



# CDICSADC

## SUMMARY OF THE CORPORATE PLAN 2004/2005 TO 2008/2009

(INCLUDING A SUMMARY OF THE 2004/2005  
OPERATING AND CAPITAL BUDGETS, AND BORROWING PLAN)

MARCH 2004



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 I: OVERVIEW

THE MANDATE OF THE CANADA DEPOSIT INSURANCE CORPORATION (CDIC) IS 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. THIS IS DONE FOR THE BENEFIT OF DEPOSITORS IN A MANNER THAT MINIMIZES THE EXPOSURE OF THE CORPORATION TO LOSS. CDIC DOES NOT RECEIVE GOVERNMENT APPROPRIATIONS AND CURRENTLY HAS NO DEBT.

Each year, CDIC develops a Corporate Plan to assist the organization in fulfilling its mandate over a five-year planning period. This document provides a summary of that Plan for the period 2004/2005 to 2008/2009.

CDIC will concentrate on four business strategies in achieving its objectives during the planning period. These are:

Readiness                      Sound Governance  
Strong Partnerships    Deposit Insurance Awareness

The Canadian economy continues to exhibit signs of good economic performance and growth. During the five-year planning cycle ahead, we expect the Canadian economy will continue to perform well. Globally, there remains uncertainty with respect to the performance of other economies, lingering financial market volatility, and the ever-present possibility that global economic and/or political developments could present further risks to our membership.

CDIC's approach in this environment is to focus primarily on readiness: being prepared to fulfill CDIC's role of deposit insurer by being alert to events affecting the Corporation and its members and having the ability to anticipate, react to and manage risk. CDIC will also continue to work with other deposit insurers around the world, as well as other Canadian safety-net participants, in contributing to advances in the field of deposit insurance. It has access to a worldwide network of deposit insurers by means of its membership in the recently established International Association of Deposit Insurers, which fosters better training and knowledge transfer among practitioners. This and other relationships help contribute to stability and strengthen Canada's deposit insurance system.

CDIC recognizes the importance of appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to the Corporation will be sufficient to address the risks it faces. Therefore, CDIC decided it would be prudent to have an amount of advance or ex ante funding available for possible deposit insurance losses. CDIC has determined that this amount of ex ante funding is represented by the aggregate of both the Surplus and the Provision for Insurance Losses as reported in our financial statements. The target range for the amount of ex ante funding for CDIC's Plan is set at between 40 and 50 basis points of insured deposits – which translates into a range of approximately

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A LEADER IN DEPOSIT INSURANCE**

\$1.4 to \$1.8 billion based on levels of insured deposits as at April 30, 2003. This amount is forecast to be 33 basis points or \$1.2 billion at March 31, 2004.

Notwithstanding the need for ongoing readiness, for financial planning purposes we do not project a failure for the planning period ahead. In light of CDIC's solid financial position, the current and projected level of its ex ante funding, as well as with a view to minimizing the overall cost of deposit insurance, CDIC is maintaining premium rates at their lowest levels ever. Accordingly, the premium rate categories (from best-rated Category 1 to worst-rated Category 4) for 2004/2005 will remain as follows:

- Category 1: 1/48th of 1 per cent of insured deposits;
- Category 2: 1/24th of 1 per cent of insured deposits;
- Category 3: 1/12th of 1 per cent of insured deposits; and
- Category 4: 1/6th of 1 per cent of insured deposits.

Annual premium revenue throughout the planning period is forecast to range between \$112 million and \$126 million. Premium rates are fixed annually with consideration given to the risk profile of the membership, the overall financial environment and the Corporation's actual and projected amount of ex ante funding. Accordingly, the premium revenue projections for the planning period are subject to change.

For 2004/2005, we anticipate total revenues of \$155 million, consisting of \$112 million in premiums and interest and other revenue of \$43 million. Operating expenses are expected to be \$24 million, while the capital budget will be \$0.7 million. CDIC does not anticipate the need to borrow funds over the planning period.

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



R.N. Robertson  
Chairman



J.P. Sabourin  
President and CEO

## PART 2: OPERATIONAL ENVIRONMENT

### EXTERNAL ENVIRONMENT

In today's interconnected world, the financial, social and political environments exercise a significant influence on CDIC member institutions as well as on the Corporation itself.

Although elements of uncertainty persist within the international economic environment in particular, we anticipate Canada's economy will remain resilient to shocks and will experience healthy economic growth during the five-year planning cycle encompassed by this document. Canada's economic growth and job creation have rebounded in the latter part of 2003 and are now strong within an environment of low inflation and relatively low and stable interest rates. On the whole, these conditions should continue to provide for a favourable economic and financial environment for CDIC and its member institutions. Insured deposits are forecast to continue to grow at a moderate pace.

Nevertheless, uncertainties remain that could alter this outlook. Among these are: slow GDP growth in the world's largest economies, including the Euro area and Japan; large fiscal deficits in the United States; the possible continuing effect on investor confidence of recent corporate and securities scandals; and currency fluctuations affecting the value of the Canadian dollar. Moreover, turbulence in other economies, international instability related to the "war on terrorism," and the ever-present risk of unforeseen socio-political developments could affect the outlook.

Given this environment, CDIC will remain focused on contributing to the stability of Canada's financial system by providing deposit insurance in accordance with its mandate, while continuing to enhance its preparedness in the event of unforeseen developments.

### MEMBER INSTITUTIONS TRENDS AND ISSUES

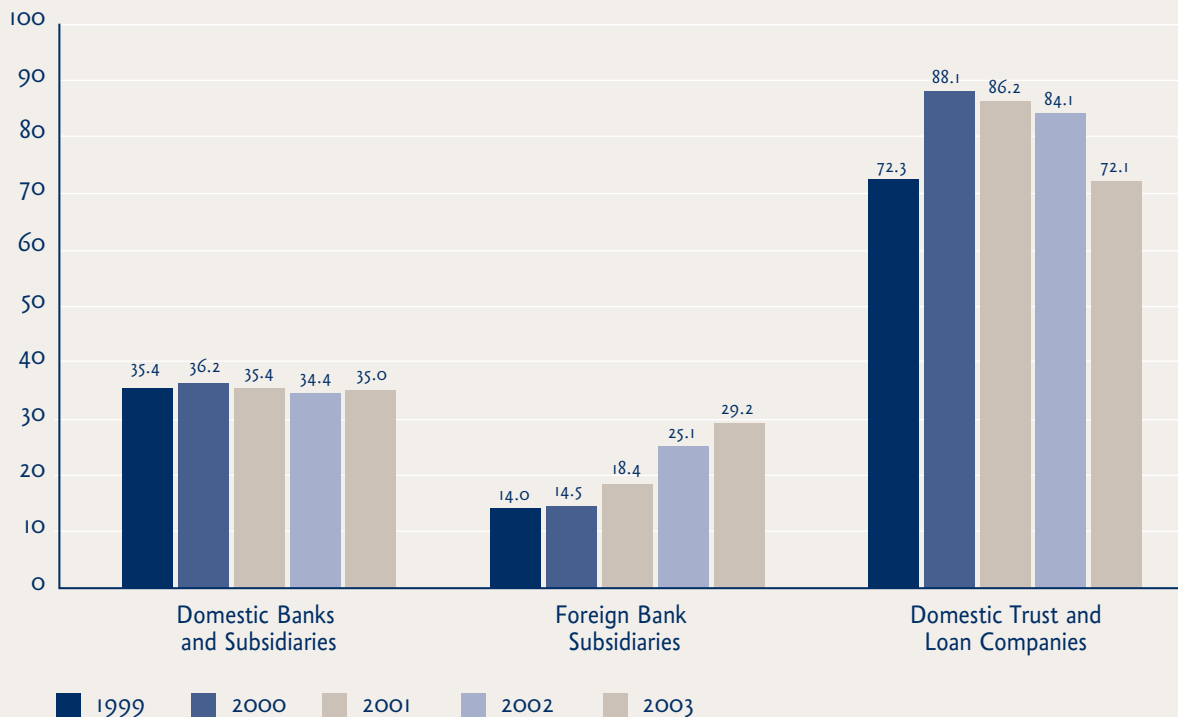
From an overall perspective, member institutions continue to perform well in the current economic environment. They appear likely to continue with strong levels of profitability during the planning period ahead.

However, areas of concern remain. Some member institutions still have a high sensitivity to capital market performance and therefore their profitability may be affected if capital markets weaken. Similarly, some members have increased their exposure to higher-risk real estate lending, including commercial mortgages, interim construction lending and sub-prime mortgage lending. Adverse developments in real estate markets could affect these institutions substantially.

CDIC's modernized *Standards of Sound Business and Financial Practices* (Standards) came into effect in 2001 with its first reporting cycle ending in mid-July 2003. The Standards set out CDIC's expectations regarding the business and financial practices of member institutions. They focus on enterprise-wide corporate governance, strategic and risk management, and the control environment. Monitoring adherence to the Standards is a key component of CDIC's assessment of member risk.

CDIC obtains confirmation from its member institutions that they are following the Standards. This is communicated in the form of annual attestations from each member's board of directors and its senior management and periodic reports describing how the institution has determined its adherence to the Standards. The frequency of the periodic reports is based on a member's premium categorization under the CDIC *Differential Premiums By-law*. Member institutions classified in worse premium categories must file a detailed Standards report more frequently than those in better premium categories. Monitoring adherence to CDIC's Standards will remain a significant means of assessing members over the planning period.

## PERCENT OF INSURED DEPOSITS TO TOTAL DEPOSITS



### CDIC'S INTERNAL ENVIRONMENT

To be prepared to fulfill its mandate at any time and under any circumstances, the Corporation continues to focus its efforts on optimizing internal strengths and reinforcing its ability to intervene effectively in the event that member-institution failure does occur.

In the spring of 2003, CDIC implemented a comprehensive corporate reorganization to address issues of changing workloads, to streamline internal processes and manage rising operating costs. This has resulted in a reconfiguration of responsibilities, a reduction in CDIC's work force of 12 per cent, and a reduction in operating costs of approximately 10 per cent. In implementing the reorganization, CDIC made use of its

succession plans to put in place a proper mix of expertise and experience to support the fulfillment of the Corporation's mandate well into the future. CDIC's revised organizational structure is presented at Appendix A.

The Corporation has been working on several fronts to reduce regulatory costs. For example, it has reduced annual premiums collected from member institutions by more than 80 per cent since 1996, reduced reporting requirements pertaining to its *Standards of Sound Business and Financial Practices*, and expanded its on-line systems to provide member institutions with the ability to file more information electronically. CDIC will continue this focus on the streamlining of regulatory reporting and costs throughout the planning period.

