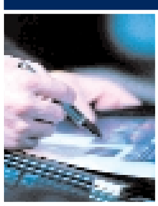
CDIC


PROACTIVE AND PREPARED

March 2002

SUMMARY OF THE CORPORATE PLAN

2002/2003 to 2006/2007

(Including a Summary of the 2002/2003 Operating and Capital Budgets, and Borrowing Plan)

Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

Canada

Mission Statement

To provide deposit insurance and to contribute to the stability of the financial system in Canada in a professional and innovative manner, meeting the highest standards of excellence, integrity, and achievement, for the benefit of depositors of member institutions while minimizing the Corporation's exposure to loss. CDIC will provide an environment where employees are treated fairly and given opportunities and encouragement to develop their full potential.

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Part One: Introduction

At the Canada Deposit Insurance Corporation (CDIC), it is our job to be prepared for change. The nature of our work — to provide deposit insurance, and contribute to the stability of Canada's financial system — requires a state of readiness at all times. The results of CDIC's environmental scan of national and international issues have identified increased risk for the Corporation and have reinforced the need for heightened readiness in the current economic environment. Proactive readiness is the principal strategy around which our Corporate Plan is based, and hence its theme: "Proactive and Prepared."

Detecting problems quickly and, if warranted, intervening promptly is part of CDIC's mandate in working together with member institutions, financial supervisors and regulators. Over the years, CDIC has strengthened its capacity in these areas. This has resulted in proactive risk assessment processes, the modernization of CDIC's by-laws in areas such as standards of sound business and financial practices, differential premiums and the wider public dissemination of deposit insurance information.

While CDIC's capacity to respond requires continuous attention, focused effort is necessary in times of economic uncertainty. Additional reasons for this include the growing period of time since the last experience of a failed institution, and the increasingly complex business and technological activities of our members.

For these reasons, CDIC is focusing on four business strategies to achieve its business objectives during the planning period. These strategies are:

- Proactive Readiness
- Investing in Technology to Leverage Information
- Following Sound Business and Financial Practices
- Public Awareness and Education

Our Corporate Plan presents specific measures to be adopted under each of these four business strategies.

In spite of the increased risk faced by the Corporation and the need for heightened readiness, for financial planning purposes we do not project a failure during the planning period. Further, given the healthy state of CDIC's financial resources at present – its most robust financial position in decades – CDIC is again reducing annual premiums substantially. Accordingly, the premium rate categories for 2002/2003 will be:

- Category 1: 0.02083 per cent of insured deposits;
- Category 2: 0.04167 per cent of insured deposits;
- Category 3: 0.08333 per cent of insured deposits; and
- Category 4: 0.16667 per cent of insured deposits.

These rates represent a 50 per cent reduction in all categories. They also represent an estimated reduction of $80 million dollars in premiums payable by member institutions in 2002/2003. Further, they follow a 75 per cent decrease in total premium revenue based on the implementation of our differential premiums system in 1999/2000. Premium revenue throughout the planning period is forecast to total $427 million.

Premium rates are fixed annually with consideration given to the economic environment, the risk profile of member institutions and the Corporation's own financial condition. Accordingly, the premium revenue projections for the years ending March 31, 2004 to 2007 may be subject to material change.

In Part Two of this Summary, we analyze the principal factors operating within CDIC's planning environment, while a more detailed outline of CDIC's principal business strategies is provided in Part Three.

Part Four discusses our financial plan for 2002/2003. We anticipate total revenues of $104 million, consisting of $80 million in premiums with interest and other revenue of $24 million. Operating expenses are expected to be $24 million. The capital budget will be $850,000. CDIC currently has no debt outstanding and does not anticipate any new borrowing activity over the planning period.

Appendices to this Summary provide general information on CDIC's strategic management process, planning premises and assumptions and an overview of our member institutions. Appendix B offers a general overview of the Corporation while Appendix E contains our pro forma financial statements.

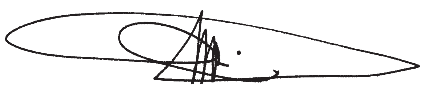
The only significant information omitted between the full version of our Corporate Plan and the present Summary is certain sensitive information concerning member institutions.

After a period of strong economic growth, a slowdown is being experienced in much of the world's economy and in Canada. The intensity and the duration of this slowdown remain uncertain. CDIC's exposure to risk has increased as a result, while the nature and scope of risk continue to change under the forces of globalization, the advance of information and communications technologies, and the evolution of competition itself.

In spite of these developments, CDIC and its member institutions continue to operate on a sound footing and premium rates are being reduced.

Our Corporate Plan and the business strategies it describes are designed to address the challenges of the planning period ahead with an overriding emphasis on being "Proactive and Prepared."

R.N. Robertson
Chairman



J.P. Sabourin
President and CEO

Part Two: Strategic Issues for the Planning Period

2.1 Planning Environment

Each year, CDIC conducts an environmental scan to identify the principal internal and external issues and risks that have a bearing on its future operations. The objective of this exercise is to ensure that issues identified as significant are incorporated into CDIC's strategic management process (see Appendix A) and are reflected in the Corporation's business strategy and plans (see Part Three). The following section provides a summary of the principal factors operating within CDIC's planning environment.

2.2 Economic Environment

The 21st century began weakly from an economic point of view. Economic growth in Canada and much of the rest of the world slowed significantly. This was exacerbated by the September 11, 2001 terrorist attacks on the United States and the ensuing global war on terrorism. Uncertainty has affected both investors and markets and is being felt generally within the financial services industry.

The performance of the Canadian, U.S. and global economies has a definite impact on the financial performance and condition of our member institutions and, in turn, on the degree of insurance risk assumed by CDIC.

2.2.1 Canadian Economy

The Canadian economy continued to experience growth during the first half of 2001, albeit at a substantially slower rate than in 2000. Growth in 2001 is now forecast to be close to 1.5 per cent due in large part to the downturn in the U.S. economy. However, economic growth in Canada continues to be supported by stimuli such as low interest rates, a low Canadian dollar relative to the U.S., buoyant exports, and tax reductions in Canada as well as south of the border.

Inflation in Canada, as measured by the Consumer Price Index, was reported to be under 4 percent in the spring of 2001 largely due to an escalation in energy prices. Although this was the highest level in ten years it is now seen to be declining. The rate of inflation is forecast to remain under control as energy prices ease. Since September 11, inflation has fallen to about 2 percent, where it is expected to remain. Canada's jobless rate is edging up, largely as a result of downsizing in the technology and transportation industries. However, overall consumer demand and home construction are still relatively stable, with only minor slippage at this time.

The Canadian dollar has recently fallen to all-time lows. It is now trading in the 62 to 64 cent range against the U.S. dollar. The dollar has performed well against most other world currencies and we have assumed for planning purposes that there will be no significant change in these relationships or in the value of the Canadian dollar.

Canadian interest rates are at a 40-year low. It is hoped that low interest rates, along with tax cuts in both Canada and the U.S., will mitigate the possibility of a prolonged recession. Economic growth in Canada is expected to remain weak during the beginning of 2002 and begin to strengthen toward the end of the year.

2.2.2 U.S. and World Economies

Uncertainty remains about U.S. economic growth in the short term. This represents a significant risk to the global economic outlook. However, inflation has remained under control in the United States. Productivity growth has slowed while labour costs are increasing to higher levels. The unemployment rate is rising and there are some estimates that over 1-million positions could be lost as a result of pre- and post- September 11 events. It is vital that the consumer sector remains strong.

Other economies in the world have slowed because of the dominant effect of the U.S. economy, because of indigenous problems and circumstances, and because of the threat of terrorism. Japan continues to experience protracted economic difficulty. Moreover, much of Asia and Latin America is feeling the effects of the U.S. slowdown due in large part to their reliance on U.S. trade. Argentina is in serious financial difficulty and is facing a crisis in investor confidence.

The risks for CDIC inherent in this economic environment include the potential effect on member institutions of a severe U.S. downturn, a prolonged decline in stock market valuations, emerging-market country default, and/or a decline in consumer confidence and spending. Although there is reason to believe that the slowdown in Canada may be less pronounced than in the United States, a long or severe downturn in the economy represents a risk to CDIC member institutions.

2.2.3 Globalization

Globalization continues to be a major factor in the evolution of financial markets and services. Financial institutions worldwide are consolidating and becoming larger and more complex. Conglomerates are being created across borders giving rise to cross-border issues. Financial crises are no longer merely domestic affairs. These developments are being facilitated by rapid innovation in information and communications technologies.

CDIC must continue to keep pace with these developments. Over the past few years, it has been actively involved in the Financial Stability Forum Working Group on Deposit Insurance and the establishment of international guidance. It is now participating in the formation of an association of international deposit insurers.

2.3 Investment, Consumer and Deposit Environment

The events of September 11 appear to have shaken but not soured consumer confidence. Economic forecasters assert that as long as consumer confidence persists, and this confidence is demonstrated by spending, stronger economic growth will return. The risk factor in these forecasts appears to be how consumer demand and business investment could be affected by a prolonged downturn in the stock markets or in the economy.

Economic reports indicate that Canadian consumer confidence is down, but still better than in the United States. Housing and durable goods are cited as sectors still experiencing strong consumer support.

Moderate growth in insured deposits is expected to continue. After rising 3.3 per cent during the CDIC premium year 1999/2000, and 3.8 per cent in premium year 2000/2001, insured deposits are forecast to annually grow in the 3 to 4 per cent range over the planning period.

2.4 Member Issues – Trends

CDIC's large member institutions continue to expand outside Canada. Their investment in North America is increasing through the creation of partnerships and strategic alliances focused largely on the financial and technology related sectors. Significant investments in technology are required to support this expansion. There is also a proliferation of new financial products and lines of business. Increased importance is being placed on non-intermediary income, such as trading, and there has been a notable shift toward new business associated with wealth management. Member institutions are also making inroads into the insurance business.

Smaller member institutions are focusing on niche markets to remain profitable. There are few remaining small, full-service institutions. The risk profile of some smaller institutions is increasing as a result of rapid asset growth, renewed interest in real estate development lending or an increased focus on capital management.

2.5 Member Institution Business Environment

For the most part, CDIC member institutions continue to report strong financial results. Nevertheless, there is pressure on all institutions to continue to report growth in earnings and returns for its shareholders. Competition for existing business has resulted in some member institutions seeking opportunities in non-deposit-taking businesses, some to look for profitable niches, and others to go “down market” to find larger spreads.

After September 11, capital markets experienced a drop in activity. Higher levels of activity have begun to return, although uncertainty remains. On a more positive note, immediate liquidity issues were dealt with and were not prolonged. It remains uncertain, however, whether future events related to terrorism could trigger further liquidity issues. A major concern is that uncertainty pervading markets globally will dampen confidence at all levels.

2.5.1 Credit Issues

Credit risk remains the largest single risk associated with the provision of financial services for most member institutions. There are still parts of certain industries (i.e., telecommunications, forestry, and transportation) and geographic areas (i.e., Argentina and Japan) that are experiencing or are forecast to experience economic difficulty resulting in significant credit risk.

As mentioned earlier, larger CDIC member institutions have become increasingly focused on North American activity. One implication of this shift is that U.S. related issues are becoming more important to some member institutions, and are ultimately becoming a more important component of the risk posed by those members.

Credit risk provisioning levels have been increased owing to a move by financial regulators and supervisors to raise general allowances. Member institutions are better positioned to absorb defaults in the event of a prolonged downturn. Credit risk mitigation practices (including credit derivatives, insurance, and asset backed securities securitization) are providing further stabilization to the industry. Nevertheless, some of these vehicles (for example, credit derivatives) have not been tested in a time of economic downturn.

2.5.2 New Products/Lines of Business

Many new lines of business are not associated primarily with intermediation,[1] since a current emphasis is on fees for investment advice, securitization arrangements, as well as syndication. In addition, an increasing number of member institutions derive earnings in the form of securities trading and investment. The volatility in Canadian and other international securities markets continues to be an important risk to manage for institutions relying on such earnings. A proliferation of new financial products has created the potential for confusion about deposit insurance coverage.

2.5.3 Technology

Changes in technology have affected how member institutions deliver their products as well as the products themselves. Some member institutions now outsource a significant portion of their technology support. While this approach may minimize costs, it also creates certain risks. These include possible risks to reputation in the event of major errors or systems failure, or the violation of privacy laws. Outsourcing may also result in increased complexities should intervention be required.

Customers continue to enjoy considerable variety in the means of access to their financial institutions. This variety includes telephone banking, Internet banking, automated teller machines, mobile banking, and credit, debit and smart cards. Some member institutions are entering into the field of multiple account aggregation. This permits a customer to combine information from different financial institutions into a single view on a computer screen, to facilitate the comparison of account features. There are also innovations in the electronic payments area.

It is essential for CDIC to keep pace in its understanding of these varied and complex technological changes because of its mandate to protect depositors in the event of institutional failure.

2.5.4 Competition

Member institutions are continuing to enter the insurance business. The reverse is also true with insurance companies making in-roads into financial services. This is creating another source of competition for traditional deposit-taking institutions. While CDIC members face new sources of competition from non-financial sectors, they also face competition from new niche players specializing

[1] Intermediation is the generating of interest income through the difference in interest rates at which a member institution borrows funds versus those rates at which it lends funds. This difference is also referred to as the "spread."

in Internet based and technologically oriented services. Global mergers continue, albeit at a slower pace in light of the current global economic slowdown. The search for appropriate partnerships and alliances continues as competitors look for ways to economize overhead and reduce costs in any way possible.

