



CDICSADC

Summary of the Corporate Plan
2005/2006 to 2009/2010

(Including a Summary of the 2005/2006
Operating and Capital Budgets, and Borrowing Plan)

March 2005



Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada

Canada

	CDIC's Mission						
	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.						
	For More Information About CDIC						
	<p>CDIC is committed to promoting awareness about deposit insurance and the services provided by the Corporation. Following is key contact information for CDIC:</p> <table data-bbox="227 871 1234 1060"> <tr> <td data-bbox="227 871 803 1060"> HEAD OFFICE Canada Deposit Insurance Corporation 50 O'Connor St., 17th Floor P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5 </td> <td data-bbox="836 871 1234 1060"> TORONTO OFFICE Canada Deposit Insurance Corporation 1200-79 Wellington St. W. P.O. Box 156 Toronto, Ontario M5K 1H1 </td> </tr> </table>				HEAD OFFICE Canada Deposit Insurance Corporation 50 O'Connor St., 17th Floor P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5	TORONTO OFFICE Canada Deposit Insurance Corporation 1200-79 Wellington St. W. P.O. Box 156 Toronto, Ontario M5K 1H1	
HEAD OFFICE Canada Deposit Insurance Corporation 50 O'Connor St., 17th Floor P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5	TORONTO OFFICE Canada Deposit Insurance Corporation 1200-79 Wellington St. W. P.O. Box 156 Toronto, Ontario M5K 1H1						
	Toll-free telephone service 1-800-461-CDIC (2342)	Web site www.cdic.ca	E-mail info@cdic.ca	Facsimile (613) 996-6095			

Note to Reader

Subsequent to the filing of CDIC's Corporate Plan 2005/2006 to 2009/2010, the Government of Canada announced in its February 2005 Budget a number of initiatives that, when passed, will have an impact on CDIC. CDIC will report on its revised plans with respect to these initiatives in future Annual Reports and Summaries of Corporate Plans. Following are the relevant excerpts from the 2005 Federal Budget:

Regulatory Efficiency

Further to the initiative in Budget 2004, the Government is moving ahead to modernize the regulatory system to improve the efficiency and effectiveness of federal financial services regulation. In order to give Canadians smart, efficient regulation, the Government will clarify the roles and responsibilities of CDIC and OSFI [Office of the Superintendent of Financial Institutions] and eliminate unnecessary overlap and duplication between the two agencies.

The Government will maintain the key roles and responsibilities of CDIC, while streamlining several supervisory functions within OSFI. OSFI will be primarily responsible for interacting with federal financial institutions. It will assess institutions against OSFI guidelines, replacing the assessment of institutions against CDIC's Standards of Sound Business and Financial Practices, which are being repealed. Further, OSFI will become the sole organization responsible for reviewing new entrants into the financial sector and developing prudential rules and guidelines.

As part of these reforms, CDIC and OSFI will work together to ensure streamlined administrative and corporate service functions. To this end, CDIC and OSFI will present a plan to the Minister of Finance for streamlining administrative functions by June 30, 2005.

The Government will be introducing amendments to the CDIC Act to reflect these changes and CDIC will amend its by-laws as required by the legislative changes and to further reduce the administrative burden on its member institutions. Going forward, the Government will continue to search for efficiencies and ways of streamlining supervisory functions.

Deposit Insurance Coverage Limit

In addition, to help ensure the continued relevance of the deposit insurance system for Canadians and as part of our commitment to consumer protection, the Government of Canada is increasing the deposit insurance coverage limit from \$60,000 for insurable deposits to \$100,000, effective immediately. The limit was last changed in 1983. This change will enhance protection for consumers, promote competition among deposit-taking institutions, and help Canadians save for retirement.

OVERVIEW	2
I ABOUT CDIC	6
What We Do	6
CDIC Membership	7
Our Key Activities	7
Board of Directors	8
Officers	9
Organizational Structure	9
II OUR OPERATING ENVIRONMENT	10
Government of Canada Review of the Regulatory Framework	10
Economic Outlook	10
Our Membership: Trends and Issues	10
Other Issues to Watch	12
Inside CDIC	12
III LAST YEAR'S WORK – PERFORMANCE AGAINST PAST OBJECTIVES	13
Highlights of Our Performance	13
CDIC's 2004/2005 Corporate Scorecard Results	13
IV THE WORK AHEAD – PLAN FOR 2005/2006 TO 2009/2010	16
Corporate Objectives	16
Planning Assumptions	16
Strategies for the Planning Period	17
CDIC Corporate Scorecard, 2005/2006 to 2009/2010	24
V FINANCIAL AND RESOURCE PLANS	26
Looking Back at Performance: Financial Highlights from 2003/2004 and 2004/2005	26
Five-Year Financial Plan – 2005/2006 to 2009/2010	30
Operating Budget – 2005/2006	37
Capital Budget – 2005/2006	38
Borrowing Plan	39
Human Resource Requirements	40
Key Accounting Principles	41

CDIC'S CORPORATE PLAN FOR THE PERIOD 2005/2006 to 2009/2010 sets out plans and initiatives that will enable CDIC to fulfill its statutory requirements through four business strategies. It is based on careful consideration of the Corporation's operating environment and on a set of clear planning assumptions.

Of particular importance to CDIC's planning for the next five years is the Government's announcement (March 2004) that it is continuing to consider ways to improve the efficiency and effectiveness of the delivery of financial services regulation in Canada. The review is also focused on reducing the regulatory burden on member institutions. CDIC has closely examined its role as both the federal deposit insurer and as an integral part of the financial safety net – in particular, as it relates to activities undertaken by the Office of the Superintendent of Financial Institutions (OSFI). CDIC participated in the review by providing its views in a report to the Minister of Finance. CDIC's business plans will be adjusted accordingly as these initiatives evolve; however, no changes to CDIC's mandate or operations are reflected in this document.

A Strong Foundation for Planning

The Corporation's statutory objects (also our business objectives) are: *to provide insurance against the loss 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. This is to be done for the benefit of depositors in a manner that minimizes the exposure of the Corporation to loss.*

No major changes to membership numbers are foreseen

CDIC's assumptions for the planning period are not significantly different than in the past several years. Of note, the number of CDIC member institutions is not forecast to change significantly. For financial planning purposes, CDIC does not project the failure of a member during the planning period.

Premium rates will be reduced significantly

Premium rates will be reduced at the beginning of the planning period by one third, to their lowest levels ever, and are expected to remain at these low levels throughout the planning period. Rates for the 2005 premium year, from best-rated Category 1 to worst-rated Category 4, are set out in the box on this page.

2005 Premium Rates	
:: Category 1: 1/72nd of 1 per cent (1.389 basis points) of insured deposits	
:: Category 2: 1/36th of 1 per cent (2.778 basis points) of insured deposits	
:: Category 3: 1/18th of 1 per cent (5.556 basis points) of insured deposits	
:: Category 4: 1/9th of 1 per cent (11.111 basis points) of insured deposits	

By reducing rates by one third, CDIC will be contributing to reducing the regulatory cost burden on member institutions. CDIC can make this reduction with only a small impact on the time required to reach the bottom of its *ex ante* funding target range (i.e., by 2008/2009, instead of 2006/2007 if premium rates were not reduced). Given the Corporation's financial position, and the relatively stable state of overall membership risk, this brief delay in attaining the bottom of the *ex ante* funding target range will not significantly increase the Corporation's financial risk. Nonetheless, in order to have in place adequate funding to cover possible deposit insurance losses, CDIC will continue to manage towards the target range for *ex ante* funding of 40 to 50 basis points of insured deposits. The level of *ex ante* funding is currently at 36 basis points of insured deposits.

Premium rates are fixed annually with consideration given to the risk profile of the membership, the overall financial and economic 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.

Other forecasts of note

Annual premium revenue throughout the planning period is forecast to range between \$64 million and \$72 million, based on the following assumptions: the above premium rates will remain unchanged over the planning period; the distribution of member institutions across premium categories will remain relatively the same; and insured deposits will grow at approximately 3 per cent per year.

Planning for Success through Four Business Strategies

In light of the current and anticipated operating environment and the planning assumptions that guide CDIC's work, the Corporation has identified four business strategies that will provide the focus for all key activities and initiatives over the course of the next five years.

CDIC's Business Strategies	
:: Readiness	:: Sound Governance
:: Strong Partnerships	:: Deposit Insurance Awareness

Much of the activity CDIC will undertake over the planning period builds on and strengthens work already in progress. At the same time, CDIC has identified areas of emphasis in each of the business strategies:

Readiness – Work will continue on monitoring the Corporation's broad operating environment, ensuring that we effectively anticipate and act to manage changes in the membership. For example, CDIC will continue to monitor and keep abreast of emerging issues and develop contingency plans to ensure that it can fulfill its obligation to depositors. The Corporation plans to carry out an end-to-end simulation of a failure to be certain that the right people, technology, structures and processes are in place to effectively manage an intervention.

Sound Governance – CDIC will continue to identify opportunities for increasing its efficiency and effectiveness as an organization, including possible shared services and other collaborative arrangements. CDIC will also address the opportunities arising from the 2004 Office of the Auditor General of Canada's Special Examination of the Corporation.

CDIC's approach in the current environment is to focus its attention on readiness: being prepared to fulfill the Corporation's role of deposit insurer by being alert to events affecting CDIC and its members and having the ability to anticipate, react to and manage risk.

Strong Partnerships – CDIC will continue to work to strengthen its relationships with member institutions, regulators, supervisors, suppliers, industry associations and other deposit insurers. For example, it will work with OSFI to further improve data communication tools and to make membership risk assessment methodologies more efficient.

Deposit Insurance Awareness – Emphasis over the next several years will be on implementing a new long-term strategy aimed at effectively communicating the complex and detailed information on deposit insurance in a clear and concise way. Public opinion will continue to serve as a planning tool to help the Corporation determine consumer expectations, perceptions and current knowledge.

Information technology must continue to figure prominently in the Corporation's plans for the next five years. As a key corporate enabler, good use of current technology will result in better work tools, will increase the quality and timeliness of information and will help us put information to better use in managing our business. Similarly, thorough **strategic and enterprise risk management** processes, and strong **human resource management** and **internal audit functions** all support CDIC's sound governance and strengthen the Corporation's ability to fulfill its mandate.