## PART 3: BUSINESS OBJECTIVES, STRATEGIES, PLANS AND PERFORMANCE INDICATORS

### PERFORMANCE AGAINST PAST OBJECTIVES

Last year's Corporate Plan identified four corporate business strategies for CDIC. These were developed in support of the Corporation's business objectives (its statutory mandate) and based on its assessment of the financial and economic environment at the time.

These strategies were as follows:

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

CDIC's performance to date compared with these business strategies is summarized in the following Performance Management Scorecard, updated to December 31, 2003.

The Scorecard shows that targets in support of all four corporate business strategies are substantially being met. After nine months in the current fiscal year, all major projects are proceeding on schedule and within budget. CDIC is forecasting that it will achieve almost 85 per cent of the targets established to measure its performance against key performance indicators or measures. In addition, 90 per cent of key supporting initiatives are proceeding on schedule and within budget.

### PERFORMANCE MANAGEMENT SCORECARD — DECEMBER 31, 2003

#### SCORECARD PROGRESS SYMBOLS LEGEND

To assist in interpreting the progress presented on the scorecards that follow, CDIC has used the following quick reference symbols:

- ▲ Planned progress on schedule and within budget.
- ▼ Slippage in terms of time to completion, and/or budget variances.
- Cancelled.
- Deferred to a future year.



## BUSINESS STRATEGY: PROACTIVE READINESS

### KEY SUPPORTING INITIATIVES

- Review and update the processes supporting ongoing risk assessment of all member institutions with a focus on integrating environmental factors; ▲
- Conduct close monitoring of high-risk member institutions and undertake the appropriate risk management and intervention activities with respect to high-risk members; ▲
- Work within the context of the CDIC/OSFI Strategic Alliance Agreement; ▲
- Strengthen working relationships and cooperation with examiners; ▲
- Continue development of contingency plans that document approaches to intervention, insolvency and failure resolution – to enable CDIC to respond effectively to a failure or failures of member institutions of varying size, complexity and structure; ▲
- Ensure that adequate funding is available for the payout of insured deposits should the need arise; ▲
- Ongoing research and development of a Deposit Insurance Fund; ▲
- Maintain and administer a process to assess the deposit insurance eligibility of member deposit products; ▲
- Assess deposit insurance differential premiums, including completion of an independent confirmation to ensure the criteria and factors used to classify member institutions into different categories for premium purposes are appropriate; ▲
- Maintain current and monitor compliance by member institutions with the Policy of Deposit Insurance, the insurance related requirements of the CDIC Act and relevant By-laws (the *Standards of Sound Business and Financial Practices By-law*, *Joint and Trust Account Disclosure By-law*, *Application for Deposit Insurance By-law*, *Differential Premiums By-law*, *Opting-out By-law*, and the *Deposit Insurance Information By-law*); ▲
- Develop processes to facilitate knowledge transfer between risk managers and senior management to enhance risk assessment and reporting. ▲

KEY PERFORMANCE INDICATORS	TARGETS	PERFORMANCE AGAINST TARGETS
<ul style="list-style-type: none"> <li>■ Ability to assess CDIC's exposure to member risk.</li> </ul>	<ul style="list-style-type: none"> <li>■ All member institutions are assessed at least annually and all high-risk members identified early.</li> </ul>	<ul style="list-style-type: none"> <li>■ All member institutions are assessed annually. Risk assessment reports on high-risk members are updated regularly. ▲</li> </ul>
<ul style="list-style-type: none"> <li>■ Ability to manage high-risk members.</li> <li>■ Capacity to intervene – contingency plans are in place that document approaches to intervention, insolvency and failure resolution – to enable CDIC to respond effectively to a failure or failures of member institutions of varying size, complexity and structure.</li> </ul>	<ul style="list-style-type: none"> <li>■ A sound contingency plan and supporting systems are in place.</li> <li>■ Prepare, test and implement contingency plans for failure of a member type by March 2004.</li> </ul>	<ul style="list-style-type: none"> <li>■ Operational Readiness Group established to coordinate corporate-wide readiness initiatives and develop detailed operational plans for undertaking interventions. ▲</li> <li>■ PC Payout refurbishment nearing completion and enhancements in progress; payout simulation tests of system planned for Q4. ▲</li> </ul>
<ul style="list-style-type: none"> <li>■ Ability to retain employees with appropriate skills, qualifications and experience to match current job requirements.</li> </ul>	<ul style="list-style-type: none"> <li>■ Maintain level of resources applied to training and development at 2.5% to 3% of salary budget.</li> </ul>	<ul style="list-style-type: none"> <li>■ Forecasts indicate that the level of resources applied to training and development will be maintained at approximately 3% of the salary budget. ▲</li> </ul>

## BUSINESS STRATEGY: INVESTING IN TECHNOLOGY TO LEVERAGE INFORMATION

### KEY SUPPORTING INITIATIVES

- Develop automated risk assessment and management tools; ▲
- Further develop portal software to provide integrated view of and access to multiple data sources and analytical tools including the implementation of graphic software to facilitate trend analysis; ▲
- Implement the second phase of the Integrated Financial Information System (IFIS II) project; ▲
- Further develop secure web component modules and web-based technologies to facilitate the electronic filing systems for Differential Premiums and Return of Insured Deposits; ▲
- Migrate the MIDAS II data warehouse to a web environment to facilitate internal reporting and web page production; ▲
- Upgrade and develop the electronic filing systems for Differential Premiums and Return of Insured Deposits; ▲
- Review the Valuation Model and evaluate other possible intervention models; ▲
- Review and upgrade as appropriate the infrastructure to ensure the secure exchange of information with supervisors. ▲

KEY PERFORMANCE INDICATORS	TARGETS	PERFORMANCE AGAINST TARGETS
<ul style="list-style-type: none"> <li>▪ Appropriate technology in place to facilitate secure exchange of information with member institutions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement next phase of electronic exchange of information with member institutions (aggregate membership information on the CDIC website by March 2004; final phase of e-filing of Return of Insured Deposits).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Study being conducted with OSFI to identify joint initiatives to facilitate the exchange of information with member institutions. Members are now able to file Return of Insured Deposits electronically. ▲</li> </ul>
<ul style="list-style-type: none"> <li>▪ Availability of effective channels of delivery to provide access to current and relevant information to depositors and other stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Create a website designed to provide vital information to depositors in the event of a member institution failure.</li> <li>▪ CDIC main website is current at all times.</li> </ul>	<ul style="list-style-type: none"> <li>▪ This project has been deferred and will be undertaken in 2004/2005. ☹</li> <li>▪ The main website is monitored continually and kept current (list of member institutions, By-laws, info for depositors, etc). ▲</li> </ul>
<ul style="list-style-type: none"> <li>▪ Access to adequate systems by employees to support internal operations of CDIC.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expand technology infrastructure in accordance with CDIC's Information Systems Strategic Plan.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Notebooks deployed to replace some desktop units; improvements to wireless communications; and security improvements made for remote access. ▲</li> </ul>

## BUSINESS STRATEGY: FOLLOW SOUND BUSINESS AND FINANCIAL PRACTICES

### KEY SUPPORTING INITIATIVES

- Implement an enterprise risk management system; ▼
- Provide professional development and emphasize knowledge management through: ▲
  - Preparation of competency profiles for key positions;
  - Provision of appropriate professional development training;
  - Implementation of a knowledge management culture and processes;
- Conduct employee surveys to continue to monitor employee satisfaction to make certain that there are no impediments to a productive and motivated work force; ▲
- Implement Phase II of EDMS, including the implementation of an integrated web-enabled portal and related business system applications, such as database of contacts and the repository of documents; ▲
- A comprehensive review of all business processes to ensure that CDIC's business resumption plan is effective; ▲
- Maintaining close contact with other government organizations to share business resumption information and look for joint efficiencies. ▲

KEY PERFORMANCE INDICATORS	TARGETS	PERFORMANCE AGAINST TARGETS
<ul style="list-style-type: none"> <li>▪ A sound corporate-wide risk management system is in place and is being managed in accordance with ongoing, appropriate and effective management processes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate-wide risk management system to identify deficiencies is in place encompassing all areas of the Corporation.</li> <li>▪ Deficiencies are addressed in an appropriate and timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Although slightly behind schedule, an Enterprise Risk Management (ERM) function and supporting committee is in place, a Board Governance Policy is in place, and CDIC's Control environment is beginning to be assessed. ▼</li> <li>▪ Deficiencies are being addressed as identified during the ERM process. ▲</li> </ul>
<ul style="list-style-type: none"> <li>▪ Performance against the operating budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Actual operating results within ± 5% of operating expenditure budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Actual operating results are forecast to be within the target range. ▲</li> </ul>

## BUSINESS STRATEGY: PUBLIC AWARENESS

### KEY SUPPORTING INITIATIVES

- Provide advice and information to regulators, member institutions and their associations and other interested parties about CDIC deposit insurance and CDIC membership; ▲
- Conduct economic and policy research and develop proposals to assist CDIC, the finance services sector and the international community in the provision of deposit insurance; ▲
- Implement the remaining (two) years of the current five-year Public Awareness and Education Program; ▲
- Tailor annual media purchase to achieve optimum reach of target audiences; ▲
- Work with member institutions to ensure compliance with the *Deposit Insurance Information By-law* and identify additional methods to provide financial consumers with useful information; ▼
- CDIC representatives speaking/participating at relevant conferences, seminars and other events; ▲
- Add interactive services to CDIC website; ▲
- Strengthen partnerships with consumer groups and associations. ▲

KEY PERFORMANCE INDICATORS	TARGETS	PERFORMANCE AGAINST TARGETS
<ul style="list-style-type: none"> <li>▪ Level of awareness of deposit insurance and CDIC.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Attain an awareness level of deposit insurance and CDIC of 70% by 2005/2006.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Measurement of awareness level will be conducted in Q4. ▲</li> </ul>
<ul style="list-style-type: none"> <li>▪ Level of awareness of \$60,000 limit.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Attain an awareness level of \$60 thousand limit of 50% by 2005/2006.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Measurement of awareness level will be conducted in Q4. ▲</li> </ul>

## STRATEGIC DIRECTION: BUSINESS OBJECTIVES AND STRATEGIES FOR THE PLANNING PERIOD

### 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.

CDIC's statutory objects have remained largely unchanged during the past decade. They were reviewed by the Board of Directors in 2003 and once again confirmed as being current and appropriate.

### BUSINESS STRATEGIES

During the planning period, the Corporation will follow four long-term business strategies to achieve the above-mentioned business objectives.

The business strategies, in their order of priority, are as follows:

**Readiness** – being prepared to fulfill CDIC's role of deposit insurer by being ready, and alert to events affecting the Corporation and its members and having the ability to anticipate, react to and manage risk.

**Sound Governance** – ensuring that policies, procedures and reporting are in place such that the Corporation can demonstrate it is well managed and can fulfill its mandate in an effective and efficient manner.

