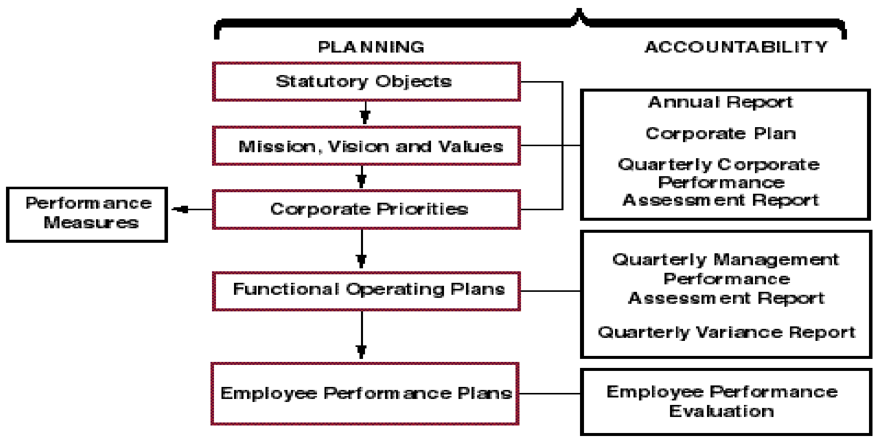
Business Plans

3.1 Planning and Accountability Framework

CDIC's planning and accountability framework is depicted below. It is based on a number of levels of planning, with regular performance assessments at each level, and is an integral part of the overall corporate governance process. The framework is vertically integrated from the corporate strategic level to the personal operational level.

Planning and Accountability Framework

Governance



The statutory objects and the mission statement act as a base for determining the corporate priorities and underlying business strategies that are required for CDIC to achieve its mandate.

The three statutory objects of CDIC are as follows:

1. To provide deposit insurance;

2. To promote standards of sound business and financial practices and to contribute to the stability of the financial system; and

3. To pursue these objects for the benefit of depositors and in such a manner as will minimize exposure to loss.

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3.2 Strategic Direction: The Priorities

The priorities for 1998/99 to 2002/03 are a continuation of the priorities initially adopted in 1993 and are based on CDIC's statutory objects and the Corporation's view of the current economic and financial environment. CDIC's priorities for 1998/99 to 2002/03 are as follows:

1. To eliminate CDIC's borrowings from the Consolidated Revenue Fund by the end of the fiscal year 1998/99 and to eliminate CDIC's accumulated deficit by the end of the fiscal year 1999/2000.

2. To maintain and further develop a strong core-operational capacity (i) to assess the risk of losses likely to arise from insuring deposits in member institutions and (ii) to maximize net recoveries (maximize total recoveries and reduce the total cost of recoveries to a minimum) via liquidation, asset transfers and other means with respect to insurance claims arising from failed institutions.

3. To reduce the risk of losses through improved risk management, earlier intervention, and improved incentives embedded in the system. This priority will be achieved through close liaison with regulators and others outlined in priority number eight.

4. To improve productivity and cost effectiveness by (i) redeploying resources to higher-priority activities, (ii) tightening budgets, and (iii) applying and monitoring effective measures of performance.

5. To maintain high-quality staff through fair and effective human resource and salary policies that recognize and reward performance and fully comply with linguistic, employment equity, and other regulatory provisions.

6. To implement the CDIC Act amendments contained in Chapter 6 of the Statutes of Canada, 1996, as well as selected recommendations arising from various recent external reviews of CDIC's operations.

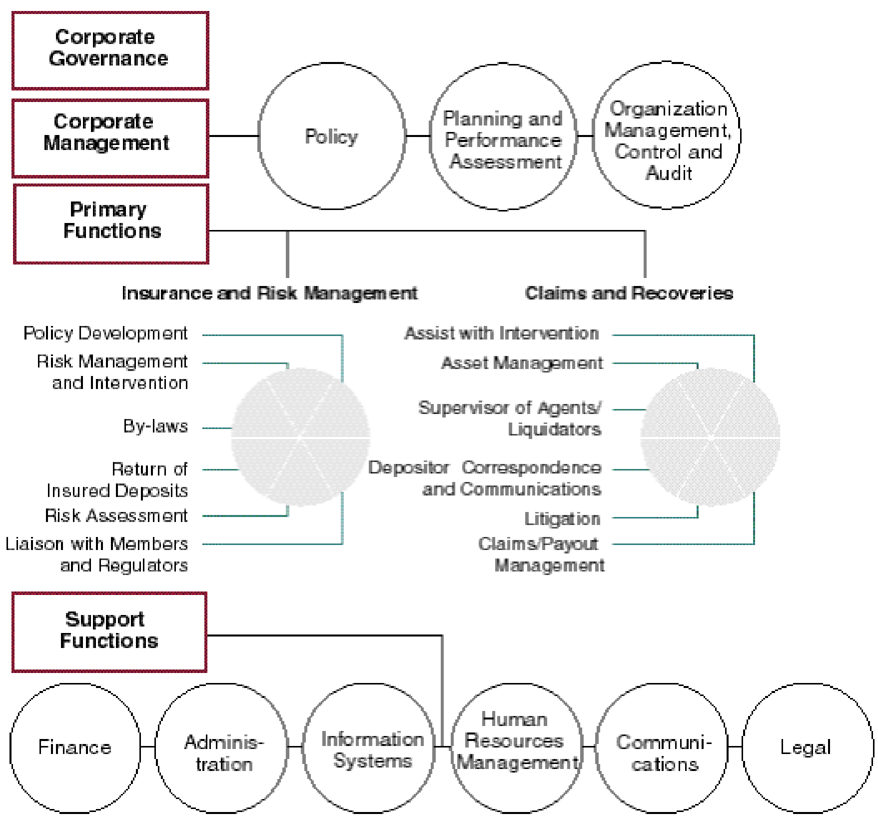
7. To develop a greater capacity to propose and assess public policies related to financial institutions in general and CDIC members in particular and to pursue vigorously the implementation of policies that advance CDIC's statutory objects.