On the Financial Front

For 2004/2005, we anticipate total revenues of \$124 million, consisting of \$93 million in premiums, and interest and other revenue of \$31 million. Actual operating expenses are expected to be \$22.6 million, representing a decrease of 5 per cent from our 2004/2005 budget and 8 per cent from our 2003/2004 budget. Accordingly, as our operating expenses are less than our interest revenue, all of the premium revenue, as well as the excess of interest revenue over operating expenses, will directly increase our *ex ante* funding. Capital expenditures will be \$0.7 million.

The Corporation is subject to federal income tax and commencing in its 2005/2006 fiscal year CDIC will no longer have tax losses that can be carried forward to reduce future years' taxable income. CDIC's income tax expense is expected to be \$5 million in 2005/2006 and, over the five-year planning period, it is forecast that CDIC will pay \$36 million in federal income tax.

CDIC does not receive government appropriations and currently has no debt. The Corporation does not anticipate the need to borrow funds over the planning period.

Forecast Financial Highlights

(\$ millions)

	2005 Forecast	2006 Plan	2007 Plan	2008 Plan	2009 Plan	2010 Plan
Balance Sheet – as at March 31						
Cash and investments	1,321	1,439	1,521	1,604	1,692	1,783
Provision for insurance losses*	550	550	550	550	550	550
Retained earnings	785	881	960	1,043	1,130	1,220
Revenue and Expenses – for the Year Ending March 31						
Total revenue	124	105	110	114	119	124
Total operating expenses	23	23	23	24	24	25
Recovery of amounts previously written off	(10)	(23)	–	–	–	–
Net income before income taxes	111	105	87	90	95	99
Reduction in future income tax asset	7	4	1	–	–	–
Income tax expense	–	5	7	7	8	9
Net Income	104	96	79	83	87	90
Ex Ante Funding**						
Level – \$ millions	1,335	1,431	1,510	1,593	1,680	1,770
Level – basis points of insured deposits	36	37	38	39	40	41

* For financial statement reporting purposes, the Provision for Insurance Losses (Provision) is calculated each fiscal year. For financial planning purposes, the Provision is assumed to remain the same as the 2005 forecast throughout the planning period. Actual results may vary, however, as annual recalculations are performed.

** The *ex ante* funding level is represented by the aggregate of the Corporation's Retained Earnings and its Provision for Insurance Losses as reported in its financial statements. The target range for the fund is set at between 40 and 50 basis points of insured deposits.

THE CANADA DEPOSIT INSURANCE CORPORATION (CDIC) is a Crown corporation, established in 1967 by the *Canada Deposit Insurance Corporation Act*. The Corporation is an agent of Her Majesty in right of Canada. Named in Part I of Schedule III to the *Financial Administration Act*, the Corporation reports to Parliament through the Minister of Finance.

CDIC's Board of Directors is comprised of the Chairperson, five private sector directors, 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. The Governor in Council appoints the Chairperson, the five independent private sector directors, and the President and CEO.

What We Do

As set out in its legislation, CDIC provides insurance against the loss of part or all of deposits in its member financial institutions, promotes standards of sound business and financial practices for member institutions, and promotes and otherwise contributes to the stability of the financial system in Canada. All our work is geared to the benefit of people with deposits with member financial institutions – in a way that minimizes CDIC's exposure to loss in the event that a member institution fails.

A very important aspect of CDIC's work is to assess and manage its deposit insurance risk, and the Corporation has powerful tools at its disposal to do this work.

For example, 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), to control the entry of new members, to assess deposit insurance premiums and to take appropriate insurance action when required (e.g., closing weak members, reimbursing insured depositors, and making claims and recovering assets from the estates of failed members).

CDIC also has the authority to conduct special and preparatory examinations to assess its risk in a troubled member institution. CDIC relies on the Office of the Superintendent of Financial Institutions (OSFI) and provincial regulators to conduct annual examinations of member institutions on its behalf – with close collaboration and participation by CDIC.

The Corporation has other powers from outside of its own governing legislation. For example, the *Cooperative Credit Associations Act* gives CDIC the authority to make short-term loans to an association or to a deposit protection agency (as defined in the legislation) to enable it to meet its requirements for liquid funds. In such cases, CDIC acts as a conduit for funding from the Government, not as a deposit insurer for these associations and deposit protection agencies.

CDIC 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 institution must submit an application to CDIC for approval by its Board of Directors. Provincially incorporated institutions must be authorized by the province of incorporation to apply for deposit insurance.

At the end of 2004, member institutions numbered 81, including domestic banks and subsidiaries, domestic trust and loan companies, and foreign bank subsidiaries. The last member failure occurred in 1996; in total, 43 members have failed since 1967.

Our Key Activities

Providing 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.

Setting and collecting 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 2004/2005 from 1/6th of 1 per cent to 1/48th of 1 per cent of insured deposits. In 2004/2005, member institutions paid \$93 million in premiums.

Number of Federal and Provincial Member Institutions, December 31, 2004		
Federal institutions – banks	34	
Federal institutions – trust and loan companies	43	
Provincial institutions	4	
Total	81	
About Member Failures		
Failures		
Total number of member failures since 1967	43	
Total insured deposits of failed member institutions protected since 1967	\$25.8 billion*	
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	
* \$28.5 billion in deposits less \$2.7 billion uninsured		
Total Insured Deposits, April 30, 2004 (\$ billions)		
Domestic banks and subsidiaries	\$ 348.8	
Foreign bank subsidiaries	18.4	
Domestic trust and loan companies	8.4	
Total	\$ 375.6	
Federal institutions	\$ 374.9	
Provincial institutions	0.7	
Total	\$ 375.6	

	Premium Rate Changes for Selected Years	
	1967 – 1/30th of 1 per cent 1986 – 1/10th of 1 per cent 1993 – 1/8th of 1 per cent 1994 – 1/6th of 1 per cent 1999 – differential premiums	
	About Premiums	
	2004/2005 premiums assessed	\$93 million
	Total premiums assessed since 1967	\$5.7 billion

Insuring deposits in Québec

The province of Québec 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 QDIB (now the Autorité des marchés financiers), deposits made in Québec with provincially incorporated members are insured by the Autorité des marchés financiers, and deposits made outside Québec with such members are insured by CDIC. The maximum aggregate repayment from both agencies to any eligible depositor 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, 2004

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

Tracey Bakkeli
T. Bakkeli Consultants Inc. (Regina)

Claude Huot
Consultant in economic development,
Le Groupe Stragesult (Montréal)

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

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

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

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

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

Ian E. Bennett
Deputy Minister of Finance
(*ex officio*)

Grant Morash
Financial Advisor (Halifax)

Darryl J. Raymaker
McNally Cuming Raymaker
(Calgary)

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

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

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

Officers

as at December 31, 2004

Jean Pierre Sabourin
President and
Chief Executive Officer

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

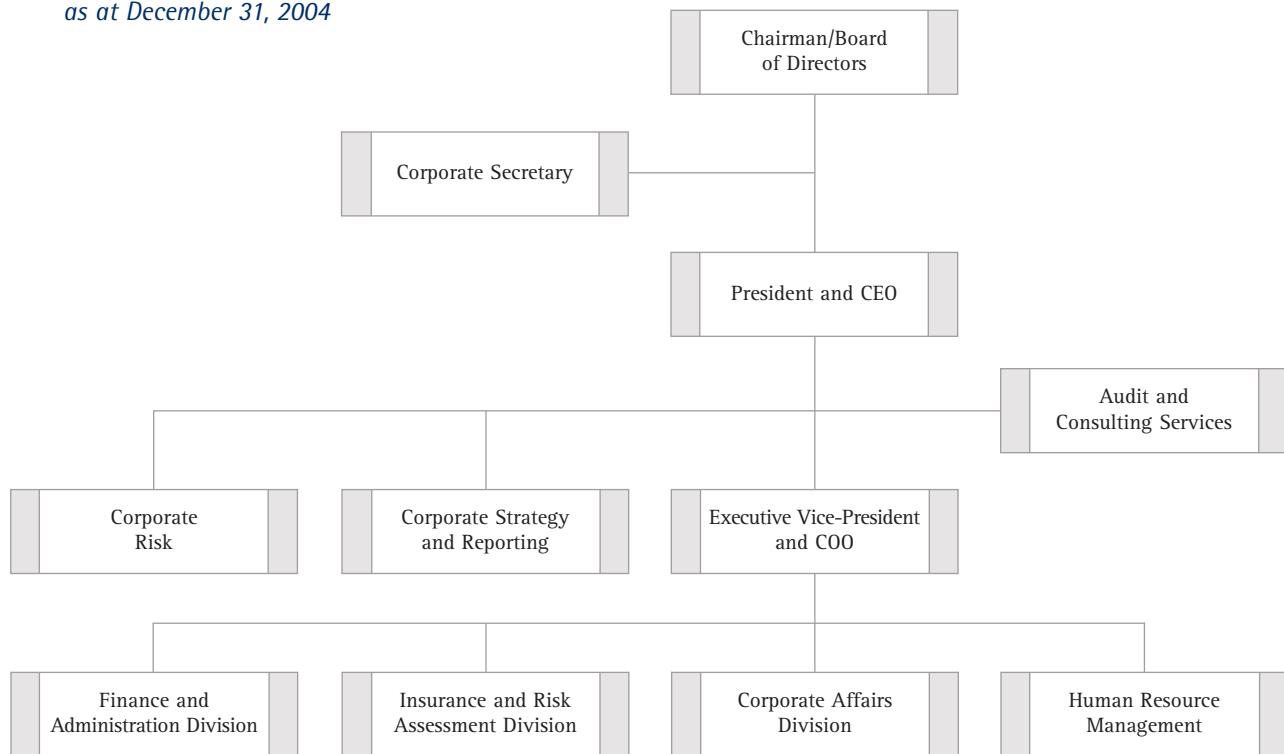
Michèle Bourque
Vice-President
Insurance and Risk Assessment

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, 2004



CDIC's organizational structure and business structures enable the Corporation to work effectively and efficiently to fulfill its mandate and responsibilities. In 2004/2005, CDIC had 88 approved permanent employee positions.