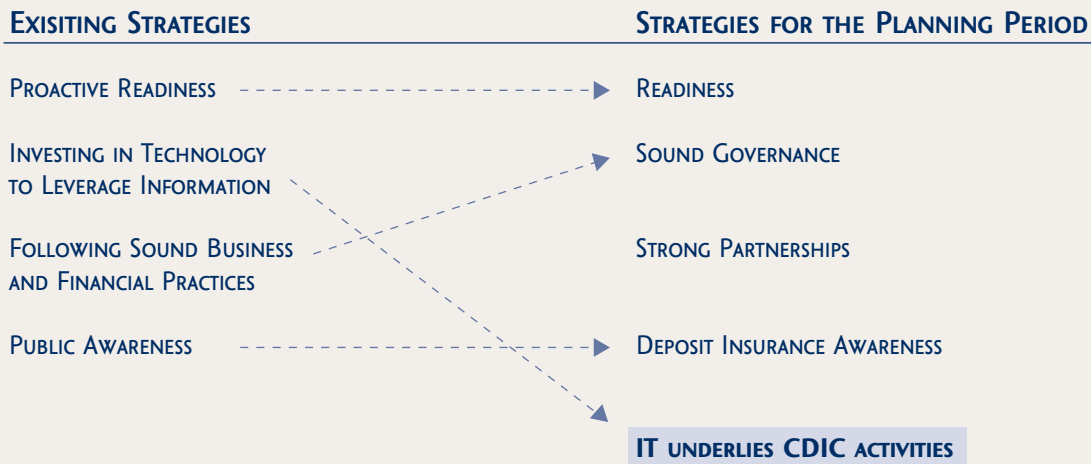
**Strong Partnerships** – enhancing relationships with CDIC's partners (members, regulators, supervisors and suppliers) to better achieve the Corporation's mandate. This will include working with our members to identify opportunities to reduce costs and to maximize the benefits of deposit insurance for member institutions.

**Deposit Insurance Awareness** – increasing depositor awareness and explaining the benefits and limitations of deposit insurance.

### STRATEGY STATEMENT

IN PROVIDING DEPOSIT INSURANCE, CDIC UNDERTAKES INITIATIVES TO PROACTIVELY ASSESS AND MANAGE THE RISKS OF INSURING DEPOSITS, TO KEEP ABREAST OF ECONOMIC AND POLICY ISSUES, TO INCREASE UNDERSTANDING OF DEPOSIT INSURANCE, TO ENHANCE RELATIONSHIPS WITH STAKEHOLDERS, AND TO MINIMIZE THE COST OF DEPOSIT INSURANCE. CDIC ACHIEVES THESE GOALS THROUGH APPROPRIATE, EFFICIENT AND EFFECTIVE OPERATIONS.

The following is a map of the above four business strategies with those originally presented in the Corporate Plan 2002/2003 to 2006/2007.



Details pertaining to each of the strategies for the planning period are summarized in the following sections. CDIC’s Corporate Scorecard presenting the business strategies, supporting initiatives and key performance indicators is presented at the end of Part 3.

**READINESS**

Initiatives related to the readiness strategy will focus on the enhancement of our risk assessment and intervention tools, the updating of certain by-laws and processes to better reflect changes in the environment, and the thorough testing of our readiness. Comprehensive reviews of the *Application for Deposit Insurance By-law* and *Differential Premiums By-law* have begun and will extend over part of the planning period.

The current risk assessment methodology will be complemented by the development of a quantitative early warning model. The objective of the model is to provide early warning of financial distress and helps validate the existing qualitative risk assessment methodology. CDIC will also continue the updating of its intervention tools and processes. This will

entail a review of its special examination and preparatory examination methodologies and its closure manual, the further enhancement of its payout and valuation applications, and the development of an intervention website designed to provide vital information to depositors and other concerned parties in the event of a member institution failure.

CDIC will develop and execute a plan to simulate an intervention relating to an institution failure. This simulation will test the efficacy of the various operational aspects of an intervention from close monitoring to failure resolution and will include a two-track approach to assessing options. The initial focus of such simulations will be on the conduct of a payout, with other processes being tested later in the planning period.

The successful execution of the readiness business strategy will ensure that the Corporation can effectively manage its risk as a deposit insurer; that it is current and knowledgeable with respect to significant events affecting its membership; that it has a sound corporate and technological infrastructure, and is prepared to deal promptly and effectively with problems occurring in its membership.

## SOUND GOVERNANCE

Under this strategy, CDIC's Enterprise Risk Management (ERM) processes will be integrated with its strategic management and reporting processes. This will include the development of an enterprise information system that will link and support the reporting of strategic, risk and human resource management.

CDIC's Board Governance Policy, which formalizes the responsibilities of the Board and sets forth its expectations regarding the role of management in that regard, was recently completed. As a result, ongoing gap analysis will be conducted to identify areas for improvement or change through assessment of the policy against practices. Reporting related to CDIC's adherence with the policy will continue throughout the planning period.

Consistent with sound governance practice, and mindful of the current operating environment, business continuity planning and business resumption planning will continue to be an important focus during the planning period. CDIC defines its *Business Continuity Plan* (BCP) in a comprehensive fashion covering all aspects of continuing operations regardless of the nature of a given business disruption.

CDIC must strive also to maintain its ability to attract and retain employees with strong core competencies and appropriate skills, qualifications and experience. CDIC will undertake a review of its Human Resources Strategy and revisit all supporting activities and functions to assess their continued relevance and appropriateness.

The successful execution of this business strategy will allow CDIC to demonstrate that it is a well-managed organization with sound policies and procedures in place and complemented by a rigorous challenge and reporting regime.

## STRONG PARTNERSHIPS

CDIC plans to engage in a number of initiatives that will both enhance and leverage its relationships with member institutions, regulators, supervisors and suppliers. Major comparative financial ratios, based on data that is publicly available, will be posted on a secure website to facilitate planning and benchmarking. In order to provide input into the upcoming overall review of financial legislation in Canada to take place in 2006, CDIC will also conduct research in consultation with member institutions and other players in the financial safety net concerning proposed amendments to relevant legislation.

A comprehensive review of the *Deposit Insurance Information By-law* is being undertaken and is expected to be implemented early in the planning period. This review will be accomplished by working closely with member institutions to enhance the provision of relevant information while also identifying opportunities to reduce costs for member institutions.

Given changes in the Province of Quebec whereby the Quebec Deposit Insurance Board (QDIB) (now the *Autorité des marchés financiers*) is being merged with a number of other provincial agencies, CDIC will undertake a review of its 1969 agreement with the QDIB. It will continue to develop joint programs and facilities-sharing arrangements with the Financial Consumer Agency of Canada. As well, CDIC will continue to forge cooperative relations internationally with other deposit insurance organizations by means of direct information sharing and involvement in the International Association of Deposit Insurers (IADI).

CDIC and OSFI have held joint discussions regarding increased collaboration in the area of information technology (IT). The IT strategic plans of both organizations have made provision over the next two to four years to address aspects of secure electronic transfer of data and the increased sharing of information with stakeholders and peer organizations.

The successful execution of this business strategy will enable CDIC to fulfill its role as a deposit insurer in an efficient and effective manner and allow the Corporation to contribute to efforts to improve regulatory efficiency for member institutions.

#### **DEPOSIT INSURANCE AWARENESS**

CDIC has been very active in efforts to inform Canadians about deposit insurance. Its public awareness strategy has been multi-faceted, involving television and print advertising, a corporate website, a 1-800 inquiries service, a print and electronic publications program, as well as public, media and member relations.

A new five-year plan in support of awareness activities will be developed in 2004/2005. Efforts will be made to strengthen and identify new partnerships among consumer groups and associations to leverage CDIC's awareness efforts. Existing collaboration with partners, such as the Financial Consumer Agency of Canada and other stakeholders, will be continued. Financial education tools to familiarize individual investors with deposit insurance issues will also be developed. All of this will be done with a view to disseminating relevant information on deposit insurance.

The successful execution of this strategy will enable CDIC to further fulfill its role of contributing to the stability of the financial system in Canada.

#### **TECHNOLOGY**

Technology is a major component of each of the business strategies described in this document. The next step in the evolution of technology at CDIC involves the implementation of enterprise-wide systems to make full use of the information

stored in current CDIC applications. Such systems will integrate financial applications with other systems, and will provide management with interactive reports and enhance the electronic presentation of information to stakeholders. These new enterprise systems will be introduced through an Enterprise Information Portal to provide a consistent view of information at the individual-user level.

CDIC has offered electronic filing to its members for the past three years. It will continue to develop its electronic filing solution by working with sister agencies on an E-Business initiative to standardize technology for electronic filing and the exchange of information among agencies. This initiative involves the exploration of secure technologies to utilize the Internet to facilitate the exchange of Protected Information.

CDIC will maintain its infrastructure, refresh hardware and software through its life-cycle management methodology and provide all employees with strong technological support and administration. Presently, CDIC is deploying a Service Management Framework to prepare for new system deployments and enterprise support needs. Security is paramount to CDIC. Up-to-date technology is being utilized to ensure that CDIC remains at the forefront of protecting its systems and information.

#### **CORPORATE SCORECARD — 2004/2005 TO 2008/2009**

The scorecard that follows depicts the Corporation's Business Strategies and supporting key initiatives, as well as the key performance indicators that it will report against during the planning period.