8. To develop and maintain close liaison and co-operation with member institutions, their trade associations, the Office of the Superintendent of Financial Institutions and provincial regulators, the Bank of Canada, the Department of Finance and other pertinent government departments, members of the Financial Institutions Supervisory Committee, parliamentary committees, the Minister of Finance, and the Secretary of State (International Financial Institutions).

3.3 Performance against the Priorities and Future Plans

In order to achieve these priorities, detailed operating plans are developed by cost centre managers. These plans are consolidated to present a comprehensive business plan. Exhibit 3-1 presents CDIC's business model. The model, which provides a perspective on the functions performed at CDIC in pursuit of the priorities, is not a reflection of CDIC's organizational structure but a cross-departmental illustration of CDIC's business processes.

Exhibit 3-1
CDIC Business Model



3.3.1 Priority No. 1 - Eliminate CRF Borrowing and Deficit

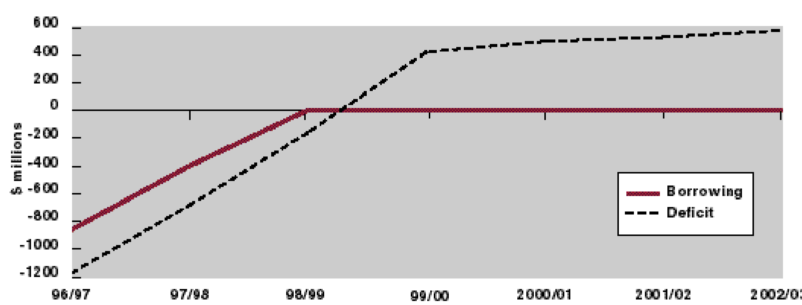
To eliminate CDIC's borrowings from the Consolidated Revenue Fund by the end of the fiscal year 1998/99 and to eliminate CDIC's accumulated deficit by the end of the fiscal year 1999/2000.

This priority continues to be the most important objective for CDIC. The priority has changed somewhat from last year in that the accumulated deficit is targeted for elimination in 1999/2000 instead of in 1998/99, as outlined in last year's Corporate Plan. This change is the result of a change in accounting estimate that increased the provision for insurance losses by $350 million, to $500 million, pushing the targeted deficit elimination date back one year.

CDIC is on track to eliminate its borrowings in 1998/99 (Exhibit 3-2), when it will repay its last loans totalling $395 million. Thereafter, CDIC does not anticipate any future borrowing needs. However, in the event that any future borrowing is required, CDIC has developed a market-borrowing capability, providing CDIC with access to a range of financial markets in which to raise funds. (See section 4.4 for more information on CDIC's borrowing plan.)

Because of its continued risk exposure, CDIC has revised its estimate of the provision for loss to include a provision for the risks associated not only with those companies on its watch list, but also with those not on the watch list.

Exhibit 3-2 Deficit/ Loan Profile



Operating Plan

To achieve this priority, CDIC must continue to assess and manage risk effectively in order to reduce the risk of losses and achieve the most cost-effective intervention solutions when dealing with troubled member institutions. CDIC's Standards of Sound Business and Financial Practices and the Standards Assessment and Reporting Program will continue to contribute to this objective, as will the proposed Premium By-law, which will provide a financial incentive for member institutions to avoid excessive risk-taking.

Furthermore, under legislative changes in 1996, the Superintendent of Financial Institutions now has the authority to take control of, and close, a troubled institution before its capital is fully depleted. CDIC expects that this early intervention regime will reduce losses to depositors and to CDIC.

CDIC's objective is to reduce or eliminate exposure to loss by assessing and monitoring risk and, if an institution fails, to reduce CDIC's losses by maximizing recoveries from the estates in order to repay borrowings and reduce interest costs.

This priority will be achieved as the operating plans to support the other priorities (particularly priorities number 2 and 3) are implemented. These plans are described in more detail under their respective headings.

3.3.2 Priority No. 2 - Strong Core-Operational Capacity

To maintain and further develop a strong core-operational capacity

- to assess the risk of losses likely to arise from insuring deposits in member institutions; and
- to maximize net recoveries (maximize total recoveries and reduce the total cost of recoveries to a minimum) via liquidation, asset transfers and other means with respect to insurance claims arising from failed institutions.

Performance against this priority is described in terms of three components: risk assessment, claims and recoveries, and operations.

Risk Assessment

The design, construction, and refinement of information systems continue to support CDIC's efforts to assess its risk of losses. For example, CDIC began the second phase of its Member Institution Data Analysis System. This involved identifying CDIC's information requirements to support the risk assessment framework and the system of pre-clearing member deposit products to confirm their eligibility for deposit insurance and their inclusion in members' registers (further described in section 3.3.6). As part of this process, CDIC developed a data collection strategy for provincial member institutions, which were not covered by the federal Financial Information Committee reporting requirements.

The Standards of Sound Business and Financial Practices and the Standards Assessment and Reporting Program (SARP) continue to assist CDIC in assessing risk. SARP has proven successful in heightening the awareness by members' boards of directors of their institutions' risk and business management activities. SARP has contributed to reducing the exposure of certain member institutions to risk and, therefore, CDIC's overall exposure to loss.

In future, member institutions failing to address deficiencies in a timely fashion will be given shorter deadlines and, failing that, will face progressively more stringent action. This may include the levying of premium surcharges or the termination of the policy of deposit insurance.

Claims and Recoveries

Total recoveries from loans and claims receivable in fiscal 1996/97 totalled $362 million. Since the beginning of 1992, CDIC has received approximately $4.7 billion from claims and recoveries.

