SUMMARY OF THE

CORPORATE PLAN

C D I C

1999/2000 to 2003/2004

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

Canada

The Corporation'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 wherein employees are treated fairly and given opportunities and encouragement to develop their maximum potential.

Strategy Statement

In providing deposit insurance, CDIC undertakes a wide range of initiatives to increase understanding of deposit insurance, to assess and monitor the risks of insuring deposits in collaboration with regulators, to manage relationships with federal and provincial governments, member institutions and their organizations, and other interested parties, to keep abreast of economic and policy issues, and to minimize the cost of deposit insurance. CDIC achieves this by maintaining its financial stability through efficient and effective operations.

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Summary

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

The first chapter describes the planning environment. Outlined here are strategic issues that may have an impact on CDIC and its membership, such as the recent recommendations on the future of the Canadian financial services sector, the year 2000, changes in the financial marketplace, and volatility in world financial markets. CDIC's planning and economic assumptions for the next five years and an update on member institutions are also covered in this chapter.

Chapter 2 provides an update on CDIC's progress in achieving its past priorities and outlines its plans for attaining its new objectives, listed below. It also describes CDIC's new performance management system, which will help measure the attainment of the corporate objectives.

New Objectives

- Maintain a Strong Core Capacity to Minimize the Cost of Deposit Insurance
- Maintain Efficient, Cost-effective Operations
- Keep Abreast of Emerging Issues to Assess and Propose Public Policy
- Improve Consumer Information

CDIC's financial plan for the next five years is set out in Chapter 3. In summary, CDIC has eliminated its debt and will have virtually eliminated its deficit by March 31, 1999. A small surplus is forecast thereafter. This chapter also presents CDIC's performance against its budgets for the past two years, the 1999/2000 operating, intervention and capital budgets, and the Corporation's borrowing plan.

Planning Environment 1999/2000-2003/2004

1.1 Issues Affecting CDIC

The following sections outline strategic issues that CDIC has identified as possibly affecting its mandate or operations in the future.

1.1.1 Recommendations on the Future of the Financial Services Sector in Canada

A number of reports published in 1998 proposed changes to the Canadian financial services sector. The reports, from a variety of sources, examine many aspects of financial services, including deposit insurance. Several of the recommendations would effect CDIC directly if accepted. Others would affect CDIC indirectly. The extent to which these recommendations will effect future government policy and CDIC's mandate or operations is unknown at this time and is therefore not covered in this plan.

1.1.2 Year 2000 Issues

The year 2000 issue affects CDIC in three different ways: CDIC's internal readiness, the legal issues of liability surrounding year 2000 compliance, and the preparedness of its member institutions.

CDIC's Internal Readiness

CDIC has been actively investigating the potential problems of its internal systems for approximately two years. Progress reports on the Corporation's year 2000 readiness plan are presented regularly to CDIC's Audit Committee and to its Board of Directors. The plan calls for extensive testing of the hardware and software components of all systems followed by a complete system test in the summer of 1999. This process is proceeding on schedule.

CDIC is in the fortunate position of not having any mission-critical systems. Therefore its internal compliance risk is low. Nonetheless, contingency plans are being developed to ensure that CDIC is ready to deal with events that might result from a year 2000 problem. CDIC will take all steps necessary to ensure it can at all times meet its obligations as a deposit insurer.

Legal Liability Issues

CDIC is examining the terms and conditions of its existing contracts with suppliers and other third parties to assess its rights and obligations with respect to year 2000 issues and to resolve any problems should they arise. All new contracts contain terms and conditions to protect CDIC's interests.

Preparedness of Member Institutions

CDIC is also monitoring in several ways the readiness of member institutions for the year 2000. CDIC has asked members to submit year 2000 readiness statements with their 1998 and 1999 Standards Assessment and Reporting Program reports. CDIC has also asked supervisors of member institutions to provide CDIC with a statement regarding each member's readiness as part of their 1998 and 1999 annual examinations. In addition, members have been advised that failure to address the year 2000 issue in a timely manner contravenes CDIC's by-laws regarding *Standards of Sound Business and Financial Practices*.

1.1.3 Changes in the Financial Marketplace

As a result of the widespread acceptance of telephone banking, personal computer banking and Internet banking, financial products can be bought, sold and traded without the constraints imposed by geographical location. This has led to new entrants with new channels of distribution, such as "virtual banks," financial institutions with outlets in retail stores, and foreign financial service providers doing business in Canada through the Internet.

Other new technological innovations, such as smart cards, digital cash, and electronic commerce, are being introduced and implemented at a rapid pace. Whether Canadians will embrace these new technologies to the same extent they have automated banking machines and debit cards, for example, remains to be seen.

These new innovations raise questions about who should be able to issue devices that store "money" or that transfer funds to and from such devices. There are also questions regarding security, consumer protection, and money laundering. Such developments will have to be closely monitored to ensure the supervisory and regulatory system keeps pace with the evolution of products and services.

Another important development in recent years has been the increased competition faced by regulated financial institutions from non-regulated financial services companies. Companies operating on an unregulated basis are pursuing strategies that tend to focus on providing credit in certain specialized areas, such as equipment leasing or consumer products. By concentrating on specific market niches, these companies have been able to develop focussed strategies and efficient delivery systems, which ultimately provide fast, low-cost service to customers. These non-regulated entities compete with CDIC's member institutions in a number of areas, such as electronic payments processing, credit cards and service delivery on the Internet.

This rapidly changing financial marketplace represents a challenge for CDIC in terms of determining what constitutes an insured deposit, the need to constantly apply more advanced analytical tools in its assessment of risk, and the need to maintain a core of skilled resources able to keep pace with these changes and analyse their impact on the Corporation.

1.1.4 Global Market Developments

The international financial turmoil that began with the Asian crisis in 1997 continues to affect international financial markets and the global economy. It has since spread to Russia, Latin America and many other emerging markets. Although it appears that Canada and most of the developed world have avoided the worst effects of the crisis, the consensus view of many forecasters is that world economic growth will weaken as a result of these developments during the next few years.

In addition, possible disruptions created by the year 2000 problem, issues associated with monetary union in Europe, and the potential for increased volatility in international financial markets represent other important risks in the future.

Canada's economy and CDIC member institutions are susceptible to risk associated with global market developments in one form or another. This emphasizes the need for CDIC to continue monitoring risk in the most efficient and effective manner possible.

1.2 Planning Assumptions

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

Mandate and Objects
There will be no significant changes to the mandate or objects of CDIC during the planning period.

Deficit/Surplus
CDIC will virtually eliminate its deficit by the end of the fiscal year 1998/99 and will not carry a significant surplus thereafter.

Loss Provisions
As protection against potential losses from future failures of member institutions, a provision for insurance losses will continue to be maintained throughout the planning period. This provision stood at $400 million at March 31, 1998. This amount is projected to remain at this level for planning purposes.

Borrowings
CDIC will not require funding through borrowings during the planning period. Premium revenues collected, recoveries from loans and claims receivable, and interest income will provide sufficient funding to meet outstanding obligations and operating costs.

Number of Member Institutions
CDIC had 113 member institutions at December 31, 1998. It is assumed that this level will remain relatively constant during the planning period as new members enter and others exit.