MANDATE	BUSINESS STRATEGY	ONGOING ACTIVITIES	PLANNED KEY SUPPORTING INITIATIVES 2004/2005 TO 2008/2009	KEY PERFORMANCE INDICATORS (MEASURE/TARGET)
<p>For the Benefit of Depositors:</p> <ul style="list-style-type: none"> <li>■ Provide Deposit Insurance</li> <li>■ Promote Standards</li> <li>■ Contribute to the Stability of the Financial System</li> </ul> <p>... while minimizing exposure to loss.</p>	<p><b>Readiness</b>  <i>Be prepared to fulfill CDIC's role of deposit insurer by being ready and alert to events affecting CDIC members and having the ability to anticipate, react and manage risk.</i></p>	<ul style="list-style-type: none"> <li>■ Risk assessment of members and membership</li> <li>■ Watch list of higher-risk members</li> <li>■ Standards of Sound Business and Financial Practices</li> <li>■ Contingency Planning</li> <li>■ Funding plans</li> <li>■ Differential Premiums System</li> <li>■ Technological Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>■ Simulation of a member failure</li> <li>■ Assessment of impact of environmental changes on members / membership (Basel II, accounting principles, SOX)</li> <li>■ Investments in technology (intervention tools, quantitative monitoring tools, portal applications)</li> </ul>	<ul style="list-style-type: none"> <li>■ Successful simulation by March 2005</li> <li>■ Analysis of implications of environmental issues (e.g., Basel II) for CDIC is performed on a timely basis</li> <li>■ Successful implementation of I.S. Strategic Plan (Portal technology deployed on schedule; enhancements to ROAD MAP and Valuation Model in place by March 2005 and 2006, respectively)</li> </ul>
	<p><b>Sound Governance</b>  <i>Ensure that policies, procedures and reporting are in place such that the Corporation can fulfill its mandate in a controlled, effective and efficient manner.</i></p>	<ul style="list-style-type: none"> <li>■ Board &amp; Committees (Audit, Executive, Governance, Human Resources &amp; Compensation)</li> <li>■ Strategic Management Process</li> <li>■ Enterprise Risk Management</li> <li>■ Internal Audit process</li> <li>■ Annual review of CDIC By-laws</li> </ul>	<ul style="list-style-type: none"> <li>■ Enterprise Risk Management (ERM), Strategic and Performance Management systems and reporting</li> <li>■ Business Continuity / Resumption Plans (BCP)</li> <li>■ HR Strategy, succession planning, training and compensation scheme</li> <li>■ Internal audit as a strategic / risk management tool</li> <li>■ 2004 OAG Special Examination</li> <li>■ Corporate governance policy</li> <li>■ Annual reviews of CDIC By-laws</li> </ul>	<ul style="list-style-type: none"> <li>■ ERM framework, annual sign-off and reporting regime in place by March 2005</li> <li>■ BCP in place and tested by March 2005</li> <li>■ Approval of updated HR Strategy and implementation by March 2005</li> <li>■ Annual achievement of all Internal Audit strategic and operational plans</li> <li>■ No significant deficiencies resulting from Special Examination</li> <li>■ Policies in place and regularly reviewed by Board of Directors</li> <li>■ Annual Review conducted and any required revisions addressed</li> </ul>
	<p><b>Strong Partnerships</b>  <i>Enhance relationships with our partners (members, regulators, supervisors and suppliers) to better achieve CDIC's mandate.</i></p>	<ul style="list-style-type: none"> <li>■ Consultation with membership</li> <li>■ CDIC / OSFI Strategic Alliance Agreement</li> <li>■ Joint external committees (SAC, sub-SAC, FISC, sub-FISC)</li> <li>■ Existing partnership arrangements (OSFI, Bank of Canada, FCAC, Communications Canada)</li> <li>■ International participation</li> <li>■ Key suppliers inventory and relationships</li> </ul>	<ul style="list-style-type: none"> <li>■ Enhancing / leveraging information to members</li> <li>■ Improve communications tools with OSFI and other strategic partners and increase efficiency for risk assessment issues</li> <li>■ Proactive analysis of regulatory burden issues including a focused review of the overall cost of providing deposit insurance</li> <li>■ Undertake research of specific deposit insurance issues in support of potential amendments to the <i>CDIC Act</i> and other related legislation towards the 2006 review of the <i>Bank Act</i> and related financial system legislation</li> </ul>	<ul style="list-style-type: none"> <li>■ Membership profile information available to members by March 2006</li> <li>■ Progress made in regard to ESIS project, improvements to communications infrastructure with strategic partners</li> <li>■ Issues pertaining to CDIC identified and action plans in place by March 2005</li> <li>■ Issues papers developed by March 2005</li> </ul>
	<p><b>Deposit Insurance Awareness</b>  <i>Increase depositor awareness and promote the benefits and limitations of deposit insurance.</i></p>	<ul style="list-style-type: none"> <li>■ Television advertising</li> <li>■ 1-800 lines</li> <li>■ Register of Insured Deposits</li> <li>■ Updating and dissemination of information brochures</li> <li>■ Public speaking engagements</li> </ul>	<ul style="list-style-type: none"> <li>■ Bridge from the existing to a new communications and deposit insurance awareness strategy and plan</li> <li>■ Finalize revisions and implement revised <i>Deposit Insurance Information By-law</i></li> </ul>	<ul style="list-style-type: none"> <li>■ Revised communications and deposit insurance awareness strategy and plan in place by March 2005</li> <li>■ Implications of new communications and deposit insurance awareness strategy and plan to be reflected in revised By-law by March 2005</li> </ul>

## PART 4: FINANCIAL AND RESOURCE PLANS

The five-year financial Plan is based on the planning assumptions found in Appendix C.

### FINANCIAL PERFORMANCE — 2002/2003 AND 2003/2004

This subsection provides an overview of CDIC's performance against its Plan for the fiscal years ending March 31, 2003 and 2004, and budgets to support the objectives for the fiscal year ending March 31, 2005.

### PERFORMANCE AGAINST PLAN — FINANCIAL HIGHLIGHTS

The five-year pro forma financial statements and the progression of the 2002/2003 and 2003/2004 Plans are included in Appendix D. This Appendix also includes the Corporation's financial results for 2002/2003 against its approved Plan for the same year, as well as the 2003/2004 forecast against the approved Plan. The following table highlights CDIC's performance in selected key areas for 2002/2003 and 2003/2004.

### KEY FINANCIAL HIGHLIGHTS FOR THE YEARS ENDING MARCH 31 (\$ MILLIONS)

	2003 APPROVED BUDGET AND PLAN	2003 ACTUAL	2004 APPROVED BUDGET AND PLAN	2004 FORECAST
Premium Revenue	80	76	78	109
Interest on Cash and Investments	24	32	39	35
Operating Expenses*	27*	26*	25	23
Net Operating Income**	—	6	14	12
Claims Receivable	—	18	—	18
Allowance for Loss	—	4	—	7
Provision for Guarantees	—	5	—	4
Provision for Insurance Losses	400	550	500	550
Surplus	654	539	690	661
Capital Expenditures***	0.9	1.0	1.8	1.6

\* The level of operating expenses approved in the Corporate Plan 2002/2003 to 2006/2007 was \$24 million. An additional \$3.0 million budget was approved by the Board of Directors to allow the Corporation to complete a restructuring to streamline its overall workflow and processes, as well as to reduce future operating costs. As a result, included in the Corporation's operating expenses for the year ended March 31, 2003, are restructuring costs of \$2.6 million relating to employee departures.

\*\* Interest income less operating expenses.

\*\*\* The level of capital expenditures approved in the 2003/2004 Corporate Plan was \$700 thousand. During the year, the Board of Directors approved an additional capital budget of \$1.115 million for the completion of leasehold improvements to the Corporation's premises.

**2002/2003 ACTUAL TO PLAN**

Premium revenue of \$76 million was \$4 million lower than planned, due to a combination of lower than planned growth in insured deposits and the movement of members between premium categories.

Interest on cash and investments for the year ended March 31, 2003, was \$32 million or \$8 million higher than planned. This positive variance reflects higher than planned yields on investments during the year.

The Corporation had total operating expenses of \$26 million compared to a revised budget amount of \$27 million (original budget of \$24 million). During the year, CDIC's Board of Directors approved a one-time budget of \$3.0 million in support of the Corporation's organizational restructuring. As a result, included in the Corporation's operating expenses for the year ended March 31, 2003, are restructuring costs of \$2.6 million relating to employee departures.

The balance of claims receivable was \$18 million higher than Plan due to timing differences in the expected recoveries from various estates of failed member institutions.

The allowance for loss on claims receivable was \$4 million higher than Plan due to delays in expected recoveries and wind-up of estates of failed member institutions.

The provision for guarantees was \$5 million higher than Plan due to timing differences on payments under the Toronto-Dominion Bank deficiency coverage agreements.

The provision for insurance losses (described in Appendix D) was \$150 million higher than planned. Of this amount, a \$100 million increase was recorded in 2001/2002, largely as a result of enhancing the provisioning methodology. An additional \$50 million was recorded in 2002/2003 to reflect the change in the risk profile of the Corporation's membership during the year.

The year-end surplus of \$539 million was \$115 million lower than planned. This variance reflects a \$97 million lower than planned opening surplus balance and lower than planned net income for the year ended March 31, 2003.

Overall capital expenditures were higher than budgeted due to unplanned leasehold improvements to the Corporation's premises.

**2003/2004 FORECAST TO APPROVED PLAN**

Premium revenue is forecast to be \$31 million higher than Plan, resulting primarily from the movement of members between premium categories and higher than anticipated growth in insured deposits.

Interest on cash and investments is projected to be \$4 million lower than Plan due to lower than planned yields on investments.

Operating expenses are projected to be \$2 million lower than Plan. As a result of the organizational restructuring that took place in 2002/2003, the Corporation is forecasting a savings in salaries and other personnel costs of approximately \$2 million from the planned amounts.

Claims receivable are projected to be \$18 million higher than the Plan. This variance is caused by expected recoveries from estates being delayed to future periods.

The allowance for loss on claims is projected to be \$7 million higher than the Plan. This is due to delays in expected recoveries and wind-up of estates of failed member institutions and additional allowances for loss of \$3 million recorded during the year.

The provision for guarantees is forecast to be \$4 million higher than Plan due to timing differences on payments required under the Toronto-Dominion Bank deficiency coverage agreements.

The provision for insurance losses is forecast to be \$50 million higher than Plan. This variance reflects a \$50 million adjustment to the provision for insurance losses in the Corporation's 2002/2003 fiscal year.

The accumulated surplus is projected to be \$29 million lower than Plan. Information is available in the progression of the 2002/2003 and 2003/2004 Plans found in Appendix D (Statement of Income and Surplus).

Capital expenditures, including leasehold improvements, are expected to be less than budgeted as a portion of the leasehold improvement costs were incurred in the Corporation's 2002/2003 fiscal year.

#### **FIVE-YEAR FINANCIAL PLAN**

The Corporation forecasts premium revenue of \$112 million for its fiscal year ending March 31, 2005.

The premium revenue for the fiscal years 2004/2005 to 2008/2009 is based on the same premium rates used in 2003/2004 for all four premium categories. For planning purposes, the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004, and the annual growth of insured deposits is forecast to be 3 per cent. Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of its membership, and the actual and projected level of ex ante funding relative to the target range. Accordingly, the actual premium revenue for the planning period may vary from the figures included in this Plan.

Over the five-year planning period, premium revenue is forecast to total \$593 million and interest income on investments and other revenue are forecast to total \$253 million. Operating expenses are budgeted at \$124 million. The Corporation is subject to federal income tax and is required to pay income taxes on its taxable income.<sup>1</sup> CDIC has tax losses that can be carried forward to reduce future years' earnings for tax purposes. These tax losses expire in the Corporation's 2004/2005 fiscal year and, as such, taxable income earned in subsequent years will be subject to corporate income tax.

