CANADA DEPOSIT INSURANCE CORPORATION

# ANNUAL REPORT 2000/2001 CDIC

CHANGE FOR A CHANGING WORLD

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

Canada

## About CDIC

Canada Deposit Insurance Corporation (CDIC) is responsible for providing deposit insurance to individuals who have eligible deposits in member banks and trust and loan companies. Over its thirty-four year history, CDIC has been working to serve the interests of depositors and member institutions alike, having protected more than two million depositors holding some $26 billion in deposits in failed institutions.

CDIC's mandate and powers are set out in the *Canada Deposit Insurance Corporation Act*. As defined by the Act, CDIC must pursue the following objects for the benefit of depositors with CDIC member institutions and in ways that will minimize its own exposure to loss:

- provide deposit insurance against the loss of part or all of deposits
- promote standards of sound business and financial practices for member institutions
- promote and otherwise contribute to the stability of Canada's financial system

CDIC performs a range of activities designed to fulfil its mandate. These include the ongoing assessment of members' risks; working closely with the supervisor of its member institutions especially when problems arise; paying insured deposits if a member institution fails; and pursuing its claims and recoveries from the estates of these institutions.

CDIC is a Crown corporation that reports to Parliament through the Minister of Finance, who has delegated certain responsibility for CDIC matters to the Secretary of State (International Financial Institutions). The Corporation's nine-person Board of Directors is responsible for the overall stewardship of the organization and establishes the Corporation's broad strategic direction.

Membership in CDIC is limited to banks, and federally or provincially incorporated trust or loan companies. As of March 31, 2001, there were 101 member institutions with insured deposits of over $325 billion. A member institution must meet the terms and conditions set out under the CDIC Policy of Deposit Insurance, which includes such requirements as complying with CDIC *Standards of Sound Business and Financial Practices*, providing regular information to the Corporation and submitting to annual examinations.

CDIC is funded by premiums that are assessed on the insured deposits of member institutions as at April 30 of each year.

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

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

Ronald N. Robertson

Chairman of the Board
Président du conseil d'administration

June 30, 2001

The Honourable Paul Martin, P.C., M.P.
Minister of Finance
140 O'Connor Street
L'Esplanade Laurier
East Tower, 21st Floor
Ottawa, Ontario
K1A 0G5

Dear Minister:

I have the honour to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Canada Deposit Insurance Corporation for the year ended March 31, 2001.

Yours sincerely,

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17th Floor
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Canada

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# MESSAGE FROM THE CHAIRMAN

"Change for a Changing World" is an apt theme for this year's annual report. At the Canada Deposit Insurance Corporation (CDIC), we are well aware of the need to meet the challenges that lie ahead in the new millennium. The financial world is a vastly different place than any of us could have envisioned even a decade ago. An increasingly global marketplace, sophisticated payments, clearing and settlement systems and a widening array of financial products that are supported by electronic tools and technologies—these are just some of the changes we face today. And there is no sign that the pace of change is likely to diminish in the near future.

We also have to look forward to the changes likely to occur when the new financial services legislation comes into force. The legislation will provide more flexibility for some of our members in structuring their affairs, such as allowing bank holding companies, and as a result of the easing of the criteria for entry, should result in a number of new applicants for membership with CDIC.

CDIC's strength has always been its preparedness for any situation. Although Canada has enjoyed strong economic growth in the past few years, all positive economic cycles have an end. I think it is important therefore to ask ourselves – have we used the good times of the recent past to prepare for the possible challenges ahead?

I believe the Corporation's work this year demonstrates our commitment to preparing for what may lie ahead and adapting to changes in the financial sector. We continued to build on the good working relationships we enjoy with our member institutions. As an example, we collaborated closely with industry to modernize CDIC's *Standards of Sound Business and Financial Practices (Standards)*. There is no question that the revised Standards, which we anticipate will come into effect in the fall of 2001, will have benefitted from this cooperation and the related consultation process. The Standards themselves reflect the reality of a changing business environment, including a strong emphasis on the essential role of good corporate governance and on sound risk management within an effective control environment, since it is our experience that well-managed institutions are better equipped to face difficult times. We have responded to the concerns of our members and streamlined the burden associated with the reporting process. As well, the revisions to our Standards dovetail with the risk-focused approach to supervision of both the Office of the Superintendent of Financial Institutions (OSFI) and provincial regulators, and the changes contained in the new financial services sector legislation.

Over the past year we have explored options for covering the future costs of member failures. Having paid off its debt and eliminated its deficit in 1999, the Corporation is in a stronger financial position but we have to remember that within the past decade we have had to borrow in excess of $3 billion in order to meet our obligations. Accordingly, we are now taking a close look at our insurance provisioning methodology and the establishment of a deposit insurance fund. Many factors will have to be weighed in this examination.

Also in the interests of ensuring that CDIC is well positioned to meet the challenges ahead, the Board undertook a second governance review in the summer of 2000. In the words of the report, the recommendations were aimed at "making a good Board operate even better". One of the outcomes of this review was the recommendation that the Board continue its active role in setting the Corporation's strategic direction over the long term by developing a strategic planning process and holding an annual meeting devoted entirely to strategic planning issues in addition to the work it does in the development of the Corporate Plan. Another issue highlighted in the report was the need for the Board to have a current view on a range of topics, such as board composition and skill set so that we can quickly and effectively provide the Government with information in the event of a vacancy. Given the complex financial matters that the Board must address at times, it is essential that we continue to have the right combination of expertise and experience available.

This year marked many changes in the composition of our Board and, with the changes contained in the financial services legislation, we will see even further changes. The Board said farewell to two members: Shawn Murphy and Gordon Thiessen. Mr. Murphy left us for a political career and we wish him the very best. Mr. Thiessen retired as Governor of the Bank of Canada on January 31, 2001. Mr. Thiessen was with us for seven years and his contribution was immeasurable. The Board also saw changes among the Alternates for some of our *ex officio* directors. After serving on the CDIC Board of Directors for over 30 years, Serge Vachon retired from the Bank of Canada and as the Alternate for the Governor of the Bank of Canada on March 31, 2001. Mr. Vachon brought a depth of understanding of the financial system in Canada and the Corporation's role that was highly valued throughout these many years. Carol Shevlin, who acted as an Alternate to the Superintendent of Financial Institutions, left the Board last year and was replaced by John Doran. The Board welcomes Tracey Bakkeli from Regina and David A. Dodge, who replaces Mr. Thiessen.

Finally, the Board has passed a resolution in recognition of the excellent work of CDIC's employees over the past year. The work of this Corporation could not be done without the dedication of its employees, led by their spirited President and CEO, J. P. Sabourin. The Board joins me in congratulating Mr. Sabourin on his re-appointment as CDIC's President and CEO for the next five years, effective June 1, 2001. Mr. Sabourin's outstanding efforts in the international field as chairman of the Financial Stability Forum's Working Group on Deposit Insurance merit special mention.

I am confident that CDIC, with the dedication of its Board and employees, is well positioned to meet the challenges that our changing world presents.

R. N. Robertson Q.C.

This has been a good year for the CDIC membership and as a result for CDIC. The absence of a member institution failure for the fourth consecutive year resulted in a positive net income for the year and a stronger balance sheet. The Corporation ends the year with a surplus of $455 million. Premium revenue of $140 million, in conjunction with a further $56 million of interest and other revenue, was offset by operating expenses and tax accounting adjustments, to generate a net income of $157 million.

CDIC continued work on a number of initiatives during the year. Among them, as mentioned by the Chairman, was the modernization of CDIC's *Standards of Sound Business and Financial Practices*. In addition to work on the Standards, CDIC instituted a number of practices to improve the ways information is exchanged with OSFI, the regulator of most of CDIC's member institutions. The establishment of a risk assessment department has served the dual function of enhancing information-sharing with OSFI and bringing a new dimension to the understanding of the risk profile of the membership.

New financial services sector legislation will reduce the minimum capital required to start a deposit-taking institution, broaden the ownership criteria of banks, and allow banks the choice of organizing their operations under a new holding company structure. We have been working during the year preparing for the challenges these changes may bring.

During the year, CDIC continued to enhance its systems and processes to meet its mandate. In the spirit of the proposed new Standards, we began work on implementing our own corporate risk management program to help us identify and control our risks. This is a formalization of internal mechanisms designed to mitigate our risks and promote a stronger internal control system. In the interests of monitoring and assessing our performance, work on the corporate Performance Management Scorecard continued this year. A work in progress, the Scorecard is one of the internal tools we use to assess how successful we are in achieving the objectives we set for ourselves each year. The Scorecard for 2000/2001 is included in the Activities and Accomplishments section of this report.

This was the first year of CDIC's five-year public awareness and education campaign. Two series of television advertising were aired across the country. As well, we put messages on a number of Internet sites and formed information partnerships with certain member institutions. The campaign, which will continue in 2001/2002, is intended to address the need for enhanced public awareness about deposit insurance and specifically about what products are or are not insured. For example, our research has shown that 40% of the Canadian population mistakenly believe that mutual funds sold by CDIC's members are insured. By providing information that helps the public become well informed about deposit insurance, CDIC contributes to the overall stability of Canada's financial system. The growing array of financial products available to depositors makes that goal an increasing challenge for all of us.

The Corporation was very active on the international front this past year. The Working Group on Deposit Insurance, created by the Financial Stability Forum (FSF), made substantial progress during 2000/2001. As Chairperson of the Working Group, I was able to harness the considerable talent within our organization and of the 12 representatives from other countries and international financial organizations (International Monetary Fund and The World Bank) in the development of guidance on deposit insurance for use by countries considering the adoption of an explicit limited-coverage deposit insurance system or the reform of an existing system. The final report of the Working Group will be tabled with the FSF in September 2001.

In addition to our work with the FSF, CDIC once again received numerous delegations from countries including Ukraine, Korea, Zimbabwe and Hong Kong (SAR). These sessions are invaluable both to CDIC and visiting countries, constantly challenging our employees to assess their own work in the face of diverse experiences and new ways of thinking.

I am honoured that I have been re-appointed as CDIC's President and CEO for another five years. I am thankful for the support of our Chairman and Board of Directors. It is also true that CDIC's achievement is a function of the dedication of the employees at CDIC. Over the years at CDIC, I have had the privilege of working with a group of highly skilled professionals who bring enthusiasm, creativity and integrity to their work. I thank them as well and look forward to the opportunity of continuing to work with them as we face new challenges and build on the important work that has already been done.

J.P. Sabourin

CANADA DEPOSIT INSURANCE CORPORATION

# ACTIVITIES AND ACCOMPLISHMENTS – 2000/2001 I

# ACTIVITIES AND ACCOMPLISHMENTS – 2000/2001

In fiscal year 2000/2001, CDIC's work continued to keep pace with an increasingly complex financial services sector, new directions in the regulatory environment for its member institutions and fast-paced developments in technology. The year marked the beginning of a number of new initiatives at CDIC, as well as significant progress on work already underway.

Key activities of the past year are summarized below, presented under the statutory objects that guide the Corporation's day-to-day work.

CDIC's Performance Management Scorecard for the year ended March 31, 2001 appears at the end of this section of the report. An internal record of CDIC's operational objectives and the activities CDIC undertook to achieve them, the Scorecard provides a detailed list of the year's principal initiatives, as well as an assessment of how successful CDIC was in achieving its objectives.

## A. Provide Deposit Insurance

While there have been no failures among its member institutions in the past four years, much of CDIC's work in providing deposit insurance involves rigorously assessing the risks of member institutions and its related risks as a deposit insurer. The Corporation is continually working to enhance processes and practices that will ultimately benefit depositors and achieve efficient resolutions of failed institutions.

In 2000/2001, this meant formalizing a risk assessment framework and developing new technology tools for monitoring and evaluating members' risks. The Corporation also launched a major public awareness and education campaign to ensure that depositors know and understand how their deposits are insured. As well, CDIC continued to actively pursue claims and recoveries from failed institutions. Taken together, these activities have enabled CDIC to better serve depositors and members alike in the most efficient way.

**Assessing Risk – A New Framework**

Change and uncertainty create risks. Turbulence in global markets, fluctuating interest rates, changes in Canada's regulatory environment—staying abreast of these and other issues is essential in minimizing CDIC's exposure to loss.

During 2000/2001, CDIC continued its work to develop a new risk assessment framework that will address these and other industry challenges, and support the Corporation's enhanced risk assessment role. The framework also responds to changes in the environment, such as the growing complexity in the financial sector, the greater volume and frequency of information available about member institutions and is supported by increasingly effective tools for assessing risk.

In the past year, CDIC increased its risk assessment team—including risk managers and analysts—which has the responsibility for collecting, assessing and continually updating information about and relevant to member institutions. To assist them in their efforts, work continued on the development of a data warehouse system that will provide this team with ready access to all relevant information. The necessary system work is expected to be completed by the end of fiscal year 2001/2002. These employees also have access to a range of Internet-based information from their desktop computers, including

CDIC's mandate is to …

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

… for the benefit of depositors, while minimizing its exposure to loss.

news servers, credit and bond rating agency information, market analyst reports, economic reports and member institution annual and quarterly financial information.

To ensure that CDIC stays abreast of changes and potential risks in the broader environment, one member of the risk assessment team is responsible for monitoring and assessing emerging issues, both domestic and global. These issues include the increasingly competitive environment in which CDIC members operate, a competition that often comes from niche players and non-bank regulated institutions such as money market funds, independent securities dealers and life insurance companies and emerging global financial conglomerates providing a full range of services to customers across international borders.

CDIC also monitors the impact on its members of technological developments, such as those in information processing and delivery, which have led to a number of significant changes in the way financial institutions operate. For example, some institutions have outsourced selected activities to specialist service providers, who are capable of taking advantage of economies of scale. Further, new delivery mechanisms, such as Internet, telephone and wireless banking raise issues about security, consumer protection, privacy, and disclosure.