2.5.5 Regulatory, Supervisory and Accounting Issues

The regulatory and supervisory environment is undergoing extensive changes to reflect the adoption of risk management techniques for the identification, monitoring and mitigation of risk. These issues are strongly influenced by the 1988 Basel Capital Accord to which changes are currently being advanced. These changes will likely enhance regulatory and supervisory roles and responsibilities.

In Canada, as in the case of other G-10 supervisors, the Office of the Superintendent of Financial Institutions follows a consolidated approach to the supervision of member institutions. As large financial institutions move to a North American basis of operations, a significant proportion of their activities are conducted outside Canada. This situation, which is expected to become more pervasive, results in the need to rely on the work and conclusions of regulators and supervisors of other jurisdictions in coming to an overall conclusion concerning the soundness of the consolidated Canadian entity.

2.6 Legislative Environment

The proclamation of Bill C-8 (*An Act to establish the Financial Consumer Agency of Canada and to amend certain Acts in relation to financial institutions*) occurred in the fall of 2001.[2] This legislation enacts a number of initiatives that have implications for CDIC.

An amendment to Section 29 of the CDIC Act removes the requirement for regulators and supervisors conducting annual examinations of member institutions to provide CDIC with a determination whether the member institution's operations are being conducted in accordance with CDIC's *Standards of Sound Business and Financial Practices*. CDIC will now have to form its own opinion about its deposit insurance risk related to each member institution.

Bill C-8 also provides for regulated financial holding companies, new commercially linked financial institutions and for the establishment of closely-held small banks. These developments may affect the structure and nature of business conducted by member institutions, the overall risk of CDIC's membership, and the potential complexity of resolution should an institution get into difficulty. However, the new framework also provides regulators and supervisors with the tools needed to deal with these potential challenges.

[2] The legislation is also known as the *Financial Consumer Agency of Canada Act*.

The new legislation also establishes a Financial Consumer Agency of Canada (FCAC). The FCAC is an independent agency responsible for strengthening the oversight of consumer protection measures and for expanding consumer education activities in the federally regulated financial sector. The establishment of the FCAC has resulted in two new additions to CDIC's Board of Directors: the Commissioner of the FCAC and a new private sector director position.

2.7 CDIC Internal Environment

CDIC's environmental scan has identified internal issues to be managed during the planning period. A number of these issues flow from the fact that CDIC has a stable financial position. This is a result of having operated without a member failure since the mid-1990s, due in large part to the stability that comes from positive economic growth.

It is natural in periods of positive growth for questions to arise concerning the role of deposit insurance within the safety net. In considering these questions, it is important to recognize that there are currently 69 countries today with explicit deposit insurance systems. Many other countries are considering the establishment of similar schemes.

CDIC must continue to assess and consider how its statutory mandate is being achieved through its business strategy and plans. Internal issues for consideration include:

- Re-assessing its overall business strategy to ensure that CDIC is positioned and prepared for the challenges ahead, including the alignment of business plans with the business strategy, taking into account the management of risk and resource implications;
- establishing specific mileposts/targets related to each business strategy;
- assessing CDIC's organizational structure to meet its corporate needs;
- considering how best to provide input into public policy on deposit insurance issues; and
- deciding on the role that CDIC will continue to play internationally given the need for international coordination and cooperation among deposit insurers to help strengthen the stability of the financial system globally.

CDIC is taking steps to address these issues through its strategic management process, its governance practices, and enhanced risk management processes consistent with the requirements of its own *Standards of Sound Business and Financial Practices*.

2.8 Overall Conclusion

After a period of strong growth in the financial sector, the nature and scope of CDIC's risk is changing as the economic environment faces significant pressure. CDIC members are being challenged to remain current and competitive in an evolving environment, while CDIC is being challenged to remain abreast of economic, international and technological developments pertaining to the financial services industry.

CDIC may face increased risk in its membership should the U.S. economy face a prolonged recession, equity markets deteriorate more sharply, consumer confidence and demand weaken, or crises in emerging markets spread further.

The complexity of the environment affecting member institutions poses challenges to risk assessment. Risk must also be re-evaluated in light of recent global events arising from the anti-terrorism campaign and the resulting implications for the global economy.

As well as considerations surrounding the risk and security issues pertaining to technology, the recent terrorist attacks have heightened awareness of physical security, communications security and the need to reassess the Corporation's current Business Resumption Plan.

CDIC's corporate risk project, in conjunction with its knowledge management initiative, is progressing with an emphasis on applying practices and procedures developed in the past under a common framework, consistent with the *Standards of Sound Business and Financial Practices.*

CDIC's intellectual capital must be maintained through a rigorous approach to knowledge management supporting the acquisition, creation, organization, sharing and leveraging of information. Corporate memory is of vital importance in preparedness since many current CDIC staff and service providers who play a key role in our intervention strategies have not experienced a member failure or intervention situation.

The Business Strategies and Plans contained in our Corporate Plan are designed to address these developments and risks with an overriding emphasis on proactive readiness.

Part Three: Business Objectives, Strategies and Plans

3.1 Performance Against Past Objectives – Performance Management Scorecard – December 31, 2001

Last year's corporate plan identified four corporate objectives for CDIC. These were based on the Corporation's statutory mandate and on its assessment of the financial and economic environment at the time.

The four corporate objectives were:

- To ensure CDIC's financial stability and efficient operations
- To proactively manage the risks of providing deposit insurance
- To continually assess and enhance relationships with stakeholders
- To sustain a strong people and knowledge base

CDIC's performance to date compared with these objectives is summarized in the following Performance Management Scorecard, updated to December 31, 2001.

The Scorecard shows that all four corporate objectives are substantially being met.

Performance Management Scorecard 2001/2002

as at December 31, 2001

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Corporate Objective:

To ensure CDIC's financial stability and efficient operations

Key Supporting Initiatives:

- Apply effective performance measurement and management in all areas. ▼
- Develop economic and financial forecasts to proactively enhance the management of the Corporation's affairs. ▲
- Conduct Review of Provision for Insurance Losses and Deposit Insurance Fund. ▲
- Effectively manage the Corporation's treasury activities. ▲
- Provide effective, efficient and economical facilities management. ▲
- Develop MIDAS II Data Warehouse. ▲
- Redevelop or enhance existing systems (valuation model, payout system, Integrated Financial Information System). ▼
- Implement new technologies (Extranet technology, video/audio conferencing, and wireless technology). ▼
- Improve CDIC's Official Language performance. ▲
- Implement efficiently, professionally and in a timely fashion the Corporation's overall communications strategy. ▲
- Develop/Expand electronic filing. ▲

Measures	Targets
Financial performance against budget.	*Within ± 5% of operating and capital budgets.* ▲
Establishment of a provision and/or a surplus/fund based on an appropriate supporting methodology.	Appropriately supported provision and/or a surplus/fund methodology in place by March 31, 2002. ▼
Weaknesses arising from any audit and/or examinations are identified, resolved on or before the estimated completion date, and are not repeated.	Number of open audit conditions (target a number or percentage to time to complete). ▲

▲ On schedule for completion and within budget as per original plans.
▼ Experiencing some slippage in terms of time to completion and/or budget overruns.
● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.
⊘ Cancelled.
Note: Key financial information reported in blue italics.

Performance Management Scorecard 2001/2002

as at December 31, 2001

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Corporate Objective:

To proactively manage the risks of providing deposit insurance

Key Supporting Initiatives:

- Finalize the revision of CDIC Standards of Sound Business and Financial Practices to align more closely with current concepts of risk management. ▲
- Manage the risk posed by problem member institutions. ▲
- Implement and administer a program respecting Standards adherence. ▲
- Implement amendments to the policy of deposit insurance. ▲
- Maintain the CDIC application for deposit insurance and the CDIC exemption from deposit insurance by-laws and administer the related processes. ▲
- Develop, implement and maintain leading edge and user-friendly risk assessment and risk management tools. ▲
- Maintain the CDIC Deposit Information By-law and administer the related insured deposit register clearance process. ▲
- Conduct innovative policy analysis, research and policy development. ▲
- Foster public awareness and understanding of deposit insurance, and CDIC's role. ▲
- Develop payout communication plan. ▲
- Develop capacity to assess on a timely basis the risk to CDIC posed by member institutions. ▲

Measures	Targets
CDIC's Standards of Sound Business and Financial Practices will be current and relevant.	Complete modernization of the Standards and administrative processes, and establish a sound system to keep them current and relevant. ▲
Uniform guidance is developed and disseminated to member institutions and the public regarding deposit register, recent CDIC developments, legislative changes, etc.	Guidance developed and disseminated to all members and the public. ▲
Capability and capacity to assess risk in the membership.	Development and implementation of a risk assessment system and associated processes. ▲
Level of preparedness to deal with the failure of any size member.	Plans in place to deal with any size and type of member institution failure. ▼

▲ On schedule for completion and within budget as per original plans.
▼ Experiencing some slippage in terms of time to completion and/or budget overruns.
● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.
⊘ Cancelled.
Note: Key financial information reported in blue italics.

Performance Management Scorecard 2001/2002
as at December 31, 2001

For the Benefit of Depositors:

Provide Deposit Insurance | Promote Standards | Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Corporate Objective:
To continually assess and enhance relationships with stakeholders

Key Supporting Initiatives:

- Maintain, in cooperation with the Office of the Superintendent of Financial Institutions the CDIC/OSFI Strategic Alliance Agreement. ▲
- Develop and maintain close liaison and cooperation with member institutions, the Bank of Canada, Department of Finance, OSFI, provincial regulators, industry associations and international organizations. ▲
- Continue to expand CDIC's international contacts to share information globally on deposit insurance issues. ▲
- Enhance the credibility of the Corporation via speaking engagements and participation at external functions. ▲
- Continue work with the Financial Stability Forum as well as providing assistance to other governments, deposit insurers and international organizations, including regular participation in conferences and seminars. ▲

Measures	Targets
Level of depositor awareness.	Year-over-year increases in awareness levels leading to a level of at least 70% after five years (i.e. 2005/2006). ▲
CDIC's level of compliance with authorities (including appropriately addressing all audit and Special Examination recommendations).	100% compliance by the Corporation. ▲

▲ On schedule for completion and within budget as per original plans.
▼ Experiencing some slippage in terms of time to completion and/or budget overruns.
● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.
⃠ Cancelled.
Note: Key financial information reported in blue italics.

Performance Management Scorecard 2001/2002

as at December 31, 2001

For the Benefit of Depositors:

Provide Deposit Insurance | Promote Standards | Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Corporate Objective:

To sustain a strong people and knowledge base

Key Supporting Initiatives:

- Provide training programs covering individual training, corporate training and statutory official languages training. ▲
- Continue international work with other deposit insurers to exchange knowledge. ▲
- Implement Library Information Management System. ●
- Implement communications activities to support teamwork and open communication. ▲
- Implement next generation of PC Payout system. ▼
- Maintain technology required to make deposit insurance payments (ROADMAP—software designed to facilitate the payout process). ▲
- Conduct International Claims and Recoveries course and presentations. ▲
- Implement Electronic Document Management. ▲
- Corporate Knowledge Management project. ▲
- Contingency Planning initiative. ▲

Measures	Targets
Ability to retain employees with appropriate skills, qualifications and experience through effective recruiting, compensation, succession planning, training and offer of challenging workplace.	*Levels of resources applied to training and development initiatives on an annual basis — $300,000 or 1.4% of total operating expenses.* ▲
Knowledge Management and Transfer and Learning and Growth – time, financial resources and encouragement should be committed to staff to develop skills required to improve their performance, both on-the-job and through formal training. Knowledge Communication – ability to present, as appropriate, experience and lessons learned to interested stakeholders.	CDIC explicit knowledge and information is current and readily available for access through an Electronic Document Management System. ▲

▲ On schedule for completion and within budget as per original plans.
▼ Experiencing some slippage in terms of time to completion and/or budget overruns.
● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.
⃠ Cancelled.
Note: Key financial information reported in blue italics.

3.2 Strategic Direction: Business Objectives for the Planning Period

CDIC's statutory objects have remained largely unchanged during the past ten years. These statutory objects were reviewed and validated by the Board of Directors in 1996 and again in 2001.

These statutory objects are the basis upon which all strategic planning must take place. For this reason, and consistent with CDIC's Strategic Management Process Model, CDIC's statutory objects constitute the Corporation's Business Objectives for the planning period:

For the benefit of depositors...

- Provide deposit insurance
- Promote standards of sound business and financial practices
- Promote and contribute to the stability of the financial system

...while minimizing the exposure to loss.

CDIC's Statutory Objects

Section 7 of the CDIC Act states:

The objects of the Corporation are:

(a) to provide insurance against the loss of part or all of deposits;

(b) to be instrumental in the promotion of standards of sound business and financial practices for member institutions and to promote and otherwise contribute to the stability of the financial system in Canada; and

(c) to pursue the objects set out in paragraphs (a) and (b) for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss.

3.3 Business Strategies

The Corporation has identified four long-term business strategies to achieve the above-mentioned business objectives. These strategies, in their order of priority, are as follows:

- Proactive Readiness
- Investing in Technology to Leverage Information
- Following Sound Business and Financial Practices
- Public Awareness and Education

There are linkages among these strategies. For example, investing in technology and leveraging information contributes directly to proactive readiness. Furthermore, following sound business and financial practices provides a foundation for appropriate and effective operations that support everything the Corporation does.

Details pertaining to each of these strategies are summarized in the following sections. Related business plans and other initiatives developed in support of the four strategies are also discussed. It is important to recognize that these four business strategies do not constitute a new departure in the Corporation's priorities. Instead, they represent a re-focusing of current work and initiatives in light of CDIC's environmental scan and its assessment of present and future challenges. Since the four strategies are corporate in nature, a significant challenge will be the coordination of supporting initiatives and resources across the entire Corporation. A corporate, rather than divisional or departmental focus must be taken in this endeavour.