The adequacy of provisions for losses is assessed on an annual basis and, if necessary, adjustments are recorded. As mentioned earlier, 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 Financial Plan reflects the fact that the net realizable value of all outstanding claims receivable, which was \$14 million at March 31, 2003, will be eliminated within the planning period. It is planned that \$8 million will be recovered against outstanding claims during the fiscal year ending March 31, 2005. An additional \$3 million adjustment to the Allowance and Provision for Loss will be reflected on the 2004/2005 Statement of Income and Surplus in order to account for uncollectible claims receivable.

The guarantee liability for the Toronto-Dominion Bank under the deficiency coverage agreements, forecast to be \$4 million as at March 31, 2004, is not expected to be retired until the year ending March 31, 2006. CDIC has sufficient funds available to meet payments under these guarantee obligations.

<sup>1</sup> Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. As such, the Corporation's source of taxable income is its interest revenue on cash and investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes.

An accumulated surplus of \$793 million is forecast as at March 31, 2005, and is expected to grow to \$1,355 million as at March 31, 2009, 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 interest earned on

cash and investments. No borrowings or borrowing costs are projected over the planning period.

Operating expenses for 2004/2005 are budgeted to be approximately \$1 million lower than those originally budgeted for 2003/2004. This reduction results principally from savings generated by the organizational restructuring completed in 2002/2003.

### OPERATING BUDGET — 2004/2005

FOR THE YEARS ENDING MARCH 31

(\$ MILLIONS)

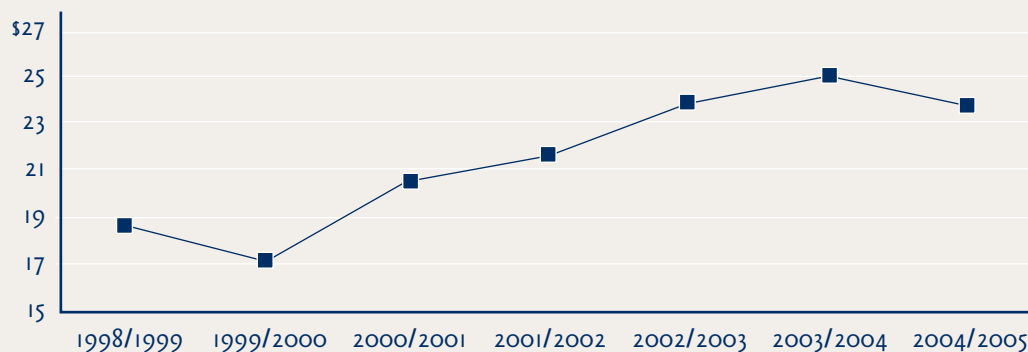
	2003 ACTUAL	2004 PLAN	2004 FORECAST	2005 PLAN
<b>REVENUE</b>				
Premiums (Note 1)	76	78	109	112
Other adjustments and recoveries (Note 2)	(38)	17	3	13
	38	95	112	125
<b>OPERATIONS</b>				
<b>Income</b>				
Interest income	32	39	35	41
<b>Expenses</b>				
Salaries and other personnel costs	15	13	11	12
Inspection, legal and other fees	2	2	2	2
Premises	3	3	3	3
Public awareness	2	2	2	2
General expenses	3	3	3	3
Data processing	1	2	2	2
	26	25	23	24
<b>Net Operating Income</b>	6	14	12	17
<b>Net Income Before Income Tax Benefit/Expense</b>	44	109	124	142
(Increase)/Reduction in future income tax asset	(9)	5	2	10
<b>Net Income</b>	53	104	122	132

Note 1: The premium revenue is based on the following assumptions: premium rates are the same as those in 2003/2004 for all four premium categories; the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004, and an annual growth of insured deposits of 3 per cent.

Note 2: Includes recoveries of amounts from estates that were previously written off and post-liquidation interest.

The following chart depicts the history of CDIC's Operating Expenditures Budget from 1998/1999 to 2004/2005.

**OPERATING EXPENDITURES BUDGET  
(\$ MILLIONS)**



**CAPITAL BUDGET — 2004/2005**

The budget for capital expenditures in 2004/2005 is \$700,000.

The capital budget is summarized as follows:

**ANALYSIS OF CAPITAL PLANS  
FOR THE YEARS ENDING MARCH 31  
(\$ THOUSANDS)**

	2003 ACTUAL	2004 PLAN	2004 FORECAST	2005 PLAN
Furniture and Equipment	130	100	100	100
Computer Hardware	668	600	600	600
Leasehold Improvements*	204	1,115	910	0
<b>Total</b>	<b>1,002</b>	<b>1,815</b>	<b>1,610</b>	<b>700</b>

\* During the year, the Board of Directors approved an additional capital budget of \$1.115 million for the completion of leasehold improvements in the Corporation's offices.

Upgrades to CDIC's information systems will continue in 2004/2005 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 Readiness and Sound Governance as described in Part 3.

## **BORROWING PLAN**

### **DEBT MANAGEMENT**

At December 31, 2003, 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 ongoing guarantees under deficiency coverage arrangements 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 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.

### **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 or such greater amount as may be authorized by Parliament under an appropriation act. The Act also allows the Minister to charge CDIC a credit enhancement fee in respect of any borrowings.

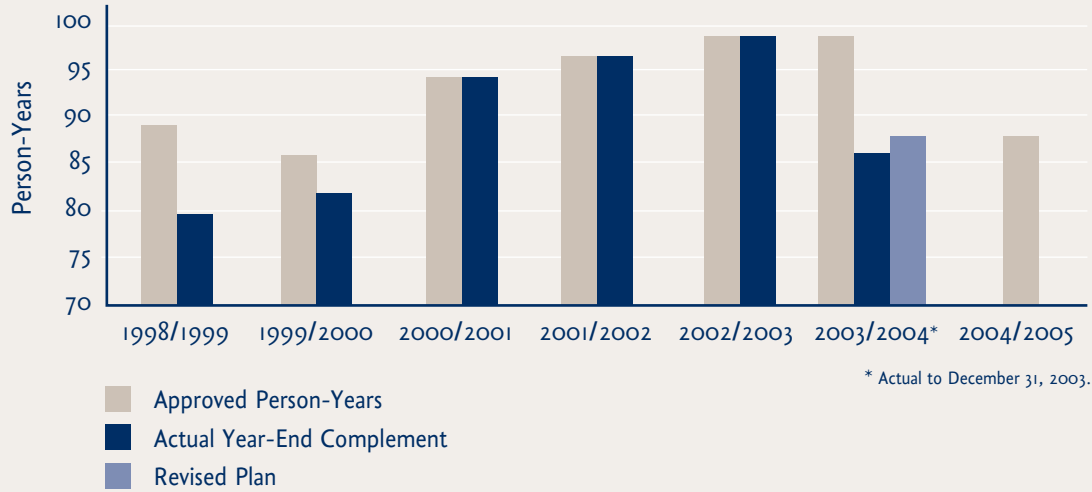
CDIC has the ability to borrow funds, if required, by issuing securities such as commercial paper and medium-term notes in domestic and other markets. An information memorandum to support this program has been developed. In the event funding is required, the program would be adjusted to satisfy any borrowing activity over the planning period (although borrowings are not anticipated during the planning period). Any debt issuance within the borrowing program requires specific approval of the Board of Directors and 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. As CDIC is expecting its investment portfolio to grow, a third party review of CDIC's strategy was undertaken to align its investment policy with CDIC's environment and business strategies. As a result of this review, CDIC adjusted its investment portfolio to provide for improvement in portfolio yield characteristics by extending term in highly rated credit instruments. The changes in its investment policy provide opportunities for additional yield with a relatively minor increase in the level of risk taken.

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

### HUMAN RESOURCE LEVELS



### SUPPORTING HUMAN RESOURCE REQUIREMENTS

In the spring of 2003, in order to address evolving workloads in various areas, the need to control operating costs, to invoke appropriate succession planning and provide a strong organizational base for the future, the Corporation underwent a significant reorganization. This resulted in a reduction of

12 per cent of the permanent work force and brings the Corporation back to the person-year levels of the late 1990s. The following chart presents CDIC’s human resource levels from 1998/1999 to present, as well as those planned for 2004/2005.

Below is an overview of the human resource requirements for the planning period.

### HUMAN RESOURCE REQUIREMENTS

	2003/2004 PLAN	2003/2004 REVISED*	2004/2005 TO 2008/2009 (PLAN)
Finance & Administration Division (including Information Systems)	41	34	34
Insurance & Risk Assessment Division	26	24	24
Field Operations Division	14	0	0
Corporate Affairs Division	0	18	18
Executive Division	18	12	12
<b>Total</b>	<b>99</b>	<b>88</b>	<b>88</b>

\* Reflects the new organization structure implemented April 1, 2003.



### 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 Minister of State (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, in assessing and managing its deposit insurance risk, CDIC has the power to set conditions of membership (by way of its *Policy of Deposit Insurance* and its *Standards of Sound Business and Financial Practices* for member institutions), control the entry of new members, assess deposit insurance premiums and take insurance action, when required (e.g., closing weak members, reimbursing insured depositors, and making claims and recovering assets from the estates of failed members).

Except in certain circumstances (i.e., the conduct of special and preparatory examinations to clarify CDIC's risk), CDIC has no supervisory role. In support of the assessment of risk in its membership, under the *CDIC Act*, the Corporation relies on the Office of the Superintendent of Financial Institutions and provincial regulators to conduct annual examinations of member institutions on its behalf. However, CDIC works closely with these regulators and provides input when the scope of the annual examination is determined and, in particular, in determining actions to be taken against member institutions, where circumstances warrant.

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, as 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, and thereby incurs no financial liability or risk. To date, no requests have been made under this Act.

### MEMBERSHIP

CDIC membership is limited to banks, federally-incorporated trust or loan companies, provincially-incorporated trust or loan companies, and associations to which the *Cooperative Credit Associations Act* applies. 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 depositor (principal and interest combined) in each member institution. CDIC provides separate protection for joint deposits, deposits held in trust and deposits held in registered retirement savings plans and in registered retirement income funds. Deposits are not insured separately in each branch office of a member institution.

### PREMIUMS

The Corporation is funded by premiums that are assessed on the insured deposits of member institutions as at April 30 of each year. CDIC utilizes a differential premiums structure having four premium categories, the rate for each category ranged in 2003/2004 from 1/6th of 1 per cent to 1/48th of 1 per cent of insured deposits. In 2003/2004, member institutions paid \$109 million in premiums.