Member Institution Failures
Prior experience indicates that member institutions can and will fail in future, although the timing and numbers cannot be predicted. Nevertheless, it is projected that no significant losses will be absorbed by CDIC as a result of failures of member institutions during the planning period.

Premium Revenue
The premium level (currently one-sixth of one percent of insured deposits in member institutions) will be tied to the differential premium program being introduced in the fiscal year 1999/2000. CDIC is forecasting that it will assess approximately $125 million in premium revenue for the year 1999/2000. Given that the Corporation's policy is not to accumulate a large surplus, no material premium income has been projected for the years 2000/01 to 2003/04, although all member institutions will be required to pay at least the minimum premium level as set out in the CDIC Act.

Human Resources
CDIC projects its current level of human resources will remain relatively constant throughout the planning period. This trend in human resources may be affected by a change in CDIC's mandate, by a shift in objectives, by changes in the level of monitoring or intervention, or by changes in the number of member institutions. Furthermore, active consideration will be given to contracting out and collaborative cost-sharing arrangements in selected functional areas. Also, opportunities will be explored to develop a consulting practice in the area of deposit insurance at both the domestic and international levels.

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

Operating Budget
Operating Expenses
CDIC's 1999/2000 budget for operating expenses is $14.35 million – down from $14.95 million in 1998/99. The Corporation continues to review its operating costs in all areas by refocussing its resources to meet its objectives. CDIC will continue to operate as efficiently and effectively as possible within the planned resource levels.

Intervention Costs
CDIC's intervention budget for 1999/2000 totals $2.05 million – down from $3.4 million in 1998/99. Intervention expenses include the ongoing costs of litigation and the costs of monitoring the liquidation of a number of failed member institutions. In the event CDIC needs to intervene into the affairs of a member institution, sufficient resources will be mobilized to ensure the intervention is dealt with in the most efficient manner. Any increases to the intervention budget, if required, are subject to Board approval.

Capital Budget

CDIC's capital expenditures are mostly for information systems hardware and office equipment. For 1999/2000, the capital budget totals $287,000, as compared with $375,000 in 1998/99.

Leases

Lease extensions for the head office in Ottawa and for the Toronto office will be negotiated in 1999/2000. The current leases expire in 2000 and 2001 respectively. The financial plan reflects CDIC's intention to continue leasing the existing Ottawa and Toronto premises.

1.3 Economic Assumptions

The revenue that CDIC receives from deposit insurance premiums is based on the insured deposits held by member institutions. Insured deposit growth is affected by overall economic activity as well as the decisions individuals and firms make in allocating their income and savings into a variety of financial instruments. The figures in the table below have been assumed for planning purposes.

Forecast of Three-Month Treasury Bills, CPI, GDP, M2+, and Insured Deposits (percent change, fiscal year)

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
3-M T-Bills (%)	5.00	5.20	5.20	5.50	5.60	5.50
CPI	1.20	1.50	1.60	1.50	1.80	1.80
Real GDP	2.90	2.20	2.50	2.80	2.90	2.90
M2+	-1.76	2.39	2.75	2.52	2.50	2.50
Insured Deposits	-2.80	-1.75	-0.25	1.65	2.00	2.00

In summary, the forecast above points to a relatively moderate slowing in economic growth during the next five years, a slight increase in consumer price inflation, and a relatively stable short-term interest rate environment. The forecast also calls for softening declines in insured deposits for the next two years with growth resuming again in 2001/02. What growth eventually occurs will depend critically upon the growth of M2+ — a variable that has been difficult to forecast in recent years.

1.4 *Membership Issues*

CDIC had 113 members at December 31, 1998, the same number it had at December 31, 1997. In 1998, CDIC added four new members: Comerica Bank Canada, CTC Bank of Canada, MD Private Trust Company, and President's Choice Financial Trust Company. This increase was offset by various amalgamations of financial institutions and by the cancellation of the deposit insurance policy of two members, one of whose assets were purchased and deposit liabilities assumed by another member institution.

The distribution of insured deposits across all sectors of CDIC's membership in 1998 remained relatively unchanged from 1997. However, the percentage of insured deposits to total deposits, for all sectors, continued to decline (see Exhibit 1).

Exhibit 1

CDIC Membership

Number of Members

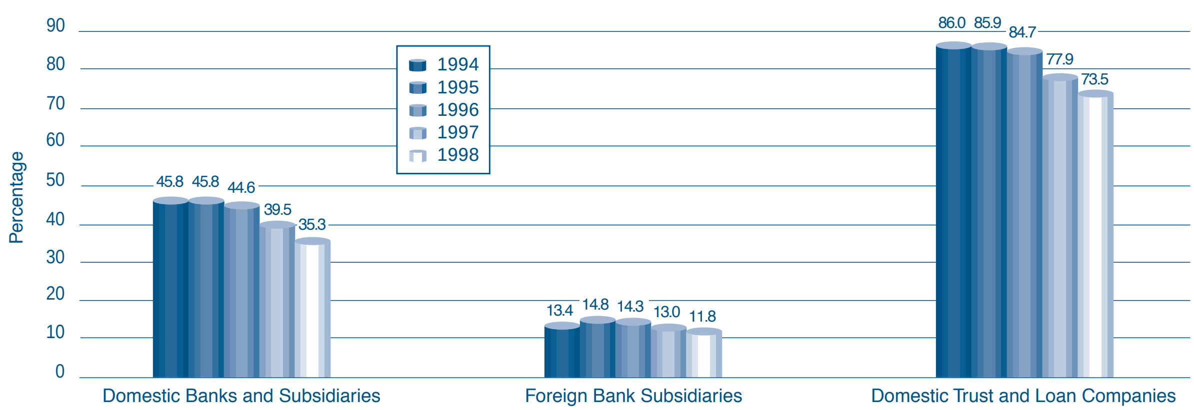
	1994	1995	1996	1997	1998
Domestic Banks and Subsidiaries	31	31	34	37	35
Foreign Bank Subsidiaries	51	47	49	49	46
Domestic Trust and Loan Companies	45	40	32	27	32
Total	127	118	115	113	113

	Total Deposits ($ millions)					Insured Deposits ($ millions)				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
Domestic Banks and Subsidiaries	531,054	566,288	602,232	690,615	750,107	243,438	259,515	268,756	272,652	264,669
Foreign Bank Subsidiaries	50,217	52,234	54,921	56,494	62,987	6,705	7,710	7,841	7,328	7,456
Domestic Trust and Loan Companies	65,732	65,564	61,071	47,422	48,782	56,542	56,335	51,699	36,958	35,871
Total	647,003	684,086	718,224	794,531	861,876	306,685	323,560	328,296	316,938	307,996

	Percentage of Total Insured Deposits					Insured Deposits / Total Deposits (%)				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
Domestic Banks and Subsidiaries	79.4	80.2	81.9	86.0	85.9	45.8	45.8	44.6	39.5	35.3
Foreign Bank Subsidiaries	2.2	2.4	2.4	2.3	2.5	13.4	14.8	14.3	13.0	11.8
Domestic Trust and Loan Companies	18.4	17.4	15.7	11.7	11.6	86.0	85.9	84.7	77.9	73.5
Total	100	100	100	100	100	47.4	47.3	45.7	39.9	35.7

Differences in the totals from previous years' Corporate Plans are due to Return of Insured Deposits amendments filed by some institutions. Insured and total deposits are as at April 30 of each year. Membership is as at September 14, 1994, November 30, 1995, October 15, 1996, December 31, 1997, and December 31, 1998.