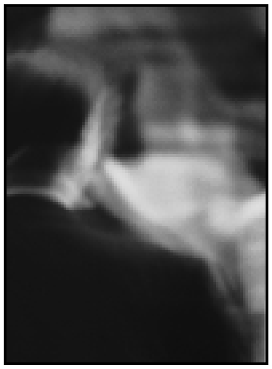
A key input into CDIC's risk assessment activities is the review of examination results provided by OSFI and provincial examiners. Through regular meetings, CDIC and the examiners share information and exchange views about each member institution. The process ensures a comprehensive understanding of the risk profile of CDIC member institutions.

The risk assessment process is also an important management information vehicle for the Corporation. As part of the process, regular information will be provided to senior management and the Board of Directors on the risks associated with individual member institutions, the membership as a whole and changes in the banking and economic environment.

**Making the Most of Technology**

CDIC recognizes information technology as a valuable tool. It enables the Corporation to streamline and improve work processes and maximize efficiency and productivity. In the past year, the Corporation developed a long-term information systems strategic plan which has as a goal the creation of an IT environment that will eventually give stakeholders and employees easy access to information, from anywhere, at anytime. Over time and through prudent management of emerging technologies and the Internet, CDIC intends to consolidate its information holdings into an integrated knowledge base and provide a common window to access information.

A number of initiatives commencing in 2000/2001 support the achievement of the Corporation's long-term strategic vision. For example, state-of-the-art software was put in place that allows the Internet to be used as a secure communication vehicle. CDIC successfully implemented the first phase of its electronic document management system, which captures electronic information at the time it is created and provides easy access to it from any location. With the introduction of new data warehousing technology, CDIC is now able to collect and centralize data from a variety of sources, giving users ready access to a full range of financial electronic information.



### A focused approach to IT

Information technology is an invaluable tool, enabling organizations to streamline and improve their work processes and maximize productivity. CDIC is no exception. During 2000/2001, the Corporation finalized its strategy for using information technology effectively, setting out its directions over the next three to five years. Closely linked to CDIC's corporate strategy, the IT strategy focuses on achieving, for example:

- an integrated data system that supports effective decision-making
- secure access to information
- use of the Internet as a communication tool

During the year, the Corporation introduced sophisticated analytical tools in support of its expanded risk assessment activities. It also developed software to provide member institutions with the option of filing differential premiums information using the Internet, with the assurance that appropriate security measures are in place to ensure confidentiality.

A key element in achieving CDIC's long-term goal for information technology is the continued upgrading of network infrastructure. CDIC made significant advances in this area, with the goal of ensuring optimal performance and information security through the effective use of enabling technology.

**Public Awareness and Education**

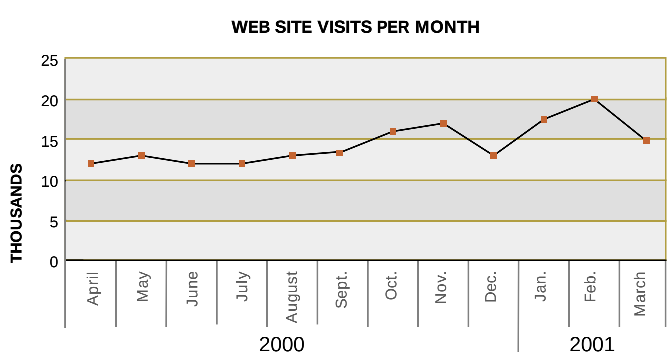
A significant challenge for CDIC in today's financial environment is to enhance consumer awareness about deposit insurance, helping Canadians to make more informed choices when buying financial products. A tool for enhancing consumer awareness (introduced two years ago) is the Deposit Register of each member institution, which lists the deposit products the member sells that are eligible for CDIC protection. Under the *Deposit Insurance Information By-law*, member institutions are required to keep their Deposit Registers up to date and make them readily available to customers.

However, recent research commissioned by CDIC confirmed that most Canadians are not fully aware of deposit insurance, including which financial products are covered. Further, a growing number of Canadians are embracing electronic and telephone banking because of its speed and convenience. This means that more and more depositors do not see traditional CDIC information products such as brochures and door decals which are found at branches of member institutions.

With this in mind, CDIC launched a national public awareness and education program in October 2000. The advertising component of the campaign included two series of national television advertisements encouraging Canadians to find out for themselves what is insured under deposit insurance by verifying this information where they bank, calling CDIC's toll-free line, or consulting its Web site or that of its Quebec counterpart, the Quebec Deposit Insurance Board. As part of the campaign, CDIC also placed messages on selected Internet sites, formed information partnerships with key member institutions, collaborated with constituency associations and conducted ongoing media relations

The first year's results have been encouraging. General awareness of CDIC has increased 7% to 54%. General awareness of the $60,000 deposit insurance limit has increased from 23% to 27%.

The theme of the campaign, ***"If you don't ask, you'll never know"*** caused appreciable increases in visits to CDIC's Web site and




calls to the 1-800 inquiry lines. The 1-800 lines answered 12,932 calls over the course of the fiscal year. Since the beginning of the awareness campaign in October 2000, there has been a 27% increase in the number of inquiries received.

**Knowledge Management**

In today's fast-paced, increasingly complex and changing world, an organization's ability to manage knowledge quickly and effectively is a key challenge. Knowledge management consists of a multidisciplinary approach to using and managing knowledge within an organization. An important component of knowledge management is appreciating that a significant amount of valuable knowledge in any organization is tacit—knowledge held by the individual employee that is difficult to express or document. Recognizing the importance of managing this knowledge effectively, CDIC has begun the development of a strategic vision for an integrated knowledge management system, as well as a plan for achieving the vision. Initial efforts have focused on identifying and establishing the relationships among existing knowledge management systems and processes within CDIC. Current initiatives in the areas of electronic document management and integrated information and records management, and ongoing preparedness and contingency planning, tie directly into this work. An important focus of the knowledge management plan will be on emphasizing the need for information sharing within the organization—for example, through cross-training programs, focused management and sharing of knowledge approaches to work, and even more effective communications between all areas.

**Optimizing Claims and Recoveries**

When a CDIC member is in difficulty, CDIC examines in collaboration with the institution's primary regulator a variety of intervention options. Depending on the circumstances, such options may range from a sale of all or part of an institution to formal liquidation and payment of insured deposits. CDIC's mandate dictates that its review of intervention options be conducted in view of the least cost option and lowest impact to the overall stability of the Canadian financial system. Typically, in a liquidation, CDIC pays the claims of insured depositors and then works with court-appointed liquidators to maximize net recoveries from the disposition of assets, thereby minimizing losses to the Corporation. Throughout this process, CDIC ensures that Canadian depositors receive prompt settlement of their full entitlement with respect to their insured deposits in failed institutions.

***Recoveries on claims in 2000/2001***

How effective CDIC is in managing the claims to be collected from an estate and the financial obligations it has incurred in past failure resolutions has a significant impact on its insurance costs. During 2000/2001, CDIC recovered $102 million from failed member institutions, bringing total recoveries for the

Setting Directions in Human Resources

During 2000/2001, CDIC completed its Human Resources Strategy and Plan which sets out fundamental directions in recruitment, knowledge management, succession planning and career progression, and workplace environment issues.

In essence, the Strategy calls for the Corporation to promote its excellent reputation and unique work to attract the best talent and to retain its employees by providing a most desirable work environment.

### Incentive Plans

One of the strategies CDIC uses to help it maximize recoveries is the implementation of incentive plans. The Corporation negotiates the terms of these agreements with liquidators in order to work towards maximizing net realizations. In 2000/2001, incentive plans contributed to the successful completion of the following seven estates:

- Crown Trust Company
- Fidelity Trust Company
- Greymac Mortgage Company
- Greymac Trust Company
- Principal Savings and Trust Company
- Seaway Mortgage Corporation
- Seaway Trust Company

past five years to $1,076 million and reducing outstanding claims and loans to $54 million at year-end.

To maximize recoveries, CDIC promotes the efficient and effective management of liquidation issues by the professionals engaged in the liquidation process. Liquidators and legal counsel are asked to follow rigorous control and decision-making processes to streamline and improve their performance. CDIC gauges these results against established industry recognized benchmarks.

CDIC also actively works to reduce costly delays in the liquidation process. For example, in 2000/2001 certain inter-creditor claims delaying progress in the liquidation of Confederation Trust Company were resolved through negotiations between CDIC and the liquidators of Confederation Trust Company and Confederation Life Insurance Company. This resulted in distributions to creditors, including $53 million to CDIC. In addition, the Corporation has been instrumental in developing a variety of arrangements with liquidators and others to expedite final distributions and estate completions earlier than otherwise would be possible. In the Northland Bank liquidation, for example, court approval was obtained in March 2001 for a process to complete the liquidation, that should accelerate the final distribution to creditors and discharge of the liquidator.

## Table I: CDIC's Claims, Recoveries, and Losses on Failed Member Institutions

| Non-Cash Assets Liquidated as a Percentage of Total Non-Cash Assets (Method of Failure Resolution – Year of Failure) | CDIC's Total Claims and Loans | CDIC's Recoveries to March 31, 2001 | | CDIC's Projected Loss and (Gains) as % of | |
|---|---|---|---|---|---|
| | ($ Millions) | ($ Millions) | As % of Total Expected | Claims and Loans | Claims and Loans – NPV[1] Basis |
| **Completed between April 1, 2000 and March 31, 2001** | | | | | |
| Crown Trust Co. (Agency[2]/Formal Liquidation – 1983) | 930 | 935 | 100% | (1%) | 2% |
| Greymac Mortgage Corp./Greymac Trust Co. (Agency[2]/Formal Liquidation – 1983) | 414 | 208 | 100% | 50% | 63% |
| Seaway Trust Co./Mortgage Corp. (Agency[2]/Formal Liquidation – 1983) | 420 | 366 | 100% | 13% | 47% |
| Principal Savings and Trust Co. (Formal Liquidation – 1987) | 116 | 154 | 100% | (33%) | 13% |
| Fidelity Trust Company (Agency[2]/Formal Liquidation – 1983) | 792 | 438 | 100% | 45% | 51% |
| **More than 99% of Non-Cash Assets Liquidated** | | | | | |
| Bank of Credit and Commerce Canada (Formal Liquidation – 1991) | 22 | 20 | 99% | 10% | 25% |
| Confederation Trust Co. (Formal Liquidation – 1994) | 680 | 700 | 99% | (3%) | 2% |
| Northland Bank (Formal Liquidation – 1985) | 321 | 203 | 91% | 30% | 66% |
| Saskatchewan Trust Co. (Formal Liquidation – 1991) | 64 | 56 | 97% | 10% | 18% |
| Settlers Savings & Mortgage Corp. (Formal Liquidation – 1990) | 84 | 66 | 99% | 21% | 26% |
| **Between 95%-99% of Non-Cash Assets Liquidated** | | | | | |
| Income Trust Co. (Formal Liquidation – 1995) | 193 | 174 | 98% | 8% | 15% |
| Adelaide Capital Corp[3]. (CGT/TD) (Management Agreement – 1992) | 1,758 | 1,436 | 97% | 7% | 12% |
| Shoppers Trust Co. (Formal Liquidation – 1992) | 492 | 463 | 99% | 4% | 14% |
| Standard Loan Co./Standard Trust Co. (Formal Liquidation – 1991) | 1,321 | 1,112 | 98% | 14% | 25% |
| **Less than 95% of Non-Cash Assets Liquidated** | | | | | |
| Security Home Mortgage Corp. (Formal Liquidation – 1996) | 42 | 35 | 83% | 1% | 17% |

Table I presents CDIC's cumulative recoveries and projected losses in estates completed during the year and those still under administration. The following highlights are worth noting:

- Seven estates, all of which failed in the 1980's, were completed during 2000/2001, following resolution of complex litigation and other legal impediments;
- More than 95% of the non-cash assets have been liquidated from all but one of the 11 estates and workout companies under CDIC administration; and
- About 65% of the remaining non-cash assets are held by Adelaide Capital Corporation, a company formed to manage and liquidate those assets of Central Guaranty Trust that were not purchased by The Toronto-Dominion Bank in 1992.

[1] All cash flows are discounted from date of receipt using CDIC's weighted average costs of funds.

[2] The estate was under an agency agreement prior to liquidation. The deposit amount (at the date of failure) represents the insured deposits and outstanding loans by CDIC.

[3] In Adelaide Capital Corp., the recovery amount excludes proceeds from a $500 million distressed preferred share issue. The projected loss figures are expressed as a percent of CDIC's loan to ACC.

### Responsibility Actions

It is CDIC's policy to investigate the cause of each member failure and take appropriate action against directors, officers and others in cases where the Corporation has suffered damages and there is evidence of negligence or wilful wrongdoing.

During 2000/2001, CDIC—through the liquidators—continued to pursue various actions in estates including the Bank of Credit and Commerce Canada, Northland Bank, Saskatchewan Trust Company and Standard Trust Company.

***Future Recoveries***

CDIC projects future recoveries of approximately $100 million from the remaining $170 million in assets being liquidated, with the balance going to other creditors and for liquidation costs. These recoveries will be achieved mainly over the next two years.

A number of factors will affect these recoveries, including the asset management and disposition strategy used by liquidators, the quality of remaining non-cash assets and general market conditions. Although the continuing growth of the Canadian economy has helped the workout strategies implemented by liquidators, commercial lenders have continued to apply stringent financing ratios and conditions for real estate financing toward potential purchasers of assets of failed members. In addition, real estate values in the sub-prime markets, where most of the remaining assets are located, have improved less than in the broader market.

***Assets Subject to Deficiency Coverage Agreements***

In fiscal year 2000/2001, CDIC paid $10 million in capital and income claims to The Toronto-Dominion Bank (TD) for assets guaranteed under Deficiency Coverage Agreements (DCAs). Since 1992, CDIC has paid $152 million in such claims to TD.