3.3.1 Proactive Readiness

The nature of CDIC's business — to be a deposit insurer, with clear obligations as specified in its objects — requires the Corporation to maintain an appropriate state of readiness at all times. The results of CDIC's environmental scan reinforce a need for heightened readiness to assess the risks that members may pose in light of the current economic downturn. Proactive Readiness is the key strategy around which our Corporate Plan is based, and hence its theme: "Proactive and Prepared."

CDIC last dealt with the failure of a member institution in 1996. As a consequence, the Corporation has not had to manage the significant changes that have occurred recently in the financial services sector within the context of a failure. These changes include rapid advances in new technology, new products and structures, increased cross-border activities and the concomitant development of depositor expectations and awareness. For example, CDIC has not yet had to pay out depositors of a failed institution with an extensive ATM system, let alone an Internet-based institution.

Total Preparedness = Effective risk assessment + the ability to effectively intervene and/or payout as required

The recent coming into force of the *Financial Consumer Agency of Canada Act* has added a significant number of new issues and risks for CDIC to address, and has also affected the system by which CDIC assesses its risk of loss. Some of the changes affecting CDIC's methodologies include the formation of bank holding companies and the Corporation's relations with financial supervisory examiners.

In order to continue to meet its statutory mandate, CDIC will pursue a strategy to proactively prepare for dealing with potential failures. The foundation of CDIC's proactive readiness strategy lies in a series of integrated activities:

1. Enhanced risk assessment:

   - Completing the assessment and ongoing monitoring of all members and the membership as a whole;
   - Integrating emerging issues and economic trends into the assessment process and continuing this work on an ongoing basis; and
   - Developing a process to link risk assessment to risk management action plans.

2. Ensuring operational readiness through:

    - Contingency planning and the development of action plans;
    - Testing CDIC's readiness by in-house simulations as well as simulations and exercises coordinated with financial supervisors and involving key participants;
    - Maintaining core competencies and current expertise;
    - Continually assessing service providers and arrangements with service providers;
    - Following sound business and financial practices; and
    - Continually enhancing relationships with other financial safety net players.

3. Upgrading tools and enhancing capacity:

    - Perform gap analysis based on the outcome of the above-mentioned simulations to determine if existing policies, processes and tools adequately address the Corporation's risks and that sufficient capacity is available to deal with these risks when needed;
    - Continue with payout re-engineering efforts, and re-develop the delivery system for making payments; and
    - Upgrade the valuation model and maintain current failure resolution methods.

The use of staged levels of simulations and analysis of the results will help CDIC to determine whether all relevant risks and issues have been identified. Simulations will indicate where improvements to existing processes and tools are needed, and whether the Corporation's action plans mitigate those risks. CDIC will share readiness plans with other financial safety net participants.

The successful execution of this strategy will be evidenced by:

- Staged simulations that achieve effective, coordinated actions and upgrades to processes and tools to produce the intended result;
- Plans are validated through discussion with financial safety net participants and service providers indicating that relevant issues have been identified and appropriate contingency plans are being developed;
- Ongoing risk assessments of all members and the membership as a whole are being implemented; and
- Ultimately, an intervention, if warranted, is conducted efficiently and effectively.

3.3.2 Investing in Technology to Leverage Information

Technology is a major component of each of our business strategies. CDIC requires a technology infrastructure to facilitate the delivery, receipt and assessment of information internally and externally using Web-based technology.

This investment in technology infrastructure will assist CDIC by:

- Providing relevant, timely and authoritative information to depositors to allow them to make informed choices;
- Facilitating receipt and assessment of internal and external information to permit proactive risk assessment and to minimize CDIC's exposure to loss;
- Facilitating the secure delivery and receipt of information under CDIC's by-laws (e.g. Differential Premiums, Standards, Return of Insured Deposits, Deposit Insurance Information); and
- Meeting the objects of contributing to the stability of the financial system, minimizing exposure to loss, and promoting Standards by providing information to members.

CDIC's ability to intervene in problem situations requires advanced familiarity with the technology in place at all member institutions. Furthermore, combining delivery and receipt channels by investing in Web-based technology will enable CDIC to provide and receive information more efficiently, and will allow it to package information in a way that better serves the needs of its stakeholders.

The strategic implementation plan in support of this business strategy comprises the following:

1. Expanding the technology infrastructure in accordance with CDIC's Information Systems Strategic Plan;

2. Enhancing depositor information by re-designing CDIC's Web page and researching other products and information for inclusion on the Web page;

3. Enhancing risk assessment by:

   - Consulting with the membership to identify information that would be of benefit to them;
   - Enhancing CDIC's data warehouse to facilitate access to multiple sources of information;
   - Developing graphic software to aid in trend analysis; and
   - Producing quarterly aggregate member information, peer group information, and producing information relative to individual member institutions.

4. Facilitating the flow of member information by consulting with the membership and commencing the development of selected information, as well as Web-based e-filing solutions for the Return of Insured Deposits and the Differential Premiums By-law reporting form; and

5. Developing the ability to communicate via the Internet with the Office of the Supervisor of Financial Institutions (OSFI) and other supervisors and other stakeholders on a confidential basis using secure technology.

The successful execution of this Strategy will ensure that:

- A solid technology infrastructure is in place that supports the production of information that is accurate, relevant and timely;
- CDIC has a flexible and secure method to provide and receive relevant information to and from member institutions;
- CDIC is able to conduct risk assessment with multidimensional and other analytical tools using data warehouse and information portal technologies; and
- CDIC is able to communicate on a confidential basis with OSFI and other supervisors, and other stakeholders using secure technology.

3.3.3 Following Sound Business and Financial Practices

CDIC's statutory mandate includes the promotion of standards of sound business and financial practices among its member institutions. It follows that the Corporation itself should be in full compliance with these standards where applicable.

Implementing this strategy will involve an approach organized as follows:

1. Gap analysis:

   - Conducting a gap analysis to identify where processes, policies, procedures and controls may be deficient.

2. Education and training:

   - Develop and implement programs to assist staff in determining that their areas of responsibility are "in control".

3. Risk Management Project:

   - Completing the current corporate risk identification and evaluation project; and
   - Establish a risk management function within CDIC with senior accountability.

4. Implementation and Reporting:

   - Using the results of the foregoing activities, establish ongoing proactive processes to ensure control within CDIC, with appropriate reporting thereon to both Management and the Board; and
   - Establish appropriate accountability throughout the organization for following sound business and financial practices.

This strategy will have been achieved when CDIC can demonstrate that it is being managed in accordance with ongoing, appropriate and effective management processes.

3.3.4 Public Awareness and Education

A public awareness and education program is currently underway to increase the knowledge of depositors concerning the benefits and limitations of the federal deposit insurance system. This program assists CDIC in fulfilling its statutory mandate of protecting depositors and contributing to the stability of the Canadian financial system.

This public awareness campaign will be continually updated to reflect current developments in the financial services sector.

During the current and remaining years of the planning period, activities will focus on consumer education and awareness by means of advertising, ongoing media relations, stakeholder and member relations and partnerships. For example, CDIC plans to become increasingly involved in activities at the local community level, and within the financial services sector, by means of speeches, seminars and participation in certain trade shows. CDIC management will also continue to pursue alliances and partnerships with member institutions and stakeholders. Recent examples of this are cost-sharing arrangements with the Quebec Deposit Insurance Board for advertising in the province of Quebec, as well as an understanding with the Federation of Canadian Independent Deposit Brokers to distribute deposit insurance information to clients.

In addition, work will proceed on a review of the existing *Deposit Insurance Information By-law*, re-designing and updating the CDIC Internet site and developing a consistent corporate design standard. Consideration is being given to a wider dissemination to institutional members and the general public of information and data routinely generated by the Corporation.

The more significant aspects of the communication strategy include:

- Advertising — creation of appropriate advertisements and media purchasing.
- Member relations — amend the *Deposit Insurance Information By-law*.
- Enhance relevancy to stakeholders — outreach activities; create a CDIC speaker's bureau; liaison with schools; involvement in public policy and thought forums.
- Increase media relations — develop a media outreach plan; media briefings and releases re survey results; increase visibility through public forums.
- Public relations — revamp CDIC Internet site; outreach plan for new Canadians; consider external distribution of CDIC research and emerging issues papers.
- Internal communications — revamp CDIC Intranet site; joint efforts with Human Resources.
- Corporate Identity — all CDIC products to show a single unified image; establish and implement corporate design standards.
- Issues management — maintain up-to-date communications plans.

A number of measures and targets have been established to monitor CDIC's efforts in its public awareness and education strategy. For example: to move awareness of deposit insurance and CDIC from the current 60% in 2002/2003 to a target of 70% after 5 years.

3.4 Business Plans and Supporting Initiatives – Performance Management Scorecard – 2002/2003 to 2006/2007

Appropriate business plans and supporting initiatives describing in detail how particular operations are to be conducted in implementing each business strategy have been developed on a corporate-wide basis. The supporting initiatives reside in the work plans of a number of departments and are by their nature cross-divisional. These plans and initiatives are reflected in the Performance Management Scorecard for the planning period that is presented below. Supporting resource budgets are presented in Part Six of this Plan.

CDIC Performance Management Scorecard 2002/2003 to 2006/2007

Business Objectives (CDIC's Statutory Objects)

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Business Strategies

Proactive Readiness

Business Plans

Key Supporting Initiatives

- Maintain close liaison, cooperation and information sharing with member institutions, the Bank of Canada, Department of Finance, OSFI, provincial regulators, industry associations and international organizations.
- Maintain, in cooperation with the Office of the Superintendent of Financial Institutions the CDIC/OSFI Strategic Alliance Agreement.
- Maintain professional advisory/supplier network, together with practices for strengthening CDIC's virtual organization approaches:
  - Identify and assess capabilities of service providers; and
  - Prepare and execute standby arrangements for critical service provider functions in payouts — personnel, data conversion, data services, call center and fulfillment house.
- Develop a "template" Internet site for use in intervention activities.
- Enhancing relationships with member institutions/expanding member obligations with respect to Standards compliance.
- Conduct innovative economic and financial forecasts to proactively enhance the management of the Corporation's affairs.
- Further develop asset recovery initiatives/principles: Triage; maximization of NPV recoveries; cost-benefit approaches, etc.
- Enhance Business Resumption Planning.
- Maintain technology required to make deposit insurance payments, including implementation of next generation of PC Payout system:
  - Scope and develop prototype (2002/2003);
  - Develop production version and build infrastructure for its operation (2003/2004); and
  - Expose key elements of CDIC's payout procedures to an international environment.
- Develop operational payout communication plan.
- Contingency planning initiative:
  - Update plans for multiple/simultaneous, large/complex, new forms of institution failures;
  - Compile detailed operational processes for these;
  - Crossborder/Intervention preparedness;
  - Review approaches for intervention, rehabilitation, twin track approach, payout, failure resolution and liquidation;
  - Review special examination and failure resolution methodologies;
  - Payout and creditor management readiness; and
  - Financial Contingency Planning.
  - Examine need for legislative amendments.
- Maintain capacity to assess on a timely basis the risk to CDIC posed by member institutions through development, implementation and maintenance of internationally leading edge and user-friendly risk assessment and risk management tools.
- Develop MIDAS II data warehouse of member information.
- Research FIRP and other intervention-related issues.
- Establish processes/opportunities for the continuous exchange of information internally and with external parties critical to CDIC's success — leveraging of knowledge and best practices (information clearing house/emerging issues/leadership role in promoting new approaches and ideas) (Knowledge Management).
- Provide assistance to other countries and support the creation of an international association of deposit insurers.

Measures	Targets
Level of preparedness to deal with the failure of any size of member institution.	Plans in place to deal with any size and type of member institution failure. Plans have been validated through discussion with, and evaluation by, safety net participants, member institutions and service providers indicating that relevant issues have been identified and appropriate contingency plans have been developed.
Implementation of ongoing risk assessment of all members and the membership as a whole.	Full implementation.
Percentage of member institutions for which risk is being assessed.	Total of membership.
Conduct of successful payout simulations involving key service providers.	Staged payout simulations achieve effective, coordinated actions to produce intended results.
An adequate Provision for Insurance Losses.	*Provision supported by appropriate current methodology — validated by external experts.*
CDIC's ability to retain employees with appropriate skills, qualifications and experience to match current job requirements. Retention being managed through effective recruiting, compensation, succession planning, training and offer of challenging workplace.	Maintain the level of resources applied to training and development initiatives on an annual basis — within a benchmark range of 1.5% to 2.0% of total operating budget. Employee retention factor of 95% annually.