CDIC CONSTANTLY MONITORS its operating environment, including economic and financial trends and developments, as well as ongoing and emerging issues in the legislative and regulatory environment, and in the technology field. In fact, CDIC keeps an eye on any issues and factors that may have an impact on its membership and on CDIC as an organization in its own right.

Government of Canada Review of the Regulatory Framework

The Government is currently considering ways to improve the efficiency and effectiveness of the delivery of financial services regulation, to reduce regulatory burden and, in particular, to eliminate any unproductive overlap and duplication of role and function between CDIC and OSFI. In support of this initiative, CDIC conducted its own review and submitted recommendations to the Minister of Finance to address these concerns (July 2004). As a matter of course, CDIC will continue its efforts to reduce, as much as possible, the burden on member institutions.

Economic Outlook

A healthy economy, with risks to monitor

Canada's economic environment is currently strong – economic growth is firming, interest rates and inflation are relatively low, the federal budget balance remains healthy, and world economic growth is rebounding after a period of weakness – a trend that is expected to continue. At the same time, a number of economic risks may have an impact on CDIC member institutions, including the possibility of higher interest rates, the effect of higher energy prices, adjustments to the real estate market (depending on local economic trends), the impact of a strengthening Canadian dollar, instability arising from the risks associated with international terrorism activities and implications of the current rapid economic growth in China on the world economy.

Consumer spending and household borrowing are high

Consumer spending appears to be sustaining North American economic growth (as opposed to strong economic growth arising from other areas). There are signs that consumers may be borrowing against increases in real estate values (principal residences) to help finance purchases. Household borrowing is at an historical high and personal savings rates have declined, although household debt-to-total-household-assets has remained stable – again, perhaps reflecting that many households are borrowing against increased home equity and low interest rates. There is a risk that consumer confidence may be dampened by rising interest rates, continued high energy prices, any decline in residential real estate values, any stock market declines or some other external shock. Such shocks could also result in a rise in consumer debt defaults.

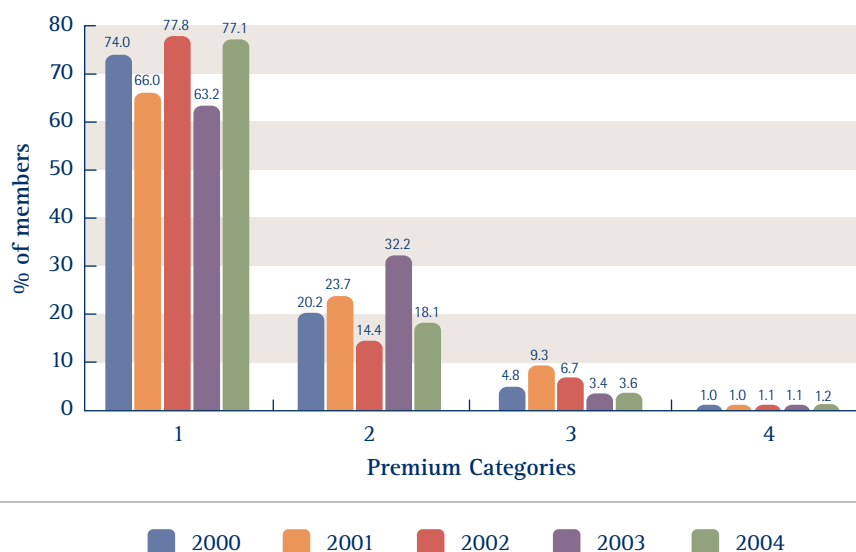
Our Membership: Trends and Issues

Member performance is strong

In recent years, financial performance of member institutions has been strong, characterized by:

- :: growth in earnings
- :: a decline in corporate leverage and good corporate creditworthiness
- :: a continuing focus on non-interest income
- :: a surge in retail lending (particularly mortgages)

Membership by Differential Premium Categories, as at April 30 of Each Year



Some members are expanding into international markets. Others are seeing a significant source of profits resulting from lower provisions and from the recent increase in capital market activity. Over the past several years, some larger institutions have improved their differential premiums ratings (see graph, this page).

Members are facing some risk

Certainly, member institutions are facing some challenges and risks. For example, some are seeking out new lines of business activity or using existing distribution channels (Internet, phone, etc.) in new ways to conduct business, and some are increasingly relying on mortgage and/or loan brokers to originate assets. Investors continue to signal some nervousness about accounting and corporate governance issues – specifically, their impact on the risk profile of financial

institutions. A variety of fraud issues (debit and credit card fraud, money laundering, Internet and ATM fraud) all represent increasing risks to member institutions, as do potential technology-related problems that can have a significant impact on the reputation of affected institutions.

At the same time, there has been improvement in member institutions' internal risk management structures and business continuity planning initiatives. Looking ahead, member institutions may face new challenges, such as those related to an environment of rising interest rates, and to the adoption of the Basel II Accord (an international framework which sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions). These challenges will require adjustments in how risks are assessed and managed.

Other Issues to Watch

Other issues on the horizon include potential mergers between banks and insurance companies, and potential mergers of large banks. Some member institutions may consider these approaches to expansion – at the same time, CDIC will continue to consider the impacts of such moves.

The risks associated with ongoing international terrorism create uncertainty in financial markets and among consumers, with the potential for affecting risk levels and overall performance of CDIC member institutions. Canadian financial institutions and other regulators are required to increase their efforts to fight terrorism and money laundering activities.

Inside CDIC

Looking ahead, it is possible that there will be changes in the nature, frequency and timing of information provided by member institutions to federal agencies, changes that reflect the expanded business activities and complex transactions of some members in recent years. CDIC must continue to be well informed and

knowledgeable about individual member and overall membership risk – a major component of its readiness strategy. As well, the Corporation needs to continue to search for and maintain strategic partnerships and relationships with other financial safety net agencies – with the goal of streamlining services and finding efficiencies.

An ongoing challenge for the Corporation is keeping pace with technology use in member institutions. The continuing increase in the use of new technologies (e.g., electronic banking) by financial consumers may increase depositors' expectations of CDIC in the case of a failure (for faster payout and access to information). Furthermore, CDIC's focus on searching for increased efficiencies, coupled with the ongoing scrutiny of the overall cost of deposit insurance in Canada requires that CDIC look regularly at its premium rates and other requirements impacting on its membership, in order to balance the cost burden on the industry with CDIC's *ex ante* funding target range* and prudent risk assessment requirements.

* The *ex ante* funding level is represented by the aggregate of the Corporation's Retained Earnings and its Provision for Insurance Losses as reported in financial statements. The target range for the fund is set at between 40 and 50 basis points of insured deposits.

LAST YEAR'S CORPORATE PLAN identified four corporate business strategies for CDIC. These were developed in support of the Corporation's business objectives and based on its assessment of its operational environment at the time. The strategies are: Readiness, Sound Governance, Strong Partnerships and Deposit Insurance Awareness.

Highlights of Our Performance

Progress as planned in most areas ...

The Corporate Scorecard shows that progress against the majority of key performance indicators proceeded as planned. Exceptions are:

- :: Updated succession plans, as well as compensation and performance management policies have been approved during 2004/2005. However, as a result of the potential implications of the March 2004 Federal Budget announcement (see below), completion of work on revising the Human Resource Strategy has been delayed until 2005/2006.
- :: The development and distribution of membership profile information has been deferred indefinitely.
- :: Work on the E-Business Shared Information Services (ESIS) joint project with OSFI is on hold; however, other communications initiatives are being explored.
- :: Full revisions to the *Deposit Insurance Information By-law*, including those reflecting the new communications and public awareness strategy, will not be completed until 2005/2006.

Some activities were deferred ...

The Government announced in March 2004 that it is considering ways to improve the efficiency and effectiveness of the delivery of financial services regulation in Canada. The Government's primary focus of the review is on reducing the regulatory burden on member institutions. CDIC closely examined its role as the federal deposit insurer and an integral part of the financial safety net, as it relates to activities undertaken by OSFI, and participated in the review by providing a report to the Minister in July 2004. As a result of this work, the Corporation deferred and reprioritized some initiatives planned for 2004/2005.

CDIC's 2004/2005 Corporate Scorecard Results

CDIC's performance to date against these business strategies is summarized in the following Corporate Scorecard (see next page), which reflects activity up to December 31, 2004. With the exception of those initiatives deferred, the Corporation expects to be able to achieve the majority of its key performance targets for 2004/2005.

Looking Back – CDIC Corporate Scorecard, 2004/2005

Progress against Key Performance Indicators for the nine months ending December 31, 2004

Mandate	Business Strategy	Ongoing Activities
<p>For the Benefit of Depositors:</p> <ul style="list-style-type: none"> • Provide Deposit Insurance • Promote Standards • Contribute to the Stability of the Financial System <p>... while minimizing exposure to loss.</p>	<p>Readiness <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"> • Risk assessment of members and membership • Watch list of higher risk members • Standards of Sound Business and Financial Practices • Contingency Planning • Funding plans • Differential Premiums System • Technological Infrastructure
	<p>Sound Governance <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"> • Board Et Committees (Audit, Executive, Governance, Human Resources Et Compensation) • Strategic Management Process • Enterprise Risk Management • Internal Audit process • Annual review of CDIC By-laws
	<p>Strong Partnerships <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"> • Consultation with membership • CDIC/OSFI Strategic Alliance Agreement • Joint external committees (SAC, sub-SAC, FISC, sub-FISC) • Existing partnership arrangements (OSFI, Bank of Canada, FCAC, Communications Canada) • International participation • Key suppliers inventory and relationships
	<p>Deposit Insurance Awareness <i>Increase depositor awareness and explain the benefits and limitations of deposit insurance.</i></p>	<ul style="list-style-type: none"> • Television advertising • 1-800 lines • Register of Insured Deposits • Updating and dissemination of Information Brochures • Public Speaking Engagements