During the year, CDIC continued to monitor its exposure under the TD-DCAs, which were established in 1992 when TD acquired approximately $9.8 billion in assets from Central Guaranty Trust. Initially, $7.1 billion in loans ($2 billion commercial, $4.26 billion residential, and $0.84 billion personal) was covered. This amount has been reduced by $6.77 billion through normal paydown, TD's renewal of loans at its own risk, the acquisition of loans by others, and TD's disposal of some of the underlying assets.

The $332 million balance in 2001 comprises $135 million in commercial loans, $181 million in residential mortgages and $16 million in personal loans. These loans are eligible for coverage, as they do not meet TD's normal underwriting criteria.

## B. Promote Standards of Sound Business and Financial Practices

CDIC's statutory mandate also requires it to promote standards of sound business and financial practices for member institutions. To fulfil this requirement, in 1993 CDIC developed the *Standards of Sound Business and Financial Practices* that member institutions must follow in managing their business operations and risks. The Standards are an important means of managing CDIC's exposure as a deposit insurer.

**Modernizing Standards**

CDIC's Standards have been drawn on widely by many leading Canadian and international organizations, including Canada's life insurance industry and the International Monetary Fund. In recent years, however, the operations and risks of deposit-taking institutions have changed dramatically as a result of new business lines and an expanding array of products and services. In recognition of these changes and in the interests of decreasing the regulatory burden, the Government of Canada's 1999 policy paper, *Reforming Canada's Financial Services Sector: A Framework for the Future*, included a call for the modernization of CDIC's Standards.

Over the past two years, CDIC has taken on the major challenge of modernizing the Standards and streamlining the related reporting process. In updating the Standards, CDIC had three main objectives:

- aligning them with current management practices at well-run institutions;
- recognizing that organizational structures and management processes vary among member institutions depending on such factors as their size, geographic diversity and business activities; and
- ensuring consistency and compatibility between the Standards and federal or provincial statutory and regulatory requirements.

To develop the new Standards, CDIC undertook extensive consultations with member institutions, their trade associations, supervisors and others to assess key issues and best domestic and international practices. A consultation paper—issued in January 2000 for review and comment—put forward a proposed framework for the development of the modernized Standards and a revised reporting program. In the summer of 2000, CDIC distributed a second consultation paper that set out a business draft of the proposed Standards followed by a third consultation paper in the spring of 2001 that focussed on the proposed streamlined Standards reporting requirements.

CDIC expects that the modernized Standards will be brought into force in the fall of 2001, with member institutions making their first filings in the year beginning on July 15, 2002. In anticipation of the revised Standards coming into force, CDIC recently initiated a process to gauge its own performance against the Standards that are applicable to it.

## The proposed Standards and reporting process in brief

CDIC's proposed Standards focus on enterprise-wide governance and management. They stress that responsibility for the quality of processes, policies, procedures, controls and internal reporting belongs to senior management on a day-to-day basis and rests ultimately with an institution's board of directors. Among the areas covered in the modernized Standards are corporate governance; strategic, risk, capital, liquidity and funding management; and the control environment.

The Standards dealing with **governance** address the responsibilities of the board in directing and overseeing the activities of a member institution. The care, diligence, skill and prudence exhibited by a member's directors have a critical influence on the institution's viability, safety and soundness, its ability to execute its business strategy and achieve its business objectives and its ability to engender confidence on the part of depositors, investors, supervisors, rating agencies and others.

Good governance is not only essential to the operating effectiveness of any organization—it is good business. Studies show that financial institutions with good governance processes operate more effectively and respond more quickly to changes in the marketplace. As well, stakeholders increasingly recognize the relationship between governance and performance, and investors are prepared to pay a premium for good governance.

The remaining Standards focus on **senior management's responsibility** for ensuring that the institution applies the processes, policies, procedures and controls necessary to manage operations and risks prudently and that the board is provided with timely, relevant, accurate and complete information to enable it to assess whether the responsibilities delegated to senior management are being discharged effectively.

Under the streamlined Standards **reporting process**, CDIC will seek assurance from its member institutions that they are well managed. This assurance will come in the form of annual attestations by both the board of directors and senior management that the institution is adhering to the Standards. As well, a standards report will be filed periodically by the member institution—the specific timing will depend on the premium category in which the member institution is classified under the CDIC *Differential Premiums By-law*. It is expected that the simplified reporting system will reduce the burden imposed on member institutions by the current reporting program.

## C. Contribute to the Stability of the Financial System

CDIC undertakes a range of activities designed to contribute to the stability of its member institutions and to Canada's financial system as a whole. CDIC is also an active player internationally, sharing information and expertise with countries worldwide. As part of Canada's larger regulatory system, the Corporation shares responsibility for assessing national and global economic trends, and contributing to policy and legislative reforms. As well, the Corporation ensures that it remains well prepared to manage and administer future member failures, continually reviewing and renewing its processes in the face of changing environments and technologies.

**Preparedness for Contingencies**

Contingency planning is important for CDIC in the face of significant changes taking place in the global economy, in the Canadian financial services sector and in its own operations. With this in mind, CDIC undertook a wide range of initiatives in 2000/2001.

***By collaborating with partners***

Deposit insurance is part of a safety net to ensure Canadians enjoy a high degree of financial stability. An important challenge for CDIC is to manage its relationships with key stakeholders and partners, and develop effective ways of working in the face of various responsibilities. During 2000/2001, CDIC worked closely with OSFI and its provincial counterparts, the Department of Finance, the Bank of Canada and other organizations to define responsibility areas, and promote ongoing collaboration and information sharing.

One of the principal means of achieving this is through the Financial Institutions Supervisory Committee (FISC) and Senior Advisory Committee (SAC). The Chairperson of CDIC is a statutory member of FISC and a member of SAC. The other members of these committees are the Superintendent of Financial Institutions (the Chair of FISC), the Deputy Minister of Finance (the Chair of SAC) and the Governor of the Bank of Canada.

The mandate of FISC, which was established in 1987 under the *Office of the Superintendent of Financial Institutions Act*, is to promote consultation and the exchange of information among its members on all matters relating directly to the supervision of financial institutions. The role of SAC is to provide a forum for policy discussion pertaining to the financial services legislative and regulatory framework in Canada.

***By increasing internal capacity***

During the year, CDIC significantly enhanced its policy and research capacity and its risk assessment function. As a result, the Corporation is better positioned to work proactively, monitoring and assessing conditions across the full spectrum of risk—from the strength of individual institutions to the stability of Canada's financial sector.

***By conducting research and review***

The Corporation conducts various analyses designed to maintain and enhance its capacity to make deposit insurance payments in the case of an institution's failure. During 2000/2001, CDIC analyzed the issues relating to developments in e-commerce, Internet banking and new financial products as a preliminary step to assessing implications for making payment. As well, CDIC undertook work for establishing comparative benchmarks by reviewing payout methods used in other countries, commenced a re-engineering of the Corporation's payout processes, and assisted other deposit insurers in evaluating their readiness to deal with failures and manage interventions.

***By strengthening its virtual organization***

In maintaining its preparedness for the management of the assets and liabilities of a failed member institution, CDIC draws substantially on the services of its "virtual organization"—a network of experienced asset managers, lawyers and other professionals. During the year, CDIC continued to draw on this expertise to provide payout advice, asset-recovery, estate-administration and other consulting services throughout the organization.

***By formalizing and documenting internal processes***

CDIC continues to develop its internal capacity to apply state-of-the-art approaches and enhance the effectiveness and efficiency of its failure resolution activities. This is a particularly important focus for the Corporation, given the uncertain timing of institution failures and the inevitable turnover of employees both within CDIC and its network of professionals used in such activities. A number of these capacity-building projects were ongoing in 2000/2001, including the development of best practices and guidelines for key areas of post-failure resolution, as well as for the appropriate treatment of new financial products.

## International Learning and Exchange

CDIC actively participates in a variety of international groups and delegations, and collaborates one-on-one with countries around the world. Through these bilateral and multilateral activities, CDIC contributes to the enhancement of deposit insurance systems worldwide and ensures that the Corporation stays abreast of important and emerging issues in the field.

***Sharing knowledge with other countries***

CDIC's growing international reputation as an expert in deposit insurance is evidenced by the increasing demand for its advice and assistance by various countries. In 2000/2001, the Corporation continued to share this expertise, receiving delegations from countries such as Jamaica, Ukraine, Venezuela, Korea and Mexico, and providing training, knowledge-sharing and seminars on key issues related to deposit insurance. In special circumstances, CDIC also visits countries with specific needs that can only be met on site. Last year, for example, some employees traveled to Manila to provide advice on risk assessment to the Philippine Deposit Insurance Corporation and the Hong Kong Monetary Authority. In October of 2000, CDIC's President and CEO, Jean Pierre Sabourin, participated in a World Bank video conference on deposit insurance that was broadcast to many eastern European and Asian countries. This sharing of knowledge and experience on deposit insurance with other countries over the years benefits CDIC and enhances the expertise of its employees.

***International Working Group on Deposit Insurance***

CDIC's President and CEO, Jean Pierre Sabourin, leads the Financial Stability Forum (FSF)'s Working Group on Deposit Insurance, which includes expert practitioners from 12 countries, as well as representatives of the International Monetary Fund and The World Bank. Established in 1999 by the G7 finance ministers and central bank governors, the FSF has, as part of its mandate, the promotion of information exchange and coordination of activities between national and international groups addressing financial stability. The FSF focused on numerous issues, including issues related to highly leveraged financial institutions, offshore financial centres, and deposit insurance.

As required by its mandate, the Working Group is taking a flexible approach in developing guidance on deposit insurance, suggesting guidance that can accommodate local conditions rather than prescribing a "one size fits all" solution. The Working Group has identified 16 major topic areas—including such issues as funding, membership, coverage and moral hazard—and has developed discussion papers for all of them. When the final report is presented to the FSF in the fall of 2001, it will include a detailed discussion of the key themes, and describe the benefits and trade-offs of various approaches to deposit insurance. CDIC has contributed substantially to the research component of the Working Group's discussion papers.

Outreach is an essential part of the Working Group's process of consultation. Since its establishment, the Working Group has consulted with representatives from 111 countries around the world. CDIC employees organized and made presentations at 13 international conferences and outreach sessions, which were attended by more than 425 policymakers, supervisors, deposit insurer administrators and other interested individuals from around the world. In support of the Working Group's consultation process, CDIC maintains a Web site for communicating with the international community. As of the end of March 2001, there were more than 40,000 "hits" on the site, which gives users access to the discussion papers and videotapes of the conference proceedings.

## D. Performance Management Scorecard

CDIC continuously reviews its own operations to meet its statutory objects effectively and efficiently and carries out numerous activities in support of these obligations. Last year was the second year CDIC applied its new planning and accountability framework, which aims to incorporate the concept of risk identification and assessment, while reporting on performance. CDIC's Performance Management Scorecard allows the Corporation to track, assess and report on the year's achievements by presenting key performance measures and targets. The Scorecard and CDIC's overall strategic management process continue to evolve.

**Performance by Objective**
CDIC identified four corporate objectives to guide its work during 2000/2001. These four objectives provide a vital, organized linkage between the Corporation's broad statutory requirements and the myriad of initiatives and ongoing core activities that are the year-round work of the organization.

**To ensure CDIC's financial stability and efficient operations**—Much of CDIC's work in this area focused on enhancing and managing its knowledge base, maintaining established processes and mechanisms for corporate planning and measurement, and keeping the payout process and liquidation strategies current. The Corporation's review of its provisioning methodology and possible approaches to a deposit insurance fund also supported this objective. As well, work continued on the international front, and on reviewing best practices and implementing changes in technology.

**To proactively manage the risks of providing deposit insurance—**Staying abreast of current and emerging economic trends and conditions in Canada and abroad, and actively monitoring the performance of members were key initiatives in this area. Significant resources were added to CDIC's member institution risk assessment function during the year. As well, the Corporation focused on reviewing and adapting new processes and tools, and on contingency planning for potential institution failures.

**To continually assess and enhance relationships with stakeholders**—Reviewing and managing relationships with members, the public and regulators is an important element of the ongoing business of CDIC. Information and knowledge gained from various stakeholder initiatives were fed into the organization's knowledge management system, ensuring that all operational areas could benefit from the information. CDIC's public awareness campaign on deposit insurance in Canada formed part of the initiatives aimed at achieving this objective.

**To sustain a strong people and knowledge base**—These two resources are at the core of CDIC's work. CDIC prides itself on the quality of its workforce. Accordingly, much effort is devoted to ensuring that employees receive the training they require to meet the demands of their work, and to harnessing and sharing knowledge across all areas of the organization. In 2000/2001, CDIC developed a Human Resources Strategy and Plan. The organization also completed employee training on advanced new office automation software, which is vital to moving forward with new information technologies. In the same vein, CDIC developed an Information Technology Strategic Plan to ensure that its technological resources are keeping pace with industry trends, and changing strategic demands. Work also continued on reviewing and updating job descriptions and an employee satisfaction survey was undertaken at year-end.

## Tracking progress — the Scorecard

The Performance Management Scorecard on the following pages provides highlights of the year's performance against the corporate objectives. The Scorecard indicates that, with few exceptions, CDIC met its targets for 2000/2001. Initiatives showing slippage in terms of progress have been incorporated into CDIC's Corporate Plan priorities for the upcoming year and are not material.