Insured Deposits / Total Deposits by Sectors – 1994 to 1998



Business Plans

2.1 *Planning and Accountability Framework*

CDIC's planning and accountability framework is depicted below. It is based on a number of levels of planning and is an integral part of the overall corporate management process. The framework is vertically integrated from the corporate strategic level to the personal operational level.

Planning and Accountability Framework

The statutory objects are legislated statements outlining CDIC's mandate. They form the foundation of the Corporation's mission statement, which influences CDIC's business philosophy and corporate culture. The statutory objects, the mission statement and the strategy statement act as a base for determining the corporate objectives and underlying business strategies that are required for CDIC to achieve its mandate.

The three statutory objects of CDIC are as follows:

1. To provide deposit insurance;
2. To promote standards of sound business and financial practices for member institutions and to promote and otherwise contribute to the stability of the financial system in Canada; and
3. To pursue these objects for the benefit of depositors and in such a manner as will minimize exposure of the Corporation to loss.

2.2 *Performance Against Past Priorities*

The priorities for 1998/99 to 2002/03 were a continuation of the priorities initially adopted in 1993 and were based on CDIC's statutory objects and the Corporation's view of the current economic and financial environment. CDIC's performance against these past priorities is reflected below.

2.2.1 Past Priority No. 1 – Eliminate CRF Borrowing and Deficit

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

Accomplishing this priority has been CDIC's number one goal since the priorities were established. In July 1998, CDIC took a large step toward accomplishing this goal: the Corporation repaid its outstanding borrowings from the Consolidated Revenue Fund.

CDIC does not anticipate any borrowing needs during the planning period. However, if future borrowings are required, CDIC has developed a market-borrowing capability, providing it with access to a range of financial markets in which to raise funds in addition to its ability to borrow from the CRF.

The accumulated deficit is forecast to be approximately $9 million as at March 31, 1999 – virtually eliminated. Given the financial status of the Corporation, premiums assessed against member institutions will be reduced from $515 million in 1998/99 to approximately $125 million in 1999/2000. CDIC projects a surplus of $191 million at March 31, 2000.

2.2.2 Past Priority No. 2 – Strong Core-Operational Capacity

To maintain and further develop a strong core-operational capacity

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

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

Work on the second phase of the Member Institution Data Analysis System (MIDAS) continued through 1998/99. This involved modifying the system architecture to accept the information requirements of the differential premium classification system. All work in this area conforms to year 2000 standards.

In the fall of 1998, the tri-agency database system project (a venture with OSFI and the Bank of Canada) was completed. This system collects financial information received from member institutions and stores it in a central location accessible to all three partners. MIDAS now accesses information directly from this new system.

During 1998/99, CDIC worked closely with the Department of Justice to complete the *Differential Premiums By-law*, which will be fully implemented by April 1999. The *Interest Payable on Certain Deposits By-law* (commonly referred to as the Index-Linked Deposits By-law) was developed and approved during the year. It clarifies the method of calculating interest on index-linked deposits in the event of a payout of insured depositors. In addition, CDIC completed all the work necessary to implement the *Opting-Out By-law*. CDIC is awaiting the review and enactment of the appropriate supporting legislation to allow the by-law's implementation.

Total recoveries from loans and claims receivable in fiscal 1997/98 totalled $365 million. Since the beginning of fiscal 1993/94, CDIC has received $4.8 billion from claims and loans.

In 1998, a settlement was reached in the action by CDIC and Canada against the directors, officers and auditors of Northland Bank. As a result, CDIC and Canada received substantial recoveries. CDIC and Canada achieved their principal aims of recovering a part of their losses due to the bank's failure and enforcing system discipline.

During 1998/99, CDIC's operational framework was enhanced through updating of its computer systems, office automation tools and network technology. Software programs were modified to address year 2000 issues. Systems reviews and reporting will continue into the millennium to ensure CDIC effectively manages its exposure.

The Corporation has continued to make use of the Internet for communications and public awareness. CDIC projects its Web site will have over 50,000 visits for the 1998/99 fiscal year – an increase of 50 percent over the previous year. Also, CDIC's toll-free information line is averaging more than 1,500 calls per month.

As described above, CDIC undertook a number of initiatives, which successfully enhanced its capacity to assess the risk of losses and to maximize net recoveries. Because of the importance of maintaining a strong core-operational capacity, this priority has been carried forward as a revised corporate objective of maintaining a strong core capacity to minimize the cost of deposit insurance and is described in section 2.4.1 – objective no. 1.

2.2.3 Past Priority No. 3 – Reduce the Risk of Losses

To reduce the risk of losses through improved risk management, earlier intervention, and improved incentives embedded in the system. This priority will be achieved through close liaison with regulators and others outlined in past priority number eight. (section 2.2.8)

CDIC's Standards and SARP continued to make a strong contribution to attaining this priority. Work began on a new standard, addressing the growing estate, trust, and agency business of member institutions.

CDIC completed its differential premium system, which is the basis of the *Differential Premiums By-law*. This project has been a major initiative in terms of internal resources and represents a significant innovation toward reducing CDIC's exposure to loss. The by-law classifies member institutions into one of four premium categories. Each premium category will have a different rate, with the worst-scoring category assigned the maximum rate permitted under the CDIC Act after a two-year phase-in period, during which the rate for this category will remain at the current rate of one-sixth of one percent. The by-law will be implemented for the 1999/2000 fiscal year.

In the case of a failure of a member institution, CDIC's policy is to take appropriate action, including commencing litigation directly or through liquidators or both, in circumstances where CDIC has suffered damages and where there is information that raises a reasonable case of negligent or willful misconduct or wrongdoing by directors, officers or auditors, or by other relevant parties. This policy has decreased CDIC's losses and has also substantially enhanced system discipline.

Because of the importance of reducing the risk of losses, this priority has been rolled into a new corporate objective of maintaining a strong core capacity to minimize the cost of deposit insurance and is described in section 2.4.1 – objective no. 1.

2.2.4 Past Priority No. 4 – Improve Productivity and Cost-effectiveness

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

This priority includes all the activities aimed at improving CDIC's overall efficiency as an organization. CDIC reports regularly to its Audit Committee and to its Board of Directors on its progress in implementing recommendations that arise from internal and external audits.

During the 1998/99 fiscal year, all of CDIC's management policies were revised, and a new policy manual was completed.

In 1997 and 1998, CDIC reviewed several performance management systems. The Balanced Scorecard method met the basic characteristics identified by CDIC. Using this method, CDIC's first draft of a corporate-level scorecard was completed in June 1998.