CDIC Performance Management Scorecard 2002/2003 to 2006/2007

Business Objectives (CDIC's Statutory Objects)

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Business Strategies

Investing in Technology to Leverage Information

Business Plans

Key Supporting Initiatives	Measures	Targets
Enhance network infrastructure in accordance with I.S. Strategic Plan. Develop/Expand electronic filing. Implement secure Web component development and Web-based technologies. Implement Electronic Document Management. Implement Library Information Management System. Redevelop or enhance existing systems (valuation model, payout system, Integrated Financial Information System). Implement new technologies (Extranet technology, video/audio conferencing, and wireless technology). Develop MIDAS II Data Warehouse of member information. Develop automated risk assessment and management tools. Integrate 1-800 call management system with PC Payout system. Further the Corporate Knowledge Management project. Provide training programs covering individual and corporate IT training.	Annual review of I.S. Strategic Plan.	All I.S. infrastructure initiatives can be directly related to I.S. strategic directional statements.
	Knowledge Management and Transfer and Learning and Growth — sufficient time, financial resources and encouragement should be committed to staff to develop skills required to improve their performance technically and managerially, both on-the-job and through formal training.	Level of resources applied to training and development initiatives on an annual basis — within a benchmark range of 1.5% to 2% of total operating expenses.
	Knowledge Communication — ability to present, as appropriate, experience and lessons learned.	CDIC explicit knowledge and information is current and readily available for access through an Electronic Document Management System.
	A solid technology infrastructure is in place that is flexible and secure; supports the production of information that is accurate, relevant and timely; and respects privacy and confidentiality.	All initiatives identified in the annual operational plans are linked to one or more of the six directional statements in the I.S. Strategy — elimination of all gaps identified in the "current vs. target" environment.
	Ability to share information on the Web.	Depositors have information available on the Web necessary to make informed choices. CDIC has flexible and secure method to provide and receive relevant information to and form member institutions.
	Modify the data structure to integrate all related financial information (i.e. balance sheet, income statement) to facilitate access for analysis.	Completion of data structure modification by March 31, 2003.
	Develop ability to publish (internally) reports that can be viewed and explored by CDIC executive management in a Web-based environment.	Capacity to publish reports in a Web-based environment by December 31, 2002.
	Use of sophisticated graphing software with the ability to produce multidimensional graphs to aid in analysis, presentation and reporting.	Implementation of graphing software by December 31, 2002.
	Ability to access multiple information sources (per the risk assessment framework) and apply a variety of analytical tools to any institution or portfolio of institutions using a risk manager-specific, secure electronic portal.	Implementation of electronic portal by March 31, 2003.
	Use of electronic portal to automatically generate Risk Assessment Profiles from data drawn from the electronic working areas upon input by risk managers.	Implementation of electronic portal by March 31, 2003.
	Ability to communicate on a confidential basis with OSFI and other supervisors, the Bank of Canada and the Department of Finance using secure technology.	100% usage of PKI technology for secure communication (receipt and delivery) of all information classified up to Protected B.

CDIC Performance Management Scorecard 2002/2003 to 2006/2007

Business Objectives (CDIC's Statutory Objects)

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Business Strategies

➲ Follow Sound Business and Financial Practices ➲

Business Plans

Key Supporting Initiatives	Measures	Targets
□ Implement and administer a program respecting standards adherence. □ Research current best practices in all areas. □ Implement a regular self-assessment process. □ Capture and report on progress re following sound business and financial practices — incorporate reporting into performance management scorecard. □ Apply effective performance measurement and management in all areas. □ Provide effective, efficient and economical facilities management. □ Continue the Corporate Risk Management Project. □ Maintain processes to ensure currency and relevancy of key Corporate by-laws and policies. □ Implement new technologies. □ Conduct innovative policy analysis, research, financial and economic forecasting, and policy development to advance the views and interests of CDIC. □ Further the Corporate Knowledge Management project.	□ Overall performance against planned initiatives.	□ All projects on schedule and within budget as per original plans.
	□ Number of exceptions arising from annual self-assessment reporting.	□ No significant exceptions.
	□ *Performance against budget.*	□ *Within ±5% of budget in operating expenditure and capital expenditure budgets.*

CDIC Performance Management Scorecard 2002/2003 to 2006/2007

Business Objectives (CDIC's Statutory Objects)

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Contribute to the Stability of the Financial System

…while minimizing the exposure to loss.

Business Strategies

Enhancing Public Awareness and Education

Business Plans

Key Supporting Initiatives	Measures	Targets
Foster public awareness and understanding of deposit insurance, and CDIC's role through: -Advertising -Increased media relations -Heightened corporate identity and awareness -Issues management processes -Enhancing the credibility of the Corporation via speaking engagements and participation at external functions. Maintain the CDIC deposit information by-law and administer the related insured deposit register clearance process. Maintain close liaison and cooperation with member institutions, the Bank of Canada, Department of Finance, OSFI, provincial regulators, industry associations and international organizations. Continue to expand CDIC's international contacts and work with other deposit insurers, the Financial Stability Forum and international organizations, as well as provide assistance to other governments, and deposit insurers, including regular participation in conferences and seminars to share information globally on deposit insurance issues. Familiarize interested international deposit insurers with operation of ROADMAP—software designed to facilitate the payout process. Conduct International Claims and Recoveries courses and presentations. Implement efficiently, professionally and in a timely fashion the Corporation's overall communications objectives. Enhance internal communications — implement communications activities to support teamwork and open communications.	Uniform guidance is developed and disseminated to member institutions and the public regarding deposit register, CDIC information to the public, recent CDIC developments, legislative changes, etc.	Guidance developed and disseminated to all members and the public.
	Level of awareness of deposit insurance and CDIC.	Increases in awareness levels as set yearly. Move from current level of 54% to 59% by 2003.
	Level of awareness of $60k limit.	Increase in awareness levels as set yearly. Increase from current level of 27% to 30% by 2003.

Part Four: Financial and Resource Plans

The five-year financial Plan is based on the planning premises and economic assumptions outlined in Appendix C.

4.1 Financial Performance – 2000/2001 and 2001/2002

This subsection provides an overview of CDIC's actual performance against its Plan for the fiscal years ending March 31, 2001 and 2002.

4.1.1 Performance Against Plan – Financial Highlights

Our five-year *pro forma* financial statements are included in Appendix E. The following table highlights CDIC's performance in selected key areas for 2000/2001 and 2001/2002.

Key Financial Highlights
For the years ending March 31
($ millions)

	2001 Approved Budget and Plan	2001 Actual	2002 Approved Budget and Plan	2002 Forecast
Premium revenue	135	140	143	155
Interest on Cash and Investments	27	35	45	32
Operating Expenses	20	21	22**	22
Loans Receivable	41	22	8	0
Claims Receivable	56	38	9	22
Allowance for Loss	26	6	13	6
Provision for Guarantees	35	43	20	23
Provision for Insurance Losses	400	400	400	400
Net Operating Income*	9	35	23	10
Surplus	326	455	532	583

* Interest income and other revenue less operating expenses.

** The amount approved in the Corporate Plan 2001/2002 to 2005/2006 was $21 million. An additional $0.5 million in expenditures was approved by the Board for reassessment of the provisioning methodology for insurance losses.

2000/2001 Actual to Plan

Premium revenue was $5 million higher than Plan. This variance resulted from a higher than forecast insured deposit base (forecast $325 billion, actual $327 billion).

Net operating income was $26 million higher than Plan, resulting from the receipt of $20 million of post-liquidation interest from the estate of Confederation Trust Corporation[3] and an increase in interest income due to a combination of higher cash balances and higher yields on investments than anticipated.

As at March 31, 2001, loans receivable were lower than Plan by $19 million. The variance was primarily a result of accelerated payments received from Adelaide Capital Corporation (ACC) in fiscal year 1999/2000 that resulted in an $11 million reduction in the opening balance in loans receivable. The remaining $8 million relates to a loan balance write-off for Settlers Savings and Mortgage Corporation, a member institution that failed in 1990.

The balance of claims receivable was $18 million lower than Plan, resulting from recoveries from several estates being received earlier than anticipated, partially offset by delays in recoveries from other estates.

The allowance for loss on loans and claims receivable was $20 million lower than Plan. This reduction resulted from the write-off of amounts receivable from various estates, the most significant being $8 million from Settlers Savings and Mortgage Corporation and $8 million from Dominion Trust Company.

The provision for guarantees was $8 million higher than Plan due to the timing differences on payments under the Toronto-Dominion Bank deficiency coverage agreements combined with a reduction in the related allowance.

2001/2002 Forecast to Approved Plan

Premium revenue is forecast to be $12 million higher than Plan, resulting from a 0.4 percent increase in the insured deposit base (forecast $338 billion, actual $339.5 billion) and due to the movement of members' ratings between premium categories.

The loans receivable balance is projected to be $8 million lower than the approved Plan because a loan balance write-off for Settlers Savings and Mortgage Corporation resulted in an $8 million decrease in the opening balance in loans receivable.

The claims receivable is projected to be $13 million higher than Plan. This is primarily due to expected recoveries from various estates being delayed to future periods.

[3] This post-liquidation interest was not recorded in the original Financial Plan for 2000/2001 (as drafted in 1999/2000) due to the uncertainty of ultimate collection at that time.

The allowance for losses on loans and claims receivable is projected to be $7 million lower than Plan. This is mainly due to an $8 million loan balance write-off for Settlers Savings and Mortgage Corporation.

The provision for guarantees is forecast to be $3 million higher than Plan due to timing differences on payments required under the Toronto-Dominion Bank deficiency coverage agreements.

The provision for insurance losses of $400 million is forecast to remain unchanged. However, CDIC is currently reviewing its provisioning methodology for insurance losses and considering the merits of establishing a deposit insurance fund — the results of this work may affect the level of the provision for insurance losses during the planning period.

Net operating income is projected to be $10 million, against a Plan amount of $23 million. The variance results primarily from lower yields on investments due to interest rate reductions.

The accumulated surplus is projected to be $51 million higher than Plan.

4.1.2 Performance Against Plan – Operating and Capital Budgets

The following table provides an overview of the budgets for 2000/2001 and 2001/2002. An explanation of the major variances follows.

Analysis of Operating and Capital Budgets
For the years ending March 31
($ millions)

	2001 Approved Plan	2001 Actual	2002 Approved Plan*	2002 Forecast
Interest income and other revenue	29	56	45	32
Operating expenses	(20)	(21)	(22)	(22)
Net operating income	9	35	23	10
Capital expenditures	0.6	0.6	0.6	0.6

* These figures refer to the 2001/2002 Plan as approved by the Board on January 31, 2001 and increases subsequently approved for enhancing the methodology for CDIC's provision for insurance losses.

2000/2001 Actual to Plan

Interest income and other revenue
Interest income and other revenue were $27 million higher than plan. This positive variance was the result of an $8 million increase in interest on cash and investments due to a combination of better yields than anticipated and higher cash balances than budgeted and a positive variance of $19 million in other revenue primarily the result of the receipt of post-liquidation interest from the estate of Confederation Trust Corporation.

Operating expenses
Actual operating expenses totalled $20.8 million compared to the budget of $20.3 million.

Capital expenditures
Actual capital expenditures were virtually the same as those budgeted.

2001/2002 Forecast Against Plan

Interest income and other revenue
Interest income and other revenue are projected to be $13 million lower than plan due mainly to lower than forecast yields on investments.

Operating expenses
Operating expenses are projected to total $22.5 million compared with the approved budget of $21.9 million. The variance results mainly from higher consulting and legal fees.

To manage operating budgets, managers prioritize activities. Costs for unplanned activities are, when possible, absorbed within the existing Plan. Management seeks the Board of Directors' approval before undertaking new activities that require additional resources. During the year, the Board of Directors authorized additional expenditures to enhance the methodology for CDIC's provision for insurance losses.

Capital expenditures
Upgrades to CDIC's information systems are underway in the current fiscal year. CDIC's annual upgrading or replacement of personal computers and network equipment will continue according to a life-cycle plan as outlined in CDIC's five-year Information Technology Strategy.

Capital expenditures for 2001/2002 are expected to be $575,000, as budgeted.

4.2 Five-Year Financial Plan (Appendix E)

The Corporation forecasts premium revenue of $80 million for its fiscal year ending March 31, 2003.

The premium revenue for the fiscal years 2002/2003 to 2006/2007 is based on a fifty percent reduction in the premium rates used in 2001/2002 for all four premium categories. For planning purposes, the distribution of member institutions ratings across premium categories is assumed to be the same as in the year ending March 31, 2002, and the growth of insured deposits is in accordance with the economic assumptions in Appendix C of this document. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment and the membership risk profile. Accordingly, the actual premium revenue for the years ending March 31, 2004 to 2007 may vary materially from the figures included in this Plan.

Over the five-year planning period, premium revenue is expected to total $427 million and interest income on investments is forecast to total $141 million. Operating expenses are budgeted at $120 million. The Corporation is subject to federal income tax and is required to pay income taxes on its taxable income. CDIC has tax losses that can be carried forward to reduce future years' earnings for tax purposes.

CDIC has sufficient funds available to meet payments under guarantee obligations due in fiscal 2002/2003.

The adequacy of provisions for losses is assessed on an annual basis, and, if necessary, adjustments are recorded. For financial planning purposes, no failures are projected during the planning period. In the event of a failure, CDIC's provisions and surplus may be affected adversely.

The budgets reflect that the net realizable value of all outstanding claims and loans receivable, which was $54 million at March 31, 2001, will be eliminated within the planning period. It is forecast that $38 million will be recovered against outstanding claims and loans during the fiscal year ending March 31, 2002. An additional $13 million of claims receivable is forecast to be recovered during the planning period. It is forecast that the remaining balance of $2.5 million will be written off during the planning period.

The guarantee liability for the Toronto-Dominion Bank under the Deficiency Coverage Agreement, forecast at $23 million as at March 31, 2002, is expected to be substantially retired by the year ending March 31, 2003.

An accumulated surplus of $654 million is forecast as at March 31, 2003, and is expected to grow to $1,037 million as at March 31, 2007,[4] consistent with the planning premises in Appendix C.

CDIC does not receive government appropriations to fund its operations. All of its funding needs are covered by premiums assessed against member institutions and revenues generated from its investment activities. No borrowings or borrowing costs are projected over the planning period.

4.3 Operating Budget – 2002/2003

The 2002/2003 operating budget (Pro Forma Statement of Income and Surplus on page 65) reflects $24 million in interest on cash and investments and $24 million in operating expenditures.

Operating expenses for 2002/2003 are budgeted to be approximately $2 million higher than budgeted for 2001/2002. This increase results from increases in salaries and other personnel costs for existing employees, costs associated with two additional permanent positions, amortization of leasehold improvements and a variety of small increases associated with the timely implementation of the business plans in support of the strategies described in Part 3.