### Corporate Objectives: *Linking Activities with Mandate*

During 2000/2001 CDIC worked to achieve four corporate objectives. The objectives for 2000/2001 were to:

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

# ACTIVITIES AND ACCOMPLISHMENTS – 2000/2001

## Performance Management Scorecard – For the year ended March 31, 2001

**Corporate Objective:**
To ensure CDIC's financial stability and efficient operations

Overall Rating: ▲

**Key Supporting Initiatives:**
- Apply effective performance measurement and management in all areas. ▲
- Identify benchmarks for comparison with other deposit insurers (best practices). ▼
- Knowledge management: preserve best practices, research emerging issues, develop and maintain policies and procedures. ▲
- Maintain an effective corporate planning process. ▲
- Maintain an efficient payout process. ▲
- Maintain efficient and effective liquidation strategies. ▲
- Continue international work and information exchange with other agencies and countries. ▲
- Maintain an effective treasury function; continually assess premium levels, surplus, and the provision methodology. ▲
- Apply technology effectively, as per Information Technology Strategic Plan. ▼

| Measures | Targets | Performance Against Targets |
|---|---|---|
| *Performance against budget.* | *Actual and forecasted costs within budget.* | *Actual expenses exceeded budget by $544 thousand, or 2.7%.* ▼ |
| *Level of surplus/provisions.* | *Surplus position and fully funded provision.* | *Current Provision for Insurance Losses of $400 million. CDIC in surplus position. At year-end, the actual surplus ($455 million) exceeded the planned surplus of $326 million by $129 million.* ▲ |

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

**Corporate Objective:**
To proactively manage the risks of providing deposit insurance

Overall Rating: ▲

**Key Supporting Initiatives:**
- Perform proactive risk assessment, monitoring, problem identification, effective intervention solutions, and payout. ▲
- Maintain efficient risk management tools (upgrade valuation model). ▼
- Manage litigation proactively. ▲
- Ensure processes are in place for compliance verification and management. ▲
- Maintain a process for by-law review, updates, and development. ▲
- Manage knowledge: preserving best practices, researching emerging issues, developing and maintaining policies and procedures. ▲
- Upgrade the Standards and the related compliance and reporting processes. ▲
- Identify issues and prepare contingency plans for the failure of any size and type of institution. ▲
- Prepare papers on policy issues. ▲
- Maximize net claims and recoveries. ▲

**Corporate Objective:**

To proactively manage the risks of providing deposit insurance (continued)

| Measures | Targets | Performance Against Targets |
|---|---|---|
| Level of preparedness to deal with potential failures. | Fully prepared to deal with potential failures (e.g., access to human and technical resources, funding). | Payout re-engineering underway. Potential resources identified to deal with failures. Contingency planning ongoing. ▲ |
| *Actual NPV recoveries against plan.* | *Actual NPV forecasts for the five-year planning period – zero unexplained variance.* | *Recoveries exceeded projections by $20.1 million for the year ended March 31, 2001.* ▲ |
| Identification, awareness, and assessment of emerging issues affecting CDIC and the financial industry. | Awareness of emerging issues affecting CDIC and the financial services industry. | An analyst in this area has been hired, and work on full integration of emerging issues with risk assessment work is expected to be completed in 2001/2002. ▲ |
| Capability and capacity to assess risk. | Enhance a risk assessment function. | Expanded risk assessment function is in place and ongoing development continues. ▲ |

▲ On schedule for completion and within budget as per original plans.

▼ Experiencing some slippage in terms of time to completion and/or budget overruns.

● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.

Ø Cancelled.

*Note: Key financial information reported in blue italics.*

**Corporate Objective:**

To continually assess and enhance relationships with stakeholders

Overall Rating: ▲

**Key Supporting Initiatives:**

- Develop and implement a communications strategy. ▲
- Ensure timely, effective responses to members. ▲
- Produce quality corporate plans and annual reports. ▲
- Conduct internal audits. ▲
- Continue international work. ▲
- Research emerging issues and tie into the knowledge management process. ▲
- Enhance collaborative efforts with OSFI and provincial regulators. ▲

| Measures | Targets | Performance Against Targetss |
|---|---|---|
| Level of depositor awareness. | Year-over-year increases in awareness levels leading to a level of at least 70% after five years. | Measure of awareness survey conducted in March 2001. ▲ |
| Number of members in compliance with CDIC by-laws. | 100% compliance by members. | Management is addressing situations of non-compliance with CDIC by-laws. ▲ |
| Percentage change in Standards deficiencies reported. | Year-over-year reduction in dificiencies. | The trend is toward a reduction in deficiencies. A Standards Adherence report is being developed for reporting to the Board in Q1 of 2001/2002. ▲ |
| Movement of members between premium categories. | Year-over-year improvement in distribution among premium categories. | Number of institutions in Category 1 has increased, despite the conclusion of the transition period. ▲ |
| CDIC compliance with authorities (including appropriately addressing all audit and Special Examination recommendations). | 100% compliance by the Corporation. | 100% compliance re: all statutory reporting and filing requirements. All audit and special examination recommendations being appropriately addressed via consolidated corporate action matrix and tracked by the Audit Committee. ▲ |

▲ On schedule for completion and within budget as per original plans.

▼ Experiencing some slippage in terms of time to completion and/or budget overruns.

● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.

Ø Cancelled.

*Note: Key financial information reported in blue italics.*

## Performance Management Scorecard – For the year ended March 31, 2001 (continued)

**Corporate Objective:**

To sustain a strong people and knowledge base

Overall Rating: ▲

**Key Supporting Initiatives:**

- Formalize a knowledge management strategy and framework. ▲
- Continue international work with other deposit insurers. ▲
- Develop a human resources strategy linked to the corporate strategic direction to maintain core competencies and high-quality staff. ▲
- Develop and administer employee surveys. ▲
- Conduct ongoing compensation/reward surveys. ▲
- Using performance appraisals, perform analysis to identify any skills gaps in succession planning. ▲
- Identify, implement, and support appropriate support systems and tools (e.g., technology, records management system). ▲
- Develop an internal communications strategy. ▼
- Develop an information technology strategic plan. ▲

| Measures | Targets | Performance Against Targetss |
|---|---|---|
| Level of performance vs. objectives set out in the performance management plan and the human resources and technology strategy. | Completion of the performance management plan and the human resources strategy by September 2000. | The HR strategy and the HR plan were tabled during the year with the Employee Relations Committee of the Board of Directors. ▲ |
| Compensation and reward system competitive with industry to attract and retain skilled staff. | 95% employee retention rate. | A new, Board approved compensation and reward system, designed to be competitive within CDIC's industry group, was implemented effective April 1, 2000.<br>Within the unique sector that includes Information Technology employees, CDIC experienced a higher turnover rate leading to an overall retention rate of 91% for the year. ▼ |
| Skills and qualifications of all staff will match current job requirements. | 100% of critical training identified through performance appraisals will be undertaken within two years. | Critical training provided in-house to all employees on office automation software. No other critical training was identified. ▲ |
| Employee satisfaction. | Improved survey results against benchmarks. | New survey process established to obtain more informative data on employee satisfaction. Results will be available in Q1/Q2 of 2001/2002 ▲ |
| Core competencies. | 100% of identified current core competencies reflected in position description. | Ongoing process of review and update of job descriptions. During 2000/2001 the job evaluation committee reviewed a total of 16 positions. ▲ |
| Technology – appropriateness of technology as an enabler. | Technology benchmark to be established. | Not completed. Benchmarking work deferred to an uncertain future date as a result of resource reprioritization. Ø |

▲ On schedule for completion and within budget as per original plans.

▼ Experiencing some slippage in terms of time to completion and/or budget overruns.

● Stopped and/or has fallen significantly behind schedule and/or is significantly over budget.

Ø Cancelled.

*Note: Key financial information reported in blue italics.*

CANADA DEPOSIT INSURANCE CORPORATION

# MEMBERSHIP PERFORMANCE AND PROFILE – 2000/2001 II

ANNUAL REPORT 2000/2001 CHANGE FOR A CHANGING WORLD

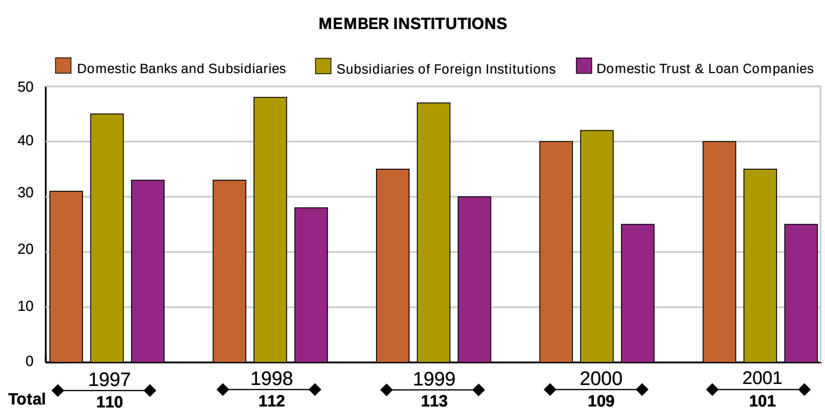
# MEMBERSHIP PERFORMANCE

## Changes in CDIC Membership

In fiscal 2000/2001 the number of CDIC member institutions declined substantially (Figure 1). This decline arose largely from the recently adopted changes to the legislation that have authorized certain banks to opt out of CDIC membership.

During the year, six banks were authorized to accept wholesale deposits (deposits of $150,000 or more) payable in Canada without being CDIC members. Three other members ceased accepting deposits (upon receiving regulatory approval for voluntary dissolution) and therefore had their policy of deposit insurance cancelled. A number of amalgamations also occurred during the year, further reducing membership.

The contraction in the number of member institutions was limited by the approval for membership of seven applicants during the year.




As at CDIC fiscal year-end

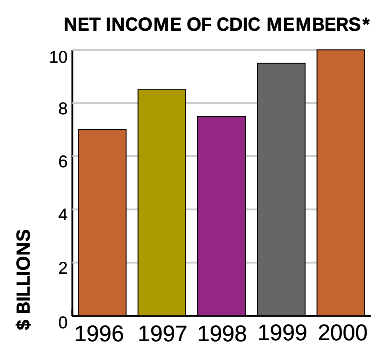
Figure 1

## Financial Performance

The Canadian and U.S. economies enjoyed another good year in 2000, although marked by unusual volatility in capital markets and some signs of a slowing economy towards year-end. CDIC member institutions performed correspondingly well during the year, but results generally reflected the slowing economy by the end of the year.

## Profit of Member Institutions Exceeds $10 Billion

In 2000, and for the first time, the profits of CDIC member institutions surpassed the $10 billion mark, as shown in Figure 2. This represents a 3% increase over last year's level.




*For members' fiscal year-end

Figure 2

There was however a levelling off of profits towards the latter part of the year, and a significant portion of CDIC's membership did not perform as well as last year. Approximately 30% of CDIC members saw their profits decline compared to last year. Moreover, 13 member institutions reported losses in 2000, compared to ten members in 1999.

## Strong Contribution from Other Income

For the second consecutive year, other income earned by member institutions surpassed net interest income. This contributed strongly to the achieved record profits and reflects the continued trend toward disintermediation.

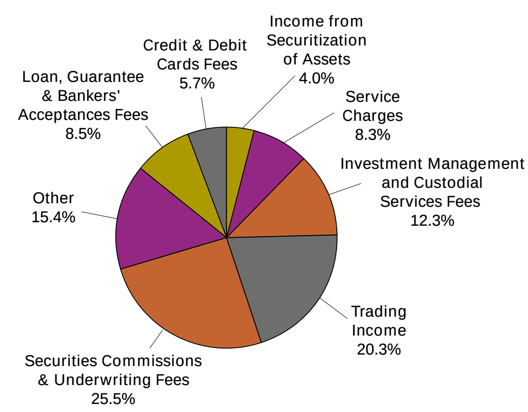



Figure 3

Other income rose by 19% over the previous year, primarily due to large increases in commissions on securities and underwriting fees on new issues, investment management and custodial fees, as well as in trading income. As shown in Figure 3, these types of income together represent close to 60% of total other income. Because many of these activities are closely related to the performance of capital markets, they can, and have over the past year, exposed member institutions to greater profit volatility.

Interest margins for the membership continued to decline in 2000. Gross-interest spreads for fiscal 2000 amounted to 179 basis points of average assets, compared to 183 basis points in fiscal 1999 and 238 basis points in fiscal 1996. This was due to a drop in the spreads of domestic banks. Foreign bank subsidiaries and trust and loan companies for their part, reported increased spreads for fiscal 2000.

Profits last year were affected to some extent by the slight deterioration in efficiency ratios. Operating expenses at member institutions increased by approximately 10% in fiscal 2000, outpacing the asset growth.

## Total Assets Remain Relatively Stable

The total assets of member institutions increased by about 7% to $1.5 trillion last year. Most categories of assets, with the exception of cash and reverse repurchase agreements (reverse repos)[4], expanded this year. The securities portfolio (securities held for investment and trading purposes) and derivative related amounts[5] experienced the fastest growth, with growth rates of 11% and 18% respectively. This reflects the increasing involvement of institutions in financial markets.

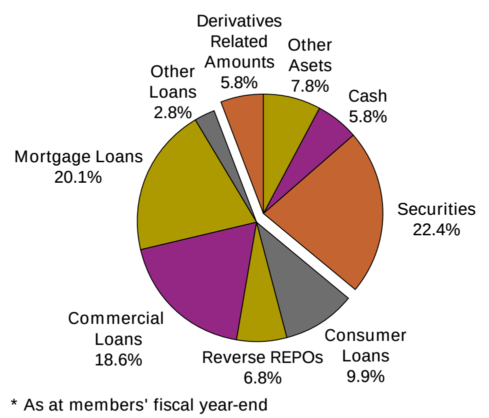



Figure 4

[4] A repurchase agreement, or repo, is an agreement whereby an institution agrees to sell securities at a specified price and repurchase them on a specified date and at a specified price. The transaction is regarded as a liability for accounting purposes. A reverse repo is the opposite of a repo and involves the purchase and subsequent sale of a security. Reverse repos are treated as collateralized loans.

[5] Derivative related amounts include unrealized gains on derivative instruments, deferred losses on hedging instruments, margin requirements and premiums paid.

Members securitized close to $80 billion in assets (excluding third-party asset securitizations), which represents an increase of 23% over the previous year's level of asset securitization. The assets securitized in 2000 consisted mostly of conventional and insured residential mortgages, commercial loans and credit card loans. These securitizations reduced the overall growth of risk-weighted assets, thereby contributing positively to institutions' increased risk-based capital ratios.