Scorecard Legend

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

Planned Key Supporting Initiatives 2004/2005 to 2008/2009	Key Performance Indicators (Measure/Target)
<ul style="list-style-type: none"> • Simulation of a member failure • Assessment of impact of environmental changes on members/ membership (Basel II, accounting principles, SOX) • Investments in technology (intervention tools, quantitative monitoring tools, portal applications) 	<ul style="list-style-type: none"> • Successful simulation by Y/E March 2005 ▲ • Analysis of implications of environmental issues (e.g., Basel II) for CDIC is performed on a regular basis ▲ • Successful implementation of I.S. Strategic Plan (Portal technology deployed on schedule; enhancements to ROADMAP and Valuation Model in place by Y/E March 2005 and 2006, respectively) ▲
<ul style="list-style-type: none"> • Enterprise Risk Management (ERM), Strategic and Performance Management systems and reporting • Business Continuity/Resumption Plans (BCP) • HR Strategy, succession planning, training and compensation scheme • Internal audit as a strategic/risk management tool • 2004 OAG Special Examination • Corporate governance policy • Annual reviews of CDIC By-laws 	<ul style="list-style-type: none"> • ERM framework, annual sign-off and reporting regime in place by Y/E March 2005 ▲ • BCP in place and tested by Y/E March 2005 ▲ • Approval of succession plans, compensation and performance management policies, and updated HR Strategy in place by Y/E March 2005 ▼ • Annual achievement of all Internal Audit strategic and operational plans ▲ • No significant deficiencies resulting from Special Examination ▲ • Policies in place and regularly reviewed by Board of Directors ▲ • Annual review conducted and any required revisions addressed ▲
<ul style="list-style-type: none"> • Enhancing/leveraging information to members • Improve communications tools with OSFI and other strategic partners and increase efficiency for risk assessment • Proactive analysis of regulatory burden issues including a focused review of the overall cost of providing deposit insurance • 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 	<ul style="list-style-type: none"> • Membership profile information available to members by Y/E March 2006 Ⓞ • Progress made in regard to ESIS project, improvements to communications infrastructure with strategic partners ▼ • Issues pertaining to CDIC identified and action plans in place by Y/E March 2005 ▲ • Issues papers developed by Y/E March 2005 ▲
<ul style="list-style-type: none"> • Bridge from the existing to a new communications and deposit insurance awareness strategy and plan • Finalize revisions and implement revised <i>Deposit Insurance Information By-law</i> 	<ul style="list-style-type: none"> • Revised communications and deposit insurance awareness strategy and plan in place by Y/E March 2005 ▲ • Implications of new communications and deposit insurance awareness strategy and plan to be reflected in revised By-law by Y/E March 2005 ▼

CDIC's Statutory Objects

According to section 7 of the *CDIC Act*, 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.

Corporate Objectives

CDIC's statutory objects have remained largely unchanged during the past decade.

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

Planning Assumptions

CDIC has based its business strategies, plans and supporting resource budgets for the next five years on a number of assumptions (set out below) that reflect current knowledge about CDIC's operating environment, as well as the uncertainty that the Corporation faces in a number of areas. For the purposes of planning, it is assumed that:

The outcome of the Government's 2004 review of the delivery of financial services regulation in Canada will be an important aspect of CDIC's operating environment. CDIC participated in the review by providing its views to the Minister of Finance. No changes to CDIC's mandate or operations are reflected in this Corporate Plan.

:: CDIC's statutory objects will not change during the planning period – nor will there be significant changes to the regulatory and supervisory system in Canada or the elements of deposit insurance.

:: There will not be any failures of CDIC member institutions during the planning period. (At the same time, CDIC is currently equipped to handle a payout of \$1.3 billion in the event of failure(s); in the event of a larger payout, CDIC would need to borrow additional funds.) Moreover, the total number of CDIC member institutions will not change significantly.

:: Premium revenue will total approximately \$64 million for 2005/2006 and approximately \$340 million for the five-year planning period – a projection based on a one-third reduction from the differential premium rates assessed in 2004/2005. Projected premium revenue reflects the following assumptions:

- Premium rates will remain at the reduced level noted above throughout the planning period (i.e., 1/72nd of 1 per cent; 1/36th of 1 per cent; 1/18th of 1 per cent; and 1/9th of 1 per cent; for categories 1 to 4, respectively).
- The distribution of member institutions across premium categories will not change.
- Insured deposits will grow at approximately 3 per cent annually throughout the planning period.

- :: Premium rates, fixed annually, take into account the Corporation's financial condition, a current assessment of the financial and 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 premium revenue for the planning period may be subject to change.
- :: The target range for the amount of *ex ante* funding will be maintained at between 40 and 50 basis points of insured deposits – approximately \$1.5 to \$1.9 billion based on levels of insured deposits as at April 30, 2004.
- :: CDIC will not receive government appropriations, nor will it borrow funds during the planning period.
- :: CDIC's investment revenue will continue to be governed by the investment policy approved by the Board of Directors, specifically:
 - Credit and market risk will be limited.
 - The investment portfolio will be the initial funding source for any intervention activity.
 - 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.
- :: CDIC will realize an average yield on cash and investments of 3 per cent.

Strategies for the Planning Period

In addition to carrying out its ongoing operations, the Corporation will follow four long-term business strategies to achieve the business objectives set out above. The strategies reflect the fact that considerable emphasis is placed on managing CDIC's principal risks.

Plans and initiatives that relate to and support each of the strategies throughout the planning period are described below – CDIC's Planning Scorecard, presented at the end of this section, brings together the business strategies, supporting initiatives and key performance indicators.

Readiness

In broad terms, initiatives that support and further CDIC's readiness strategy will focus on keeping abreast of emerging issues that affect the membership and on processes to monitor changes in the environment, ongoing risk assessment and updating of intervention tools, as well as continued and thorough testing of readiness plans and procedures.

Monitoring and keeping current. More specifically, the Corporation will:

- :: update its preparatory examination processes and documentation, with a focus on reducing the time and effort needed during a payout
- :: continue to assess the impact on membership of emerging issues, and develop and implement innovative payout processes (e.g., electronic delivery channels)
- :: keep abreast of economic and financial market developments and their implications for membership risk assessment, differential premiums, deposit insurance information and employee training

Staying prepared – performing simulations.

Longer term plans for the period call for CDIC to perform full failure simulations – from watchlist/staging to resolution. As interim steps, CDIC will continue to conduct an ongoing series of simulations to advance payout readiness through the identification of improvements and knowledge transfer.

The Corporation's payout system, ROADMAP, will be enhanced through technology to increase and improve its automated processes.

Maintaining readiness on various fronts. CDIC will:

- :: assess the impact of changes in its intervention processes on resource requirements and monitor the availability of key external resources, in order to continue to maintain an effective supplier network in the case of intervention
- :: conduct research and testing of other mechanisms (e.g., ATMs) for making payouts to insured depositors
- :: complete follow-up to the comprehensive review of the *Differential Premiums By-law* and, if required, amend the by-law for the 2006 premium year

:: continue to update its business continuity plans to ensure mission critical systems are available to the Corporation, and maintain its work with other agencies to explore cost-sharing opportunities

The bottom line. CDIC will work to 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 that it is prepared to deal promptly and effectively with significant membership problems that would affect CDIC as the insurer.

Sound Governance

CDIC is a well-governed, well-managed organization with strong oversight – it has in place a Board

CDIC's Strategy Statement

In providing deposit insurance, CDIC undertakes initiatives to proactively assess and manage the risks of insuring deposits, to be ready to react to any events arising within its membership, to keep abreast of emerging issues, to increase awareness and understanding of deposit insurance, to strengthen relationships with stakeholders, and to minimize the cost of deposit insurance. CDIC achieves these goals through appropriate, efficient and effective operations supporting a regime of sound governance.

Readiness

– being prepared to fulfill CDIC's role of deposit insurer by staying 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 processes are in place so that the Corporation can demonstrate that it is well managed and can fulfill its mandate in an effective and efficient manner.

Strong Partnerships

– enhancing relationships with members, regulators, supervisors and suppliers to better achieve CDIC's mandate. This will include continuing to work with members to identify opportunities to reduce costs, and to maximize the benefits of deposit insurance for depositors and member institutions.

Deposit Insurance Awareness

– increasing depositor awareness and explaining the benefits and limitations of deposit insurance.

Governance Policy, as well as a Code of Business Conduct and Ethical Behaviour for both its Board of Directors and its employees. CDIC will continue to promote sound governance by identifying ways to increase efficiency and effectiveness – including exploring shared services and ways of streamlining operations. The Corporation will continue to be vigilant in keeping the overall cost of providing deposit insurance as low as possible. CDIC will also continue to enhance its corporate governance practices through the performance of benchmarking and rigorous self-assessments. Key activities will include:

Integrating Enterprise Risk Management (ERM) with other key processes. CDIC will work to integrate ERM processes with strategic management and performance appraisal processes. Plans include completing the self-assessment of its significant risks in 2005/2006, and fully developing risk management policies governing its significant risks by March 2006. An ERM annual reporting regime will also be in place by March 2006, enabling CDIC to demonstrate its solid management through sound enterprise risk management, strategic and performance management systems and reporting – all validated through the internal audit function.

Strengthening business continuity and resumption planning. 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. CDIC defines its *Business Continuity Plan* (BCP) in a comprehensive fashion to cover all aspects of continuing operations – regardless of the nature of a given business disruption. CDIC will explore the possibility of undertaking joint BCP initiatives with other organizations, with a view to lowering costs and shortening time frames for implementation.

Maintaining a skilled and effective work force.

CDIC will continue its succession planning through ongoing identification of potential successors and by addressing any gaps for key positions within the organization. Recruitment and training initiatives will also be reviewed for appropriateness and relevance. Appropriate plans will be implemented for an orderly transition as the terms of CDIC's current Chairman and President and CEO reach completion.

Following up on the Special Examination of CDIC.

A Special Examination of the Corporation recently carried out by the Office of the Auditor General was finalized in late fall 2004. CDIC will address the opportunities arising from the review.

The bottom line. Successful completion of the initiatives that support this business strategy will demonstrate that CDIC is a well-managed organization with sound policies and procedures in place, complemented by a rigorous validation and reporting regime.