4.4 Capital Budget – 2002/2003

The budget for capital expenditures in 2002/2003 is $850,000.

The capital budget is summarized as follows:

Analysis of Capital Plans
For the years ending March 31
($ thousands)

	2001 Actual	2002 Plan*	2002 Forecast	2003 Plan
Furniture and Equipment	84	75	75	150
Computer Hardware	555	500	500	700
Total	639	575	575	850

* These figures refer to the 2001/2002 Plan as approved by the Board on January 31, 2001.

[4] CDIC is currently conducting a review of its provisioning methodology for insurance losses and considering the merits of establishing a deposit insurance fund. The decisions arising from this work may materially impact future surplus levels.

Upgrades to CDIC's information systems will continue in 2002/2003 in accordance with a life-cycle plan as outlined in CDIC's Information Systems Strategic Plan. Additional equipment will be purchased in support of the business strategies of proactive readiness and leveraging information through investment in technology as described in Part 3.

4.5 Borrowing Plan

4.5.1 Debt Management

At December 31, 2001, CDIC had no debt outstanding and does not anticipate any new borrowing activity over the planning period. CDIC's remaining obligations are in respect of on-going guarantees under deficiency coverage arrangements, which expire in 2002/2003 and for which CDIC has adequate cash resources.

Under its treasury policies, the Corporation's financings are to be matched within certain parameters to cash and maturing short-term investments, anticipated premium revenues and recoveries of loans and claims. The Risk Management Unit (RMU) is responsible for identifying, measuring, monitoring and reporting financial risk exposure to the Chief Financial Officer in a manner consistent with Board-approved treasury policies. The RMU meets throughout the year to ensure that its responsibilities are carried out.

4.5.2 Borrowing Plan

Pursuant to Section 10.1 (1) of the CDIC Act, at the Corporation's request, the Minister can make loans to CDIC from the Consolidated Revenue Fund (CRF) on such terms and conditions that the Minister may establish. The CDIC Act also provides that CDIC can borrow by means other than the CRF. Total principal indebtedness from all sources is not to exceed $6 billion. The Act also allows the Minister to charge CDIC a credit enhancement fee in respect of any borrowings.

CDIC has the ability to borrow funds, if required, by issuing commercial paper and/or medium-term notes in domestic and other markets. An information memorandum to support this program has been developed. The program would be adjusted to satisfy any borrowing activity over the planning period (although borrowings are not anticipated during the planning period). Any debt issuance within the borrowing program will require specific approval of the Board of Directors and require authorization by the Minister.

CDIC has approved a general treasury policy as well as treasury-related policies in respect of investments, debt management and risk management. As required under the policies, they are subject to regular review (at least annually) by management and any changes require authorization by the Board of Directors.

Historically, CDIC has adopted a strategy that its investment portfolio is to be used as a first call on liquidity in the event of an intervention. This strategy implies that the investment portfolio would be positioned toward low-risk and highly liquid instruments. However, as CDIC is expecting to generate additional premium revenues and investment income, a review of CDIC's strategy will be undertaken to ensure that it remains aligned with CDIC's environment and business strategies.

CDIC has in place credit facilities with its banker for up to $10 million for cash management purposes. The credit facility is specifically exempted from the credit enhancement fee that applies to other borrowings. CDIC does not anticipate drawing on its credit facility over the planning period.

4.6 Supporting Human Resource Requirements

Below is a summary of the human resource requirements for the planning period.

Human Resources: Complement of Permanent Positions
2000/2001 to 2006/2007

Division/Department	2000/2001 Corporate Plan Approved[2]	2001/2002 Corporate Plan		2002/2003 Plan	2004/2007 Plan
		Actual[1]	Approved[1]		
Finance and Administration	45	38	39	41	41
Insurance and Risk Assessment	25	24	26	26	26
Field Operations	13	12	14	14	14
Corporate:					
Executive Office	5	5	5	5	5
Legal	4	5	5	5	5
Audit and Consulting Services	2	2	2	2	2
Human Resources[3]	—	6	6	6	6
	11	18	18	18	18
Total	94	92	97	99	99

[1] At December 31, 2001 – includes employment offers accepted.

[2] As amended and approved by Board of Directors – May 31, 2000.

[3] Human Resources was moved from Finance and Administration to Corporate during 2000/2001.

Central to the success of any institution's business strategy is the ability to attract and retain highly qualified employees. At issue is whether the Corporation will retain the high level of expertise required to sustain its corporate operations given CDIC's demographics and the existence of a highly competitive labour market. We find ourselves competing for high caliber candidates in what has become a tight labour market in certain specialized sectors.

CDIC is a small organization in which a typical career is not based on a model of successive promotions. Promotional opportunities are rare and employees cannot realistically look to promotions as the mechanism for career enrichment and progression. In some organizations this may make retention a challenge. At CDIC, other mechanisms are utilized to reward performance. Career management strategies include job enrichment, internal horizontal mobility, substantive training and development opportunities and interesting, challenging work. CDIC's current high retention target rate of 95% does not mean that we can relax our efforts. CDIC will continue to leverage its excellent business reputation and its unique, specialized work to attract and retain a highly motivated, technically skilled workforce.

Appendix A – Strategic Management Process

Statutory Mandate and Business Objectives

The CDIC Act defines the mandate of the Canada Deposit Insurance Corporation:

- to provide insurance against the loss of deposits;
- to promote standards of sound business and financial practices for member institutions and to promote and otherwise contribute to the stability of the financial system in Canada; and
- to pursue these objects for the benefit of depositors in a manner that will minimize the exposure of the Corporation to loss.

The focus of this Corporate Plan is to set forth the means by which CDIC intends to fulfill its statutory mandate during the next five years.

Strategic Management Process Model

In conducting its corporate planning, CDIC follows a Strategic Management Process Model to assist in establishing long-term strategic directions taking into account environmental issues and identified risks. The model was developed by CDIC based on the Corporation's *Standards of Sound Business and Financial Practices* using best practices with respect to strategic management.

Our Strategic Management Process Model is illustrated below:

* Includes Risk Identification and Assessment, resource implications and budgets, and performance targets/benchmarks

Definitions

Business Objectives

These are the short- and long-term operating and financial objectives of an organization. For a public sector organization, the business objectives are most often its statutory mandate or objects. Developing and approving appropriate business objectives are essential to the development of a prudent and effective business strategy.

CDIC's business objectives are its statutory objects.

Business Strategy

This is the detailed description of how business objectives are to be achieved and usually includes:

- The kinds of activities that will be conducted by the organization;
- the significant risks to which the organization will be exposed in conducting them;
- the key functions and resources that will be needed to conduct them; and
- the short- and long-term operating and financial results expected from them.

A business strategy provides a mechanism to ensure that new initiatives are evaluated in comparison with the organization's business objectives, and that operations are subject to on-going strategic review.

- *Environmental Scan*

This involves the review of internal and external issues that may or may not affect an organization. Environmental scanning assists in ensuring that significant risks are identified and taken into account in an organization's corporate planning and strategic management.

- *Risk Identification and Assessment*

These are two components of a larger risk management process. CDIC identifies and assesses its risks through environmental scanning, continuous risk self-assessment and also through its on-going risk management process.

- *Business Plans*

These are the detailed descriptions of how particular initiatives are to be conducted in implementing the business strategy. Effective business plans are essential to the achievement of an organization's strategic mandate and business objectives.

- *Risk Management*

This is a comprehensive, systematic and disciplined process for identifying, assessing and managing at any point in time the significant strategic, business and process level risks inherent in an organization's business strategy and operations. The main components of an effective risk management process are risk identification and assessment, management, monitoring and reporting.

- *Strategic Accountability Reviews and Reporting*

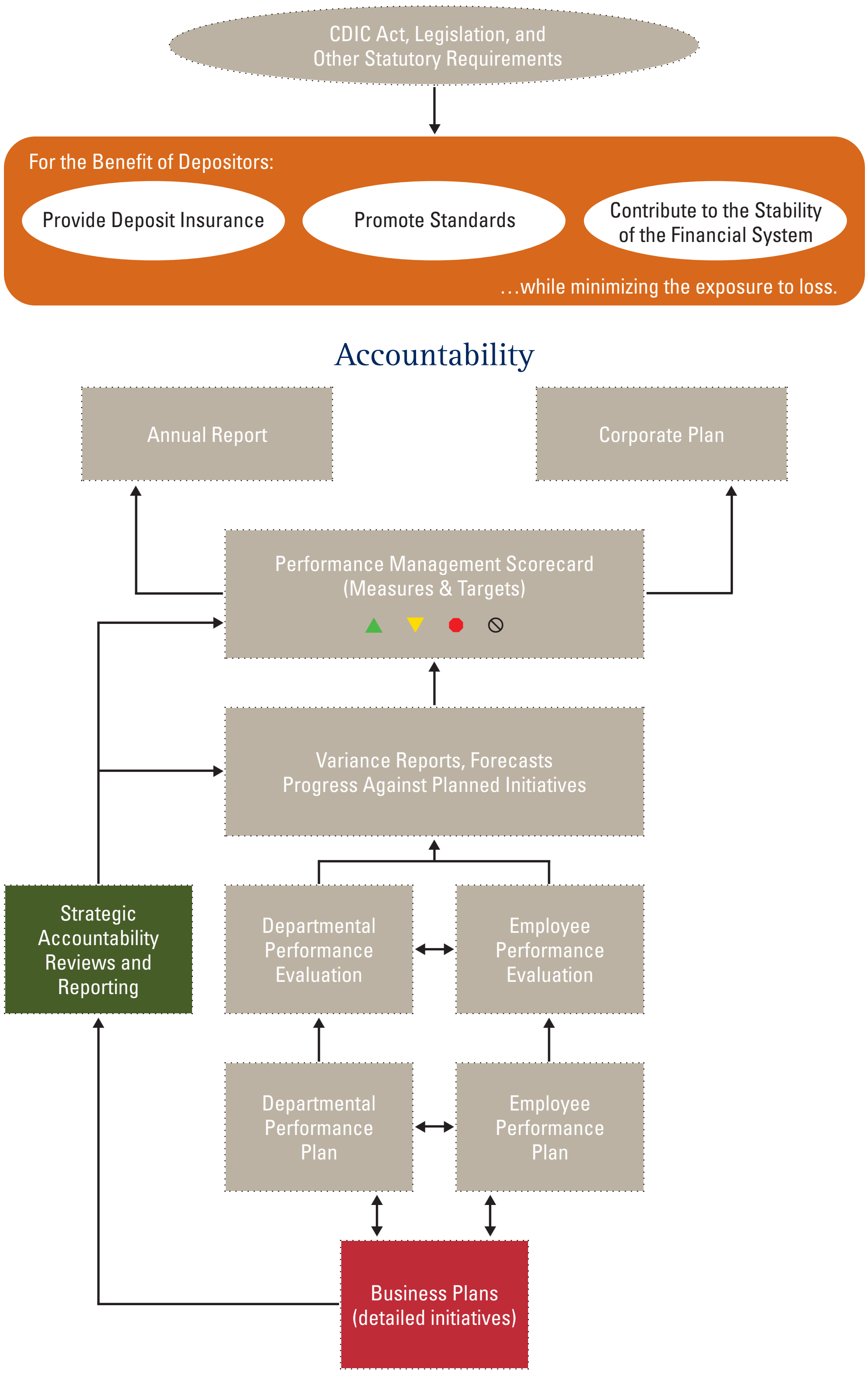
Strategic accountability reviews involve the assessment of an organization's business objectives, business strategy and business plans on an on-going basis (and collectively at least once a year) to ensure that they remain appropriate and prudent.

Strategic accountability reporting involves providing regular reports on the implementation of the business strategy and business plans for significant operations, and on actual operating and financial results compared with forecast results. These reports also enable an organization to assess the appropriateness and ongoing effectiveness of its strategic management process.

CDIC uses a Performance Management Scorecard to describe and report on risks, objectives and its performance against targets.

The Corporation's Accountability Framework is illustrated on the next page.