As the Corporation proceeds to implement the corporate-level scorecard and evaluates the measures in place, the methodology will be applied to the divisional, departmental, and individual levels. Full implementation of the scorecard at all levels of the Corporation – slated to occur during the next two years – will help measure the attainment of corporate objectives and will enhance CDIC's accountability regime. Section 2.5 provides further information about CDIC's performance management scorecard.

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

CDIC's initiatives on this priority continue to help improve productivity and cost-effectiveness. Therefore, this priority will be carried forward into a revised corporate objective of maintaining efficient, cost-effective operations. The new objective is described in section 2.4.2 – objective no. 2.

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

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

Significant effort was expended in 1998/99 to update human resources policies and to develop an effective succession planning process. Both of these initiatives will continue throughout the planning period.

CDIC has always identified training and development as a key priority, regularly allocating funds to individual and corporate training. Employees are encouraged to maintain and enhance their knowledge of the financial services sector, specific CDIC business and statutory object requirements, and effective managerial practices.

As part of an initiative to keep track of employee-related issues, a third employee survey was conducted during the 1998/99 fiscal year. Results are now being addressed.

Although CDIC is developing a performance management system (described in section 2.5), the Corporation has used certain human resource oriented performance indicators since 1993. The following table contains the performance indicators currently used.

Performance Indicators – 1997/98 – 1998/99 – 1999/2000

Measures	1997/98 Target	1997/98 Actual	1998/99 Target	1999/2000 Target	Benchmark
Turnover rate of employees	7%	8%	7%	6%	6%
Absenteeism rate of employees	5 days/year	3.5 days/year	5 days/year	5 days/year	5 days/year

Turnover Rate of Employees

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

CDIC has established a target of six percent annual turnover for 1999/2000, the same as the benchmark. The turnover for 1997/98 was eight percent. Based on exit interviews with employees departing voluntarily from CDIC during 1998/99, individuals gave the lack of opportunity for advancement and non-competitive salaries as the major reasons for leaving the organization.

Absenteeism Rate of Employees

Absenteeism is defined as the failure of workers to report on the job when they are scheduled to work. This includes absences because of illness, accident or any unauthorized reason. The absenteeism rate for 1997/98 of 3.5 days per year per employee is lower than the target of 5 days per year. The target rate for 1999/2000 and the benchmark for future years continue to be 5 days per year.

In recognition of the importance of maintaining high-quality staff, this priority has been carried forward as part of the revised corporate objective of maintaining a strong core capacity to minimize the cost of deposit insurance and is described in section 2.4.1 – objective no. 1.

2.2.6 *Past Priority No. 6 – Implement Legislative Amendments and Recommendations*

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

In 1996 and 1997, amendments were made to CDIC's legislation that have resulted in work on by-laws carrying through into 1998/99. For example, this year CDIC completed its work on the *Differential Premiums By-law* in support of its system of differential premium assessment. The new by-law and system will come into effect in 1999.

The *Interest Payable on Certain Deposits By-law* (commonly referred to as the Index-Linked Deposits By-law) relates to the calculation of interest on deposits in the event of a payout where the interest is linked to an index, for example the TSE 300. The relevant statutory sections of CDIC's legislation needed to implement the by-law were proclaimed into force in 1998/99.

Legislation amending the CDIC and Bank Acts in support of opting out of CDIC membership was passed in 1997 but not proclaimed into force. CDIC has completed its drafting of the *Opting-Out By-law*; however, the associated legislation has not yet been proclaimed into force.

The *Deposit Insurance Information By-law* was implemented in March 1998. During 1998/99, CDIC continued to review member institutions' deposit products to confirm their eligibility for deposit insurance and their inclusion in members' registers. To monitor compliance with the by-law, member institutions were required to submit a compliance report outlining their implementation strategies and monitoring processes.

In response to the change in CDIC's legislation requiring it to access capital markets for future borrowings, work continued in the treasury area of the Corporation. Treasury-related policies were further refined in terms of risk management, reporting, and benchmarking.

Since some initiatives are still being completed and since CDIC expects future legislative initiatives resulting from the rapid evolution of the financial system, this priority has been carried forward as part of the revised corporate objective of maintaining a strong core capacity to minimize the cost of deposit insurance. It is described in section 2.4.1 – objective no. 1.

2.2.7 *Past Priority No. 7 – Develop a Greater Capacity to Propose and Assess Public Policies*

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

During the past year, CDIC provided material and analysis as requested by the Task Force on the Future of the Canadian Financial Services Sector. The Corporation was also invited to appear before the Finance Committee of the House of Commons and the Standing Senate Committee on Banking, Trade and Commerce. CDIC participated in the Senior Advisory Committee of the Department of Finance and other working groups dealing with implementation approaches for the Task Force recommendations relating to issues such as ownership structure, regulatory reform, consumer protection, and payment systems.

The Corporation prepared a deposit insurance best practices paper, conducted research on foreign bank branches and deposit insurance, completed research on lessons learned from past member failures, and provided resources and input on safety and soundness issues related to the proposed bank mergers. CDIC also participated in a study of the clearing and settlement system.

CDIC continued to support the international deposit insurance community in 1998/99. During the year, members of CDIC's staff advised Jamaica and the Philippines on deposit insurance matters. CDIC also provided deposit insurance information to, and shared its expertise and experience with, representatives from China, Cuba, Indonesia, Lithuania, Russia, Taiwan, Trinidad and Tobago, and Vietnam – at their request. CDIC also participated in the first-ever International Conference on Deposit Insurance sponsored by the US Federal Deposit Insurance Corporation.

Participation in such initiatives increases CDIC's international profile as many countries wish to draw on Canada's deposit insurance knowledge and experience. It also contributes to the reputation of Canada's financial system in that other countries learn about the benefits of Canada's supervisory and regulatory framework. Furthermore, such exchanges increase CDIC's knowledge of outside practices and enhance the Corporation's ability to contribute to domestic policy discussions and research projects.

By participating in the above activities, the Corporation has been able to contribute toward improving the deposit insurance and supervisory system. It will continue to do so in the future. Therefore, this priority has been carried forward as part of the new corporate objective of keeping abreast of emerging issues to assess and propose public policy and is described in section 2.4.3 – objective no. 3.

2.2.8 Past Priority No. 8 – Develop and Maintain Close Liaison and Co-operation with Government and Industry

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

Throughout the year, CDIC consulted with member institutions and interested organizations on areas of interest such as the differential premium system in support of the *Differential Premiums By-law*, the recommendations of the MacKay Task Force, the implications and logistics associated with the *Deposit Insurance Information By-law*, and deposit insurance issues generally.

CDIC also initiated an industry consultative committee (comprised of CDIC, CompCorp, the Investment Funds Institute of Canada, and the Canadian Investor Protection Fund) whose goal is to enhance the information available to Canadians about the various insurance and protection schemes available in Canada.

CDIC worked with the Bank of Canada and OSFI in completing the Financial Institutions Supervisory Committee Data Processing Project. The resulting new system for collecting and processing the financial information received from member institutions takes advantage of new technologies.