Over the years, continued improvements in the payout process have resulted in a significant decrease in related costs and in the time required to make insurance payments. CDIC's PC-based payout system, which was implemented during 1997/98, will greatly reduce CDIC's reliance on external suppliers in the event of a payout of the insured deposits of small and medium-sized institutions.

It is CDIC policy to initiate lawsuits, as appropriate, against directors, officers, auditors, and other relevant parties of failed institutions. In September 1997, CDIC and the liquidators of Standard Trust Company (STC) announced the settlement of all of their claims against certain former officers and directors of STC and Standard Trustco Limited (STL), certain former shareholders of STL, KPMG, the former auditors of STC and STL, and Royal LePage Real Estate Services Ltd. The claims were connected to the liquidation of STC and the bankruptcy of STL.

Operations

CDIC conducted an initial review of its computer systems to assess the programming risks related to the year 2000. Some modifications to software programs are required, and these are in the process of being completed.
The Corporation has continued to make use of the Internet for communications and public awareness. However, it is proceeding with caution in this area, ever aware of the associated complex security issues.

Operating Plan

The business plan for this priority is described in terms of three main components: risk assessment, claims and recoveries, and operations.

Risk Assessment

The second phase of CDIC's Member Institution Data Analysis System will continue in

1998, which will involve modifying the system architecture to accept the information requirements of the differential premium classification system and the operating system migration. All data will be accessible from a number of applications, instead of having to use specific applications for certain types of data, as is currently the case.

Claims and Recoveries

To achieve economies of scale and to permit liquidators to concentrate on litigation and issues leading to liquidator discharge, CDIC is promoting the consolidation of residual assets of old estates. As a result, liquidators of five estates should be discharged in 1997/98, and, in a number of other estates, the liquidators will be able to narrow the focus of their activities with an expected reduction in costs.

To meet the changing needs and expectations of insured depositors, CDIC must continually adapt its deposit insurance payment methodology for changes in the operations and products of member institutions. In support of this goal, a process will be followed to ensure that CDIC retains the capacity to make timely payments to depositors. CDIC will also review its customer service standards to ensure depositors continue to be satisfied with CDIC's level of service.

Operations

CDIC's leases for its Ottawa and Toronto offices expire in 2000 and 2001, respectively. Therefore, during the five-year planning period, there may be the possibility to reduce costs. CDIC will undertake a review of its premises needs in 1998/99.

CDIC will continue its information technology migration plan in 1998/99. This will involve replacing the remaining components of the Corporation's current technology infrastructure, such as office automation tools and the networking technology, as well as completing the work begun in 1997/98 to convert business applications and the desktop computer environment.

3.3.3 Priority No. 3 - Reduce the Risk of Losses

To reduce the risk of losses through improved risk management, earlier intervention, and improved incentives embedded in the system. This priority will be achieved through close liaison with regulators and others outlined in priority number eight.

CDIC's Standards of Sound Business and Financial Practices and the Standards Assessment and Reporting Program have made a strong contribution to attaining this priority. Initial work started on a new standard that will address the growing estate, trust, and agency business held by member institutions.

Operating Plan

The introduction of the proposed Premium By-law in 1998 will play an important role in encouraging members to manage their risks since there will be a financial incentive, in terms of premiums, for member institutions.

Under the by-law, CDIC is proposing that the worst-rated institutions pay higher premiums: up to the maximum one-third of one percent of insured deposits. The premium for the best-rated institutions would continue to be one-sixth of one percent until CDIC's deficit is eliminated. Once the deficit is eliminated and depending on the circumstances, CDIC may propose that the premium rate for the best-rated categories be reduced substantially.

Work on the standard relating to the estate, trust and agency business of member institutions continues. Consultations with representatives from industry, associations, key stakeholders, and member institutions will occur through a discussion paper to be issued during 1998/99.

3.3.4 Priority No. 4 - Improve Productivity and Cost Effectiveness

To improve productivity and cost effectiveness by
- redeploying resources to higher-priority activities;
- tightening budgets; and
- applying and monitoring effective measures of performance.

CDIC reports regularly to its Audit Committee and to the Office of the Auditor General (OAG) on its progress in implementing the remaining two recommendations that arose from the OAG's special examination of CDIC in 1994: performance measures and documentation of policies. Both are targeted for completion in 1998.

Operating Plan

The Corporation will continue working toward developing an overall performance management system. This system will measure organizational performance across balanced perspectives: financial, stakeholders, internal business processes, and learning and development. The goal is to have performance indicators in place for inclusion in the 1999/2000-2003/04
Corporate Plan.

The records project will continue in 1998/99. When the project is completed in the year 2000, the benefits will be greater control of record holdings, improved access, reduced workload for the end user, and reduced handling costs.

3.3.5 Priority No. 5 - Maintain High-Quality Staff through Fair and Effective Human Resource and Salary Policies

To maintain high-quality staff through fair and effective human resource and salary policies that recognize and reward performance and fully comply with linguistic, employment equity, and other regulatory provisions.

In 1997, CDIC developed compensation guidelines to assist the Corporation in salary administration following the end of the federal government wage freeze. During the year, CDIC continued to acknowledge employees' exceptional efforts with employee recognition awards.

Operating Plan

As a Crown corporation, CDIC has specific statutory obligations with respect to employment equity, health and safety, official languages, and multiculturalism and reports annually on its compliance with these requirements.

In order to continue to ensure that CDIC employees are fairly paid, the Job Evaluation Committee will continue to review job descriptions to assess job worth and ranking and to maintain overall consistency throughout the organization. CDIC will be conducting a market comparison salary survey in 1998/99 to ensure that salaries are consistent with its market.

3.3.6 Priority No. 6 - Implement Legislative Amendments and Recommendations

To implement the CDIC Act amendments contained in Chapter 6 of the Statutes of Canada, 1996, as well as selected recommendations arising from various recent external reviews of CDIC's operations.