### DEPOSITS IN QUEBEC

The province of Quebec has a deposit insurance plan of its own under the administration of the Autorité des marchés financiers. Under the terms of an agreement between CDIC and the Autorité des marchés financiers, deposits made in Quebec with provincially-incorporated members are insured by the Autorité des marchés financiers, 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***As at December 31, 2003*

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

**John Doran**  
Assistant Superintendent, Supervision  
Office of the Superintendent of  
Financial Institutions  
*(ex officio)*

**Bill Knight**  
Commissioner, Financial Consumer  
Agency of Canada  
*(ex officio)*

**Grant Morash**  
Financial Advisor  
Halifax

**Julie Dickson**  
Assistant Superintendent  
Regulation Sector  
Office of the Superintendent  
of Financial Institutions  
*(alternate for the Superintendent of  
Financial Institutions)*

**Tracey Bakkeli**  
T. Bakkeli Consultants Inc.  
Regina

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

**Nicholas Le Pan**  
Superintendent of Financial Institutions  
*(ex officio)*

**Darryl J. Raymaker**  
Partner  
Raymaker, Bontorin  
Calgary

**David Longworth**  
Deputy Governor  
Bank of Canada  
*(alternate for the Governor of  
the Bank of Canada)*

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

**Claude Huot**  
Consultant in economic development  
Le Groupe Stragesult  
Montreal

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

**Frank Swedlove**  
Assistant Deputy Minister  
Financial Sector Policy Branch  
Department of Finance, Canada  
*(alternate for the Deputy Minister of Finance)*

**CDIC OFFICERS***As at December 31, 2003*

**Jean Pierre Sabourin**  
President and Chief Executive Officer

**Michèle Bourque**  
Vice-President  
Insurance and Risk Assessment

**Guy L. Saint-Pierre**  
Executive Vice-President and  
Chief Operating Officer

**M. Claudia Morrow**  
Vice-President, Corporate Affairs,  
General Counsel and Corporate Secretary

**Thomas J. Vice**  
Vice-President, Finance and Administration  
and Chief Financial Officer

## ORGANIZATIONAL STRUCTURE

As at December 31, 2003



## SUMMARY OF KEY HISTORICAL FACTS

FACT	MOST RECENT DATA																
	(ALL FIGURES ARE AS AT MARCH 31, 2003, UNLESS OTHERWISE STATED.)																
Year of incorporation	1967																
Incorporation	Crown corporation – Part I, Schedule III of the <i>Financial Administration Act</i>																
Operating expenses – 2002/2003	\$25.7 million																
Capital expenses – 2002/2003	\$0.7 million																
Net income – 2002/2003	\$52.7 million																
Surplus	\$539 million																
Provision for Insurance Losses	\$550 million																
Approved permanent employee positions – 2003/2004	88																
Number of member institutions – December 31, 2003	<table border="0"> <tr> <td>Domestic banks and subsidiaries:</td> <td style="text-align: right;">38</td> </tr> <tr> <td>Domestic trust and loan companies:</td> <td style="text-align: right;">24</td> </tr> <tr> <td>Foreign bank subsidiaries:</td> <td style="text-align: right;">25</td> </tr> <tr> <td><i>Total:</i></td> <td style="text-align: right;"><u>87</u></td> </tr> <tr> <td>Federal institutions – banks:</td> <td style="text-align: right;">35</td> </tr> <tr> <td>Federal institutions – trust and loan companies:</td> <td style="text-align: right;">45</td> </tr> <tr> <td>Provincial institutions:</td> <td style="text-align: right;">7</td> </tr> <tr> <td><i>Total:</i></td> <td style="text-align: right;"><u>87</u></td> </tr> </table>	Domestic banks and subsidiaries:	38	Domestic trust and loan companies:	24	Foreign bank subsidiaries:	25	<i>Total:</i>	<u>87</u>	Federal institutions – banks:	35	Federal institutions – trust and loan companies:	45	Provincial institutions:	7	<i>Total:</i>	<u>87</u>
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Provincial institutions:	7																
<i>Total:</i>	<u>87</u>																
Total insured deposits – April 30, 2003	<table border="0"> <tr> <td>Domestic banks and subsidiaries:</td> <td style="text-align: right;">\$339.7 billion</td> </tr> <tr> <td>Foreign bank subsidiaries:</td> <td style="text-align: right;">\$16.0 billion</td> </tr> <tr> <td>Domestic trust and loan companies:</td> <td style="text-align: right;">\$7.6 billion</td> </tr> <tr> <td><i>Total:</i></td> <td style="text-align: right;"><u>\$363.3 billion</u></td> </tr> <tr> <td>Federal institutions:</td> <td style="text-align: right;">\$362.4 billion</td> </tr> <tr> <td>Provincial institutions:</td> <td style="text-align: right;">\$0.9 billion</td> </tr> <tr> <td><i>Total:</i></td> <td style="text-align: right;"><u>\$363.3 billion</u></td> </tr> </table>	Domestic banks and subsidiaries:	\$339.7 billion	Foreign bank subsidiaries:	\$16.0 billion	Domestic trust and loan companies:	\$7.6 billion	<i>Total:</i>	<u>\$363.3 billion</u>	Federal institutions:	\$362.4 billion	Provincial institutions:	\$0.9 billion	<i>Total:</i>	<u>\$363.3 billion</u>		
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Federal institutions:	\$362.4 billion																
Provincial institutions:	\$0.9 billion																
<i>Total:</i>	<u>\$363.3 billion</u>																
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																

## SUMMARY OF KEY HISTORICAL FACTS (CONTINUED)

FACT	MOST RECENT DATA (ALL FIGURES ARE AS AT MARCH 31, 2003, UNLESS OTHERWISE STATED.)
2003/2004 premiums assessed	\$109 million
Total premiums assessed since 1967	\$5.6 billion
Total premium rebates reimbursed to member institutions since 1967	\$9 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	24
▪ management/agency agreement	10
▪ CDIC-assisted commercial transaction	9
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	\$200 million
Total income taxes paid by CDIC since 1967	\$28 million
Total dividends paid to the Government since 1967	\$5 million
Website	<a href="http://www.cdic.ca">http://www.cdic.ca</a>
Website visits during 2003	245,000
Toll-free telephone number	1-800-461-CDIC
Toll-free calls received during 2003	13,000

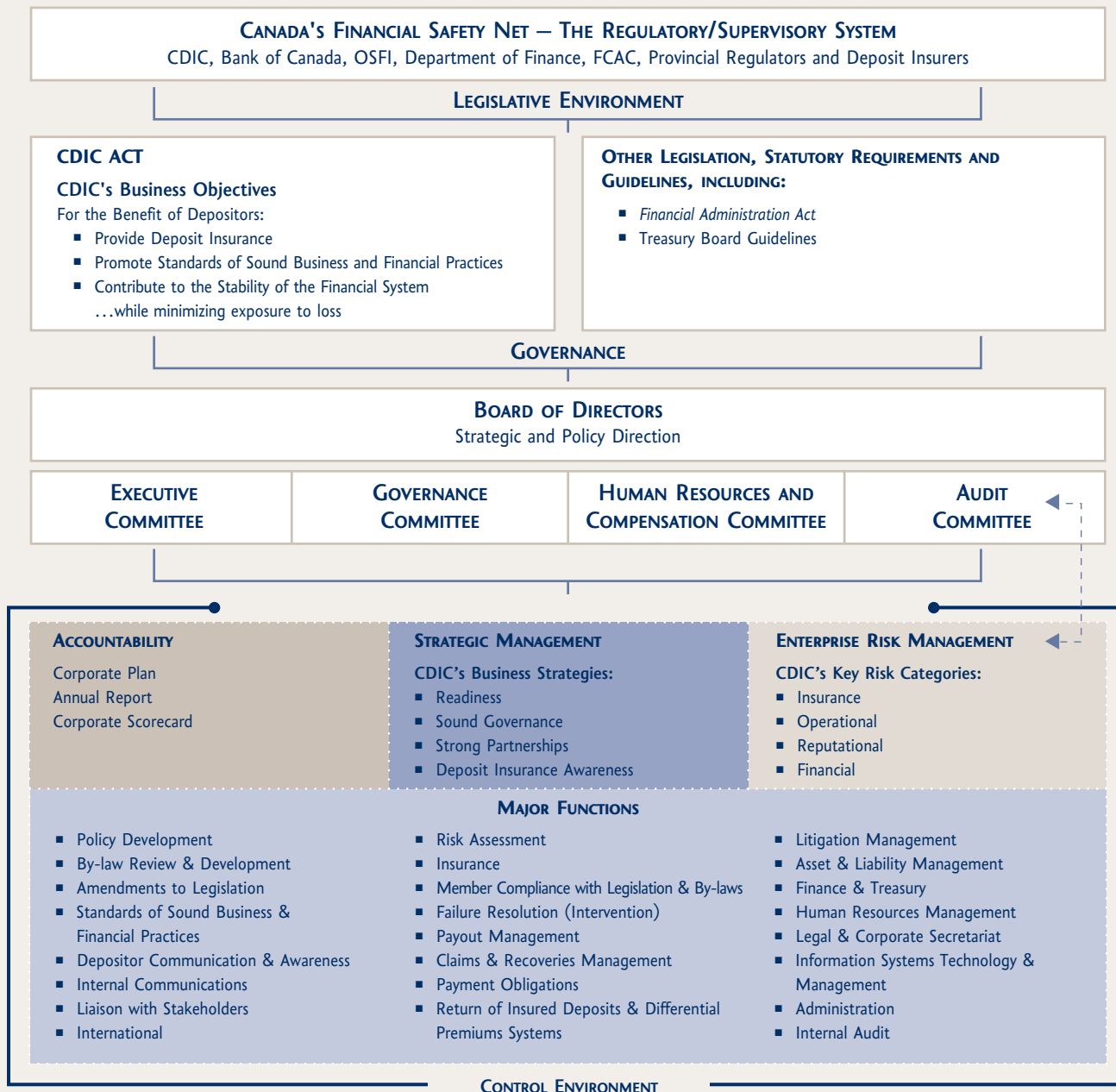
# APPENDIX B: KEY BUSINESS PROCESSES

## BUSINESS MODEL

CDIC has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. The business model reflects CDIC’s position as an integral part of Canada’s financial safety net, with its own legislated mandate. CDIC’s Board of Directors and management activities are considered

under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management which are summarized in sections of this Appendix that follow. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.