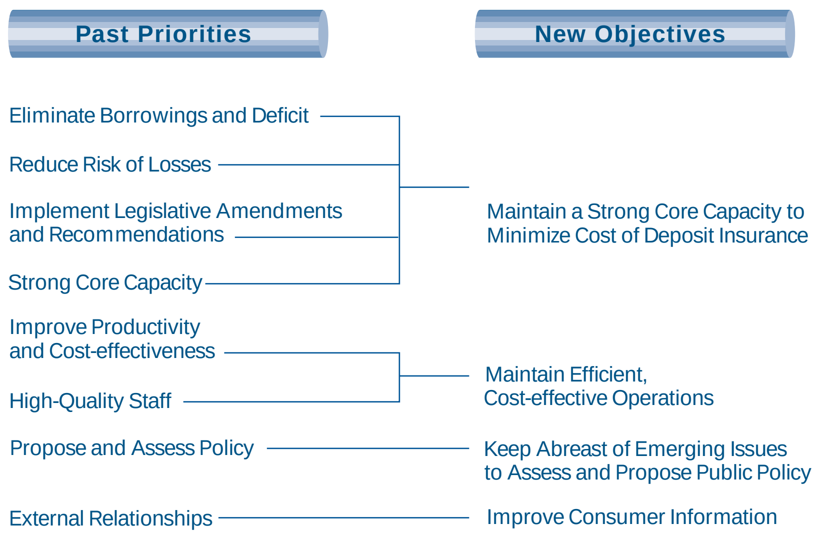
CDIC continued to distribute information and membership brochures, copies of its Standards, the *Annual Report*, and the *Summary of the Corporate Plan* to interested parties. Information on deposit insurance is available on the Corporation's Web site, as are CDIC's publications. CDIC's Internet site was updated to include new developments and publications. CDIC continues to operate its toll-free information lines and to maintain media relations.

CDIC employees take pride in supporting community events and local charities. For example, the 1998 United Way campaign at CDIC's head office achieved 100 percent participation. CDIC employees also participate regularly in various fundraisers such as running relays, canoe races and walk-a-thons.

CDIC's efforts this year toward this priority have been very successful. The many initiatives undertaken by the Corporation during the year have enhanced its relationships with the federal and provincial governments, member institutions and their associations, the community at large, and others in the financial system in Canada and abroad. CDIC looks forward to continuing in this vein. Therefore, this priority has been carried forward as part of the new corporate objective of improving consumer information and is described in section 2.4.4 – objective no. 4.

2.3 Mapping of Past Priorities to New Objectives

In an attempt to provide visual continuity from the priorities it has followed for the past five planning cycles to the updated and consolidated objectives for the future, CDIC has developed the following mapping:



2.4 Strategic Direction: The New Objectives and Plans

The objectives for 1999/2000 to 2003/04 reflect a continuation of the past priorities described in section 2.2 as well as the new direction and emphasis developed by management and approved by the Board of Directors. The new objectives continue to be based on CDIC's statutory objects and the Corporation's view of the current economic and financial environment.

2.4.1 Objective No. 1 – Maintain a Strong Core Capacity to Minimize the Cost of Deposit Insurance

Maintain a strong core capacity to minimize the cost of deposit insurance by

- *assessing the risk of losses likely to arise from insuring deposits in member institutions;*
- *reducing the risk of losses through effective risk management, prompt corrective action, early and effective intervention, and improved incentives embedded in the system;*
- *maximizing net recoveries with respect to claims arising from failed institutions;*
- *maintaining a strong treasury function; and*
- *preserving CDIC's "best practices" and "corporate memory" through effective information systems and documented policies and practices.*

Operating Plan
One of the key projects CDIC will work on during the planning period is the further development and application of a profile for each member institution. The profile will present the key information and issues used by CDIC in assessing the risk of a member institution as well as the main comments and conclusions of risk managers and others about the member.

To encourage members to manage their risks, CDIC is introducing the *Differential Premiums By-law* in 1999. There will now be a financial incentive, in terms of premiums, for lower-risk profile members.

To facilitate liquidator discharges, CDIC continues to explore the possibility of transferring or consolidating residual assets. By the end of 1998/99, liquidators of five estates are expected to be discharged. In a number of other estates, efforts to transfer residual assets should enable liquidators to narrow the focus of their activities and thereby reduce costs.

CDIC projects that less than $25 million of the original net book value of $3.7 billion of assets under administration in workout companies and court-appointed liquidations in March 1993 will remain in 2002. CDIC forecasts it will receive $232 million from recoveries on loans and claims during the period covered by this plan.

CDIC will also focus on its asset/liability management to ensure it has a strong treasury function to manage its investment portfolio and to be prepared for any possible market borrowings required as a result of the failure of a member institution.

CDIC recognizes the importance of documenting its best practices and policies to ensure it learns from its experiences in all areas of operations. To document past experiences from previous payouts and liquidations, CDIC has been preparing post mortems for each estate. In addition to assessing past activities, these post mortems will help guide CDIC in selecting the appropriate strategies for future liquidations and payouts. In addition, CDIC will use these post mortems to analyse its experience from various estates in areas such as payouts, winding-ups, forensic reviews, and litigation management.

2.4.2 *Objective No. 2 – Maintain Efficient, Cost-effective Operations*

Maintain efficient, cost-effective operations by

- *maintaining core competencies and high-quality staff;*
- *applying an effective performance measurement and management system;*
- *deploying resources to priority objectives and activities in the most cost-effective manner;*
- *keeping pace with, and applying advancements in, technology; and*
- *exploring the development of cost-sharing arrangements with other Crown corporations and government agencies and pursuing the possibility of contracting-out arrangements.*

Operating Plan
CDIC regularly conducts market comparison salary surveys to ensure its employees are paid fairly, which in turn ensures CDIC can retain its highly skilled workforce and can attract new employees when required.

To ensure it maintains its core competencies, the Corporation is continuing its efforts to provide timely and relevant training and development opportunities to all employees. A succession planning process is in place to ensure appropriate key skills are always available.

In addition to the performance management scorecard now being developed (see section 2.5), the Corporation is undertaking other specific initiatives to monitor its performance in key areas. For example, CDIC is refining its estate reporting process, which consolidates key financial, legal and asset-related data for analytical and reporting purposes.

Also, the Corporation is developing criteria to better monitor the performance of legal counsel both in terms of costs and in terms of non-financial criteria.

CDIC continues to keep pace with technological advances by upgrading its own internal systems and networks. Its goal is to maintain an efficient environment rather than be on the leading edge of technology. CDIC will be year 2000 compliant.

2.4.3 Objective No. 3 – Keep Abreast of Emerging Issues to Assess and Propose Public Policy

Ensure CDIC keeps abreast of developments and emerging issues affecting the financial services industry in order to maintain a strong capacity to assess and propose policy initiatives relevant to CDIC's statutory objects.

Operating Plan

CDIC will closely monitor emerging issues and trends in the financial services industry. The Corporation will continue to conduct economic, policy and other research into issues affecting deposit insurance and the financial system to ensure that it is in a position to respond to public policy issues. This research will also allow CDIC to assess changes that are required to the deposit insurance scheme, to address new and emerging risks, and to enhance and manage payouts and liquidations as efficiently as possible.

CDIC will strive to maintain interactive dialogue and strong working relationships with the federal and provincial governments, member institutions and their associations, and other interested parties. It will continue to review and assess any proposed changes to the financial system and to the supervisory, regulatory and deposit insurance systems in Canada.