To comply with one of the governmental requirements of the risk management guidelines - that Crown corporations possess appropriate systems to manage their treasury operations - CDIC selected and began the implementation of a treasury system during 1997/98. In addition, CDIC developed new treasury policies to govern its treasury operations.

CDIC continued to work on its Premium By-law. CDIC established a system for classifying member institutions into different categories. A consultation paper explaining the proposed system was distributed for comment to member institutions and interested parties.

During 1997/98, CDIC has been reviewing all member institutions' deposit products to confirm their eligibility for deposit insurance and their inclusion in members' registers. These registers are required under the Deposit Insurance Information By-law, which states that member institutions must display, at each of their places of business, a register listing all of their products that are eligible for deposit insurance and must provide copies to customers upon request. Since the registers must be available to consumers when the by-law comes fully into effect, on March 1, 1998, all deposit products offered in the marketplace must be examined well before this deadline. As of December 31, 1997, CDIC had completed its initial review of over 1,669 deposit products received from 103 member institutions. Guidelines and procedures have also been established to provide flexibility and minimum turnaround time for the pre-clearance of new products on an ongoing basis.

CDIC is also working on the various elements of by-laws and regulations relating to index-linked deposits and opting out of CDIC membership. The indexed-linked deposit by-law relates to the calculation of interest on deposits in the event of a payout where the interest is linked to an index, for example the TSE 300.

The opting-out by-law is related to a recent legislative change that allows banks to opt out of CDIC membership if they satisfy the following conditions:

- The bank is not affiliated with any member institution.

- The bank's total retail deposits (deposits less than $150,000) cannot exceed one percent of its total deposits.

- The bank has informed its depositors of its intention to opt out of CDIC membership, and the depositors are aware their deposits will no longer be covered by deposit insurance.

The impact of the opting-out by-law on CDIC premiums is expected to be minimal since most of the institutions that may decide to opt out take few retail deposits and pay either the minimum of $5,000 or only a small insurance premium to CDIC.

Operating Plan

Work will continue in the treasury area of the Corporation. Although the Corporation retains the possibility of borrowing from the Consolidated Revenue Fund, CDIC's future borrowing needs will now be met in the public markets. CDIC will have to pay a credit enhancement fee to the Government on any new borrowings. Market borrowing will therefore result in added borrowing costs for CDIC and a requirement to maintain an active in-house treasury function.

CDIC is planning a national advertising campaign to coincide with the full implementation of the Deposit Insurance Information By-law in March 1998. CDIC's goal is to make the public aware that, effective March 1, 1998, they will be able to ask for information about deposit insurance, for a register, or for a CDIC information brochure when doing business with CDIC member institutions.

3.3.7 Priority No. 7 - Develop a Greater Capacity and Assess Public Policies

To develop a greater capacity to propose and assess public policies related to financial institutions in general and CDIC members in particular and to pursue vigorously the implementation of policies that advance CDIC's statutory objects.

During the past year, CDIC met with the Task Force on the Future of the Canadian Financial Services Sector on numerous occasions to discuss issues related to the work of the Task Force, including deposit insurance issues. CDIC also met with Department of Finance officials to discuss foreign bank branching issues.

CDIC continued its involvement with the international deposit insurance community in 1997/98. During the year, members of CDIC's staff advised Jamaica and the Philippines on deposit insurance matters. CDIC also provided information to other countries-Hungary, Korea, Norway, and Taiwan-at their request. Participation in such international

initiatives increases CDIC's international profile as many countries wish to draw on Canada's deposit insurance knowledge and experience. It also contributes to the reputation of Canada's overall financial system in that other countries learn about Canada's supervisory and regulatory framework.
CDIC will continue to conduct economic, policy and other research to enable it to participate in ongoing public policy and other debates on deposit insurance, the supervisory system, and the financial services industry. Initiatives planned include the following:

- researching issues affecting deposit insurance to ensure that CDIC is in a position to respond to public and other policy issues;

- providing advice and support to, and maintaining interactive dialogue and strong working relationships with, interested groups in respect of deposit insurance initiatives; and reviewing and assessing the proposed changes to the financial system in Canada and to the supervisory and deposit insurance system.

3.3.8 Priority No. 8 - Develop and Maintain Close Liaison and Co-operation with Government and Industry

To develop and maintain close liaison and co-operation with member institutions, their trade associations, the Office of the Superintendent of Financial Institutions (OSFI) and provincial regulators, the Bank of Canada, the Department of Finance and other pertinent government departments, members of the Financial Institutions Supervisory Committee, parliamentary committees, the Minister of Finance, and the Secretary of State (International Financial Institutions).

CDIC continues to distribute information and membership brochures and copies of its Standards of Sound Business and Financial Practices to all interested parties. Information on deposit insurance is available on the Corporation's Web site, as are CDIC's publications. CDIC continues to support its toll free information lines and to maintain media relations.

CDIC continued to meet with OSFI, provincial regulators, and the QDIB to discuss potential pending applications for deposit insurance, examination results, ratings of member institutions, and problem institutions. CDIC's proposed Premium By-law, the Opting-Out By-law, and other new deposit insurance initiatives were discussed with member institutions and their associations. The Corporation also met with representatives of the Federal Deposit Insurance Corporation, the Bank of England, the Office of the Controller of the Currency, and the Credit Union Stabilization Funds of Canada to share news and information.

CDIC continues to participate in the Financial Institutions Supervisory Committee Data Processing Project with the Bank of Canada and OSFI. The goal of the project is to replace the existing system for collecting and processing the financial information received from member institutions with a system that takes advantage of new technologies. CDIC and OSFI also hold regular meetings to exchange information on systems initiatives.

Operating Plan
CDIC will be working closely with member institutions regarding the new requirement, pursuant to the Deposit Insurance Information By-law, that member institutions make available to the public a register listing all the member's products that are eligible for deposit insurance.