## CDIC BUSINESS MODEL

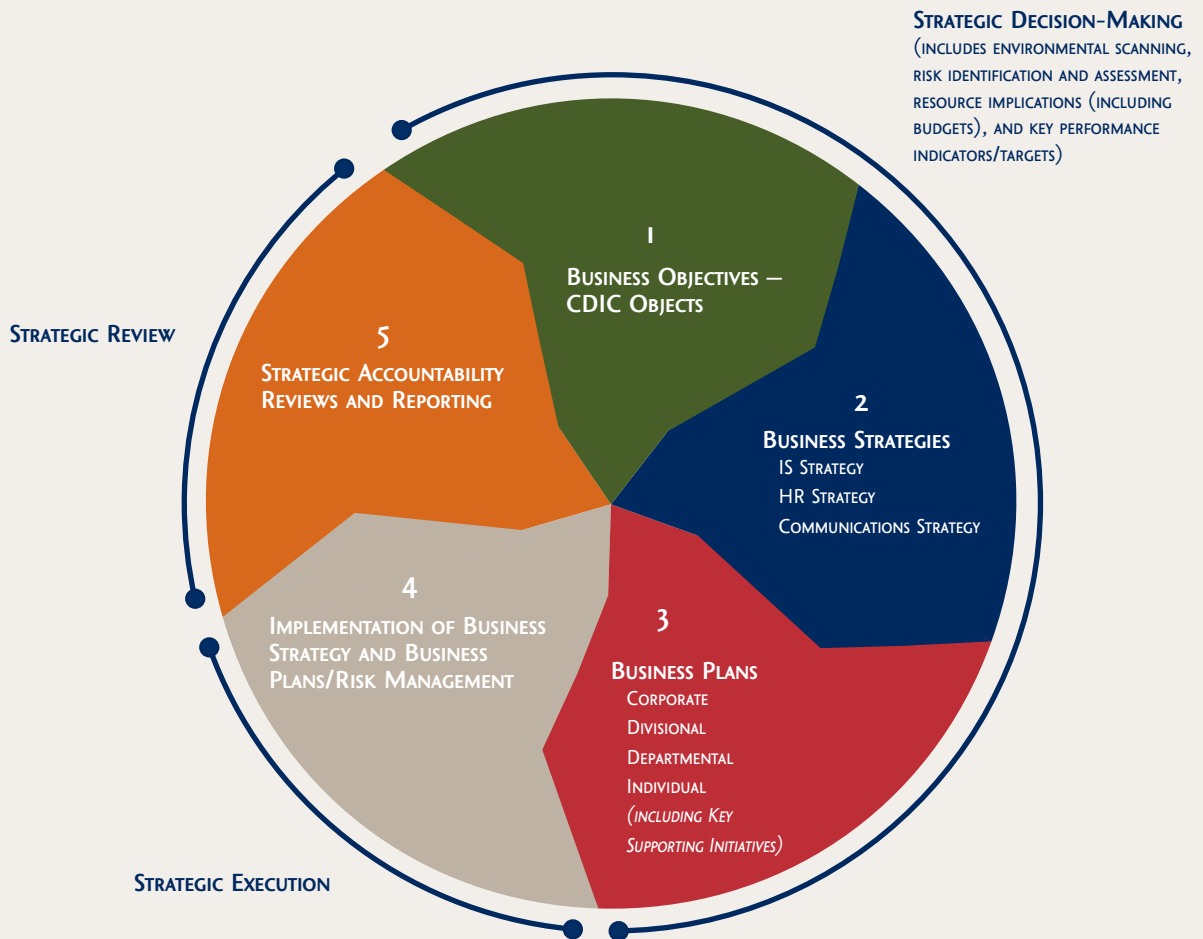


### STRATEGIC MANAGEMENT PROCESS MODEL

In conducting its corporate planning, CDIC follows a Strategic Management Process Model<sup>1</sup> 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* respecting strategic management, adapted to reflect that CDIC is a public policy Crown corporation rather than a private-sector commercial enterprise.

### CDIC'S STRATEGIC MANAGEMENT PROCESS MODEL



<sup>1</sup> Strategic management is the process of ensuring that business operations are planned, authorized, properly implemented and monitored. Effective strategic management entails:

- Strategic decision-making – establishing business objectives for the organization and deciding on an entity-wide strategy for achieving them;
- Strategic execution – developing and implementing business plans to carry out the business strategy; and
- Strategic review – subjecting the business strategy and plans to regular review against current and anticipated conditions as well as results.



**DEFINITIONS**

There are a number of terms and concepts used in the Strategic Management Process Model that are central to this Corporate Plan:

**Business Objectives**

For a public sector organization such as CDIC, its statutory mandate or objects.

**Business Strategies**

The description of how CDIC's business objectives are to be achieved, which provides a mechanism to ensure that its affairs are conducted and evaluated in comparison with the Corporation's business objectives.

**Environmental Scan**

The review of internal and external issues comprising the environment within which CDIC operates conducted to identify the risks that may impact on CDIC's ability to achieve its business objectives, strategies and plans.

**Risk Identification and Assessment**

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 ongoing enterprise risk management process.

**Business Plans**

The description (including performance indicators related thereto) of the initiatives that CDIC will conduct in implementing its business strategies.

**ENTERPRISE RISK MANAGEMENT (ERM)**

The comprehensive, systematic and disciplined process by which CDIC identifies, assesses, manages, monitors and reports, at any point in time, the significant risks inherent in its business objectives, strategies, plans and affairs.

**Strategic Accountability Reviews and Reporting**

The assessment of an organization's business objectives, business strategy and business plans on an ongoing basis (and collectively at least once a year) to ensure that they remain appropriate and prudent.

The regular reporting 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 Corporate Scorecard to describe and report on its objectives, strategies, initiatives and its performance against key indicators.

## ENTERPRISE RISK MANAGEMENT

CDIC incorporates risk identification and management into its planning and strategic management processes. It has developed the following Enterprise Risk Management (ERM) Process model for this purpose. CDIC's risks stem from its business objectives, strategies, plans and operations. ERM identifies these risks and opportunities for their management. The circular nature of the model reflects the continuous process of risk management and its direct link to a sound strategic management regime.

CDIC has identified the following key risks:

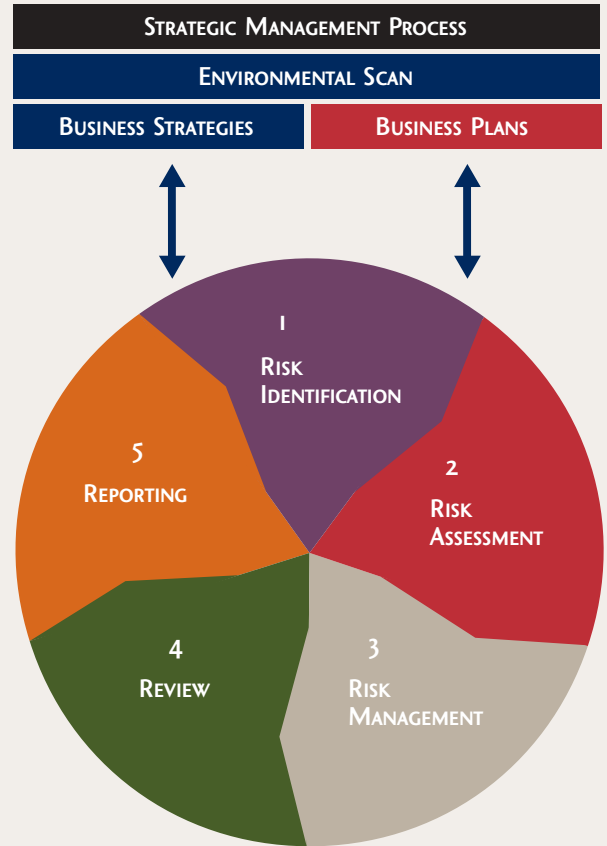
**Insurance Risk:** CDIC's risk of loss associated with insuring deposits.

**Financial Risk:** The risk associated with managing and accounting for CDIC's assets and liabilities, both on- and off-balance sheet.

**Operational Risk:** The risk of loss, whether direct or indirect, to which CDIC is exposed that is attributable to the possibility of disruptions in its operations caused by external events, human error, or the inadequacy or failure of processes, policies, procedures or controls.

**Reputational Risk:** The risk of CDIC's credibility, or confidence in it, being impaired.

## CDIC'S ENTERPRISE RISK MANAGEMENT PROCESS MODEL



### PLANNING ASSUMPTIONS FOR THE PERIOD

Planning assumptions are the core premises 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 assumptions have been used in preparing this five-year plan:

#### STATUTORY OBJECTS

No 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 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

No significant change to the elements of deposit insurance is anticipated during the planning period. CDIC will continue to review and recommend necessary changes to key elements by keeping abreast of domestic and global developments.

### MEMBER INSTITUTION FAILURES

While CDIC seeks to minimize the risk and associated costs of failure of member institutions, both as an insurer and as an essential component of the financial safety net, it has to anticipate that losses may well occur. The current regulatory system in Canada is strong; nonetheless previous experience suggests that, from time to time, individual member institutions will face viability or solvency problems requiring intervention by CDIC. The timing and circumstances of such events are difficult and often impossible to predict with great certainty.

The Corporation's strategy is to be prepared and ready to meet any eventuality within our mandate. This means having access to funding and having plans in place to address potential intervention or failure resolution situations. The rapidly changing nature of the financial services industry requires CDIC to constantly reassess contingency plans to ensure that it can deal with the complexity and scope of a troubled member institution and find appropriate resolution methods of handling failing member institutions.

Although no failures of member institutions are reflected in the pro forma financial statements provided in this summary, CDIC has performed sensitivity analyses to estimate the potential effect of a range of hypothetical failure scenarios. CDIC can handle a payout of \$1 billion with no requirement for additional funding. Payouts over that amount, especially one occurring during the first year or two of the current planning period, would necessitate CDIC borrowing additional funds.

### NUMBER OF MEMBER INSTITUTIONS

Potential merger activity, acquisitions, opting-out and consolidation among CDIC's membership may result in the exit of some member institutions during the planning period. However, legislative changes brought about in 2001 have facilitated 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.

### PREMIUM REVENUE

Premium revenues are projected to total approximately \$112 million for 2004/2005, based on the following Differential Premiums System rates: 1/48th of 1 per cent, 1/24th of 1 per cent, 1/12th of 1 per cent, and 1/6th of one per cent for categories 1 to 4, respectively. These rates are the same as the rates imposed in 2003/2004.

Pro forma premium revenue is projected based on the following assumptions: premium rates will remain the same throughout the planning period; the distribution of member institutions across premium categories will not change significantly; and the growth of insured deposits will average 3 per cent per year. Premium rates are fixed annually considering the Corporation's financial condition and the actual and projected level of advance or ex ante funding relative to the target range (see **Ex Ante Funding** on next page), the economic environment and the risk profile of member institutions. Accordingly, the premium revenue for the planning period may be subject to material change.

### APPROPRIATIONS AND BORROWINGS

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

### INVESTMENT REVENUE

CDIC's investment revenue will continue to be governed by the investment policy approved by the Board of Directors at its March 2003 meeting. This policy supports CDIC's investment strategy, which is 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 will be maintained at all times.

### PUBLIC AWARENESS

This Plan is based on the assumption that strategically focused public awareness initiatives will continue throughout the planning period.