Strong Partnerships

CDIC plans to engage in a number of initiatives that will strengthen its relationships with member institutions, regulators, supervisors, other deposit insurers and suppliers.

Increasing collaboration with OSFI. CDIC and OSFI collaborate in a number of areas, including those covered by the *Strategic Alliance Agreement*. With unique mandates, both organizations strive to identify areas where efficiencies may be realized through joint efforts. The two organizations have explored increased collaboration in the area of information technology (IT) – the IT strategic plans of both organizations include provisions 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. As an initial step,

The Financial Information Committee (FIC) works under the auspices of the Financial Institutions Supervisory Committee (FISC). FIC is chaired by the Superintendent of Financial Institutions and includes members from the Bank of Canada, Department of Finance and CDIC. Statistics Canada has observer status. The purpose of the Committee is to coordinate and rationalize ongoing information requirements of participating agencies, to maintain an inventory of such information, and to coordinate information sharing.

the decision was made last year to jointly fund a feasibility study to determine the most appropriate approach, under the aegis of an E-Business Shared Information Services (ESIS) initiative.

Strengthening relationships. During the planning period, CDIC will work with the Financial Information Committee as it carries out a review and rationalization of financial data collected from federal deposit-taking institutions. In preparation for a review of financial legislation in Canada (planned for 2006), CDIC will provide input as required (in consultation with member institutions and other participants in the financial safety net) on proposed amendments to relevant legislation – for example, the *CDIC Act*, the *Bank Act* and the *Winding-up and Restructuring Act*. CDIC will also work to improve information sharing and consultation with members through the use of special bulletins and intranet technology, and will maintain its strong partnership with the Financial Consumer Agency of Canada. The Corporation will

also continue to forge cooperative relations internationally with other deposit insurance organizations by means of direct information sharing and continued involvement in the International Association of Deposit Insurers (IADI).

Updating the *Deposit Insurance Information By-law*. Revisions to the *Deposit Insurance Information By-law* are currently under consideration and it is expected that they will be implemented early in the planning period. CDIC will work closely with member institutions to put the revisions in place, aiming to improve upon the provision of relevant information to depositors and members, while also identifying opportunities to reduce costs and burden for member institutions.

Putting partnerships to work. Over the course of the planning period, CDIC will continue to explore outsourcing and co-sourcing opportunities to enhance the Corporation's efficiency and effectiveness.

The bottom line. Successful implementation 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 continues to promote an understanding among Canadians of the benefits and limitations of deposit insurance. Past activities have provided targeted audiences with essential facts about deposit insurance, including maximum coverage and eligibility criteria, and have emphasized which financial products are eligible for deposit insurance and which are not. In recent years, CDIC's public awareness program has consisted of advertising through various media, a 1-800 enquiries service, a corporate web site, a print and electronic publications program, and other public, media and member institution relations.

Focus on communication with the public. CDIC's five-year public awareness program ends in 2004/2005. A new long-term strategy will be developed and implemented for the period commencing April 1, 2005, subject to approval by the CDIC Board of Directors. The strategy will focus on effectively communicating the complex and detailed information about deposit insurance in a clear and concise way. CDIC will continue to conduct public opinion research to assess the success of its public awareness activities, as well as to determine consumer expectations and perceptions of deposit insurance-related issues.

Working with partners. CDIC will continue to build partnerships with consumer groups and associations, as a mechanism for reaching the public, and will continue

to collaborate with existing partners, including the Financial Consumer Agency of Canada, the Autorité des marchés financiers, its member institutions and other stakeholders.

Specific activities to be continued include advertising in print media, participation in conferences and working groups and developing financial education tools to familiarize financial consumers, individual investors and financial advisors with various aspects of deposit insurance.

The bottom line. CDIC will determine the success of this strategy by monitoring the extent to which the depositing public is aware of and uses the information provided by CDIC. This strategy will assist CDIC in its role of contributing to the stability of the financial system in Canada.

Focus on People, Corporate Values and Information Technology

Providing the foundation for CDIC's work to support the four business strategies are the strength of the Corporation's employees, the corporate values of the organization and the ongoing development of information technology (IT).

Our people

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, skills training and professional development, as well as by continuing to compete for specialized skills and abilities. Through its reputation, knowledge base and the specialized nature of its work, along with other features of a highly desirable

Employee Code of Business Conduct and Ethical Behaviour

CDIC's Code of Business Conduct and Ethical Behaviour is designed to help employees understand the standard of conduct that is expected of them. It aims to support a positive work environment, while maintaining and enhancing the Corporation's tradition of professionalism and excellence.

The Code outlines CDIC's expectations for employee conduct that aligns with corporate values (see below), and sets out standards for professionalism, personal and family relationships in the workplace, and punctuality and absenteeism, among other issues.

Adherence to the Code is a condition of employment at CDIC and every employee must confirm commitment to it. An assessment is conducted each year as part of an employee's performance appraisal.

workplace (salary and benefits, office environment and work tools, training tailored to suit individual needs), CDIC will continue to be able to attract and retain a highly motivated and skilled work force.

CDIC operates on the principle of ensuring that skills of its expert employees enable them to deal with specific challenges. CDIC also has mechanisms in place to mobilize a larger work force, if required, to be engaged directly (through outsourcing by CDIC) or indirectly

(by liquidators, receivers, or through workout or wind-down arrangements). This extended work force may include additional employees, contract personnel, consultants, insolvency and legal professionals, and other service providers.

Information technology

Information technology (IT) is a key corporate enabler that provides better work tools, increases the quality and timeliness of information and improves CDIC's ability to use this information to manage its business. CDIC's ability to manage its risk and intervene in problem situations requires understanding of the technology available to, and used by, member institutions. Furthermore, combining delivery and receipt channels by investing in web-based technology will enable CDIC to provide and access information more efficiently and to package information in a way that better serves the needs of stakeholders.

Corporate Values

CDIC's corporate values are promoted across all employee and management groups, as well as to partners and member organizations. CDIC strives to incorporate these values in everyday work:

- :: Excellence and Professionalism
- :: Integrity and Trustworthiness
- :: Communication and Teamwork
- :: Respect and Fairness

Past technology investments at CDIC have provided a sound infrastructure for electronic filing, data warehousing, web-based applications and secure exchange of information with stakeholders. With technology now a common underlying component of all activities within the Corporation, CDIC has introduced newer technologies and disaster recovery plans to protect the organization against disruptive events. CDIC is working with other agencies to explore ways to share resources and costs to allow for more flexible business continuity plans.

CDIC faces a number of challenges that it will address in the coming years:

:: **Mobility, online collaboration and document sharing** are becoming more important for CDIC employees. CDIC has embarked on an initiative to introduce an **enterprise information portal** to facilitate online collaboration and document management. Financial applications will be integrated with other systems, providing management

with interactive reports and better electronic presentation of information to stakeholders. The portal has already been partially implemented to integrate the information used to assess the risk posed by member institutions.

:: CDIC has offered electronic filing to its members for the past four years. It will continue to **develop electronic filing** by working with partner agencies on an E-business initiative to standardize technology for electronic filing and the exchange of information between agencies. This initiative will explore secure technologies to use the Internet to exchange Protected Information.

:: CDIC will continue to maintain its infrastructure to current industry standards by refreshing its hardware and software through a life-cycle management approach. **Security** is paramount to CDIC and up-to-date technology will continue to be used as required to ensure that the Corporation remains at the forefront of protecting systems and information.

Looking Ahead – CDIC Corporate Scorecard, 2005/2006 to 2009/2010

Mandate	Business Strategy	Current/Ongoing Activities (In support of Business Strategies)
<p>For the Benefit of Depositors:</p> <ul style="list-style-type: none"> • Provide Deposit Insurance • Promote Standards • Contribute to the Stability of the Financial System <p>... while minimizing exposure to loss.</p>	<p>Readiness <i>Be prepared to fulfill CDIC's role of deposit insurer by being alert to events affecting CDIC members and having the ability to anticipate, react to and manage risk.</i></p>	<ul style="list-style-type: none"> • Business Continuity Planning • Risk assessment of members and membership • Close monitoring of higher risk members • Contingency Planning for intervention <ul style="list-style-type: none"> - Payout simulation exercises - Research of alternative mechanisms (e.g, ATMs) - Documentation - E-training - Maintaining key supplier relationships • Promoting standards of sound business and financial practices • Maintaining funding plans • Administering the differential premiums system • Maintaining the technological infrastructure • Emerging issues research and analysis
	<p>Sound Governance <i>Ensure that policies, procedures and reporting are in place such that the Corporation can fulfill its mandate in an effective and efficient manner.</i></p>	<ul style="list-style-type: none"> • Board of Directors & Standing Committees meetings • Strategic Management • Enterprise Risk Management (ERM) • Internal Audit • Regular review of CDIC By-laws • Examining opportunities for increasing CDIC's efficiency and effectiveness • Business Continuity/Resumption Planning • Implementation of IS Strategic Plan • Administration of HR Strategy, succession planning, training and compensation scheme
	<p>Strong Partnerships <i>Enhance relationships with our partners (members, regulators, supervisors and suppliers) to better achieve CDIC's mandate. This will include continuing to work with members to identify opportunities to reduce costs, and to maximize the benefits of deposit insurance for depositors and member institutions.</i></p>	<ul style="list-style-type: none"> • Consultation with membership • Maintaining existing partnership arrangements (OSFI, Bank of Canada, FCAC, Autorité des marchés financiers, Communications Canada) • Complying with the CDIC/OSFI Strategic Alliance Agreement • Participation in joint external committees (SAC, sub-SAC, FISC, sub-FISC) • International participation (e.g., International Association of Deposit Insurers and various other international organizations) • Examining opportunities for improving efficiency and effectiveness of CDIC's operations (e.g., through out-sourcing and co-sourcing opportunities)
	<p>Deposit Insurance Awareness <i>Increase depositor awareness and explain the benefits and limitations of deposit insurance.</i></p>	<ul style="list-style-type: none"> • Public awareness activities: <ul style="list-style-type: none"> - Advertising and public relations - 1-800 lines - CDIC web site - Updating and disseminating CDIC information through partnership arrangements - Annual public awareness surveys • Administration of the <i>Deposit Insurance Information By-law</i>