CDIC will continue to foster good working relationships with OSFI, the Bank of Canada, provincial regulators, government committees, ministers' offices, member institutions and their associations, and other stakeholders. The Corporation will pursue its objective of increasing awareness of CDIC through speaking engagements and assistance to others.

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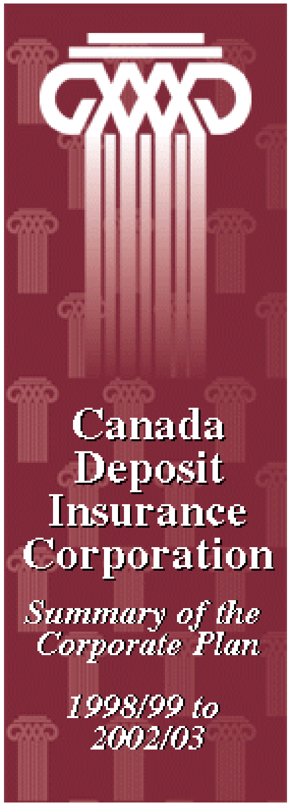

Financial Plan

The five-year financial plan is based on the assumptions found in section 2.2, which represent management's best estimate of events that will occur over the planning period. Given that assumptions are affected by unknown events and fluctuating variables, there is a possibility that deviations from the plan may occur.

4.1 Financial Performance - 1996/97 and 1997/98

CDIC continued its efforts to streamline operations while maintaining an adequate level of efficiency and service. The Corporation's financial results support this statement.

4.1.1 Performance against Plan

The pro forma financial statements in Appendix B show the Corporation's financial results for 1996/97 and the 1997/98 forecast against the approved plan. The following table highlights CDIC's performance for 1996/97 and 1997/98.

Key Financial Indicators 1996/97 and 1997/98 ($ millions)

	March 31, 1997	March 31, 1997	March 31, 1998	March 31, 1998
	Approved Pan	Actual	Approved Plan	Forecast
Loans and Claims Receivable (Net of Allowances for Losses)	709	693	497	348
Loans from the CRF	867	865	402	402
Provision for Guarantees	547	646	572	606

Provision for Insurance Losses	200	500	400	500
Accumulated Deficit	894	1,176	545	686
Average CRF Borrowing Rate	6.50%	6.50%	7.01%	7.01%

1996/97 Actual to Approved Plan

During 1996/97, the Corporation changed its methodologies of accounting for loans and claims receivable and of estimating its provision for insurance losses. Full disclosure of these and other related items is found in the notes to the financial statements in the Corporation's 1996/97 Annual Report.

Loans and claims receivable (net of allowances for losses) for 1996/97 were under budget by $16 million. This variance results from accelerated recoveries offset by write-offs of certain loans and claims receivable. In addition, the Corporation changed its accounting treatment for loans and claims receivable from a net recoverable basis to a fair value basis.

The $99 million variance in the provision for guarantees is due to an increase of $46 million during the year ended March 31, 1996, to recognize the full $500 million guarantee related to a distressed preferred share refinancing of a former member institution for which CDIC had provided a guarantee of redemption during 1995/96. In addition, the provision for guarantee was increased by $50 million during 1996/97.

The provision for insurance losses as at March 31, 1997, was $300 million greater than planned. During 1996/97, CDIC changed its method of determining its exposure to insurance losses. The full disclosure of the methodology and accounting treatment can be found in note 2 to the financial statements in the Corporation's 1996/97 Annual Report.

The accumulated deficit was $282 million higher than planned as at March 31, 1997. This is attributable to various factors, the more significant of which are lower-than-anticipated premiums (down by $28 million) and higher-than-anticipated provisions for losses ($334 million), offset by a lower opening deficit (by $72 million).

1997/98 Forecast to Approved Plan

The loans and claims receivable (net of allowances for losses) is lower than the approved plan because of accelerated recoveries of loans and claims. The allowance for losses on loans and claims receivable is forecast to remain at the 1996/97 level.

The provision-for-guarantees variance of $34 million results from the $50 million upward adjustment made in 1996/97, offset by higher-than-planned payments during 1997/98.
The provision for insurance losses at March 31, 1998, is projected to be $100 million greater than planned. The increase is a result of the change in the method of estimating the provision for insurance losses during 1996/97.

The accumulated deficit is forecast to be $141 million higher than planned as at March 31, 1998. This variance is mainly due to an opening variance of $131 million.

4.1.2 Performance against Budgets

The Corporation segregates operating expenses from costs directly related to interventions into the affairs of troubled member institutions. Intervention costs are budgeted separately for each troubled member institution. They include mainly legal fees, data processing costs, and consultant fees incurred as a result of a direct intervention by the Corporation. The following table provides an overview of the budgets for 1996/97 and 1997/98. An explanation of the major variances follows.

Analysis of Financial Performance against Budgets ($ thousands)

	March 31, 1997	March 31, 1997	March 31, 1998	March 31, 1998
	Approved Budget	Actual	Approved Budget	Forecast
Operating	14,100	13,881	14,100	15,986
Intervention	4,482	3,402	3,000	3,000
Capital	375	508	375	550

1996/97 Actual to Budget

The 1996/97 actual operating expenditures were $219,000 below budget. Intervention costs for 1996/97 were approximately $1 million under budget. As explained earlier, intervention costs are, by definition, more volatile and therefore less predictable than operating costs. Many of the legal costs budgeted in 1996/97 were not incurred in that period.

1997/98 Forecast against Budget

The forecast for operating expenses in 1997/98 is $15.986 million, compared with the budget of $14.1 million. The difference is due to a $1.8 million public awareness campaign that CDIC will be conducting in relation to the implementation of the Deposit Insurance Information By-law. The majority of the $1.8 million will be spent on advertising costs during 1997/98.

Intervention costs for 1997/98 are expected to approximate the approved budget of $3 million. CDIC expects that capital expenditures for 1997/98 will amount to $550,000, compared with a planned level of $375,000. The variance is due to the acquisition of a treasury management system for CDIC.