Totalling $868 billion, loans continue to be the largest asset category on the balance sheets of member institutions. As shown in Figure 4, total loans, which include loans to individuals and corporations for business purposes, and mortgage loans, represented at fiscal year-end approximately 58% of total assets.

## Impaired Loans are Inching up

Although the level of impaired loans is still very low, it has increased relative to last year and into 2001. At the end of fiscal 2000, gross impaired loans represented approximately 1.2% of all loans, as shown in Figure 5. Allowances for loan losses, including general allowances, exceeded all impaired loans at year-end. This was the result of significant increases in both specific provisions and general allowances.

Specific provisions increased this year by 8% and reached close to $5 billion. At the end of fiscal 2000, member institutions' general allowances totalled $7.0 billion, representing 47 basis points of total assets.

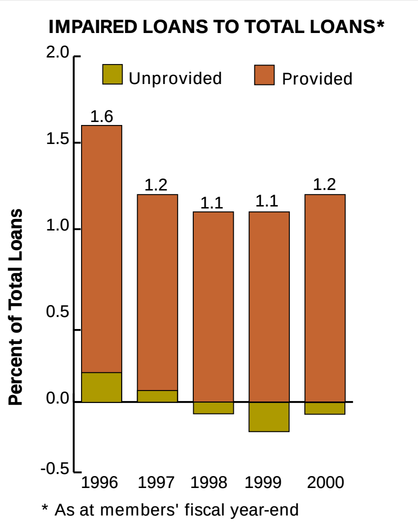



Figure 5

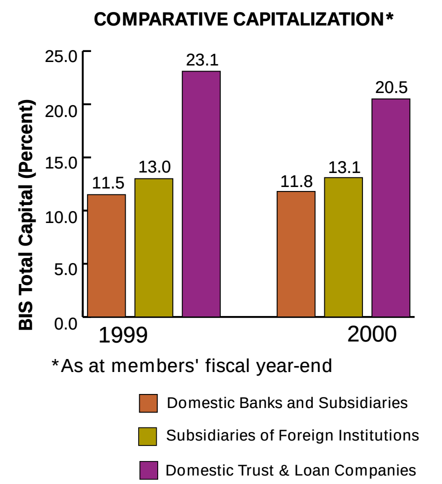



Figure 6

As shown in Figure 6, capitalization—as measured by the Bank for International Settlements' risk-based capital ratio—continued to improve during 2000, except for the trust and loan companies. In this case, rapid expansion in assets outpaced the growth in capital. Despite this decline, the capitalization of this group remained above industry average. Average asset-to-capital leverage ratios for all peer groups declined slightly in 2000.

## Adherence to Standards of Sound Business and Financial Practices

For each of the last six years, member institutions have reported their adherence to the Standards through the Standards Assessment and Reporting Program. As shown in Figure 7, total deficiencies either reported by the member institutions, or identified by examiners and CDIC, generally declined in 2000 compared to previous years. Member-identified deficiencies in meeting the Standards remained about the same while examiner and CDIC-reported deficiencies declined to a larger extent. Of the deficiencies reported by members, 25% were carried over from 1999. Overall, 78% of the reported deficiencies related to two specific Standards: Internal Control and Credit Risk Management.

CDIC continued throughout 2000/2001 to monitor adherence to the Standards, ensuring that outstanding deficiencies were being addressed. Deficiencies identified by the examiners and CDIC accounted for 25% of the total in 2000, 57% in 1999 and 20% in 1998. In general, member institutions have addressed their deficiencies in a timely manner.

## Differential Premiums By-law Premium Categories of Member Institutions

The year 2000 was the second year of implementation of the *Differential Premiums By-law*. Under this By-law, CDIC scores member institutions according to a variety of quantitative and qualitative criteria. Quantitative factors include capital adequacy, profitability, income volatility, efficiency and asset quality concentration. Qualitative factors include the examiner's rating and adherence to the Standards. Member institutions are required to file quantitative results by April 30. Recognizing that year 2000 was still a transition period, CDIC increased the quantitative scores of all member institutions by 10%. There will be no adjustment thereafter.

Depending on their total score, member institutions were placed in one of four premium categories: category 1 is the highest-rated (best) category; 4 is the lowest-rated (worst).

The rate for category 4 was set at 50% of the maximum premium rate of 1/3 of 1% of insured deposits, or the same as category 3. Next year, the rate for category 4 will be 100% of the maximum allowed under the CDIC Act. The rates for categories 1, 2 and 3 remained at 1/24 of 1%, 1/12 of 1% and 1/6 of 1% respectively for the premium year 2000.

For the 2000 premium year, 77% of member institutions ranked in the highest premium category, up from 70% for the last premium year. In 2000 and 1999, over 90% were placed in categories 1 and 2.

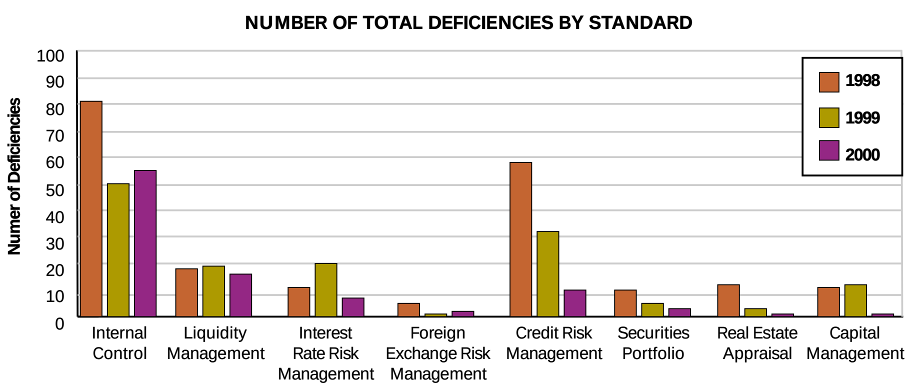



Figure 7

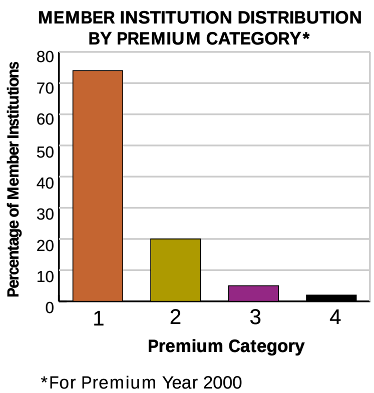



Figure 8

## MEMBERSHIP PROFILE

The following profile provides comparative information on CDIC's membership for the last five years. The profile is not intended, in any way, to reflect or otherwise comment on risk to CDIC. The profile has been prepared from financial information supplied by the members through the Bank of Canada, the Office of the Superintendent of Financial Institutions and the Financial Services Commission of Ontario, and from financial information received directly by CDIC from provincial members. Every effort has been made to ensure the correctness of the compilation; however, because the financial information comes from varied sources CDIC does not guarantee its accuracy.

In providing such information CDIC is limited by the availability of the financial information in a readily accessible format and by confidentiality requirements. It should be noted that the financial information presents aggregates and averages. Within such aggregates and averages the financial information for individual members can vary significantly. In addition, off-balance sheet activities, including estate, trust and agency business, are not included.

Based on the March 31, 2001 CDIC membership, the financial information has been classified into three major peer groups: Domestic Banks and their Subsidiaries, Subsidiaries of Foreign Institutions and Domestic Trust and Loan Companies. These peer groups reflect different characteristics established by governing legislation and regulatory frameworks.

The information compiled is presented as follows:

1.0 Membership information
2.0 Summary financial information – total CDIC membership
3.0 Asset size and quality measures – member peer groups
4.0 Deposit liabilities in Canada
5.0 Capitalization measures
6.0 Income and profitability measures

Note: In its five-year tables, CDIC re-states the peer group results of prior years to reflect the current year's membership. Accordingly, the following tables exclude the financial information of institutions that were no longer members as at March 31, 2001.

## 1.0 MEMBERSHIP INFORMATION

### 1.1 CDIC Members as at March 31, 2001[6]

**Domestic Banks and Subsidiaries**

Bank of Montreal
Bank of Montreal Mortgage Corporation
Trust Company of Bank of Montreal (The)
Bank of Nova Scotia (The)
Bank of Nova Scotia Trust Company (The)
Montreal Trust Company
Montreal Trust Company of Canada
National Trust Company
Scotia Mortgage Corporation
Victoria and Grey Mortgage Corporation
Canadian Imperial Bank of Commerce
Amicus Bank
CIBC Mortgage Corporation
CIBC Mortgages Inc.
CIBC Trust Corporation
Services Hypothécaires CIBC Inc.
Canadian Western Bank
Canadian Western Trust Company
Citizens Bank of Canada
Citizens Trust Company
CS Alterna Bank

Laurentian Bank of Canada
B2B Trust
Laurentian Trust of Canada Inc.
LBC Trust
Manulife Bank of Canada
National Bank of Canada
General Trust of Canada
Natcan Trust Company
President's Choice Bank
Royal Bank of Canada
Royal Bank Mortgage Corporation
Royal Trust Company (The)
Royal Trust Corporation of Canada
Toronto-Dominion Bank (The)
Canada Trust Company (The)
Canada Trustco Mortgage Company
First Nations Bank of Canada
TD Mortgage Corporation
TD Pacific Mortgage Corporation
*Total: 40*

**Domestic Trust and Loan Companies**

AGF Trust Company
CIBC Mellon Trust Company
Clarica Trust Company
Community Trust Company Ltd.
Co-operative Trust Company of Canada
Desjardins Trust Inc.
Effort Trust Company (The)
Equitable Trust Company (The)
Fortis Trust Corporation
Home Trust Company
Household Trust Company
Industrial-Alliance Trust Company
Investors Group Trust Co. Ltd.
Trust Company of London Life (The)
League Savings & Mortgage Company
Maple Trust Company
MCAP Inc.
MD Private Trust Company
M.R.S. Trust Company
Pacific & Western's eTrust of Canada Inc.
Peace Hills Trust Company
Peoples Trust Company
Standard Life Trust Company
Sun Life Financial Trust Inc.
Trimark Trust
*Total: 25*

**Subsidiaries of Foreign Institutions**

Amex Bank of Canada
Banca Commerciale Italiana of Canada
Bank of China (Canada)
Bank of East Asia (Canada) (The)
Bank of Tokyo-Mitsubishi (Canada)
Bank One Canada
BNP Paribas (Canada)
Chase Manhattan Bank of Canada (The)
Citibank Canada
Comerica Bank – Canada
Computershare Trust Company of Canada
Credit Suisse First Boston Canada
CTC Bank of Canada
Deutsche Bank Canada
First Data Loan Company, Canada
Habib Canadian Bank
HSBC Bank Canada
CCF Canada
HSBC Mortgage Corporation (Canada)
HSBC Trust Company (Canada)
ING Bank of Canada
Equisure Trust Company
International Commercial Bank of Cathay (Canada)
Korea Exchange Bank of Canada
MBNA Canada Bank
Mizuho Bank (Canada)
National Bank of Greece (Canada)
Northern Trust Company, Canada (The)
Société Générale (Canada)
Sottomayor Bank Canada
State Bank of India (Canada)
State Street Trust Company Canada
Tokai Bank Canada
UBS Bank (Canada)
UBS Trust (Canada)
United Overseas Bank (Canada)
*Total: 36*

*TOTAL: 101 members*

[6] Member institutions with common affiliation have been grouped together, starting with the member having the largest assets and then in alphabetical order.

## 1.2 Membership Changes: April 1, 1996 – March 31, 2001

### New Members

**May 22, 1996:**
Swiss Bank Corporation Trust

**December 4, 1996:**
ING Trust Company of Canada

**December 4, 1996:**
First Nations Bank of Canada

**January 22, 1997:**
Citizens Trust Company

**September 10, 1997:**
MBNA Canada Bank

**September 10, 1997:**
Rabobank Canada

**October 24, 1997:**
Services Hypothécaires CIBC Inc.

**May 21, 1998:**
Comerica Bank – Canada

**December 2, 1998:**
CTC Bank of Canada

**December 2, 1998:**
MD Private Trust Company

**December 2, 1998:**
President's Choice Financial Trust Company

**April 5, 2000:**
CCF Canada

**May 31, 2000:**
First Data Loan Company, Canada

**May 31, 2000:**
Habib Canadian Bank

**September 27, 2000:**
CIBC Mellon Trust Company

**December 6, 2000:**
Industrial-Alliance Trust Company

**January 31, 2001:**
Amicus Bank

**January 31, 2001:**
Computershare Trust Company of Canada

### Other Membership Changes

**April 1, 1996:**
Mitsubishi Bank of Canada amalgamated with The Bank of Tokyo Canada – continuing as Bank of Tokyo-Mitsubishi (Canada).

**April 23, 1996:**
Aetna Trust Company changed its name to Canadian Western Trust Company.

**May 22, 1996:**
North American Trust Company ceased to accept deposits – policy cancelled.

**June 4, 1996:**
Security Home Mortgage Corporation's policy was terminated. A winding-up order was issed by the Alberta Court of Queen's Bench on December 4, 1996.

**August 31, 1996:**
Barclays Bank of Canada amalgamated with Hongkong Bank of Canada – continuing as Hongkong Bank of Canada.

**October 30, 1996:**
Canadian Western Trust Company was continued as a federal trust company.

**October 31, 1996:**
Family Trust Corporation ceased to accept deposits – policy cancelled.

**November 1, 1996:**
Chemical Bank of Canada amalgamated with The Chase Manhattan Bank of Canada – continuing as The Chase Manhattan Bank of Canada.

**November 1, 1996:**
BLC Mortgage Corporation ceased to accept deposits – policy cancelled.

**December 30, 1996:**
Savings and Investment Trust amalgamated with Laurentian Trust of Canada Inc. – continuing as Laurentian Trust of Canada Inc.

**December 31, 1996:**
The Municipal Trust Company and The Municipal Savings & Loan Corporation ceased to accept deposits – policy cancelled.