Planned Key Initiatives 2005/2006 to 2009/2010 (In support of Business Strategies)	Key Performance Indicators (Measure/Target)
<ul style="list-style-type: none"> • Update Special Examination of Member Institution/Asset Review Guidelines Manual • Investments in technology (upgrades to intervention tools, continued development of early warning system ("EWS"), quantitative monitoring tools, portal applications) • Plan and conduct a full intervention simulation • Follow up on the comprehensive review of the <i>Differential Premiums By-law</i> 	<ul style="list-style-type: none"> • Special Examination Manual update completed by Y/E March 2006 • Successful implementation of projects detailed in I.S. Strategic Plan – hardware refresh and portal technology deployments implemented on schedule • Successful completion of a full intervention simulation by March 2006 • Any amendments required as a result of the follow-up review of the <i>Differential Premiums By-law</i> to be implemented for the 2006 Premium Year
<ul style="list-style-type: none"> • Integrate internal audit as an ERM tool • Implement ERM policies in all areas of significant risk • Address opportunities arising from the 2004 OAG Special Examination of CDIC 	<ul style="list-style-type: none"> • Internal Audit review and reporting regime covering Corporate ERM in place by Y/E March 2006 • ERM policies governing CDIC's significant risks in place by Y/E March 2006 • All opportunities addressed and/or appropriate business plans in place by Y/E March 2006
<ul style="list-style-type: none"> • Work with FIC in a review and rationalization of financial data collected from federal deposit-taking institutions • Improve communications tools with OSFI and other strategic partners and increase efficiency of information flow • Continued analysis of regulatory burden issues including a focused review of the overall cost of providing deposit insurance • Undertake research of specific deposit insurance issues in support of potential amendments to the <i>CDIC Act</i> and other related financial systems legislation towards the 2006 review of the <i>Bank Act</i> 	<ul style="list-style-type: none"> • CDIC perspective on data collection and sharing reflected in final FIC study results. • Progress made in regard to E-Business Shared Information Services (ESIS) project, Financial Information Committee Data Rationalization Project, improvements to data communications infrastructure with strategic partners • Timely implementation of any changes arising from the March 2004 Federal Budget announcement focused on reducing regulatory burden on CDIC members by seeking opportunities to address any overlap and duplication in prudential, administrative and corporate services functions between CDIC and OSFI • Research pertaining to financial sector legislative and relevant international issues completed and supporting additional issues papers finalized by Y/E March 2006
<ul style="list-style-type: none"> • Implement and report on effectiveness of new communications and deposit insurance awareness strategy and plan commencing 2005/2006 • Revisions to the <i>Deposit Insurance Information By-law</i> • Development of financial awareness tools 	<ul style="list-style-type: none"> • Annual reporting to the Board re: effectiveness of awareness strategy via measurement by survey and stakeholder feedback • Revised <i>Deposit Insurance Information By-law</i> in place by Y/E March 2006 • Tools available on CDIC web site and through other channels commencing in 2006 and fully in place by Y/E March 2007

THE FOLLOWING FIVE-YEAR FINANCIAL PLAN is based on the planning assumptions set out in Part IV of this document, and reflects the business strategies and related initiatives planned for the period. The section begins with a review of financial highlights from the previous year.

Looking Back at Performance: Financial Highlights from 2003/2004 and 2004/2005

Performance Against Plan

The following figures and supporting explanation highlight CDIC's performance in selected key areas for the fiscal years ending March 31, 2004 and 2005.

Figure 5.1

Financial Highlights for the Years Ending March 31

(\$ millions unless otherwise noted)

	2004 Approved Budget and Plan	2004 Actual	2005 Approved Budget and Plan	2005 Forecast
Premium revenue	78	109	112	93
Interest on cash and investments	39	35	41	31
Other revenue	—	16	2	—
Recoveries of amounts previously written off	19	11	14	10
Operating expenses	25	22	24	23
Net operating income*	14	13	17	8
Net income	104	142	132	104
Net claims receivable	—	29	—	9
Cash and investments	1,179	1,195	1,342	1,321
Provision for insurance losses	500	550	550	550
Retained earnings	690	681	793	785
Capital expenditures**	1.8	1.6	0.7	0.7
<i>Ex ante</i> funding level (in basis points of insured deposits)***	—	34	36	36

* Interest income less operating expenses.

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

*** The *ex ante* funding level is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses as reported in its financial statements. The target range for the fund was established in January 2004 and is set at between 40 and 50 basis points of insured deposits.

Commentary: 2003/2004 Actual to Plan

:: **Premium revenue** of \$109 million was \$31 million higher than planned, due to a combination of higher 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, 2004, was \$35 million or \$4 million lower than planned. This negative variance reflects lower than planned yields on investments during the year.

:: During 2003/2004, the Corporation recorded \$16 million in post-liquidation interest receivable from the estates of two failed member institutions – with the result that **other revenue** was \$16 million higher than planned.

:: **Recoveries of amounts previously written off** were \$8 million lower than planned due to delays in anticipated recoveries from certain estates. There is considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to the uncertainty include creditor disputes, lawsuits against the estates or particular assets, and quality of the remaining non-cash assets.

:: During the year, the Corporation had total **operating expenses** of \$22 million, compared to a planned amount of \$25 million. The \$3 million or 12 per cent variance is primarily the result of CDIC completing an organizational restructuring in 2002/2003 that resulted in 2003/2004 salary and other personnel costs being \$2 million lower than planned.

:: **Net income** for the year was \$142 million or \$38 million higher than planned, due primarily to higher than planned premium and other revenue

offset by lower than planned interest on cash and investments and lower than planned recoveries of amounts previously written off.

:: The higher than planned **net claims receivable** is due to timing differences between the planned and actual receipts from estates of failed member institutions, as well as new claims receivable being recorded. The additional claims receivable reflect post-liquidation interest receivable of \$16 million from the estates of Confederation Trust Company (\$14 million) and Security Home Mortgage Corporation (\$2 million), and an additional claim relating to the estate of Central Guaranty Trust of \$4.8 million.

:: **Cash and investments** were \$1.195 billion or \$16 million higher than planned. The positive variance was mainly the result of higher than planned premium revenue combined with operating expenses being \$3 million lower than planned offset by lower than planned cash receipts of amounts previously written off and lower than planned interest earned on cash and investments.

:: The **provision for insurance losses** was \$50 million higher than planned. This additional \$50 million was recorded in 2002/2003 to reflect the change in the risk profile of the Corporation's membership during that year. The provision for insurance losses recorded in 2003/2004 was unchanged from 2002/2003.

:: The year-end **retained earnings** of \$681 million were \$9 million lower than planned. This variance reflects a \$47 million lower than planned opening retained earnings balance, offset by higher than planned net income of \$38 million for the year ended March 31, 2004.

The Balance Sheet and Statement of Income and Retained Earnings providing the progression of the 2003/2004 and 2004/2005 Plans are presented as Figures 5.2 and 5.3 below. These financial statements

include the Corporation's financial results for 2003/2004 against its approved Plan for the same year, as well as the 2004/2005 forecast against the approved Plan.

Figure 5.2

Balance Sheet

Progression of 2003/2004 and 2004/2005 Plans as at March 31
(\$ millions)

	2004 Plan*	2004 Forecast	2004 Actual	2005 Plan	2005 Forecast
ASSETS					
Cash and investments	1,179	1,190	1,195	1,342	1,321
Accounts receivable	5	5	5	5	5
	1,184	1,195	1,200	1,347	1,326
Capital assets*	2	2	2	2	2
Claims receivable	—	18	39	—	19
Allowance for loss on claims receivable	—	(7)	(10)	—	(10)
	2	13	31	2	11
Future income tax asset	11	14	12	4	5
	1,197	1,222	1,243	1,353	1,342
LIABILITIES					
Accounts payable	7	7	9	7	6
Provision for guarantees	—	4	3	3	1
Provision for insurance losses	500	550	550	550	550
	507	561	562	560	557
Retained earnings	690	661	681	793	785
	1,197	1,222	1,243	1,353	1,342

* 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.

Statement of Income and Retained Earnings

Progression of 2003/2004 and 2004/2005 Plans
for year ending March 31
(\$ millions)

Figure 5.3

	2004 Plan	2004 Forecast	2004 Actual	2005 Plan	2005 Forecast
REVENUE					
Premiums	78	109	109	112	93
Interest on cash and investments	39	35	35	41	31
Other revenue	—	—	16	2	—
	117	144	160	155	124
EXPENSES					
Adjustment to allowance and provisions for loss	2	3	3	3	—
Recovery of amounts previously written off	(19)	(6)	(11)	(14)	(10)
Operating expenses	25	23	22	24	23
	8	20	14	13	13
Net income before income tax benefit/expense	109	124	146	142	111
Reduction in future income tax asset	5	2	4	10	7
Net income	104	122	142	132	104
Retained earnings, beginning of year	586	539	539	661	681
Retained earnings, end of year	690	661	681	793	785

Commentary: 2004/2005 Forecast to Approved Plan

- :: **Premium revenue** is forecast to be \$19 million lower than planned, resulting primarily from the movement of members between premium categories offset by higher than anticipated growth in insured deposits.
- :: **Interest on cash and investments** is projected to be \$10 million lower than planned, due to lower than planned yields on investments.
- :: **Recoveries of amounts previously written off** are forecast to be \$4 million lower than planned, due to delays in anticipated recoveries from certain estates.
- :: **Operating expenses** are projected to be lower than planned, due to anticipated savings in a number of expense categories.
- :: **Net income** is forecast to be \$104 million or \$28 million lower than planned, due primarily to lower than planned premium revenue and lower than planned interest on cash and investments.
- :: **Net claims receivable** are projected to be \$9 million higher than planned. This variance is due to timing differences between the planned and actual receipts from the estates of failed member institutions, as well as new claims receivable being recorded in 2003/2004.
- :: **Cash and investments** are forecast to be \$1.321 billion as at March 31, 2005. The \$21 million negative variance from Plan is primarily the result of lower than planned premium revenue, lower than planned

interest earned on cash and investments, and lower than planned recoveries of amounts previously written off offset by higher than planned recoveries on claims receivable.