4.1.3 Performance Indicators

Notwithstanding that CDIC is developing a performance measurement system, certain performance indicators have been used by the Corporation since 1993. The following table contains the performance indicators currently used.

Performance Indicators 1996/97 - 1997/98 - 1998/99

Measures	1996/97 Target	1996/97 Actual	1997/98 Target	1998/99 Target	Benchmark
Turnover rate of employees	8%	13%	7%	7%	6%
Absenteeism rate of employees	5 days/ year	4.6 days/ year	5 days/ year	5 days/ year	5 days/ year

Turnover Rate of Employees

Turnover is defined as the rate of voluntary departure of regular, full-time employees, excluding early retirements. The target for this measure reflects the balance that management wishes to achieve between the use of turnover to obtain fresh ideas and up-to-date skills and the benefits of retaining experienced employees with CDIC-specific knowledge.

CDIC has established a target of 7 percent annual turnover for 1998/99 and a benchmark of 6 percent. The turnover for 1996/97 was 13 percent, which was much higher than the previous year's 4 percent. An analysis of exit interviews has revealed that the turnover, in large part, is due to employees pursuing attractive opportunities elsewhere, many involving relocation.

Absenteeism Rate of Employees

Absenteeism is defined as the failure of workers to report on the job when they are scheduled to work. This includes absences because of illness, accident or any unauthorized reason. The actual absenteeism rate for 1996/97 of 4.6 days per year per employee is lower than the prior year's absenteeism rate of 6 days per year. The target rate for 1998/99 and the benchmark for future years continue to be 5 days per year.

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4.2 Five-Year Financial Plan (Appendix B)

The Corporation forecasts that it will collect a total of $1.08 billion in premiums from member institutions for the two years ended March 31, 1999 and 2000. This assumes a premium level of one-sixth of one percent in both years. With the anticipated repayment of all outstanding loans to the Consolidated Revenue Fund (CRF) during 1998/99, interest costs are anticipated to decrease to $8 million during 1998/99. Since no further borrowing is anticipated, no interest costs are expected over the remaining planning period.

Once the deficit has been eliminated, the loans from the CRF and other obligations under various guarantee agreements have been repaid, and an adequate provision for insurance losses is in place, the Board of Directors will be able to recommend that premium rates be greatly reduced for highly rated institutions. The financial projections found in Appendix B reflect a substantial reduction in premiums at most member institutions after the fiscal year 1999/2000. Operating expenses over the five-year planning period will approximate $75 million, and intervention costs will amount to approximately $15 million.

Based on the planning assumptions stated in section 2.2, the borrowings from the CRF are expected to be repaid by March 31, 1999, sufficient funds will be available to pay all of the obligations under guarantee agreements by the end of fiscal 1999/2000, and the deficit will be eliminated by March 31, 2000. CDIC's ability to eliminate its deficit and repay its CRF loans and other obligations under the various guarantee agreements within the proposed time frame may be adversely affected by future member institution insolvencies as well as negative occurrences in the economic environment.

The projections show that the net realizable value of all outstanding claims and loans receivable, which was $693 million at March 31, 1997, will be fully realized within the planning period.

During 1997/98, CDIC expects to recover $345 million against outstanding loans and claims. For the planning period, CDIC estimates that an additional $143 million of claims receivable will be recovered, while loan collections will generate approximately $232 million.

The provision for guarantees of $606 million as at March 31, 1998, is expected to be fully paid out by March 31, 2003.

4.3 Operating, Intervention, and Capital Budgets -1998/99

The Corporation segregates intervention costs from operating expenses. The following table shows the operating, intervention, and capital budgets for 1998/99 with comparisons to the previous two years.
The 1998/99 operating budget of $14.9 million is higher than the 1997/98 budget; however, it is lower than the forecast for 1997/98. The increase in the budget reflects the costs associated with the data sharing project between CDIC, OSFI, and the Bank of Canada, increasing fixed costs such as lease costs, and salary increases as stated in the planning assumptions in section 2.2.

The intervention budget reflects the costs of litigation and monitoring the liquidations of failed member institutions. Should new interventions occur, the Board of Directors would be requested to approve additional funding.

The 1998/99 capital budget is $375,000, down from the $550,000 forecast for 1997/98. CDIC's capital expenditures are primarily for information systems hardware and software.

Analysis of Budgets ($ thousands)

	1996/97 Actual	1997/98 Plan	1997/98 Forecast	1998/99 Plan
Operating	13,881	14,100	15,986	14,949
Intervention	3,402	3,000	3,000	3,418
Capital	508	375	550	375

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4.4 Borrowing Plan

At December 31, 1997, CDIC's debt of $395 million--all in the form of debentures issued to the Consolidated Revenue Fund--was fully matched to anticipated cash flows from premium revenue and from recoveries from estates of member institutions. Assuming no major unplanned cash outflows are required in 1998, CDIC will have its debt repaid by July 17, 1998.

During 1997/98, CDIC developed a strategy to borrow funds, if required, by issuing commercial paper and/or medium-term notes in the domestic markets. As CDIC does not anticipate any new borrowing activity over the planning period, any debt issuance within the borrowing program will require ministerial approval.

There are currently no plans to draw on CDIC's borrowing facilities as it has sufficient liquidity to repay maturing advances and obligations and to support its ongoing operations.

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Appendix A - Corporate Profile

Appendix A

Industry/Supervisory Overview

The Canada Deposit Insurance Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act, 1993 c. C-3, as amended. The Corporation is for all purposes an agent of Her Majesty in right of Canada and is a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

CDIC participates with the Bank of Canada, the Department of Finance, and the Office of the Superintendent of Financial Institutions (OSFI) to provide a federal supervisory framework for deposit-taking institutions. The Corporation reports to Parliament through the Minister of Finance, who has delegated responsibility for CDIC matters to the Secretary of State (International Financial Institutions). CDIC's Board of Directors comprises the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent and a Deputy Superintendent of Financial Institutions, as well as four independent private-sector directors. The Chairperson of the Board is appointed by the Governor in Council.