**January 1, 1997:**
Israel Discount Bank of Canada amalgamated with Republic National Bank of New York (Canada) – continuing as Republic National Bank of New York (Canada).

**January 1, 1997:**
Credit Suisse Canada changed its name to Credit Suisse First Boston Canada.

**January 1, 1997:**
First Line Trust Company changed its name to CIBC Mortgages Inc.

**January 13, 1997:**
Bayshore Trust Company changed its name to Trimark Trust.

**January 20, 1997:**
Citizens Trust Company was continued as a Schedule II bank under the name Citizens Bank of Canada.

**February 28, 1997:**
Daiwa Bank Canada ceased to accept deposits – policy cancelled.

**August 18, 1997:**
ING Trust Company of Canada was continued as a Schedule II bank under the name ING Bank of Canada.

**August 18, 1997:**
Merchant Private Trust Company changed its name to Connor Clark Private Trust Company.

**October 28, 1997:**
Bonaventure Trust Inc. was continued as a federal trust company under the name Bonaventure Trust Company of Canada.

**November 14, 1997:**
Laurentian Bank of Canada was continued as a Schedule I bank.

**February 27, 1998:**
Granville Savings and Mortgage Corporation ceased to accept deposits – policy cancelled.

**February 27, 1998:**
Bonaventure Trust Company of Canada changed its name to Standard Life Trust Company.

**March 12, 1998:**
National Trust Company was continued as a federal trust company.

**May 1, 1998:**
National Westminster Bank of Canada amalgamated with HongkongBank Loan Corporation that in turn amalgamated with Hongkong Bank of Canada – continuing as Hongkong Bank of Canada.

**June 29, 1998:**
Swiss Bank Corporation (Canada) amalgamated with Union Bank of Switzerland (Canada) – continuing as UBS Bank (Canada).

**June 29, 1998:**
Swiss Bank Corporation Trust changed its name to UBS Trust (Canada).

**September 22, 1998:**
Laurentian Bank Savings and Mortgage Corporation changed its name to LBC Trust.

**October 19, 1998:**
Banco Central Hispano-Canada ceased to accept deposits – policy cancelled.

**January 4, 1999:**
Hanil Bank Canada changed its name to Hanvit Bank Canada.

**March 25, 1999:** London Trust & Savings Corporation was continued as a federal trust company under the name Maple Trust Company.

**April 19, 1999:**
Cho Hung Bank of Canada ceased to accept deposits – policy cancelled.

**June 16, 1999:**
Sottomayor Bank Canada changed its name to Totta & Sottomayor Bank Canada.

**June 21, 1999:**
Hongkong Bank of Canada changed its name to HSBC Bank Canada.

## MEMBERSHIP PERFORMANCE AND PROFILE

**June 21, 1999:**
HongkongBank Mortgage Corporation changed its name to HSBC Mortgage Corporation (Canada).

**June 21, 1999:**
Hongkong Bank Trust Company changed its name to HSBC Trust Company (Canada).

**July 1, 1999:**
Evangeline Trust Company changed its name to Equisure Trust Company.

**July 21, 1999:**
The Mutual Trust Company changed its name to Clarica Trust Company.

**August 1, 1999:**
Deutsche Bank Canada amalgamated with BT Bank of Canada – continuing as Deutsche Bank Canada.

**September 13, 1999:**
First Chicago NBD Bank, Canada changed its name to Bank One Canada.

**December 1, 1999:**
Fuji Bank Canada was continued as a federal trust company under the name ScotiaLoan Company.

**December 22, 1999:**
Sun Life Savings and Mortgage Corporation was authorized to carry on the activities of a trust company under the name Sun Life Financial Trust Inc.

**January 1, 2000:**
MTC Mortgage Investment Corporation changed its name to MCAP Inc.

**January 25, 2000:**
J.P. Morgan Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**March 02, 2000:**
Rabobank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**March 09, 2000:**
Home Savings & Loan Corporation was continued as a federal trust company under the name Home Trust Company.

**April 1, 2000:**
Republic National Bank of New York (Canada) amalgamated with HSBC Bank Canada – continuing as HSBC Bank Canada.

**April 19, 2000:**
The Sumitomo Bank of Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**April 20, 2000:**
Sanwa Bank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**April 28, 2000:**
Sakura Bank (Canada's) application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**May 9, 2000:**
Hanvit Bank Canada ceased to accept deposits – policy cancelled.

**May 31, 2000:**
Paribas Bank of Canada amalgamated with Banque Nationale de Paris (Canada) – continuing as BNP Paribas (Canada).

**July 1, 2000:**
Sun Life Trust Company changed its name to B2B Trust.

**July 17, 2000:**
Dresdner Bank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**July 26, 2000:**
ABN AMRO Bank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**August 25, 2000:**
Bank of America Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved – policy cancelled.

**October 2, 2000:**
Civil Service Loan Corporation was continued as a Schedule II bank under the name CS Alterna Bank.

**November 1, 2000:**
Connor Clark Private Trust Company amalgamated with The Royal Trust Company – continuing as The Royal Trust Company.

**November 1, 2000:**
The Industrial Bank of Japan (Canada) and Dai-Ichi Kangyo Bank (Canada) amalgamated – continuing as Mizuho Bank (Canada).

**November 28, 2000:**
Totta & Sottomayor Bank Canada changed its name to Sottomayor Bank Canada.

**November 29, 2000:**
President's Choice Financial Trust Company was continued as a Schedule II bank under the name President's Choice Bank.

**December 6, 2000:**
Pacific & Western Trust Corporation changed its name to Pacific & Western's eTrust of Canada Inc.

**January 1, 2001:**
TD Trust Company amalgamated with The Canada Trust Company – continuing as The Canada Trust Company.

**March 2, 2001:**
Mellon Bank Canada ceased to accept deposits – policy cancelled.

**March 2, 2001:**
ScotiaLoan Company ceased to accept deposits – policy cancelled.

## 1.3 Regional Location of CDIC Members*

| As at March 31, 2000 | Western Canada | Ontario | Quebec | Eastern Canada | Total |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 5 | 26 | 9 | - | 40 |
| Subsidiaries of Foreign Institutions | 5 | 26 | 4 | 1 | 36 |
| Domestic trust and loan companies | 5 | 15 | 3 | 2 | 25 |
| **Total** | **15** | **67** | **16** | **3** | **101** |

* Based upon the location of the Chief Executive Officer

# 2.0 SUMMARY FINANCIAL INFORMATION — TOTAL CDIC MEMBERSHIP

## 2.1 Balance Sheet ($ billions and percentage)

| As at members' fiscal year end | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| *Assets* | | | | | | | | | | |
| Cash resources | 87.1 | 6 | 96.1 | 7 | 86.8 | 6 | 99.0 | 8 | 86.4 | 8 |
| Securities | 334.9 | 22 | 302.6 | 22 | 264.0 | 19 | 216.2 | 17 | 200.2 | 19 |
| Loans | 867.9 | 58 | 830.3 | 59 | 833.7 | 59 | 780.7 | 63 | 696.4 | 66 |
| Other assets | 203.2 | 14 | 172.0 | 12 | 219.3 | 16 | 152.3 | 12 | 78.2 | 7 |
| **Total assets** | **1,493.1** | **100** | **1,401.0** | **100** | **1,403.8** | **100** | **1,248.2** | **100** | **1,061.2** | **100** |
| *Liabilities* | | | | | | | | | | |
| Deposits | 1,028.0 | 69 | 960.6 | 69 | 925.8 | 66 | 851.1 | 68 | 766.8 | 72 |
| Other liabilities | 391.3 | 26 | 370.9 | 26 | 414.8 | 29 | 341.5 | 27 | 245.0 | 23 |
| **Total liabilities** | **1,419.3** | **95** | **1,331.5** | **95** | **1,340.6** | **95** | **1,192.6** | **95** | **1,011.8** | **95** |
| *Shareholders' equity* | 73.8 | 5 | 69.5 | 5 | 63.2 | 5 | 55.6 | 5 | 49.4 | 5 |
| **Total liabilities and Shareholders' equity** | **1,493.1** | **100** | **1,401.0** | **100** | **1,403.8** | **100** | **1,248.2** | **100** | **1,061.2** | **100** |

## 2.2 Income Statement ($ millions)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Interest income | 85,323 | 78,858 | 79,635 | 66,981 | 67,132 |
| Interest expense | 59,351 | 53,236 | 54,716 | 42,834 | 43,273 |
| **Net interest income** | **25,972** | **25,622** | **24,919** | **24,147** | **23,859** |
| Provision for impairment | 4,121 | 3,288 | 2,875 | 2,269 | 2,339 |
| **Net interest income after provision for impairment** | **21,851** | **22,334** | **22,044** | **21,878** | **21,520** |
| Other income | 33,107 | 27,751 | 22,332 | 20,060 | 13,958 |
| **Net interest income and other income** | **54,958** | **50,085** | **44,376** | **41,938** | **35,478** |
| Non-interest expenses | 39,497 | 35,395 | 32,161 | 28,357 | 24,248 |
| **Net income before provision for income taxes** | **15,461** | **14,690** | **12,215** | **13,581** | **11,230** |
| Provision for income taxes | 5,034 | 4,700 | 4,351 | 4,983 | 4,218 |
| **Net income before non-controlling interest** | **10,427** | **9,990** | **7,864** | **8,598** | **7,012** |
| Non-controlling interest in net income of subsidiaries | 279 | 150 | 191 | 179 | 124 |
| **Net income** | **10,148** | **9,840** | **7,673** | **8,419** | **6,888** |

## 3.0 ASSET SIZE AND QUALITY MEASURES – MEMBER PEER GROUPS

### 3.1 Total Assets ($ billions and percentage)

| As at members' fiscal year end | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| Domestic banks and subsidiaries | 1,405.2 | 94.1 | 1,326.3 | 94.7 | 1,328.7 | 94.6 | 1,178.6 | 94.4 | 999.8 | 94.2 |
| Subsidiaries of Foreign Institutions | 78.5 | 5.3 | 66.6 | 4.7 | 67.2 | 4.8 | 61.9 | 5.0 | 52.9 | 5.0 |
| Domestic trust and loan companies | 9.4 | 0.6 | 8.1 | 0.6 | 7.9 | 0.6 | 7.7 | 0.6 | 8.5 | 0.8 |
| **Total** | **1,493.1** | **100.0** | **1,401.0** | **100.0** | **1,403.8** | **100.0** | **1,248.2** | **100.0** | **1,061.2** | **100.0** |

### 3.2 Impaired Loans to Total Assets (percentage)

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 0.7 | 0.6 | 0.6 | 0.7 | 1.0 |
| Subsidiaries of Foreign Institutions | 1.1 | 1.1 | 1.4 | 1.4 | 2.1 |
| Domestic trust and loan companies | 0.5 | 0.5 | 0.6 | 0.8 | 1.1 |

Impaired loans (gross) / total assets (gross)

### 3.3 Impaired Loans to Total Loans (percentage)

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 1.2 | 1.1 | 1.1 | 1.1 | 1.5 |
| Subsidiaries of Foreign Institutions | 1.9 | 1.9 | 2.2 | 2.3 | 3.4 |
| Domestic trust and loan companies | 0.7 | 0.7 | 0.9 | 1.1 | 1.6 |

Impaired loans (gross) / total loans (gross)

### 3.4 Impaired Loans Unprovided For (percentage)

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | -12.5 | -17.7 | -8.2 | 4.5 | 25.1 |
| Subsidiaries of Foreign Institutions | 13.5 | -1.7 | 17.5 | 11.2 | 29.7 |
| Domestic trust and loan companies | -28.6 | -29.0 | 2.2 | 14.2 | 40.7 |

1—(Allowance for loan impairment / Impaired loans(gross))

### 3.5 Net Impaired Loans to Total Shareholders' Equity (percentage)

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | -1.8 | -2.4 | -1.2 | 0.8 | 5.7 |
| Subsidiaries of Foreign Institutions | 2.2 | -0.3 | 4.6 | 3.3 | 13.6 |
| Domestic trust and loan companies | -1.6 | -1.8 | 0.2 | 1.4 | 5.8 |

Impaired loans (net) / average shareholders' equity

## 4.0 DEPOSIT LIABILITIES IN CANADA

### 4.1 Total Deposits ($ billions and percentage)

| As at April 30 | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| Domestic banks and subsidiaries | 863.5 | 93.8 | 812.3 | 94.3 | 791.7 | 94.1 | 731.4 | 94.2 | 655.2 | 93.7 |
| Subsidiaries of Foreign Institutions | 51.2 | 5.5 | 43.6 | 5.1 | 44.8 | 5.3 | 39.6 | 5.1 | 37.7 | 5.4 |
| Domestic trust and loan companies | 6.2 | 0.7 | 5.5 | 0.6 | 5.4 | 0.6 | 5.7 | 0.7 | 6.0 | 0.9 |
| **Total** | **920.9** | **100.0** | **861.4** | **100.0** | **841.9** | **100.0** | **776.7** | **100.0** | **698.9** | **100.0** |

### 4.2 Insured Deposits ($ billions and percentage of Total Deposits)

| As at April 30 | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| Domestic banks and subsidiaries | 311.8 | 36.1 | 302.0 | 37.2 | 295.0 | 37.3 | 303.7 | 41.5 | 313.1 | 47.8 |
| Subsidiaries of Foreign Institutions | 8.8 | 17.2 | 8.3 | 19.0 | 7.4 | 16.5 | 7.2 | 18.2 | 7.7 | 20.4 |
| Domestic trust and loan companies | 5.4 | 87.1 | 4.8 | 87.3 | 4.7 | 87.0 | 5.0 | 87.7 | 5.3 | 88.3 |
| **Total** | **326.0** | **35.4** | **315.1** | **36.6** | **307.1** | **36.5** | **315.9** | **40.7** | **326.1** | **46.7** |

## 5.0 CAPITALIZATION MEASURES

### 5.1 Capitalization (percentage)

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 4.8 | 4.6 | 4.4 | 4.5 | 4.7 |
| Subsidiaries of Foreign Institutions | 7.5 | 6.7 | 5.6 | 5.2 | 5.1 |
| Domestic trust and loan companies | 8.8 | 8.5 | 8.3 | 7.9 | 7.2 |

Average shareholders' equity / average assets

### 5.2 BIS Risk-Based Capital (percentage)*

| As at members' fiscal year end | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 11.8 | 11.5 | 10.7 | 10.1 | 9.2 |
| Subsidiaries of Foreign Institutions | 13.1 | 13.0 | 11.0 | 10.5 | 10.4 |
| Federal trust and loan companiess | 20.5 | 23.1 | 23.0 | 24.7 | 33.3 |

* BIS (Bank for International Settlements): Provincial trust and loan companies have in most cases to meet capital adequacy requirements that are calculated under a different basis.