2.4.4 Objective No. 4 – Improve Consumer Information

Improve consumer information through enhanced public awareness and understanding of deposit insurance and work with other compensatory agencies in the financial industry to increase public comprehension of the various plans available to insure different types of financial products.

Operating Plan

This new objective recognizes one of the key tenets of the *Deposit Insurance Information By-law*, that "an informed public serves the interests of consumers and the financial system as a whole." With the full implementation of the by-law on March 1, 1998, depositors were able to ask for information about deposit insurance, a register of insurable deposit products, and the existing CDIC information brochure when doing business with member institutions.

To build on the improvements brought about through the by-law, CDIC plans to enhance its communications efforts by means of a two-pronged approach:

1. increasing public awareness activities, which will involve the use of the Web site, participation at trade shows, public speaking engagements, appearances on radio and television programs, media relations such as editorial board meetings with Canada's major daily newspapers, provision of deposit insurance information to community newspapers across the country, and focussed advertising; and
2. furthering its work with other compensatory agencies in the financial industry to develop and implement jointly sponsored public awareness activities.

Regular contact with member institutions and their trade associations will continue to be a key activity for employees. In addition, employees are encouraged to attend regular meetings with the investing, lending, and legal communities. CDIC will also work to enhance its profile internationally by exchanging information and expertise with other deposit insurers and related agencies.

2.5 *Performance Management*

To enhance accountability and increase efficiency, CDIC has reported on a number of performance indicators over the years. During 1998, the Corporation began expanding these indicators into an overall corporate scorecard for performance measurement and management.

To define CDIC's performance management scorecard, the Corporation's objectives (described in section 2.4) have been grouped into three themes reflecting the main activities of the Corporation as derived from the statutory objects:

1. Maintain CDIC's financial stability and its efficient operations;
2. Manage risks of insuring deposits; and
3. Manage relationships with the federal and provincial governments, member institutions and their associations, and other interested parties.

Strategic objectives have been developed for each theme. These strategic objectives are long-term goals and are segregated into four performance areas: stakeholders/customers, financial, internal processes, and people and knowledge.

Performance measures for each strategic objective have been drafted to assess the Corporation's success in achieving the objectives. During the implementation of the scorecard over the next two planning cycles and as the Corporation gains experience with this tool, targets will also be developed for each measure. Performance measures will be continuously challenged to ensure that they provide the correct indicators of performance, that they encourage the appropriate actions and initiatives, and that they are, in fact, measurable.

As the corporate-level scorecard is implemented and the appropriate measures are put in place, divisional, departmental, and individual scorecards are expected to be developed. Full implementation of the scorecard at all levels of the Corporation will help to measure the attainment of corporate objectives.

Financial Plan

The five-year financial plan is based on the planning and economic assumptions found in sections 1.2 and 1.3 respectively. These assumptions represent management's estimate of events anticipated to unfold over the planning period. Based on CDIC's current assessment of the environment, little change from the plan is expected. However, unknown events and/or fluctuating variables may have an impact on assumptions resulting in deviations from the plan.

3.1 Financial Performance – 1997/98 and 1998/99

The following provides an overview of CDIC's performance against its plan for 1997/98 and 1998/99 and the operating plan to support the objectives for the fiscal period ending March 31, 2000.

3.1.1 Performance against Plan

Five-year pro-forma financial statements are found in Appendix B. They show the Corporation's financial results for 1997/98 against its approved plan for the same year as well as the 1998/99 forecast against the approved plan. The following table highlights CDIC's performance in some key areas for the 1997/98 and 1998/99 years.

Key Financial Highlights 1997/98 and 1998/99 ($ millions)

	March 31, 1998	March 31, 1998	March 31, 1999	March 31, 1999
	Approved Plan	Actual	Approved Plan	Forecast
Premiums	553	531	533	515
Loans and Claims Receivable (net of allowances for losses)	497	373	239	232
Loans from the CRF	402	402	nil	nil
Provision for Guarantees	572	614	578	587
Provision for Insurance Losses	400	400	500	400
Accumulated Deficit	545	539	162	9
Average CRF Borrowing Rate	7.01%	7.01%	N/A	N/A

1997/98 Actual to Plan

Premium revenue was $22 million lower than planned, resulting from a 3.4 percent decline in insured deposits from $328 billion in 1996/97 to $317 billion in 1997/98.

Loans and claims receivable (net of allowances for losses) for 1997/98 were under budget by some $125 million. The variance results from accelerated recoveries offset by a drop in the allowances for losses on loans and claims receivable, the result of a change in accounting treatment for loans and claims receivable from a net recoverable value basis, which took into account future nominal recoveries from estates of member institutions in liquidation, to fair value calculation.

1998/99 Forecast to Approved Plan

The premium revenue is 3.4 percent, or $18 million, lower than planned. This results from the decline in insured deposits from a planned level of $319 billion to an actual assessed level of $308 billion.

The loans and claims receivable (net of allowances for losses) is forecast to be $7 million lower than planned. The difference is the result of earlier recoveries from several estates.

The provision for guarantees is forecast to be $9 million higher, resulting from anticipated lower-than-planned payments during the year.

The provision for insurance losses was $400 million, down $100 million from the planned level of $500 million. The decrease reflects the reduced risk of loss to the Corporation. This is evidenced by fewer member institutions on the Corporation's watch list and the decline in insured deposits from $328 billion to $317 billion. Other factors include the movement of insured deposits to lower-risk members and a generally improved economy.

The accumulated deficit is forecast to be $153 million lower than planned. This variance is mainly due to the March 31, 1998, adjustment to the provisions for losses ($144 million). The other $9 million results from variations of several accounts.

3.1.2 Performance against Budgets

The Corporation segregates operating expenses from costs directly related to interventions into the affairs of troubled member institutions. The latter include mainly legal fees, data processing costs and consultant fees associated with past interventions. The following table provides an overview of the budgets for 1997/98 and 1998/99. An explanation of the major variances follows.

Analysis of Financial Performance against Budgets *($ thousands)*

	March 31, 1998 Approved Budget	March 31, 1998 Actual	March 31, 1999 Approved Budget	March 31, 1999 Forecast
Operating	14,100	15,647	14,949	14,949
Intervention	3,000	3,812	3,418	2,051
Total	17,100	19,459	18,367	17,000
Capital	375	389	375	264

1997/98 Actual to Budget

Actual operating expenses totalled $15.6 million compared with the plan of $14.1 million for the year. An additional $1.8 million budget was approved by the Board of Directors to fund a public awareness campaign related to the implementation of the new *Deposit Insurance Information By-law*. In total, actual operating expenses were below the approved plan by approximately $250,000.

Intervention costs were approximately $800,000 over the planned amount because of litigation costs related to the Standard Trust failure, which resulted in a substantial settlement in favour of CDIC.

1998/99 Forecast against Budget

Intervention costs are expected to be $1.4 million lower than the approved budget of $3.4 million. These savings are largely a result of lower-than-budgeted legal costs associated with the earlier-than-anticipated settlement of litigation associated with the Northland Bank estate.