CDIC's role is defined by its objects, which are listed in section 3.1. To carry out its work, CDIC relies heavily on the Superintendent of Financial Institutions and provincial regulators. They are responsible for regulatory supervision and for ensuring that member institutions follow the rules and regulations and remain financially viable. CDIC has no regulatory role. It receives and closely follows the regulators' reports. Only when an institution becomes a cause for concern does CDIC become more active, working in close collaboration with OSFI or with the provincial regulator. If an institution poses a significant risk to the Corporation, CDIC usually undertakes an intensive special examination of the company's operations and the value of its assets to clarify CDIC's risk and to establish an information base upon which the Corporation can act promptly toward failure resolution.

Two important committees within the federal supervisory framework are the Financial Institutions Supervisory Committee and the Senior Advisory Committee.

The Financial Institutions Supervisory Committee (FISC), which is chaired by the Superintendent of Financial Institutions, has a legislated mandate to facilitate information sharing among the Bank of Canada, CDIC, OSFI, and the Department of Finance so that the different perspectives are brought to bear on issues relating to the supervision of financial institutions and the system of prudential regulation. There are four members: the Governor of the Bank of Canada, the Superintendent of Financial Institutions, the Deputy Minister of Finance, and the Chairperson of CDIC. Minutes of all meetings are provided to the Minister of Finance. Subcommittees are created to deal with particular issues; however, they are not legislated.

The Senior Advisory Committee looks at policies and systemic issues of the federal financial system. The committee provides advice to the Deputy Minister of Finance, who is also the chairman but who has no legislated mandate. There are four members: the Governor of the Bank of Canada, the Superintendent of Financial Institutions, the Deputy Minister of Finance, and the Chairperson of CDIC.

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Appendix A

Authority and Relevant Laws

Canada Deposit Insurance Corporation Act
Part X of the Financial Administration Act

CDIC has also received ancillary powers, in two federal statutes, beyond those found in its own governing legislation. Under the Investment Companies Act, the Corporation may make short-term loans as a lender of last resort to Canadian-controlled finance companies as defined in that Act. Under the Cooperative Credit Associations Act, the Corporation may make short-term loans to an association, as defined in the legislation, to enable it to meet its requirements for liquid funds needed to discharge its maturing debt obligations, and to a deposit protection agency, also defined in the legislation, to enable it to meet its requirements for liquid funds for its operations.

When acting on the authority provided under either of these two statutes, CDIC does not insure the debt instruments of sales finance companies or the deposits or debt instruments of associations and deposit protection agencies. CDIC, in effect, acts as a conduit whereby funding from the federal government flows to these institutions. CDIC incurs no financial liability or risk. Loans must be made for the purposes set out in the legislation and are funded through a separate authority allowing CDIC to borrow from the federal government's Consolidated Revenue Fund. To date, no requests have been made under either Act.

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CDIC Committees

There are three different types of committees at CDIC: Board committees, internal management committees, and external advisory committees.

The Executive Committee, the Audit Committee, and the Employee Relations Committee are the three committees that report to the Board of Directors. The internal management committees, which are responsible for the daily operations of the Corporation, comprise the Executive Management Committee, the Asset/Liability Management Committee, the Information Systems Executive Steering Committee, the Policy Committee, the Security Committee, the Senior Management Committee, the Health and Safety Committee, the Human Resources Committee, and the Job Evaluation Committee.

The Real Estate Advisory Panel is the only external advisory committee currently convened. It reviews, evaluates, and makes recommendations on proposals brought forward by management with respect to the realization of major real estate assets in which the Corporation has an interest.

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Appendix A

Organization Structure

The responsibility framework for CDIC's ongoing operating costs is reflected in the functional organizational chart shown in Exhibit B-1. However, in dealing with intervention projects, a cross-functional matrix organization structure is in place (Exhibit B-2). This structure results in reporting relationships that enable the project managers to draw on the expert services of a number of departments in an efficient and timely manner. It results in a "team" approach to intervention and other projects.

Each intervention project is divided into three distinct phases, each with a specific divisional project manager. The phases represent the natural cycle of intervention: pre-liquidation, payout and estate management, and litigation. The project manager for each phase is the vice-president who is accountable for that phase.

These structures parallel the manner in which CDIC captures its costs. A distinction is made between intervention and operating expenses to facilitate resource planning and management of controllable and relatively stable infrastructure costs as opposed to more variable, project-specific, and volatile intervention costs. The processes and the cost drivers for the two cost categories are dissimilar in nature, lending themselves to different measurement and accountability frameworks. Operating costs are costs necessary to maintain the infrastructure required to fulfil CDIC's mandate. Intervention costs are costs incurred pursuant to a Board of Directors' directive to intervene in a member institution. They include the costs of managing and winding up the estate.

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Appendix A

Board of Directors
December 31, 1997

Grant L. Reuber
Chairperson of the Board
Canada Deposit Insurance Corporation

Viateur Bergeron
Partner
Bergeron, Gaudreau
Hull, Quebec

C. Scott Clark
Deputy Minister of Finance
(ex officio)

H. Garfield Emerson
President and CEO
Rothschild Canada Limited

Bernard I. Ghert
President
Ghert Realty Holdings Limited

Nicholas Le Pan
Deputy Superintendent, Operations
Office of the Superintendent of Financial Institutions
(ex officio)

Colin P. MacDonald
Partner
Howard, Mackie
Calgary, Alberta

John R. V. Palmer
Superintendent of Financial Institutions
(ex officio)

Gordon G. Thiessen
Governor of the Bank of Canada
(ex officio)