Accountability Framework

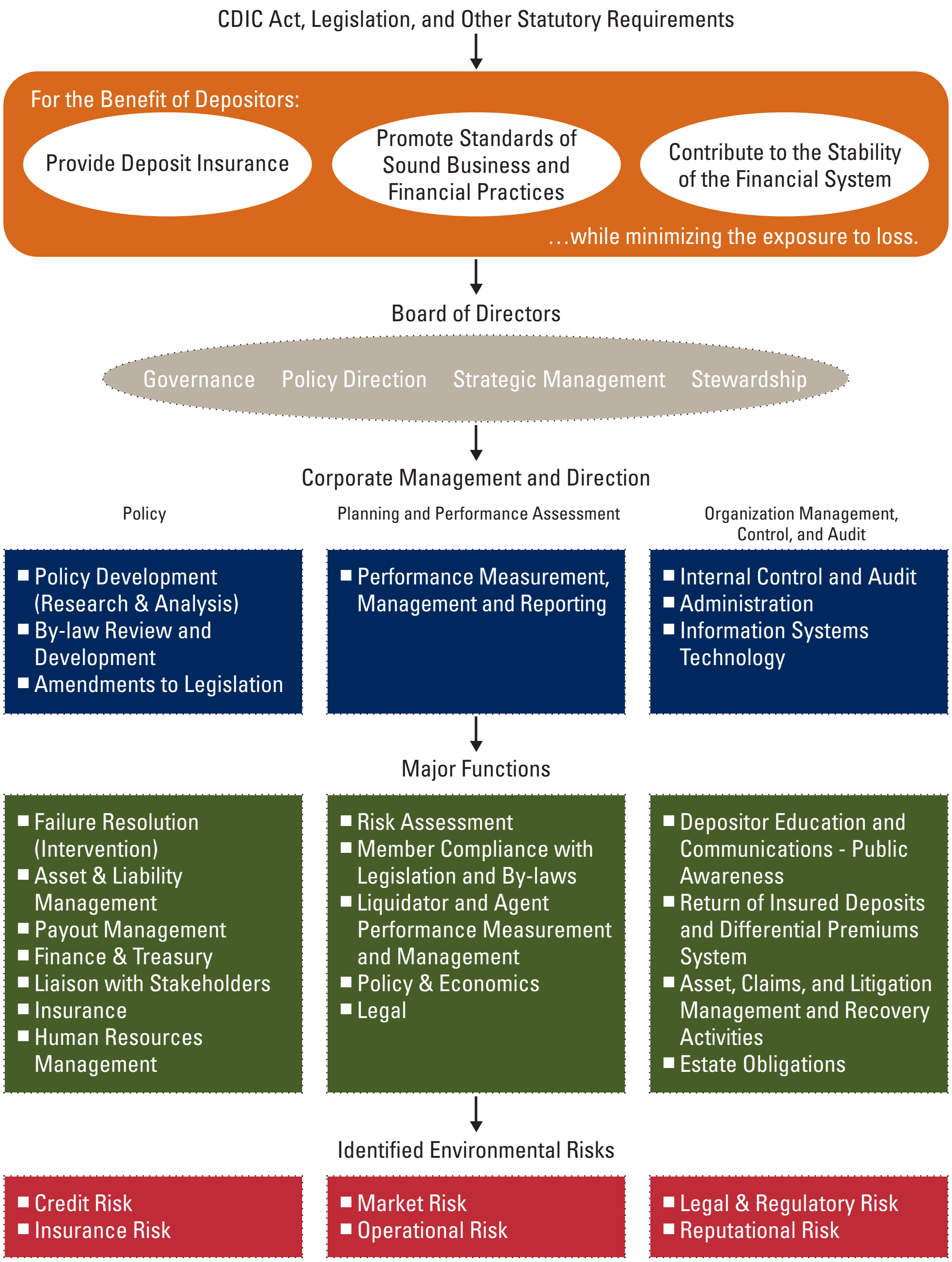


Business Model

The Business Model provides a visual illustration of our operational functions. It demonstrates how we are functionally organized to best meet our mandate as described by our statutory objects.

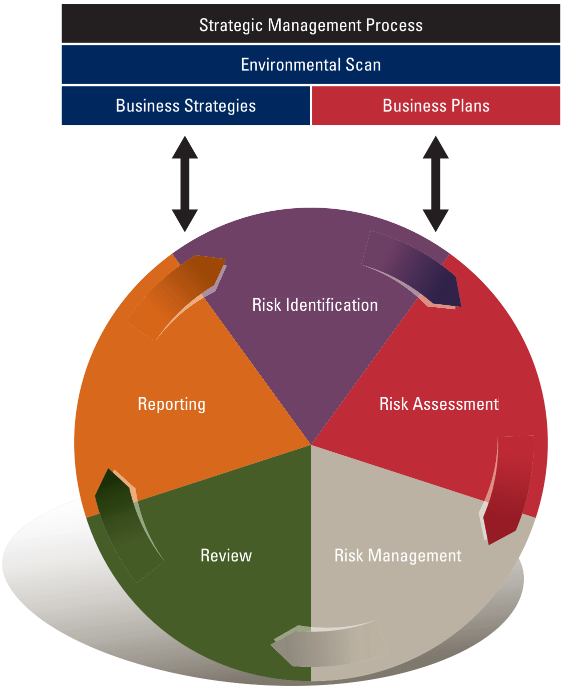
We maintain core competencies in all areas, supplementing them with external resources when required.

Business Model



Corporate Risk Management

We incorporate risk identification and management into our planning and strategic management processes. We have developed, congruently with the Strategic Management Process Model presented earlier, the following Risk Management Process model for this purpose. The circular nature of this model is intended to emphasize the continuous process of risk management and its direct link to a sound strategic management regime.



We have identified six key risks that we must manage:

Insurance Risk – the risk of loss associated with insuring deposits.

Credit Risk – the risk of loss associated with the failure of a counterparty to honour its obligations to CDIC.

Market Risk – the risk of loss occurring as a result of adverse changes in the value of a CDIC asset or financial instrument (both on- and off-balance sheet) due to changes in market rate or price.

Operational Risk – the risk of financial loss resulting from operational disruption caused by inadequacies or failures in or by processes, systems or people or by external events, namely people risk, technology risk, process risk and outsourcing risk.

Legal and Regulatory Risk – the risk that changes in legislation (interpretations and/or conflicts), regulations, regulatory requirements or law affecting CDIC and/or member institutions may adversely impact CDIC's business strategy or its ability to meet its mandate.

Reputational Risk – the risk resulting from impairment of CDIC's image in the marketplace. (Note: Reputational Risk generally results from damage to reputation as a consequence of failure to manage other risks rather than being a risk in itself.)

For each identified risk, CDIC conducts an assessment of the source of the risk, its importance, and impact. The risk management phase includes the development of appropriate and prudent policies; the establishment of effective procedures and controls; and the production and delivery of reports to CDIC's Board of Directors on the assessment and management of the risks.

Appendix B – Corporate Overview

Overview of CDIC

The Canada Deposit Insurance Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act*. 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*.

The Corporation reports to Parliament through the Minister of Finance, who has delegated certain responsibilities for CDIC matters to the Secretary of State (International Financial Institutions). CDIC's Board of Directors is comprised of the Chairperson, the Governor of the Bank of Canada, the Deputy Minister of Finance, the Commissioner of the Financial Consumer Agency of Canada, the Superintendent and a Deputy Superintendent, or an officer of the Office of the Superintendent of Financial Institutions. As well, there are five private-sector directors. The Governor in Council appoints the Chairperson, the five independent private sector directors, and the President and CEO.

The Corporation's objects, as set out in its legislation, are to provide insurance against the loss of part or all of deposits, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of persons having deposits with member institutions and in such a manner as will minimize the exposure of the Corporation to loss.

To carry out its work, CDIC relies on the work of the Office of the Superintendent of Financial Institutions and provincial supervisors. They are responsible for supervision and for ensuring that member institutions follow the regulations and remain financially viable. CDIC has no supervisory role. It receives information from these supervisors and then forms its own opinion about the risk related to each member institution. Only when an institution becomes a cause for concern does CDIC become more active, working in close collaboration with the supervisors. If an institution poses a significant risk of loss 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.

CDIC has also received ancillary powers beyond those found in its own governing legislation. Part X of the *Financial Administration Act*, for example, sets out provisions applicable to Crown corporations. Under the *Cooperative Credit Associations Act*, the Corporation may make short-term loans to an association or to a deposit protection agency, defined in the legislation, to enable them to meet their requirements for liquid funds. In such cases, CDIC does not insure 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. To date, no requests have been made under this Act.

Membership

Membership with CDIC is limited to banks, federally incorporated trust or loan companies, and provincially incorporated trust or loan companies. To obtain membership, an application must be submitted to CDIC and approved by its Board of Directors. Provincially incorporated institutions must be authorized by the province of incorporation to apply for deposit insurance.

Deposit Insurance Protection

Under the CDIC Act, the maximum basic protection for eligible deposits is $60,000 per person at each member institution. CDIC provides separate protection for eligible deposits held jointly, in trust, in registered retirement savings plans, and in registered retirement income funds, also to a maximum of $60,000 in each category.

Premiums

The Corporation is funded by premiums that are assessed on the insured deposits of member institutions as at April 30 of each year. Until 1999, the premium rate was the same for all member institutions. In 1999, CDIC adopted a differential premiums structure having four premium rates, ranging in 2001/2002 from one-third of one percent to one-twenty-fourth of one percent of insured deposits. In 2001/2002, member institutions paid $155 million in premiums.

Deposits in Quebec

Deposit insurance protection is the same for all member institutions with the exception of deposits accepted in the province of Quebec by provincially incorporated members. The province of Quebec has a deposit insurance plan of its own under the administration of the Quebec Deposit Insurance Board (QDIB). Under the terms of an agreement between CDIC and QDIB, deposits made in Quebec with provincially incorporated members are insured by QDIB, and deposits made outside Quebec with such members are insured by CDIC. The maximum aggregate repayment from both agencies would not exceed $60,000. Deposits made with federally incorporated members are insured by CDIC regardless of the province in which the deposit was made.

Board of Directors December 31, 2001

Ronald N. Robertson
Chairman of the Board
Canada Deposit Insurance Corporation

David A. Dodge
Governor of the Bank of Canada
(ex officio)

H. Garfield Emerson
National Chairman and Senior Partner
Fasken Martineau DuMoulin LLP
Toronto

Nicholas Le Pan
Superintendent of Financial Institutions
(ex officio)

Colin P. MacDonald
Partner
Borden Ladner Gervais LLP
Calgary

John Doran
Assistant Superintendent, Supervision
Office of the Superintendent of
Financial Institutions
(alternate for the Superintendent of Financial Institutions)

Michael Horgan
Senior Associate Deputy Minister
Department of Finance
(alternate for the Deputy Minister of Finance)

Tracey Bakkeli
T. Bakkeli Consultants Inc.
Regina

Viateur Bergeron
Partner
Bergeron, Gaudreau, Laporte Hull

William G. Knight
Commissioner, Financial Consumer
Agency of Canada
(ex officio)

Kevin G. Lynch
Deputy Minister of Finance
(ex officio)

Vacant
Deputy Superintendent, or an officer
of the Office of the Superintendent
of Financial Institutions

Charles Freedman
Deputy Governor
Bank of Canada
(alternate for the Governor of the Bank of Canada)

Vacant
Private Sector Member
of the Board of Directors[5]

[5] Legislation supporting the addition of the Commissioner of the new Financial Consumer Agency of Canada to the CDIC Board of Directors also provided for an additional private-sector member to be added to the CDIC Board. As at December 31, 2001 this person had not yet been named.

CDIC Officers

Jean Pierre Sabourin
President and Chief Executive Officer

M. Claudia Morrow
Corporate Secretary

Bert C. Scheepers
Senior Vice-President
Finance and Administration
and Chief Financial Officer

Tom Vice
Senior Director Finance and Treasurer

Wayne Acton
Senior Vice-President,
Field Operations

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

Gillian Strong
General Counsel

Summary of Key Historical Facts

Fact	Most Recent Data (All figures are as at *March 31, 2001*, unless otherwise stated.)
Year of incorporation	1967
Incorporation	Crown corporation – Part I, Schedule III of the *Financial Administration Act*
Operating expenses – 2000/2001	$20.8 million
Capital expenses – 2000/2001	$0.6 million
Net income – 2000/2001	$157.3 million
Surplus	$455 million
Approved permanent employee positions – 2000/2001	94
Number of member institutions – December 31, 2001	Domestic banks and subsidiaries: 39 Domestic trust and loan companies: 26 Foreign bank subsidiaries: 29 *Total: 94* Federal institutions – banks: 37 Federal institutions – trust and loan companies: 48 Provincial institutions: 9 *Total: 94*
Total insured deposits – April 30, 2001	Federal institutions: $337.54 billion Provincial institutions: $1.94 billion *Total:* $339.48 billion

Fact	Most Recent Data (All figures are as at *March 31, 2001*, unless otherwise stated.)
History of premium rate changes	1967: 1/30 of 1% 1986: 1/10 of 1% 1993: 1/8 of 1% 1994: 1/6 of 1% 1999: differential premiums
Total premiums assessed since 1967	$5.5 billion
Total premium rebates reimbursed to member institutions since 1967	$9 million
2001/2002 premiums assessed	$154.8 million
Number of member failures since 1967	43
Total insured deposits of failed member institutions protected since 1967	$23.4 billion ($25.9 billion in deposits less $2.5 billion uninsured)
Failures by resolution method: formal liquidation management/agency agreement CDIC-assisted commercial transaction	 24 10 9
Number of estates under administration	18
Number of failures where the insured deposits were made available to depositors by payment from CDIC or a third party, or by transfer to another member institution.	25
Total interest paid on CRF loans since 1967	$1.74 billion
Recoveries to date of litigation against directors, officers, and auditors	$175 million
Total dividends paid to the Government since 1967	$5 million
Web site	http://www.cdic.ca
Web site visits during 2001	253,252
Toll-free telephone number	1-800-461-CDIC
Toll-free calls received during 2001	15,122

Appendix C – Planning Premises and Assumptions for the Planning Period

Economic Assumptions

In developing its key economic assumptions for planning purposes, we relied on the latest available (September 2001) survey data provided by the Department of Finance's "Survey of Canadian Private Sector Forecasters" and a Bank of Canada M2+ projection derived from the consensus survey.

Forecast of Insured Deposits, M2+, 3-M Treasury Bills, CPI, and GDP
(per cent change, fiscal year, forecast begins in 2002/2003)

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Insured Deposits	**3.80**	2.90	3.50	4.00	3.70	3.50
M2+	**6.60**	2.30	4.90	5.50	5.10	4.85
3-M T-Bills (%)	**4.00**	3.20	4.70	5.30	5.20	5.10
CPI Index	**2.80**	1.90	2.00	1.90	1.90	2.00
Real GDP	**1.50**	1.50	3.90	3.60	3.20	3.00

CDIC's premium income is a function of the level of insured deposits of member institutions as well as each member's differential premium category and assigned premium rate. The following key economic planning assumptions are focused on determining the expected growth rates of insured deposits. Please refer to page 56 for planning assumptions related to member institution differential premiums categories and rate assignments.