Capital expenditures for 1998/99 are expected to be $264,000. This decrease of $111,000 from the planned level of $375,000 results from the change in the capitalization policy for the acquisition of software. All software costs are now expensed in the period purchased.

3.2 *Five-Year Financial Plan (Appendix B)*

The Corporation forecasts that it will collect approximately $515 million in premiums from member institutions for the year ended March 31, 1999. This represents a premium level of one-sixth of one percent. Based on the new *Differential Premiums By-law*, which allows for different premium rates to be proposed for each member rating category, premium revenues for 1999/2000 are expected to reach $125 million.

With payment of all outstanding loans to the Consolidated Revenue Fund during 1998/99, there are no borrowing costs projected over the remaining planning period.

The deficit of $9 million forecast at March 31, 1999, is expected to be eliminated during fiscal 1999/2000. Consistent with the planning assumptions in section 1.2, the financial projections found in Appendix B reflect no material premiums after the fiscal year 1999/2000. Operating expenses over the five-year planning period will approximate $70 million, and post-intervention costs will amount to approximately $10 million.

CDIC has sufficient funds available to pay the guarantee obligations due during fiscal 1999/2000. The Corporation's guarantee obligations include the $500 million payment of the distress preferred shares in the fall of 1999.

CDIC's ability to remain in a small surplus position will depend on the level of further losses sustained under various agreements. The adequacy of the provisions is assessed on an annual basis, and, if necessary, adjustments are recorded. Further, although no failures are projected during the planning period, there are no assurances institutions will not fail in the future, the results of which may place CDIC in a financial deficit. However, based on current information, a small surplus is projected over the planning period.

The projections reflect that the net realizable value of all outstanding claims and loans receivable, which was $373 million at March 31, 1998, will be fully realized within the planning period.

The 1998/99 forecast indicates $141 million will be recovered against outstanding loans and claims. For the planning period, CDIC estimates that an additional $91 million of claims receivable will be recovered, while loan collections will generate approximately $141 million.

The provision for guarantees forecast of $587 million as at March 31, 1999, is expected to be fully paid by March 31, 2003.

3.3 *Operating, Intervention and Capital Budgets – 1999/2000*

The Corporation segregates intervention costs from operating expenses. The following table summarizes the operating, intervention and capital budgets for 1999/2000 with comparisons to the previous two years.

Analysis of Budgets *($ thousands)*

	1997/98 Actual	1998/99 Plan	1998/99 Forecast	1999/2000 Plan
Operating	15,647	14,949	14,949	14,350
Intervention	3,812	3,418	2,051	2,046
Total	19,459	18,367	17,000	16,396
Capital	389	375	264	287

The 1999/2000 operating budget of $14.4 million is $600,000 lower than the 1998/99 budget and lower than the forecast for 1998/99. The decrease in the plan reflects the completion of the tri-agency database system project during the 1998/99 budget period.

The intervention budget includes estate management and legal costs incurred in failed member institutions. Should new interventions occur, the Board of Directors would be requested to approve additional funding.

The total budget for capital expenditures in 1999/2000 is $287,000, up from the $264,000 forecast for 1998/99. CDIC's capital expenditures are primarily for information systems hardware and furniture and equipment.

3.4 *Borrowing Plan*

At the Corporation's request, the Minister of Finance is able to make loans to CDIC from the Consolidated Revenue Fund on such terms and conditions as the Minister may establish. CDIC can also borrow by means other than the CRF, for example by issuing commercial paper and/or medium-term notes. Total principal indebtedness from all sources cannot exceed $6 billion. Currently, CDIC does not have any outstanding CRF loans or borrowings. As CDIC does not anticipate any new borrowing activity over the planning period, any debt issuance within the borrowing program will require specific Board of Director and ministerial approvals.

CDIC renewed its banking arrangements for a five-year period. During 1998, credit facilities of up to $10 million for cash management purposes were set up with the Corporation's banker.

Appendix A - Corporate Profile

- Industry/Supervisory Overview
- Authority and Relevant Laws
- CDIC Committees
- Organization Structure
- Board of Directors/CDIC Officers
- Public Information and Assistance

Industry/Supervisory Overview

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

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

CDIC's role is defined by its objects, which are listed in section 2.1. To carry out its work, CDIC relies heavily on the Superintendent of Financial Institutions and provincial regulators. They are responsible for regulatory supervision and for ensuring that member institutions follow the rules and regulations and remain financially viable. CDIC has no regulatory role. It receives and closely follows the regulators' reports. Only when an institution becomes a cause for concern does CDIC become more active, working in close collaboration with OSFI or with the provincial regulator. If an institution poses a significant risk to the Corporation, CDIC usually undertakes an intensive special examination of the company's operations and the value of its assets to clarify CDIC's risk and to establish an information base upon which the Corporation can act promptly toward failure resolution.

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

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

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

Authority and Relevant Laws

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

CDIC has also received ancillary powers beyond those found in its own governing legislation. Under the *Cooperative Credit Associations Act*, the Corporation may make short-term loans to an association, as defined in the legislation, to enable it to meet its requirements for liquid funds needed to discharge its maturing debt obligations, and to a deposit protection agency, also defined in the legislation, to enable it to meet its requirements for liquid funds for its operations.

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

CDIC Committees

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

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

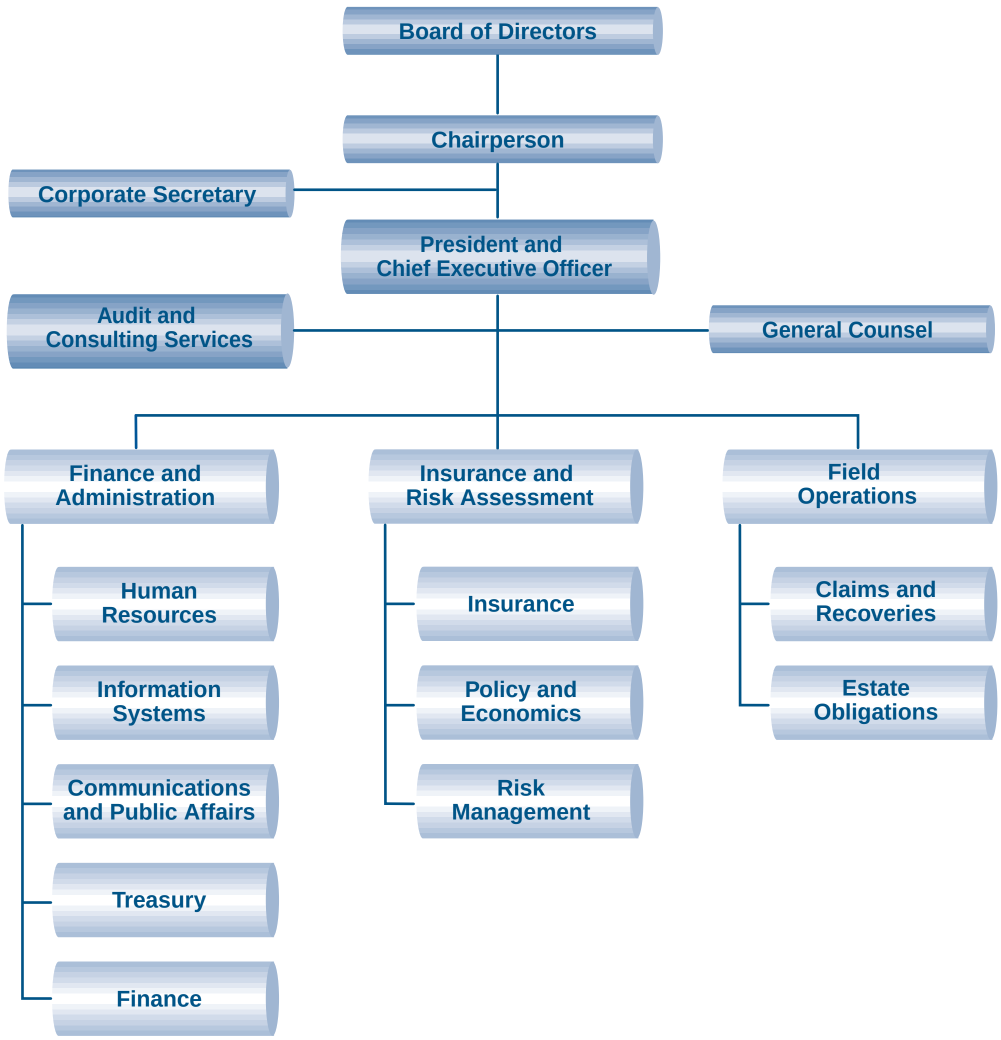
The Real Estate Advisory Panel is the only external advisory committee currently convened. It reviews, evaluates, and makes recommendations on proposals brought forward by management with respect to the realization of major real estate assets in which the Corporation has an interest.