CDIC Officers

Grant L. Reuber
Chairperson

Jean Pierre Sabourin
President and Chief Executive Officer

Wayne Acton
Senior Vice-President
Field Operations

Guy L. Saint-Pierre
Senior Vice-President
Insurance and Risk Assessment

Johanne R. Charbonneau
Vice-President
Finance

Lewis T. Lederman
Corporate Secretary and General Counsel

Bert C. Scheepers
Vice-President
Corporate Services

Appendix A

Public Information and Assistance

CDIC's services and publications to provide information about deposit insurance include the following:

Public Awareness Activities

- Toll-free telephone service: 1-800-461-CDIC (1-800-461-2342)
- World Wide Web site: http://www.cdic.ca
- E-mail addressinfo@cdic.ca
- CDIC Information brochure entitled Protecting Your Deposits
- CDIC Membership brochure

Additional Publications

Corporate

Annual Report
Summary of the Corporate Plan

By-laws

Canada Deposit Insurance Corporation General By-law
Deposit Insurance Information By-law
Joint and Trust Account Disclosure By-law
Premium Surcharge By-law

Information Bulletins

Deposit Insurance Information By-law
Joint and Trust Account Disclosure By-law
Joint and Trust Account Disclosure Circular

Standards of Sound Business and Financial Practices

Capital Management
Credit Risk Management
Internal Control
Foreign Exchange Risk Management
Interest Risk Management
Liquidity Management
Real Estate Appraisals
Securities Portfolio Management

Other

Application and Policy of Deposit Insuranc
Assessment and Reporting Program for CDIC's
Standards of Sound Business and Financial Practices

Head Office
Canada Deposit Insurance Corporation
50 O'Connor Street
17th Floor
P.O. Box 2340, Station D
Ottawa, Ontario K1P 5W5
Reception: (613) 996-2081
Fax: (613) 996-6095

Toronto Office
Canada Deposit Insurance Corporation
1200- 79 Wellington Street W.
P.O. Box 156
Toronto- Dominion Centre
Aetna Tower
Toronto, Ontario M5K 1H1
Reception: (416) 973-3887
Fax: (416) 973-3795

Canada Deposit Insurance Corporation

Summary of the Corporate Plan

1998/99 to 2002/03

Appendix B -
Pro Forma Financial Statements

Appendix B

PRO FORMA BALANCE SHEET
as at March 31 ($ millions)

	1997 Actual	1998 Plan	1998 Forecast	1999 Plan	2000 Plan	2001 Plan	2002 Plan	2003 Plan
Assets								
Cash and short-term investments	149	330	472	675	876	1,011	1,041	1,077
Premiums and other accounts receivable	4	3	2	2	2	2	2	2
Capital assets	1	2	2	2	2	2	2	2
	154	335	476	679	880	1,015	1,045	1,081
Loans receivable	434	345	243	168	114	20		
Claims receivable	334	241	180	146	58			
	768	586	423	314	172	20		
Allowance for loss on claims and loans receivable	(75)	(89)	(75)	(75)	(75)			
	693	497	348	239	97	20		
	847	832	824	918	977	1,035	1,045	1,081
Liabilities								
Accounts payable	12	3	2	2	2	2	2	2
Provision for guarantees	646	572	606	578	55	35	14	

Provision for insurance losses	500	400	500	500	500	500	500	500
Loans from the Consolidated Revenue Fund	865	402	402					
	2,023	1,377	1,510	1,080	557	537	516	502
Accumulated surplus (deficit)	(1,176)	(545)	(686)	(162)	420	498	529	579
	847	832	824	918	977	1,035	1,045	1,081

Appendix B

PRO FORMA STATEMENT OF INCOME AND DEFICIT
For the Years Ending March 31 ($ millions)

	1997	1998	1998	1999	2000	2001	2002	2003
	Actual	Plan	Forecast	Plan	Plan	Plan	Plan	Plan
Revenue								
Premiums	546	553	530	533	547			
Interest on cash and short-term investments	11	7	13	17	29	32	36	36
Other revenue	4		2		13	34		
	561	560	545	550	589	66	36	36
Expenses								
Adjustment to provisions for loss	334					(26)		
Recovery of amounts previously written off		(4)	(11)		(11)	(4)	(13)	(32)
Interest on loans from the Consolidated Revenue Fund	85	47	47	8				
Operating expenses	14	14	16	15	15	15	15	15
Intervention expenses	3	3	3	3	3	3	3	3
	436	60	55	26	7	(12)	5	(14)

Net Income	125	500	490	524	582	78	31	50
Accumulated surplus (deficit), beginning of period	(1,301)	(1,045)	(1,176)	(686)	(162)	420	498	529
Accumulated surplus (deficit), end of period	(1,176)	(545)	(686)	(162)	420	498	529	579

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Appendix B

PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ending March 31 ($ millions)

	1997	1998	1998	1999	2000	2001	2002	2003
	Actual	Plan	Forecast	Plan	Plan	Plan	Plan	Plan
Operating Activities								
Net income	125	500	490	524	582	78	31	50
Non-cash items included in net income								
Adjustment to provisions for loss	334					(26)		
Loans disbursed	(73)							
Loans recovered	181	135	191	76	54	82	20	
Claims paid	(42)							
Claims recovered	181	145	154	34	88	21		
Payment of guarantees	(67)	(24)	(40)	(28)	(520)	(22)	(21)	(14)
Changes in working capital	(11)		(12)	(8)	(3)	2		
Cash Provided by Operating Activities	628	756	783	598	201	135	30	36
Financing Activities								
Loans from the Consolidated Revenue Fund								
Net advances/ (repayments)	(772)	(460)	(460)	(395)				

Cash Used in Financing Activities	(772)	(460)	(460)	(395)				
Cash and Short-Term Investments								
Increase (decrease) during the period	(144)	296	323	203	201	135	30	36
Balance, beginning of period	293	34	149	472	675	876	1,011	1,041
Balance, end of period	149	330	472	675	876	1,011	1,041	1,077