Insured deposit growth is affected by a variety of factors including overall economic growth, interest rates, income growth and how income and savings are allocated into a variety of financial instruments. CDIC's insured deposit forecast is primarily based upon assumptions provided in the chart above. This information points to the following environment unfolding during the next five years:

- After slowing to 1.5 per cent during 2001/2002, Real Gross Domestic Product (GDP) is expected to grow at a 3.0 per cent average annual rate during the 2002/2003 – 2006/2007 period.
- Increases in consumer prices, as measured by the Consumer Price Index (CPI), are expected to downshift to an average of 1.9 per cent annually during the 2002/2003 – 2006/2007 interval, from a 2.8 per cent increase for 2001/2002.
- The rate of interest on Government of Canada three-month treasury bills will likely average around 4.7 per cent during the forecast period.

In summary, the consensus survey assumptions point to the current weakness in real economic growth and a low short-term interest rate environment continuing into the next fiscal year. Economic conditions are expected to improve and interest rates increase slightly during the 2003/2004 to 2006/2007 period. However, given current recessionary business conditions and the lingering uncertainty arising from the events associated with September 11, the major risks to the outlook appear to be on the side of slower-than-expected economic growth and even lower interest rates.

Implications for CDIC

As mentioned above, insured deposit growth is affected by overall economic activity as well as the decisions individuals make in allocating their income and savings into a variety of financial instruments. These factors influence changes in the components of M2+ (i.e., currency, personal and non-personal notice and fixed-term deposits at chartered banks, trust and loan companies) and in insured deposits.

Between May 1, 2000 and April 30, 2001, total insured deposits increased by 3.8 per cent. This increase was slightly more than the 3.3 per cent growth forecasted, primarily reflecting the continued strong pace of personal and non-personal deposit growth. Deposit growth has been on a strengthening trend during the last three years, driven by factors such as improving incomes, relatively attractive deposit rates and stock market volatility (which has reduced relative demand for deposit substitutes such as equity and mutual funds). Other factors, such as a reduced level of industry consolidation and lower premium rates for most CDIC member institutions, also appear to have played a role in stimulating insured deposit growth.

Taking into account the economic assumptions supplied in the September 2001 consensus survey, our outlook calls for average annual growth in insured deposits of 3.5 per cent during the 2002/2003-2006/2007 forecast period. This represents a slowdown in growth compared to the past few years, reflecting more moderate growth in M2+. It is important to be aware, however, that insured deposit growth remains quite volatile. Unexpected changes in interest rates, market sentiment, public attitudes, economic conditions and even factors such as institutional restructuring could lead to substantial variations in year-to-year growth from the averages predicted in these planning assumptions. On balance, we believe the majority of the risk is for slower than expected growth in insured deposits.

Planning Premises for the Period

Planning premises are the core assumptions upon which our Corporate Plan and all supporting business plans and resource budgets are based. In areas of uncertainty, they represent the Corporation's best estimation of what will realistically occur during the planning period.

The following premises have been used in preparing our five-year plan:

Statutory Objects

No significant changes to the statutory objects are anticipated during the planning period.

Regulatory and Supervisory System

The regulatory and supervisory system in Canada will continue to be based on a close coordination and cooperation among safety net participants. CDIC will continue to foster effective working relations in order to meet its mandate effectively.

Elements of Deposit Insurance

CDIC will continue to review and recommend necessary changes to the elements of deposit insurance (funding, the level and extent of insurance coverage, insurable products, differential premiums, and standards of sound business and financial practices, among others) by keeping abreast of domestic and global developments, to ensure these elements continue to be current and relevant. This document is based on an assumption of no significant change to these elements during the planning period.

Member Institution Failures

While CDIC seeks to minimize the risk of failure of member institutions, both as an insurer and as an essential part of the financial safety net, it has to anticipate that losses may well occur. Previous experience suggests that, from time to time, individual member institutions will face viability or solvency problems requiring CDIC intervention. The timing and circumstances of such events are difficult to predict.

Most member institutions have benefited in recent years from a favourable economic environment and have reported healthy financial results. This has facilitated the strengthening of capital and allowances for losses. Member institutions have also enhanced their risk management methodologies and the soundness of their business and financial practices. As a result, member institutions are for the most part well equipped at present to deal with the effects of economic downturns in specific sectors.

Number of Member Institutions

Potential merger activity, acquisitions, opting-out and consolidation among its membership may result in the exit of member institutions during the planning period. However, recent legislative changes brought about by the *Financial Consumer Agency of Canada Act* will facilitate new entries by lowering capital requirements, offering alternative ownership structures and easing control restrictions. As a result, it is not expected that the total number of member institutions will change significantly during the course of the planning period.

Human Resources

In keeping with its Strategic Plan for Human Resources, CDIC will maintain strong core competencies in support of its business strategies and plans through ongoing succession planning, training and development. The Corporation will continue to compete for specialized skills and abilities.

CDIC's challenge is to leverage its reputation, its uniqueness and the specialized nature of its work in order to attract and retain a highly motivated and skilled workforce. We will do this by providing the features of a highly desirable workplace – from salary and benefits, office environment, work tools and training, to an accommodation of lifestyle and flexibility to suit individual needs.

CDIC operates on the principle of maintaining a core capacity of expert employees with the mechanisms in place to mobilize a larger workforce (additional employees, contract personnel, consultants and service providers) should the need arise. The overall person-year count is expected to remain relatively constant throughout the planning period. However, the level of human resources may be affected by shifts in initiatives and strategies to address emerging issues or by changes in the risk profile of member institutions.

Premium Revenue

Premium revenues are projected to total approximately $80 million for 2002/2003, based on the following rates: 0.02083 per cent, 0.04167 per cent, 0.08333 per cent, and 0.16667 per cent for categories 1 to 4 respectively. These rates are fifty percent of the rates imposed in 2001/2002.

Pro forma premium revenue is projected based on the following assumptions: premium rates will remain the same as those used in 2002/2003; the distribution of member institutions across premium categories will not change significantly; and, the growth of insured deposits is in accordance with the economic assumptions at the beginning of this Appendix.

Financial Position

CDIC must manage its operations effectively in order to maintain a stable financial position. To manage operating costs, managers regularly review initiatives in relation to the changing environment and circumstances. Activities are reprioritized as appropriate in order to focus resources on the most important initiatives. Costs for unplanned activities are, whenever possible, absorbed within the existing operating budget. Operating budgets are developed in a manner that does not contain room for contingencies. Consequently, management seeks the approval of the Board of Directors before undertaking new activities requiring additional resources.

On March 31, 2001, CDIC had a surplus of $455 million. This surplus is projected to increase to approximately $583 million by March 31, 2002, and to approximately $1 billion by March 31, 2007, based on the following key assumptions:

- Premium revenue is calculated based on a 50% reduction in rates in all categories over those used in 2001/2002 — and maintained at this level across the planning period;
- Maintaining the current level of provision for insurance losses of $400 million;[6]
- No failures of member institutions during the planning period; and
- Interest revenue is projected to meet or exceed operating expenses throughout the planning period.

Appropriations and Borrowings

CDIC does not receive government appropriations nor does it plan to borrow funds during the planning period. Premium revenues, recoveries from loans and claims receivable, and interest income are projected to provide sufficient funding to meet outstanding obligations and operating expenses.

Investment Revenue

CDIC has developed its investment strategy based on three principles:

1. Credit and market risk will be limited;
2. The investment portfolio will be the initial funding source for any intervention activity; and
3. Adherence to the Financial Risk Management Guidelines and the Credit Policy Guidelines for Crown Corporations (issued by the Minister of Finance), and CDIC's internal risk and investment policies.

[6] At the time of preparation of this Corporate Plan, the Corporation is completing a review of its provisioning methodology for insurance losses and considering the merits of establishing a deposit insurance fund. The decisions arising from this work may materially impact future surplus levels, and premium rates.

Leases

A ten-year lease is in place for our head office in Ottawa, expiring in 2010. A similar lease is in place for our Toronto office, expiring in 2011. Financial Plans in this document reflect lease costs for both offices.

Operating Budget

CDIC projects total revenue of $104 million (comprised of premium revenue of $80 million and interest income of $24 million) and operating expenses of $24 million for 2002/2003. The Corporation will regularly review its initiatives in relation to its environment and budgets, and prioritize activities as appropriate in order to focus resources on the most important initiatives. If we are required to intervene in the affairs of a member institution, or if new initiatives need to be undertaken during the planning period that cannot be absorbed through re-prioritization within the existing budget, Board approval will be requested for additional resources.

Capital Budget

Capital expenditures for the planning period are related largely to information systems development and physical infrastructure maintenance. The budget for capital expenditures in 2002/2003 is $850,000. With the exception of computer hardware (amortized over three years), all capital assets are amortized over their useful lives in accordance with the rates prescribed by the Canada Customs and Revenue Agency for tax purposes.

Appendix D – CDIC Membership

Overview

As of the third quarter of 2001, total impaired assets at member institutions represented less than one per cent of assets, while allowances for losses continued to exceed total impairments.

CDIC Membership

	Number of Members				
	2001	2000	1999	1998	1997
Domestic Banks and Subsidiaries	39	41	37	35	37
Foreign Bank Subsidiaries	29	35	45	46	49
Domestic Trust and Loan Companies	26	25	29	32	27
Total	94	101	111	113	113

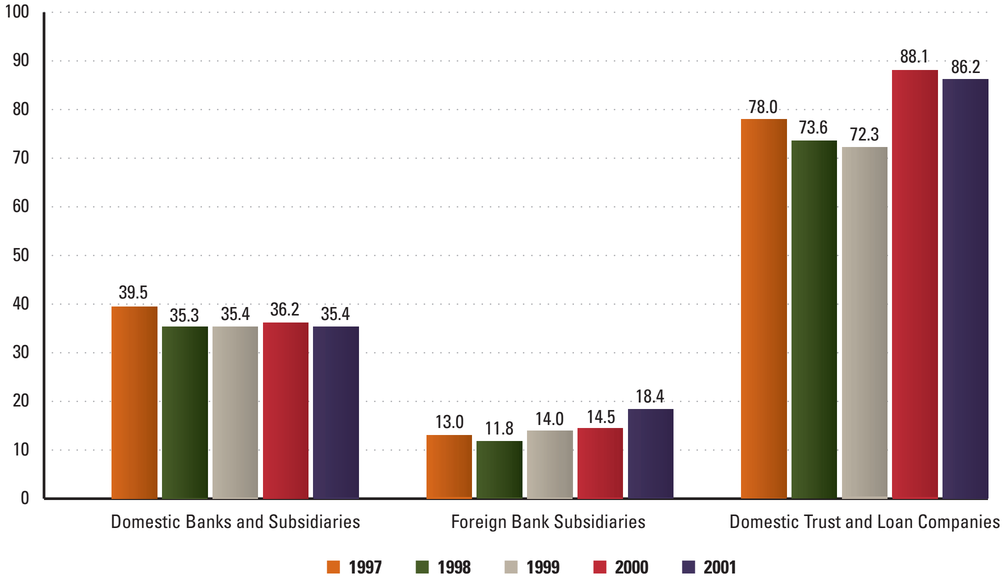
	Total Deposits ($ Millions)					Insured Deposits ($ Millions)				
	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997
Domestic Banks and Subsidiaries	910,341	864,559	770,727	750,107	690,615	322,475	312,760	272,749	264,971	272,652
Foreign Bank Subsidiaries	56,938	60,197	59,585	63,440	56,494	10,468	8,753	8,354	7,455	7,328
Domestic Trust and Loan Companies	7,586	6,273	49,076	48,918	47,536	6,541	5,529	35,475	35,988	37,060
Total	974,865	931,029	879,388	862,465	794,645	339,484	327,042	316,578	308,414	317,040

	Percentage of Total Insured Deposits					Insured Deposits /Total Deposits (%)				
	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997
Domestic Banks and Subsidiaries	95.0	95.6	86.2	85.9	86.0	35.4	36.2	35.4	35.3	39.5
Foreign Bank Subsidiaries	3.1	2.7	2.6	2.4	2.3	18.4	14.5	14.0	11.8	13.0
Domestic Trust and Loan Companies	1.9	1.7	11.2	11.7	11.7	86.2	88.1	72.3	73.6	78.0
Total	100	100	100	100	100	34.8	35.1	36.0	35.8	39.9

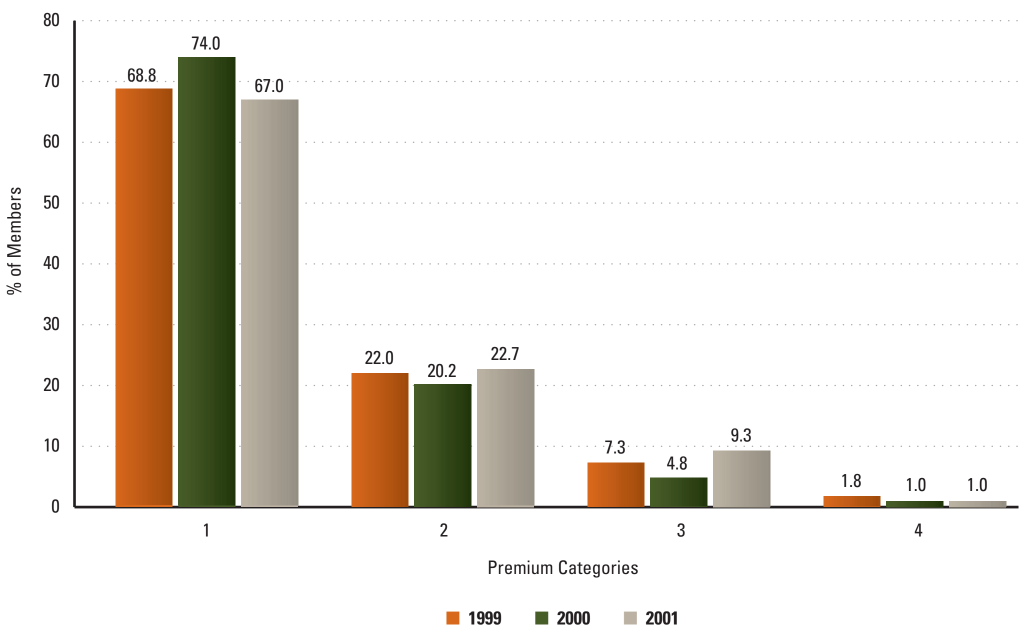
Differences in the totals from previous year's Corporate Plan are due to Return of Insured Deposits amendments filed by some institutions.