## 6.0 INCOME AND PROFITABILITY MEASURES

### 6.1 Net Income ($ millions)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 9,764 | 9,510 | 7,413 | 8,070 | 6,594 |
| Subsidiaries of Foreign Institutions | 303 | 248 | 180 | 274 | 226 |
| Domestic trust and loan companies | 81 | 82 | 80 | 75 | 68 |
| **Total** | **10,148** | **9,840** | **7,673** | **8,419** | **6,888** |

### 6.2 Interest Income (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 43.8 | 48.2 | 52.8 | 54.8 | 63.3 |
| Subsidiaries of Foreign Institutions | 46.1 | 45.1 | 53.1 | 53.5 | 61.6 |
| Domestic trust and loan companies | 43.3 | 46.1 | 46.4 | 44.2 | 48.3 |

Interest income: net interest income / total revenue

### 6.3 Interest Spread (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 1.8 | 1.8 | 1.9 | 2.1 | 2.4 |
| Subsidiaries of Foreign Institutions | 2.1 | 1.8 | 1.9 | 1.9 | 2.3 |
| Domestic trust and loan companies | 2.3 | 2.1 | 2.2 | 2.0 | 1.9 |

Interest spread: net interest income / average assets

### 6.4 Non-Interest Income (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 2.3 | 2.0 | 1.7 | 1.7 | 1.4 |
| Subsidiaries of Foreign Institutions | 2.5 | 2.2 | 1.7 | 1.7 | 1.4 |
| Domestic trust and loan companies | 3.0 | 2.4 | 2.6 | 2.5 | 2.1 |

Non-interest income: (trading income + gain (losses) on instruments held for other than trading purposes + other income) / average assets

### 6.5 Total Non-Interest Expenses (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 3.3 | 3.1 | 3.0 | 3.1 | 3.1 |
| Subsidiaries of Foreign Institutions | 4.1 | 3.6 | 3.4 | 3.1 | 3.2 |
| Domestic trust and loan companies | 4.4 | 3.5 | 3.7 | 3.6 | 3.2 |

Total non-interest expenses: (non-interest expenses + provision for income taxes + minority interest in subsidiaries + provision for impairment) / average assets

## 6.6 Return on Average Assets (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 |
| Subsidiaries of Foreign Institutions | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 |
| Domestic trust and loan companies | 0.9 | 1.0 | 1.0 | 0.9 | 0.8 |

ROAA: net income / average assets

## 6.7 Return on Average Equity (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 14.9 | 15.5 | 13.5 | 16.5 | 14.7 |
| Subsidiaries of Foreign Institutions | 5.5 | 5.5 | 4.9 | 9.1 | 9.1 |
| Domestic trust and loan companies | 10.6 | 12.1 | 12.4 | 11.8 | 10.8 |

ROAE: net income / average shareholders' equity

## 6.8 Efficiency (percentage)

| For the members' fiscal year ending in | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Domestic banks and subsidiaries | 66.7 | 65.8 | 67.6 | 63.8 | 63.8 |
| Subsidiaries of Foreign Institutions | 69.4 | 76.2 | 76.4 | 71.7 | 70.6 |
| Domestic trust and loan companies | 69.6 | 63.5 | 65.9 | 62.3 | 61.3 |

Efficiency: non-interest expenses / (net interest income + non-interest income)


# CORPORATE GOVERNANCE III

ANNUAL REPORT 2000/2001 CHANGE FOR A CHANGING WORLD

# CORPORATE GOVERNANCE

The Canada Deposit Insurance Corporation was established in 1967 under the *Canada Deposit Insurance Corporation Act*. The Act sets out CDIC's objects, powers and duties, as well as general terms for deposit insurance and other governing parameters. CDIC functions within the legal framework established by the CDIC Act and the *Financial Administration Act* and by the amendments made to these Acts over the years. The Corporation is ultimately accountable to Parliament through the Minister of Finance for the conduct of its affairs.

### CDIC's Corporate Risk Project

The Corporation has several mechanisms in place to mitigate its risks and promote a strong internal control system. To formally recognize these processes and provide a more integrated approach to risk management, a corporate risk project was undertaken.

As a result of this project, a corporate risk assessment framework is being developed to assist the Corporation in ensuring that it is able to meet its business objectives and as a means to provide assurances to management and the Board of Directors that the risks CDIC faces are properly managed and it has an appropriate control structure in place.

## Board of Directors

The CDIC Act states that the Board of Directors "shall administer the affairs of the Corporation in all things …". The Board is made up of the Chairperson, appointed by the Governor in Council during good behaviour for a five-year term, four ex officio directors—the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions and the Deputy Superintendent—and four private sector members, also appointed by the Governor in Council for a term not exceeding three years.

In July of 2000, CDIC commissioned an outside review of its Board governance practices to highlight any areas that might require improvement or change. The review was undertaken in two parts: the first included a written questionnaire distributed to all Board members, followed by telephone interviews with directors and alternates; the second part consisted of a review of Board governance material and current practices.

According to the results of the review, governance practices at CDIC are generally good. While no critical issues were identified, a number of constructive recommendations were made for improving the Board's operations. One of the most important areas cited was the need for the Board to enhance its involvement in the strategic planning process leading up to the annual approval of the Corporate Plan. As a result, the Board will devote a full session each year to strategic planning and direction-setting of the Corporation. Other areas for improvement included the need to annually determine the skills and experience required by the Board as well as a strategy for communicating these requirements to Parliament and a clear articulation for the Board of the Corporation's succession planning process. The development of a formal performance review process for the President and CEO was also recommended. As a result of the report, in January 2001 the Board created an ad hoc committee to review not only the recommendations of this report, but also to weigh the applicable recommendations of the Report of the Auditor General of Canada to the House of Commons (Chapter 18, Governance of Crown Corporations, December 2000), and to review the Department of Finance/Treasury Board of Canada "Corporate Governance in Crown Corporations and Other Public Enterprises: Guidelines" (1996). The Ad Hoc Committee held two meetings in February and March, 2001 to review these recommendations and guidelines and determine an appropriate approach to addressing them. Some of the recommendations have already been implemented. It is expected that all of the recommendations will be addressed by March 31, 2002 and the results reported in next year's annual report.

## Composition of Board

On March 31, 2001, the composition of the Board was as follows:

| | | |
|---|---|---|
| **Ronald N. Robertson**<br>Chairperson of the Board<br>Canada Deposit Insurance Corporation<br>*(September 15, 1999*)* | **Tracey Bakkeli**<br>Consultant<br>Regina<br>*(March 1, 2001*)* | **Viateur Bergeron**<br>Partner<br>Bergeron Gaudreau Laporte<br>Hull<br>*(April 3, 2000*)* |
| **David A. Dodge**<br>Governor<br>Bank of Canada<br>*(ex officio)*<br>*(February 1, 2001*)* | **H. Garfield Emerson**<br>President and Chief Executive Officer<br>N M Rothschild & Sons Canada Limited<br>Toronto<br>*(December 20, 2000*)* | **Nicholas Le Pan**<br>Deputy Superintendent<br>Office of the Superintendent of Financial Institutions (*ex officio*)<br>*(September 1, 1997*)* |
| **Kevin Lynch**<br>Deputy Minister of Finance<br>*(ex officio)*<br>*(March 20, 2000*)* | **Colin P. MacDonald**<br>Partner<br>Borden Ladner Gervais LLP<br>Calgary<br>*(December 20, 1997*)* | **John R. V. Palmer**<br>Superintendent of Financial Institutions<br>*(ex officio)*<br>*(September 1, 1994*)* |

The alternates were:

| | | |
|---|---|---|
| **Ian Bennett**<br>Associate Deputy Minister<br>Department of Finance<br>*(October 20, 1997*)* | **John Doran**<br>Assistant Superintendent, Supervision<br>OSFI<br>*(June 16, 2000*)* | **Serge Vachon**<br>Advisor<br>Bank of Canada<br>*(February 21, 1994*)* |

* Date of Governor-in-Council appointment

## Board Committees

As at March 31, 2001 there were three standing Board committees and one ad hoc committee.

The **Executive Committee** deals mainly with emergencies, highly sensitive matters and other issues delegated to it by the Board of Directors or with issues referred to it by the Chief Executive Officer. It is chaired by the Chairperson of CDIC. As of March 31, its other members were H. Garfield Emerson and John R. V. Palmer.

The **Audit Committee** has primary responsibility for overseeing internal controls, the reliability of financial information, the annual audit and the special examination conducted every five years by the Auditor General of Canada. The committee is also responsible for recommendations to the Board of Directors on the approval of annual financial statements. As of March 31, the chairperson of this committee was H. Garfield Emerson and the other members were Viateur Bergeron and John R. V. Palmer. There was one vacant position.

The **Employee Relations Committee** reviews and makes recommendations to the Board regarding personnel policies, training, succession planning, compensation, compliance with employee-related legal requirements, complaints and other employee-related matters. The chairperson of the committee as of March 31 was Colin P. MacDonald and the other members were Nicholas Le Pan and Ronald N. Robertson.

The **Ad Hoc (Governance) Committee** was created in January 2001 in response to the governance review report of the Board's practices undertaken in 2000. The Committee is mandated to implement the report's recommendations as appropriate. The chairperson of this committee as of March 31, 2001 was Ronald N. Robertson and the other members were Viateur Bergeron, H. Garfield Emerson and Colin P. MacDonald.

**Meetings and Attendance[1] (April 1, 2000, to March 31, 2001)**

| | | BOARD COMMITTEES | | | |
|---|---|---|---|---|---|
| | BOARD OF DIRECTORS | Executive Committee | Audit Committee | Ad Hoc (Governance) Committee | Employee Relations Committee |
| Number of Meetings | **7** | **1** | **3** | **2** | **3** |
| Attendance:<br>R. N. Robertson — Chairperson | 7 | 1 | 3 | 2 | 3 |
| V. Bergeron[a] | 6 | | | 2 | |
| H. G. Emerson[b] | 6 | 1 | 3 | 2 | |
| C. P. MacDonald | 7 | | | 2 | 3 |
| S. A. Murphy[c] | 5 | | 1 | | |
| T. Bakkeli[d] | | | | | |
| *Ex officio* members (alternates) | | | | | |
| G. G. Thiessen[e] / D. A. Dodge[f]<br>(S. Vachon)[g] | 2 (5) | | | | |
| J. R. V. Palmer (C. Shevlin)[h] | 4 (2) | 1 | 3 | | |
| (J. Doran)[i] | (5) | | | | |
| K. Lynch (I. Bennett) | 1 (3)[j] | | | | |
| N. Le Pan | 4 | | | | 3 |

a V. Bergeron was re-appointed by GIC for a 3-year term as at April 3, 2000
b G. Emerson was re-appointed by GIC for a 3-year term as at December 20, 2000
c S. A. Murphy resigned from the Board as at December 11, 2000
d T. Bakkeli was appointed by GIC for a 3-year term as at March 1, 2001
e G. G. Thiessen retired as Governor, Bank of Canada as at January 31, 2001
f D. A. Dodge was appointed Governor, Bank of Canada as at February 1, 2001
g S. Vachon ceased to be Alternate to the Governor, Bank of Canada on March 31, 2001
h C. Shevlin was replaced as Alternate to the Superintendent as at June 16, 2000
i J. Doran was designated as Alternate to the Superintendent of Financial Institutions on June 16, 2000
j In addition, R. Hamilton attended three meetings of the Board as an observer from the Department of Finance

[1] Also includes meetings attended by telephone.

## Officers

Officers of CDIC include the President and Chief Executive Officer and officers appointed by the Board of Directors under the Corporate By-law made under the CDIC Act. The President and CEO is appointed by the Governor in Council for a five-year term.