## FINANCIAL POSITION

CDIC anticipates that it will maintain a stable financial position throughout the planning period. The Corporation will manage its operations and costs effectively by regularly reviewing initiatives in relation to its changing environment. Activities are re-prioritized 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 without room for contingencies. Consequently, if CDIC is 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 financial resources.

## EX ANTE FUNDING

Appropriate funding is integral to the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks it faces. Therefore, as a matter of prudence, the Corporation should have an amount of advance or ex ante funding available for deposit insurance losses. CDIC has determined this amount of ex ante funding will consist of the aggregate of both the Surplus and the Provision for Insurance Losses as currently reported in our financial statements. The target range for the amount of ex

ante funding for its Corporate Plan is set at between 40 and 50 basis points of insured deposits – which translates into a range of approximately \$1.4 to \$1.8 billion based on levels of insured deposits as at April 30, 2003.

## HUMAN RESOURCES

A reorganization and downsizing of the Corporation took place effective April 1, 2003. The overall person-year count is expected to remain constant at the post-reorganization level throughout the planning period.

CDIC utilizes its reputation, knowledge base, and the specialized nature of its work to attract and retain a highly motivated and skilled work force. In keeping with its Human Resources Strategic Plan, CDIC will maintain strong core competencies in support of its business strategies and plans through ongoing succession planning, training and development. CDIC will continue to compete for specialized skills and abilities.

From time to time, CDIC may augment its core capacity of expert employees by outsourcing and utilizing contract personnel, consultants, insolvency and legal professionals, and other service providers should the need arise.

## LEASES

Ten-year leases are in place for CDIC's head office in Ottawa (expiring in 2010) and its Toronto office (expiring in 2011). Financial Plans in this document reflect lease costs for both offices.

#### OPERATING BUDGET

CDIC projects total revenue of \$155 million (comprised of premium revenue of \$112 million, interest income of \$41 million and other recoveries of \$2 million), net expenses of \$13 million (operating expenses of \$24 million less recoveries of amounts previously written off and other adjustments of \$11 million) and a reduction in the future income tax asset of \$10 million, resulting in net income of \$132 million for 2004/2005.

#### 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 2004/2005 is \$700,000. 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: PRO FORMA FINANCIAL STATEMENTS AND KEY SUPPORTING ACCOUNTING POLICIES

### PRO FORMA BALANCE SHEET

AS AT MARCH 31

(\$ MILLIONS)

	2003 ACTUAL	2004 PLAN*	2004 FORECAST	2005 PLAN	2006 PLAN	2007 PLAN	2008 PLAN	2009 PLAN
<b>ASSETS</b>								
Cash & investments	1,066	1,179	1,190	1,342	1,486	1,624	1,768	1,920
Accounts receivable	5	5	5	5	—	—	—	—
	1,071	1,184	1,195	1,347	1,486	1,624	1,768	1,920
Capital assets	1	2	2	2	2	2	2	2
Claims receivable	18	—	18	—	—	—	—	—
Allowance for loss on claims receivable	(4)	—	(7)	—	—	—	—	—
	15	2	13	2	2	2	2	2
Future income tax asset	16	11	14	4	3	2	1	—
	1,102	1,197	1,222	1,353	1,491	1,628	1,771	1,922
<b>LIABILITIES</b>								
Accounts payable	8	7	7	7	6	7	6	7
Income tax payable	—	—	—	—	6	7	8	10
Provision for guarantees	5	—	4	3	—	—	—	—
Provision for insurance losses	550	500	550	550	550	550	550	550
	563	507	561	560	562	564	564	567
Surplus	539	690	661	793	929	1,064	1,207	1,355
	1,102	1,197	1,222	1,353	1,491	1,628	1,771	1,922

The projected amounts in this pro forma Balance Sheet reflect premium revenue for the years ending March 31, 2005 to 2009, that is based on the following assumptions: premium rates are the same as those in 2003/2004 for all four premium categories; the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004; and an annual growth of insured deposits of 3 per cent. Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of its membership, and the actual and projected level of ex ante funding relative to the target range. Accordingly, surplus levels and premium revenue for the planning period may vary from the figures included in this Plan.

\* During 2003/2004, the Board of Directors approved an additional capital budget of \$1.115 million for the completion of leasehold improvements in the Corporation's offices.

**PRO FORMA STATEMENT OF INCOME AND SURPLUS**

FOR YEAR ENDING MARCH 31

(\$ MILLIONS)

	2003 ACTUAL	2004 PLAN	2004 FORECAST	2005 PLAN	2006 PLAN	2007 PLAN	2008 PLAN	2009 PLAN
<b>REVENUE</b>								
Premiums*	76	78	109	112	115	118	122	126
Interest on cash and investments	32	39	35	41	46	50	55	59
Other revenue	—	—	—	2	—	—	—	—
	108	117	144	155	161	168	177	185
<b>EXPENSES</b>								
Adjustment to allowance and provisions for loss	46	2	3	3	—	—	—	—
Recovery of amounts previously written off	(8)	(19)	(6)	(14)	(6)	—	—	—
Operating expenses	26	25	23	24	24	25	25	26
	64	8	20	13	18	25	25	26
<b>Net Income Before Income Tax Benefit/Expense</b>	44	109	124	142	143	143	152	159
(Increase) / reduction in future income tax asset	(9)	5	2	10	1	1	1	1
Income tax expense	—	—	—	—	6	7	8	10
	(9)	5	2	10	7	8	9	11
<b>Net Income</b>	53	104	122	132	136	135	143	148
Surplus, beginning of year	486	586	539	661	793	929	1,064	1,207
Surplus, end of year	539	690	661	793	929	1,064	1,207	1,355

\* The premium revenue for the fiscal years 2004/2005 to 2008/2009 is based on the following assumptions: premium rates are the same as those in 2003/2004 for all four premium categories; the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004, and an annual growth of insured deposits of 3 per cent. Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of its membership, and the actual and projected level of ex ante funding relative to the target range. Accordingly, surplus levels and premium revenue for the planning period may vary from the figures included in this Plan.



**PRO FORMA STATEMENT OF CASH FLOWS**

FOR YEAR ENDING MARCH 31

(\$ MILLIONS)

	2003 ACTUAL	2004 PLAN*	2004 FORECAST	2005 PLAN	2006 PLAN	2007 PLAN	2008 PLAN	2009 PLAN
<b>OPERATING ACTIVITIES</b>								
Premium revenue received	75	78	109	112	115	118	122	126
Claims recovered	—	8	—	8	—	—	—	—
Interest revenue received	35	39	35	41	46	50	55	59
Recovery of amounts previously written off	8	19	6	14	6	—	—	—
Other amounts received	1	—	—	2	5	—	—	—
Payments of guarantees	(10)	(4)	(1)	(1)	(3)	—	—	—
Payment of income taxes	—	—	—	—	—	(6)	(7)	(8)
Payments to suppliers and employees	(24)	(23)	(23)	(23)	(24)	(24)	(24)	(25)
Capital assets purchased	(1)	(2)	(2)	(1)	(1)	(1)	(1)	(1)
Cash flows from operating activities	84	115	124	152	144	137	145	151
<b>INVESTING ACTIVITIES</b>								
Cash flows used in investing activities	(56)	(1)	—	—	—	1	(1)	1
<b>CASH AND INVESTMENTS</b>								
Increase during the year	28	114	124	152	144	138	144	152
Balance, beginning of year	1,038	1,065	1,066	1,190	1,342	1,486	1,624	1,768
Balance, end of year	1,066	1,179	1,190	1,342	1,486	1,624	1,768	1,920

The projected amounts in this pro forma Statement of Cash Flows reflect premium revenue for the years ending March 31, 2005 to 2009, that is based on the following assumptions: premium rates are the same as those in 2003/2004 for all four premium categories; the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004; and an annual growth of insured deposits of 3 per cent. Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of its membership, and the actual and projected level of ex ante funding relative to the target range. Accordingly, surplus levels and premium revenue for the planning period may vary from the figures included in this Plan.

\* During 2003/2004 the Board of Directors approved an additional capital budget of \$1.115 million for the completion of leasehold improvements in the Corporation's offices.

**PRO FORMA STATEMENT OF NET INCOME**

FOR YEAR ENDING MARCH 31

(\$ MILLIONS)

	2003 ACTUAL	2004 PLAN	2004 FORECAST	2005 PLAN	2006 PLAN	2007 PLAN	2008 PLAN	2009 PLAN
<b>REVENUE</b>								
Premiums*	76	78	109	112	115	118	122	126
Other adjustments and recoveries**	(38)	17	3	13	6	-	-	-
	38	95	112	125	121	118	122	126
<b>OPERATIONS</b>								
<b>Income</b>								
Interest income	32	39	35	41	46	50	55	59
<b>Expenses</b>								
Salaries and other personnel costs	15	13	11	12	<b>Note:</b> Although total operating expenses have been estimated for the entire planning period, detailed breakdowns by category are not developed beyond 2004/2005.			
Inspection, legal and other fees	2	2	2	2				
Premises	3	3	3	3				
Public awareness	2	2	2	2				
General expenses	3	3	3	3				
Data processing	1	2	2	2				
	26	25	23	24				
Net Operating Income	6	14	12	17	22	25	30	33
Net Income Before Income Tax Benefit/Expense	44	109	124	142	143	143	152	159

\* The premium revenue for the fiscal years 2004/2005 to 2008/2009 is based on the following assumptions: premium rates are the same as those in 2003/2004 for all four premium categories; the distribution of member institution ratings across premium categories is assumed to be the same as in the year ending March 31, 2004; and an annual growth of insured deposits of 3 per cent. In accordance with past CDIC practice, premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of its membership, and the actual and projected level of ex ante funding relative to the target range. Accordingly, surplus levels and premium revenue for the planning period may vary from the figures included in this Plan.

\*\* Includes recoveries of amounts from estates that were previously written off and post-liquidation interest.

## 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.

### 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) provision for insurance losses; (ii) future income tax asset; (iii) allowance for loss on claims receivable; and (iv) provision for guarantees.

### *Provision for Insurance Losses*

The provision for insurance losses represents the Corporation's best estimate of losses that it is likely to incur as a result of insuring deposits of member institutions.

The provision for insurance losses is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and (iii) an expected loss given default. The Corporation calculates its losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage and reflects the cumulative un-weighted average of losses sustained since the CDIC Act was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

### *Future Income Tax Asset*

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. 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.

*Allowance for Loss on Claims Receivable*

This allowance reflects the Corporation's best estimate of losses in respect of 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.

Claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectation of realization. In certain situations, the Corporation will receive payments on loans and claims receivable that have been previously written off. In such situations, any payments received are recorded first to recover amounts previously written off before recognizing additional amounts (referred to as post-liquidation interest) as other revenue.

*Provision for Guarantees*

In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees. Total payments during the planning period are not expected to exceed \$4 million.

**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.