- :: The **provision for insurance losses** is forecast to remain at \$550 million, consistent with the Plan.

- :: **Retained earnings** are projected to be \$8 million lower than planned.

Five-Year Financial Plan – 2005/2006 to 2009/2010

The Corporation's Pro Forma Balance Sheet, Statement of Income and Retained Earnings, Statement of Cash Flows, and Statement of Net Income are presented as Figures 5.4, 5.5, 5.6 and 5.7 below.

Overall, over the next five years ...

CDIC 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 the changing environment. Business plans will be revised as appropriate to focus resources on the most important initiatives. Costs for unplanned activities are, whenever possible, absorbed within the existing operating budget; however, CDIC operating budgets do not allow for significant 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 revising priorities within the existing budget, Board approval will be requested for additional resources.

Pro Forma Balance Sheet

as at March 31
(\$ millions)

Figure 5.4

	2004 Actual	2005 Plan	2005 Forecast	2006 Plan	2007 Plan	2008 Plan	2009 Plan	2010 Plan
ASSETS								
Cash and investments	1,195	1,342	1,321	1,439	1,521	1,604	1,692	1,783
Accounts receivable	5	5	5	—	—	—	—	—
	1,200	1,347	1,326	1,439	1,521	1,604	1,692	1,783
Capital assets	2	2	2	2	2	2	2	2
Claims receivable	39	—	19	—	—	—	—	—
Allowance for loss on claims receivable	(10)	—	(10)	—	—	—	—	—
	31	2	11	2	2	2	2	2
Future income tax asset	12	4	5	1	—	—	—	—
	1,243	1,353	1,342	1,442	1,523	1,606	1,694	1,785
LIABILITIES								
Accounts payable	9	7	6	6	6	6	6	6
Income tax payable	—	—	—	5	7	7	8	9
Provision for guarantees	3	3	1	—	—	—	—	—
Provision for insurance losses	550	550	550	550	550	550	550	550
	562	560	557	561	563	563	564	565
Retained earnings	681	793	785	881	960	1,043	1,130	1,220
	1,243	1,353	1,342	1,442	1,523	1,606	1,694	1,785

Figure 5.5

Pro Forma Statement of Income and Retained Earnings

as at March 31
(\$ millions)

	2004 Actual	2005 Plan	2005 Forecast	2006 Plan	2007 Plan	2008 Plan	2009 Plan	2010 Plan
REVENUE								
Premiums	109	112	93	64	66	68	70	72
Interest on cash and investments	35	41	31	41	44	46	49	52
Other revenue	16	2	—	—	—	—	—	—
	160	155	124	105	110	114	119	124
EXPENSES								
Adjustment to allowance and provisions for loss	3	3	—	—	—	—	—	—
Recovery of amounts previously written off	(11)	(14)	(10)	(23)	—	—	—	—
Operating expenses	22	24	23	23	23	24	24	25
	14	13	13	—	23	24	24	25
Net income before income tax benefit/expense	146	142	111	105	87	90	95	99
Reduction in future income tax asset	4	10	7	4	1	—	—	—
Income tax expense	—	—	—	5	7	7	8	9
	4	10	7	9	8	7	8	9
Net income	142	132	104	96	79	83	87	90
Retained earnings, beginning of year	539	661	681	785	881	960	1,043	1,130
Retained earnings, end of year	681	793	785	881	960	1,043	1,130	1,220

Pro Forma Statement of Cash Flows

for year ending March 31
(\$ millions)

Figure 5.6

	2004 Actual	2005 Plan	2005 Forecast	2006 Plan	2007 Plan	2008 Plan	2009 Plan	2010 Plan
OPERATING ACTIVITIES								
Premium revenue received	109	112	93	64	66	68	70	72
Claims recovered	1	8	20	9	—	—	—	—
Interest revenue received	35	41	31	41	44	46	49	52
Recovery of amounts previously written off	6	14	10	23	—	—	—	—
Other amounts received	—	2	—	5	—	—	—	—
Payment of guarantees	—	(1)	(2)	(1)	—	—	—	—
Payment of income taxes	—	—	—	—	(5)	(7)	(7)	(8)
Payments to suppliers and employees	(21)	(23)	(25)	(22)	(22)	(23)	(23)	(24)
Capital assets purchased	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Cash flows from operating activities	129	152	126	118	82	83	88	91
CASH AND INVESTMENTS								
Increase during the year	129	152	126	118	82	83	88	91
Balance, beginning of year	1,066	1,190	1,195	1,321	1,439	1,521	1,604	1,692
Balance, end of year	1,195	1,342	1,321	1,439	1,521	1,604	1,692	1,783

Figure 5.7

Pro Forma Statement of Net Income

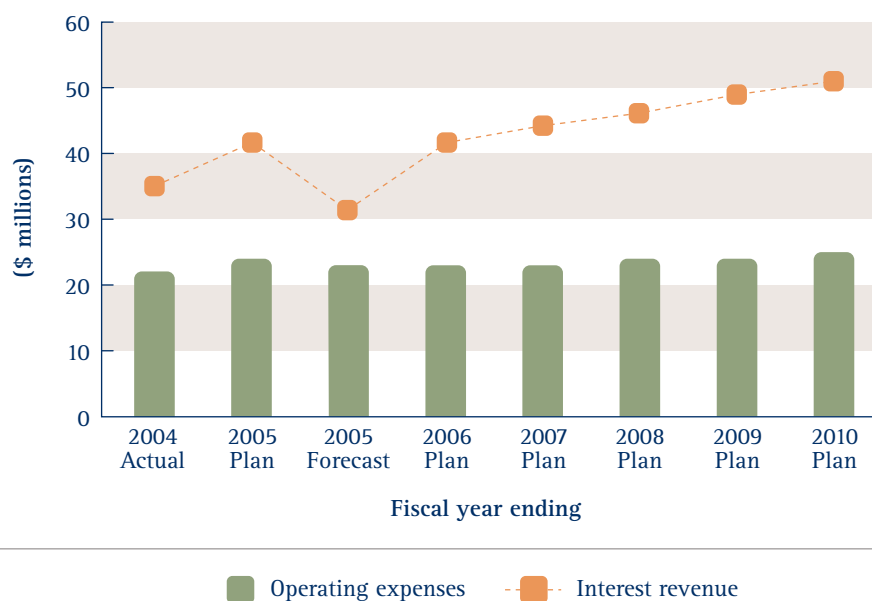
for year ending March 31
(\$ millions)

	2004 Actual	2005 Plan	2005 Forecast	2006 Plan	2007 Plan	2008 Plan	2009 Plan	2010 Plan
REVENUE								
Premiums	109	112	93	64	66	68	70	72
Other adjustments and recoveries*	24	13	10	23	—	—	—	—
	<u>133</u>	<u>125</u>	<u>103</u>	<u>87</u>	<u>66</u>	<u>68</u>	<u>70</u>	<u>72</u>
OPERATIONS								
Income								
Interest income	<u>35</u>	<u>41</u>	<u>31</u>	<u>41</u>	<u>44</u>	<u>46</u>	<u>49</u>	<u>52</u>
Expenses								
Salaries and other personnel costs	11	12	11	11	Note: Although total operating expenses have been estimated for the entire planning period, detailed breakdowns by category are not developed beyond 2005/2006.			
Inspection, legal and other fees	3	2	3	2				
Premises	2	3	2	3				
Public awareness	2	2	2	2				
General expenses	3	3	3	3				
Data processing	1	2	2	2				
	<u>22</u>	<u>24</u>	<u>23</u>	<u>23</u>				
Net operating income	<u>13</u>	<u>17</u>	<u>8</u>	<u>18</u>	<u>21</u>	<u>22</u>	<u>25</u>	<u>27</u>
Net income before income tax benefit/expense	<u>146</u>	<u>142</u>	<u>111</u>	<u>105</u>	<u>87</u>	<u>90</u>	<u>95</u>	<u>99</u>

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

Interest Revenues vs. Operating Expenses

Figure 5.8



Commentary: The Five-Year Financial Plan

:: The Corporation forecasts premium revenue of \$64 million for its fiscal year ending March 31, 2006.

:: The premium revenue for the fiscal years 2005/2006 to 2009/2010 is based on premium rates being reduced by one third from those assessed in 2004/2005 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, 2005, and the annual growth of insured deposits is forecast to be 3 per cent. Premium rates are fixed annually and take into consideration the Corporation's financial condition, the economic and financial 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 \$340 million.

:: Interest income on investments is forecast to total \$232 million, and will more than cover operating expenses in each year of the planning period (see Figure 5.8).

:: Operating expenses are budgeted at \$119 million.

:: The adequacy of provisions for losses is assessed on an annual basis and, if necessary, adjustments are recorded. As mentioned earlier in this Corporate Plan, for financial planning purposes, no failures are projected during the planning period. In the event of a failure, CDIC's provisions, cash and investments and retained earnings may be adversely affected.

:: Cash and investments are planned to be \$1.439 billion as at March 31, 2006, and are expected to increase to \$1.783 billion by the end of the planning period at March 31, 2010.