Organization Structure

The responsibility framework for CDIC's operating costs is reflected in the organizational chart shown on the next page. When dealing with intervention projects, a cross-functional organization structure is put in place – tailored to each specific situation. It results in a "team" approach to interventions. Each intervention project is divided into three distinct phases. The phases represent the natural cycle of intervention: pre-liquidation, payout and estate management, and litigation. A project manager is named for each phase and is accountable for that phase.

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

Organizational Chart



Board of Directors – December 31, 1998

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

Viateur Bergeron
Partner
Bergeron, Gaudreau
Hull

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

H. Garfield Emerson
President and CEO
N M Rothschild & Sons Canada Limited
Toronto

Bernard I. Ghert
President
The B. I. Ghert Family Foundation
Toronto

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

Colin P. MacDonald
Partner
Howard, Mackie
Calgary

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

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

CDIC Officers

Grant L. Reuber
Chairperson

Jean Pierre Sabourin
President and Chief Executive Officer

Wayne Acton
Senior Vice-President
Field Operations

M. Claudia Morrow
Corporate Secretary

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

Bert C. Scheepers
Vice-President
Finance and Administration

Gillian Strong
General Counsel

Public Information and Assistance

Public Awareness Activities

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

Additional Publications

Corporate

Annual Report

Summary of the Corporate Plan

By-laws

Canada Deposit Insurance Corporation General By-law

Deposit Insurance Information By-law

Differential Premiums By-law

Joint and Trust Account Disclosure By-law

Premium Surcharge By-law

Information Bulletins

Deposit Insurance Information By-law

Joint and Trust Account Disclosure By-law

Joint and Trust Account Disclosure Circular

Standards of Sound Business and Financial Practices

Capital Management

Credit Risk Management

Internal Control

Foreign Exchange Risk Management

Interest Risk Management

Liquidity Management

Real Estate Appraisals

Securities Portfolio Management

Other

Application and Policy of Deposit Insurance

Assessment and Reporting Program for CDIC's Standards of Sound Business and Financial Practices

Head Office

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

Toronto Office

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

Appendix B –
Pro Forma Financial Statements

- Pro Forma Balance Sheet
- Pro Forma Statement of Income and Surplus (Deficit)
- Pro Forma Statement of Changes in Financial Position

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

	1998 Actual	1999 Plan	1999 Forecast	2000 Plan	2001 Plan	2002 Plan	2003 Plan	2004 Plan
Assets								
Cash and short-term investments	501	675	743	517	620	644	651	666
Premiums and other accounts receivable	8	2	6	6	6	6	6	6
Capital assets	1	2	2	2	2	2	2	2
	510	679	751	525	628	652	659	674
Loans receivable	226	168	150	126	35	3		
Claims receivable	173	146	108	36				
	399	314	258	162	35	3		
Allowance for loss on claims and loans receivable	(26)	(75)	(26)	(26)				
	373	239	232	136	35	3		
	883	918	983	661	663	655	659	674
Liabilities								
Accounts payable	6	2	5	5	5	5	5	5
Provision for guarantees	614	578	587	65	44	22		
Provision for insurance losses	400	500	400	400	400	400	400	400
Loans from the Consolidated Revenue Fund	402							
	1,422	1,080	992	470	449	427	405	405
Accumulated surplus (deficit)	(539)	(162)	(9)	191	214	228	254	269
	883	918	983	661	663	655	659	674

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

	1998 Actual	1999 Plan	1999 Forecast	2000 Plan	2001 Plan	2002 Plan	2003 Plan	2004 Plan
Revenue								
Premiums	531	533	515	125				
Interest on cash and short-term investments	16	17	26	33	26	30	30	31
Other revenue	6		10	54				
	553	550	551	212	26	30	30	31
Expenses								
Adjustment to provisions for loss	(144)		(2)					
Recovery of amounts previously written off	(6)		(2)	(4)	(13)		(12)	
Interest on loans from the Consolidated Revenue Fund	46	8	8					
Operating expenses	16	15	15	14	14	14	14	14
Intervention expenses	4	3	2	2	2	2	2	2
	(84)	26	21	12	3	16	4	16
Net Income	637	524	530	200	23	14	26	15
Accumulated surplus (deficit), beginning of period	(1,176)	(686)	(539)	(9)	191	214	228	254
Accumulated surplus (deficit), end of period	(539)	(162)	(9)	191	214	228	254	269

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

	1998 Actual	1999 Plan	1999 Forecast	2000 Plan	2001 Plan	2002 Plan	2003 Plan	2004 Plan
Operating Activities								
Net income	637	524	530	200	23	14	26	15
Non-cash items included in net income								
Adjustment to provisions for loss	(144)		(2)					
Loans recovered	208	76	76	24	82	32	3	
Claims recovered	156	34	65	72	19			
Payment of guarantees	(32)	(28)	(25)	(521)	(21)	(21)	(22)	
Changes in working capital	(13)	(8)	(7)	(1)		(1)		
Cash Provided by Operating Activities	812	598	637	(226)	103	24	7	15
Financing Activities								
Loans from the Consolidated Revenue Fund								
Net advances/(repayments)	(460)	(395)	(395)					
Cash Used in Financing Activities	(460)	(395)	(395)					
Cash and Short-Term Investments								
Increase (decrease) during the period	352	203	242	(226)	103	24	7	15
Balance, beginning of period	149	472	501	743	517	620	644	651
Balance, end of period	501	675	743	517	620	644	651	666