Differential Premium data, Insured and total deposits as at April 30 of each year. Membership as at Dec 31 of each year.

Percentage of Insured Deposits to Total Deposits



Membership by Differential Premium Categories
as at April 30 of each year.



List of Failed Member Institutions

Date	Company
1968	Security Trust
1970	Commonwealth Trust
1980	Astra Trust Company
1982	District Trust Company
1983	Amic Mortgage Investment Corporation Crown Trust Company Fidelity Trust Company Greymac Mortgage Corporation Greymac Trust Company Seaway Mortgage Company Seaway Trust Company
1984	Northguard Mortgage Company
1985	Canadian Commercial Bank CCB Mortgage Investment Corporation Continental Trust Company London Loan Limited Northland Bank Pioneer Trust Company Western Capital Trust
1986	Bank of British Columbia Bank of British Columbia Mortgage Corporation Columbia Trust Company
1987	Northwest Trust Company Principal Savings & Trust Company
1988	Financial Trust Company
1990	Settlers Savings & Mortgage Corporation
1991	Bank of Credit & Commerce Canada Saskatchewan Trust Company Standard Loan Company Standard Trust Company
1992	Central Guaranty Mortgage Corporation Central Guaranty Trust Company First City Mortgage Corporation First City Trust Company Shoppers Trust Company
1993	Dominion Trust Company Prenor Trust Company of Canada
1994	Monarch Trust Company Confederation Trust Company
1995	Income Trust Company North American Trust Company NAL Mortgage Corporation
1996	Security Home Mortgage Corporation

Appendix E – Pro Forma Financial Statements and Supporting Accounting Policies

Pro Forma Balance Sheet
as at March 31
($millions)

	2001 Actual	2002 Plan	2002 Forecast	2003 Plan	2004 Plan	2005 Plan	2006 Plan	2007 Plan
ASSETS								
Cash & investments	766	952	967	1,044	1,151	1,242	1,340	1,441
Premiums and other accounts receivable	-	-	5	5	5	5	-	-
Capital assets	1	2	1	1	1	1	1	1
	767	954	973	1,050	1,157	1,248	1,341	1,442
Loans receivable	22	8	-	-	-	-	-	-
Claims receivable	38	9	22	-	-	-	-	-
	60	17	22	-	-	-	-	-
Allowance for loss on claims and loans receivable	(6)	(13)	(6)	-	-	-	-	-
	54	4	16	-	-	-	-	-
Future income tax asset	83	-	23	10	9	7	5	1
	904	958	1,012	1,060	1,166	1,255	1,346	1,443
LIABILITIES								
Accounts payable	6	6	6	6	6	6	6	6
Provision for guarantees	43	20	23	-	-	-	-	-
Provision for insurance losses	400	400	400	400	400	400	400	400
	449	426	429	406	406	406	406	406
Surplus	455	532	583	654	760	849	940	1,037
	904	958	1,012	1,060	1,166	1,255	1,346	1,443

The projected amounts in this *pro forma* Balance Sheet reflect premium revenue for the years ending March 31, 2003 to 2007 that is based on the following assumptions: premium rates are fifty per cent of the premium rates used in 2001/2002 for all four premium categories; that distribution of member institutions across premium categories is the same as in the year ended March 31, 2002; and, the growth of insured deposits is in accordance with the economic assumptions in Appendix C of this document. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment and the membership risk profile. In addition, CDIC is continuing to review its provisioning methodology for insurance losses, consider the merits of establishing a deposit insurance fund and the implications for future premium revenue. Accordingly, the provision balance, future surplus levels and premium rates for the years ending March 31, 2003 to 2007 may be subject to material change.

Pro Forma Statement of Income and Surplus
For Year Ending March 31
($millions)

	2001 Actual	2002 Plan*	2002 Forecast	2003 Plan	2004 Plan	2005 Plan	2006 Plan	2007 Plan
REVENUE								
Premiums**	140	143	155	80	82	85	88	92
Interest on cash and investments	35	45	32	24	26	28	30	33
Other revenue	21	-	-	-	-	-	-	-
	196	188	187	104	108	113	118	125
EXPENSES								
Adjustment to allowance and provisions for loss	(6)	-	-	2	-	-	-	-
Recovery of amounts previously written-off	(7)	(19)	(23)	(6)	(23)	(2)	-	-
Operating expenses	21	22	22	24	24	24	24	24
	8	3	(1)	20	1	22	24	24
NET INCOME BEFORE INCOME TAX BENEFIT	188	185	188	84	107	91	94	101
Income Tax Benefit	31	-	60	13	1	2	3	4
NET INCOME	157	185	128	71	106	89	91	97
Surplus, beginning of year	184	347	455	583	654	760	849	940
Retroactive adjustment for change in accounting policy	114	-	-	-	-	-	-	-
Surplus , end of year	455	532	583	654	760	849	940	1,037

* The level of operating expenses approved in the Corporate Plan 2001/2002 to 2005/2006 was $21 million. An additional $0.5 million in expenditures was approved by the Board of Directors for reassessment of the provisioning methodology for insurance losses.

** The premium revenue for the years ending March 31, 2003 to 2007 is based on the following assumptions: premium rates are fifty per cent of the premium rates used in 2001/2002 for all four premium categories; that distribution of member institutions across premium categories is the same as in the year ended March 31, 2002; and, the growth of insured deposits is in accordance with the economic assumptions in Appendix C of this document. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment and the membership risk profile. In addition, CDIC is continuing to review its provisioning methodology for insurance losses, consider the merits of establishing a deposit insurance fund and the implications for future premium revenue. Accordingly, the provision balance, future surplus levels and premium rates for the years ending March 31, 2003 to 2007 may be subject to material change.

Pro Forma Statement of Cash Flows

For Year Ending March 31
($millions)

	2001 Actual	2002 Plan	2002 Forecast	2003 Plan	2004 Plan	2005 Plan	2006 Plan	2007 Plan
OPERATING ACTIVITIES								
Net income	157	185	128	71	106	89	91	97
Non-cash items included in net income								
Adjustment to allowance and provisions for loss	(6)	-	-	2	-	-	-	-
Adjustment to income tax benefit	31	-	60	13	1	2	3	4
Loans recovered	40	20	22	-	-	-	-	-
Claims paid	-	-	-	-	-	-	-	-
Claims recovered	62	37	16	13	-	-	-	-
Payment of guarantees	(10)	(20)	(20)	(23)	-	-	-	-
Changes in working capital	1	-	(5)	1	-	-	4	-
CASH FLOWS FROM OPERATING ACTIVITIES	275	222	201	77	107	91	98	101
FINANCING ACTIVITIES								
Loans from the Consolidated Revenue Fund								
Net advances/(repayments)	-	-	-	-	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	-	-	-	-	-	-	-	-
CASH AND SHORT-TERM INVESTMENTS								
(Decrease)/Increase during the year	275	222	201	77	107	91	98	101
Balance, beginning of year	491	730	766	967	1,044	1,151	1,242	1,340
Balance, end of year	766	952	967	1,044	1,151	1,242	1,340	1,441

The projected amounts in this *pro forma* Statement of Cash Flows reflect premium revenue for the years ending March 31, 2003 to 2007 that is based on the following assumptions: premium rates are fifty per cent of the premium rates used in 2001/2002 for all four premium categories; that distribution of member institutions across premium categories is the same as in the year ended March 31, 2002; and, the growth of insured deposits is in accordance with the economic assumptions in Appendix C of this document. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment and the membership risk profile. In addition, CDIC is continuing to review its provisioning methodology for insurance losses, consider the merits of establishing a deposit insurance fund and the implications for future premium revenue. Accordingly, the provision balance, future surplus levels and premium rates for the years ending March 31, 2003 to 2007 may be subject to material change.

Pro Forma Statement of Net Income
For the years Ending March 31
($millions)

	2001 Actual	2002 Plan***	2002 Forecast	2003 Plan	2004 Plan	2005 Plan	2006 Plan	2007 Plan
REVENUE								
Premiums*	140	143	155	80	82	85	88	92
Other adjustments and recoveries**	13	19	23	4	23	2	-	-
	153	162	178	84	105	87	88	92
OPERATIONS								
INCOME								
Interest income and other revenue	56	45	32	24	26	28	30	33
EXPENSES								
Salaries and other personnel costs	10	11	11	12	(see note below)			
Inspection, legal and other fees	3	3	3	3				
Premises	2	2	2	3				
Public Awareness	3	2	2	2				
General expenses	2	3	3	3				
Data processing	1	1	1	1				
	21	22	22	24	24	24	24	24
NET OPERATING INCOME	**35**	**23**	**10**	-	**2**	**4**	**6**	**9**
NET INCOME BEFORE INCOME TAX BENEFIT	188	185	188	84	107	91	94	101

* The premium revenue for the years ending March 31, 2003 to 2007 is based on the following assumptions: premium rates are fifty per cent of the premium rates used in 2001/2002 for all four premium categories; that distribution of member institutions across premium categories is the same as in the year ended March 31, 2002; and, the growth of insured deposits is in accordance with the economic assumptions in Appendix C of this document. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment and the membership risk profile. In addition, CDIC is continuing to review its provisioning methodology for insurance losses, consider the merits of establishing a deposit insurance fund and the implications for future premium revenue. Accordingly, the provision balance, future surplus levels and premium rates for the years ending March 31, 2003 to 2007 may be subject to material change.

** Recoveries of amounts due from estates that were previously written off.

*** The level of operating expenses approved in the Corporate Plan 2001/2002 to 2005/2006 was $21 million. An additional $0.5 million in expenditures was approved by the Board of Directors for reassessment of the provisioning methodology for insurance losses.

Note: Although total operating expenses have been estimated for the entire planning period, detailed breakdowns by category are not developed beyond 2002/2003.

Supporting Accounting Policies

Basis of Preparation

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles. The financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has claims.

Cash and Short-Term Investments and Investments

Short-term investments and investments, consisting of marketable securities and term deposits, are carried at cost as they are intended to be held to maturity.

Loans Receivable

The Corporation may make loans to member institutions and others. The main purpose of providing these loans is to facilitate a resolution of the financial difficulties of member institutions. The terms and conditions attached to these loans provide for repayment of principal and interest. To the extent interest revenue is recorded in the accounts, it is included in other revenue.

Claims Receivable

Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation.

Use of Estimates

The Corporation's pro forma financial statements include estimates and assumptions. The more significant areas requiring estimates are: (i) the allowance for loss on loans and claims receivable; (ii) the provision for guarantees; (iii) the provision for insurance losses; and (iv) future income tax asset.

Allowance for Loss on Loans and Claims Receivable

This allowance reflects the Corporation's best estimate of losses in respect of loans and claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

Loans and claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectation of realization. Any payments received on a loan or claim receivable are recorded first to recover amounts previously written off before recognizing additional amounts as other revenue.

Provision for Guarantees

The Corporation has provided guarantees to help resolve the financial difficulties of certain member institutions. The provision for guarantees is determined annually by estimating the future cash payments required under these guarantees. These guarantees expire in 2002/2003. Total payments during the planning period are not expected to exceed $23 million – the actual provision recorded on CDIC's financial statements.

Provision for Insurance Losses

The provision for insurance losses represents the Corporation's best estimate of losses resulting from insuring deposits of member institutions.

The provision is established by (i) assessing the aggregate risk of member institutions based on the Corporation's specific knowledge of its members, (ii) providing for the risk of loss relating to insured deposits by using a market-based, composite risk-weighting system, and (iii) applying the percentage of loss that the Corporation has experienced in member failures during the preceding ten years. The results are stated on a present-value basis.

The market-based, composite risk-weighting system is affected by two factors: the credit ratings of member institutions and the market spreads between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms. The provision stood at $400 million at March 31, 2001. This amount of provision is reflected across the entire period covered by the pro forma financial statements.

CDIC is currently undertaking a review of its provisioning methodology. The outcome of this work may result in enhancements to the methodology and may materially impact the level of provisions.

Future Income Tax Asset

The Corporation has adopted the recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary timing differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefit of income tax assets including unused tax losses carried forward are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such losses will ultimately be utilized. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date. For planning purposes the corporate income tax rates in effect at the date of this plan are assumed to remain unchanged over the planning period.

Premium Revenue

Premium revenue is calculated on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on the Return of Insured Deposits submitted by member institutions, which is due July 15 of each year. Premiums are payable in two equal instalments on July 15 and December 15.

Other Revenue

The Corporation charges interest on loans made to member institutions and others. Interest continues to accrue on loans but is not recorded in the accounts when, in the Corporation's opinion, there is reasonable doubt as to collectability of the interest. In such cases, payments received are recognized as a reduction of the loan balance until such time as the loans are retired. Subsequent payments are recognized as other revenue on a cash basis.

In certain situations, amounts recovered from the estates of member institutions (claims receivable) exceed the amounts claimed. Such amounts (referred to as post-liquidation interest) are recorded as other revenue when they are reasonably determinable and reasonable certainty of receipt exists.