- :: The Financial Plan reflects the fact that the net realizable value of all outstanding net **claims receivable**, which was \$29 million at March 31, 2004, will be eliminated within the planning period. It is planned that \$9 million will be recovered against outstanding claims during the fiscal year ending March 31, 2006.
- :: The **guarantee liability** for the Toronto-Dominion Bank under the deficiency coverage agreements, forecast to be \$1 million as at March 31, 2005, is expected to be retired in the year ending March 31, 2006.
- :: **Retained earnings** of \$881 million is forecast as at March 31, 2006, and is expected to grow to \$1.220 billion as at March 31, 2010 (consistent with the planning assumptions set out in Part IV of this document).
- :: The Corporation is subject to federal **income tax** and commencing in its 2005/2006 fiscal year CDIC will no longer have tax losses that can be carried forward to reduce future years' taxable income.* CDIC's income tax expense is expected to be \$5 million in 2005/2006 and over the five-year planning period it

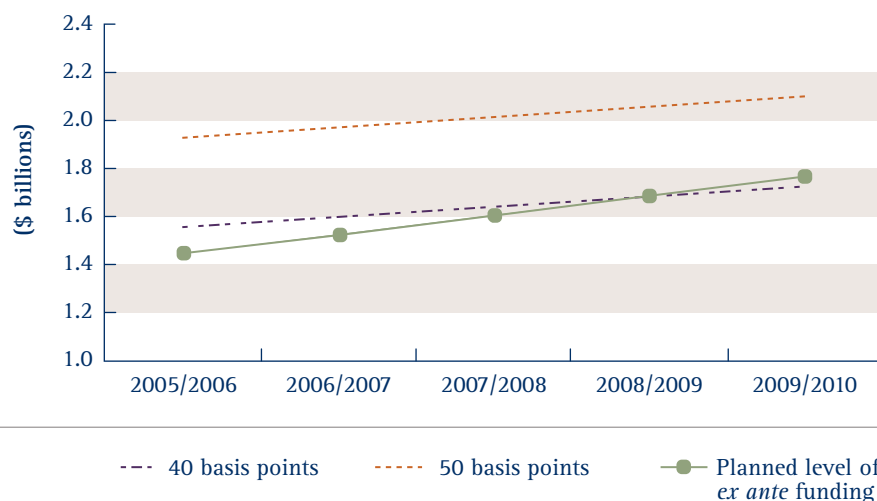
is forecast that CDIC will pay \$36 million in federal income tax.

In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was determined that the Corporation's level of *ex ante* funding would be represented by the aggregate of its retained earnings and its provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits. It is forecast that the level of *ex ante* funding will be 37 basis points of insured deposits at March 31, 2006. It is currently anticipated that the bottom level of the target range (40 basis points) will be attained in CDIC's 2008/2009 fiscal year, as illustrated in Figure 5.9.

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.

Figure 5.9

Ex Ante Funding Progression



* Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. As such, the Corporation's primary 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.

Operating Budget – 2005/2006

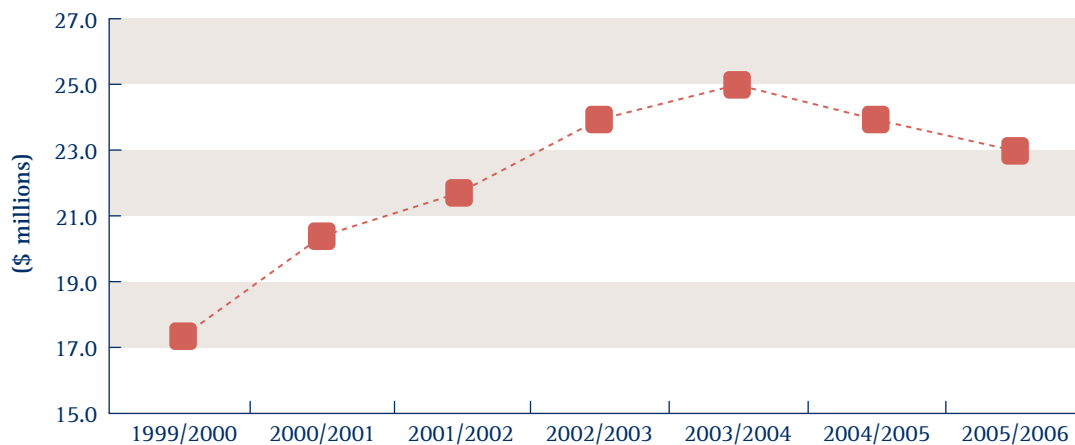
A summary of the Operating Budget is set out below in Figure 5.10.

Operating Budget (\$ millions)					Figure 5.10
	2004 Actual	2005 Plan	2005 Forecast	2006 Plan	
REVENUE					
Premiums (Note 1)	109	112	93	64	
Other adjustments and recoveries (Note 2)	24	13	10	23	
	133	125	103	87	
OPERATIONS					
Income					
Interest income	35	41	31	41	
Expenses					
Salaries and other personnel costs	11	12	11	11	
Inspection, legal and other fees	3	2	3	2	
Premises	2	3	2	3	
Public awareness	2	2	2	2	
General expenses	3	3	3	3	
Data processing	1	2	2	2	
	22	24	23	23	
Net operating income	13	17	8	18	
Net income before income tax benefit/expense	146	142	111	105	
Reduction in future income tax asset	(4)	(10)	(7)	(4)	
Income tax expense	–	–	–	(5)	
Net income	142	132	104	96	
<p>Note 1: The premium revenue is based on the following assumptions: premium rates are one third lower than those in 2004/2005 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, 2005; and an annual growth of insured deposits of 3 per cent.</p> <p>Note 2: Includes recoveries of amounts from estates that were previously written off and post-liquidation interest.</p>					

Figure 5.11 below depicts the history of CDIC's Operating Expenditures Budget from 1999/2000 to 2005/2006.

Figure 5.11

Historical Overview of Operating Expenditures



Capital Budget – 2005/2006

The budget for capital expenditures in 2005/2006 is \$700,000, as summarized in Figure 5.12.

Figure 5.12

Analysis of Capital Plans for Years Ending March 31 (\$ thousands)

	2004 Actual	2005 Plan	2005 Forecast	2006 Plan
Furniture and equipment	100	100	100	100
Computer hardware	631	600	600	600
Leasehold improvements*	832	—	—	—
Total	1,563	700	700	700

* Leasehold improvements to the Corporation's premises were completed in 2003/2004.

Upgrades to CDIC's information systems will continue in 2005/2006 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 IV of this report.

Current leases for office space (in both Ottawa and Toronto) will not expire during the planning period. 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.

Borrowing Plan

Debt Management

At December 31, 2004, 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 the Corporation has adequate cash resources.

Under its treasury policies, the Corporation's financing is to be matched within certain parameters to cash and maturing short-term investments, anticipated premium revenues and recoveries of claims. CDIC's 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 Strategy

Pursuant to section 10.1(1) of the *CDIC Act*, at the Corporation's request, the Minister of Finance 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 commercial paper and/or medium-term notes in domestic and other markets. An information memorandum to support this program has been developed. In the event that 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, liquidity, 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 is positioned toward low-risk and highly liquid instruments.

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 Requirements

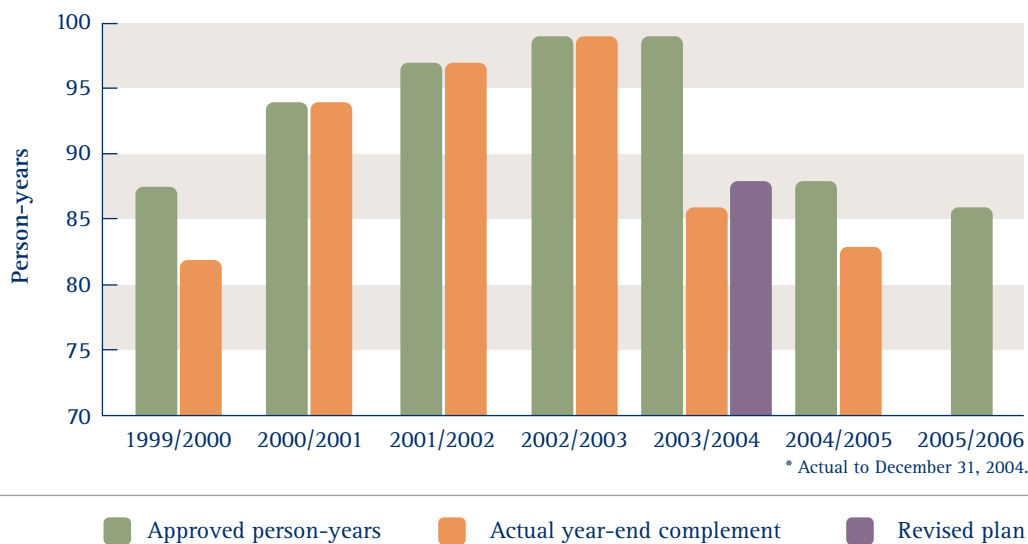
In the spring of 2003, CDIC underwent a significant reorganization in order to address evolving workloads in various areas, the need to control operating costs, and to invoke appropriate succession planning while

providing a strong organizational base for the future. The reorganization 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. CDIC's human resource levels from 1999/2000 to present are set out in Figure 5.13, as well as those planned for 2005/2006. Human resource requirements for the five-year planning period are included in the accompanying table (see Figure 5.14).

There will be no significant change to the overall person-year count during the planning period. 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, skills training and professional development.

Figure 5.13

Human Resource Levels – 1999/2000 to 2005/2006



Human Resource Requirements – 2004/2005 to 2009/2010

Figure 5.14

Corporate Area	2004/2005 Plan	2005/2006 to 2009/2010
Insurance and Risk Assessment	24	24
Corporate Affairs	18	18
Information Systems	14	13
Executive Division	12	12
Finance and Treasury	9	9
Records and Information Management	6	6
Office Services	5	4
Total	88	86

CDIC operates on the principle of augmenting the skills comprising its core capacity of expert employees to deal with specific challenges through the mechanisms in place to mobilize a larger work force engaged directly through outsourcing by CDIC, or indirectly by liquidators, receivers, or through workout or wind-down arrangements. These may include additional employees, contract personnel, consultants, insolvency and legal professionals, and other service providers, should the need arise.

Key Accounting Principles

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 CDIC 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, CDIC 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: provision for insurance losses; income taxes; allowance for loss on claims receivable; and provision for guarantees. These are described below.

Provision for insurance losses

The provision for insurance losses represents CDIC'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 CDIC'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 unweighted 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.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. The future benefits 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 benefits will be realized. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date. For planning purposes, the corporate income tax rates in effect at the date of this Plan are assumed to remain unchanged over the planning period.

Allowance for loss on claims receivable

This allowance reflects CDIC'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 \$3 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.

Amortization

All capital assets are amortized on a straight-line basis for periods that reflect their estimated average useful lives, as follows:

- :: Furniture – ten years
- :: Equipment (other than computer equipment) – five years
- :: Computer equipment – three years
- :: Leasehold improvements – remaining period of the lease