CDIC officers on March 31, 2001 were as follows:

| | |
|---|---|
| **Jean Pierre Sabourin**<br>President and Chief Executive Officer<br>*(June 1, 1996)* | |
| **Wayne Acton**<br>Senior Vice-President<br>Field Operations | **Bert C. Scheepers**<br>Senior Vice-President<br>Finance and Administration |
| **M. Claudia Morrow**<br>Corporate Secretary | **Gillian Strong**<br>General Counsel |
| **Guy L. Saint-Pierre**<br>Senior Vice-President<br>Insurance and Risk Assessment | **Thomas J. Vice**<br>Treasurer |

## Inter-Agency Committees

The **OSFI/CDIC Liaison Committee** is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. This committee's purpose is to co-ordinate closely the activities of OSFI and CDIC, to avoid unwarranted duplication and cost, and generally to foster close and effective working relationships between the two agencies. On March 31, 2001, the members of the Liaison Committee were as follows:

| | |
|---|---|
| *Co-Chair*<br>**John R. V. Palmer**<br>Superintendent of Financial Institutions<br>OSFI | *Co-Chair*<br>**Ronald N. Robertson**<br>Chairperson of the Board<br>CDIC |
| *Members*<br>**Jean Pierre Sabourin**<br>President and Chief Executive Officer<br>CDIC | **Nicholas Le Pan**<br>Deputy Superintendent,<br>Supervision<br>OSFI |
| **Guy L. Saint-Pierre**<br>Senior Vice-President, Insurance and<br>Risk Assessment<br>CDIC | **John Doran**<br>Assistant Superintendent,<br>Supervision<br>OSFI |
| **Ken Mylrea**<br>Director General, Insurance<br>CDIC | |

## CDIC Committees

The **Real Estate Advisory Panel (REAP)** reviews, evaluates and makes recommendations on proposals brought forward by CDIC management with respect to the realization of major real estate assets in which the Corporation has an interest. On March 31, 2001, the members of the Panel were as follows:

| | |
|---|---|
| *Chair*<br>**Daniel F. Sullivan**<br>Deputy Chairman<br>Scotia Capital Inc. | *Secretary*<br>**Christopher J. Porter**<br>Director, Claims and Recoveries<br>CDIC |
| *Members*<br>**J. Lorne Braithwaite**<br>Chairman and CEO<br>Ethan Allen | **Alvin G. Poettcker**<br>President and CEO<br>UBC Properties Trust |
| **Randy M. Grimes**<br>Director<br>IBI Group | **Kenneth Rotenberg**<br>President<br>Kenair Apartments Limited |
| **Stephen E. Johnson**<br>President and CEO<br>Canadian Real Estate Investment Trust | **John Latimer**<br>Director<br>Talisker Corporation |

CANADA DEPOSIT INSURANCE CORPORATION

# IV FOR MORE INFORMATION ABOUT CDIC

ANNUAL REPORT 2000/2001 CHANGE FOR A CHANGING WORLD

## FOR MORE INFORMATION ABOUT CDIC

CDIC is committed to promoting awareness and education about deposit insurance and the services provided by the Corporation. Following is key contact information for CDIC, as well as a listing of publications aimed at both consumers and member institutions.

| | |
|---|---|
| **Toll-free telephone service:** | 1-800-461-CDIC (1-800-461-2342) |
| **World Wide Web site:** | www.cdic.ca |
| **E-mail address:** | info@cdic.ca |
| **Facsimile:** | (613) 996-6095 |

**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
Maritime Life Tower
1200-79 Wellington St. W., P.O. Box 156
Toronto, Ontario M5K 1H1

### Publications

***Consumer Information***

Brochure – Protecting Your Deposits
Brochure – CDIC Membership
Fact Sheet – CDIC Coverage for Deposits in Trust
Fact Sheet – CDIC Coverage for Joint Deposits
Fact Sheet – CDIC Coverage of Deposits when Member Institutions Amalgamate
Fact Sheet – CDIC Coverage for Deposits Held in Registered Plans

***Corporate***

Annual Report
Summary of the Corporate Plan

### *General*

Standards of Sound Business and Financial Practices (1993)

Standards Assessment and Reporting Program – Standards of Sound Business and Financial Practices (1995)

Guidelines for Third-party References to CDIC or Deposit Insurance (1999-09)

Application for Deposit Insurance (2000-01)

Consultation Paper on Standards of Sound Business and Financial Practices (2000-01)

### *Act and By-laws*

CDIC Act

Application for Deposit Insurance By-law

Deposit Insurance Information By-law

Deposit Insurance Policy By-law

Differential Premiums By-law

Discretionary Interest By-law

Exemption from Deposit Insurance By-laws (Opting-out By-laws)

Interest Payable on Certain Deposits By-law

Joint and Trust Account Disclosure By-law

Notice Regulations (Compensation in Respect of the Restructuring of Federal Member Institutions)

Premium Surcharge By-law

Standards of Sound Business and Financial Practices By-laws

### *Member Institutions Information Bulletins*

Joint and Trust Account Disclosure By-law (1996)

Deposit Insurance Information By-law (1996)

Joint and Trust Account Disclosure By-law – Information Disclosure (1997-01)

Deposit Insurance Information By-law – Phase I (1997-02)

Deposit Insurance Information By-law – Phase II (1997-04)

Deposit Insurance Information By-law – Final (1998-01)

Deposit Insurance Information By-law – Post-Implementation Issues (1998-02)

Joint and Trust Account Disclosure By-law – Information Disclosure Clarification (1998-03)

Return of Insured Deposits (1999-01)

Links to Deposit Registers (1999-02)

Standards of Sound Business and Financial Practices (1999-03)

CANADA DEPOSIT INSURANCE CORPORATION

# V

# FINANCIAL INFORMATION

ANNUAL REPORT 2000/2001 CHANGE FOR A CHANGING WORLD

## FINANCIAL INFORMATION

### Highlights

The Corporation ended 2000/2001 with a $455 million surplus, which included an $83 million adjustment resulting from the adoption of new recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes.

Net recoveries of loans and claims receivable in 2000/2001 totalled $102 million. No new loans were made or new claims asserted during the year.

The provision for guarantees decreased by $17 million to $43 million at March 31, 2001. This decrease resulted primarily from payments made under the Corporation's guarantee obligation and a reduction in the estimate of the outstanding guarantee liability.

Premium revenue increased to $140 million in 2000/2001 principally due to a higher insured deposit base. Interest revenue from cash and investments increased to $35 million in 2000/2001.

During the year the Corporation recorded as other revenue $21 million in post-liquidation interest.

A five-year financial and statistical summary follows.

**Cash and Investments**

The combined balance of cash and investments as at March 31, 2001 was $766 million, made up of cash and short-term investments of $203 million and investments of $563 million. The weighted average yield was 5.46%. The sources and uses of cash are described fully in the Statement of Cash Flows.

**Loans and Claims Receivable**

The balance of loans and claims receivable decreased $103 million since March 31, 2000. During the year, the Corporation had net recoveries of $102 million from failed member institutions and write-offs of $8 million. The allowance for loss on loans and claims receivable was reduced to $6 million compared to $13 million in 1999/2000.

**Future Income Tax Asset**

The Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes. The cumulative effect of adopting this new standard was an increase of $114 million in the opening surplus. A future income tax asset of $83 million has been recognized as at March 31, 2001. Full disclosure for adopting this standard can be found in Note 3 (Change in Accounting Policy) and Note 10 (Income Taxes).

**Provision for Guarantees**

The provision for guarantees as at March 31, 2001 was $43 million, down $17 million from $60 million as at March 31, 2000. During 2000/2001, the Corporation paid $10 million to the Toronto-Dominion Bank under a deficiency coverage agreement and reduced the estimated liability on this guarantee by $7 million. As mentioned in Note 7 (Provision for Guarantees) to the financial statements, outstanding guarantees remain in force, on a diminishing basis, until December 31, 2002.

### Provision for Insurance Losses

No adjustments were made this year to the provision for insurance losses. It remained at $400 million as at March 31, 2001. The methodology used in determining the provision for insurance losses is consistent with last year.

### Operating Expenses

The operating expenses for the year ended March 31, 2001 totalled $21 million, up $3 million from the previous year. The increase was primarily due to expenditures associated with the Corporation's public awareness campaign conducted during 2000/2001.

## Five-Year Financial and Statistical Summary ($ millions unless otherwise indicated)

| For the years ending | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Selected Balance Sheet Items** | | | | | |
| Cash and Investments | 766 | 491 | 738 | 502 | 149 |
| Future Income Tax Asset | 83 | – | – | – | – |
| Provision for Insurance Loss | 400 | 400 | 400 | 400 | 400 |
| Surplus (deficit) | 455 | 184 | 27 | (539) | (1,176) |
| **Selected Cash Flow Items** | | | | | |
| Claims paid | – | – | – | – | 42 |
| Claims recovered | 62 | 35 | 58 | 156 | 181 |
| Loans disbursed | – | – | – | – | 73 |
| Loans recovered | 40 | 82 | 73 | 208 | 181 |
| Repayments of loans from the CRF | | – | 395 | 460 | 772 |
| Payment of guarantees | 10 | 515 | 29 | 32 | 67 |
| **Selected Income Statement Items** | | | | | |
| Premiums | 140 | 134 | 515 | 531 | 546 |
| Operating expenses | 21 | 18 | 17 | 20 | 17 |
| Interest on loans from the CRF | – | – | 8 | 46 | 85 |
| Adjustment to allowance and provisions for loss | (6) | (3) | (1) | (144) | 334 |
| **Member Institutions** | | | | | |
| Number of federal institutions – banks | 42 | 49 | 54 | 55 | 52 |
| Number of federal institutions – trust and loan companies | 49 | 50 | 47 | 45 | 44 |
| Number of provincial institutions | 10 | 10 | 12 | 12 | 14 |
| Total number of institutions | 101 | 109 | 113 | 112 | 110 |
| Number of insolvencies | – | – | – | – | 1 |
| Total Insured Deposits ($ billions) | 327 | 317 | 308 | 317 | 328 |
| **Employees** | | | | | |
| Number of permanent employees (1) | 86 | 86 | 83 | 80 | 77 |
| **Other** | | | | | |
| Average cost of funds | – | – | 7.0% | 7.0% | 6.5% |
| Growth rate of insured deposits | 3.2% | 2.7% | (2.8%) | (3.4%) | 1.5% |
| Insured deposits as a percentage of total deposit liabilities | 35.0% | 36.0% | 35.9% | 39.9% | 45.7% |
| Average yield of cash and investments | 5.46% | 5.70% | 5.16% | | |

(1) Represents the number of full-time, permanent employees at year-end. Vacant approved positions have not been included.

# FINANCIAL INFORMATION

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

May 31, 2001

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles. The financial statements include some amounts, the most significant ones being the loans and claims receivable, the future income tax asset, the provision for guarantees and the provision for insurance losses, that are necessarily based on management's best estimates and judgement.

The financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the Annual Report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

These financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Jean Pierre Sabourin
President and Chief Executive Officer

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

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Canada Deposit Insurance Corporation as at March 31, 2001 and the statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in the method of accounting for income taxes as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 2001

## FINANCIAL INFORMATION

### Balance Sheet as at March 31 (in thousands of dollars)

| | Note | 2001 | 2000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term investments | 4 | $203,572 | $45,691 |
| Investments | 5 | 562,606 | 445,619 |
| Premiums and other accounts receivable | | 137 | 931 |
| Capital assets | | 846 | 630 |
| | | 767,161 | 492,871 |
| Loans and claims receivable | 6, 8 | 53,767 | 156,597 |
| Future income tax asset | 3,10 | 83,148 | – |
| | | $904,076 | $649,468 |
| **LIABILITIES** | | | |
| Accounts payable | | $6,107 | $5,885 |
| Provision for guarantees | 7, 8 | 43,000 | 60,000 |
| Provision for insurance losses | 8 | 400,000 | 400,000 |
| | | 449,107 | 465,885 |
| **SURPLUS** | | 454,969 | 183,583 |
| | | $904,076 | $649,468 |

**Approved by the Board:**

Director

Director

*See accompanying notes*

## Statement of Income and Surplus for the year ended March 31
(in thousands of dollars)

| | Note | 2001 | 2000 |
|---|---|---|---|
| **REVENUE** | | | |
| Premiums | 11 | $139,989 | $134,463 |
| Interest on cash and investments | | 35,044 | 31,579 |
| Other revenue | | 20,874 | 3,166 |
| | | 195,907 | 169,208 |
| **EXPENSES** | | | |
| Operating expenses | | 20,801 | 17,500 |
| Adjustment to allowance and provisions for loss | 8 | (5,783) | (2,927) |
| Recovery of amounts previously written off | | (7,349) | (2,033) |
| | | 7,669 | 12,540 |
| Net income before income tax benefit | | 188,238 | 156,668 |
| Income tax benefit | | 30,899 | – |
| Net Income | | 157,339 | 156,668 |
| Surplus, beginning of year | | 183,583 | 26,915 |
| Retroactive adjustment for change in accounting policy | 3 | 114,047 | – |
| **Surplus, end of year** | | $454,969 | $183,583 |

*See accompanying notes*

## FINANCIAL INFORMATION

### Statement of Cash Flows for the year ended March 31

| | 2001 | 2000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $157,339 | $156,668 |
| Non-cash items included in net income | | |
| Accrued post-liquidation interest | – | (2,100) |
| Adjustment to allowance and provisions for loss | (5,783) | (2,927) |
| Other | 422 | 577 |
| Adjustment to income tax benefit | 30,899 | – |
| Payment of guarantees | (10,462) | (515,821) |
| Loans recovered | 40,350 | 82,458 |
| Claims recovered | 61,728 | 34,934 |
| Change in working capital | (6,102) | (3,049) |
| Cash flows from operating activities | 268,391 | (249,260) |
| **INVESTING ACTIVITIES** | | |
| Purchase of securities and term deposits | (819,374) | (797,716) |
| Redemption of securities and term deposits | 708,864 | 355,101 |
| Cash flows from investing activities | (110,510) | (442,615) |
| **CASH AND SHORT-TERM INVESTMENTS** | | |
| Increase (Decrease) during the year | 157,881 | (691,875) |
| Balance, beginning of year | 45,691 | 737,566 |
| Balance, end of year | $203,572 | $45,691 |

*See accompanying notes*

## Notes to Financial Statements – March 31, 2001

### 1. Authority and Objective

The Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the CDIC Act). It is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is funded by premiums assessed against its member institutions.

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

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including acquiring assets from, and providing guarantees or loans to member institutions and others. Among other things, it may make or cause to be made inspections of member institutions, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

### 2. Significant Accounting Policies

**Basis of Preparation.** These financial statements have been prepared in accordance with generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

**Use of Estimates.** Financial statements prepared in accordance with generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the allowance for loss on loans and claims receivable, (ii) the provision for guarantees, (iii) the provision for insurance losses, and (iv) future income tax asset.

The Corporation reviews these estimates annually. Actual losses, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The ability of the Corporation to recover its loans and claims receivable based on prevailing economic trends and expectations as to future developments.
- The Corporation's ability to recover its loans and claims receivable either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through successful lawsuits as appropriate against relevant parties of failed member institutions.
- The extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others.
- The timing and extent of losses the Corporation will incur as a result of future failures of member institutions. The provision for insurance losses is based upon an assessment of a wide variety of possible factors. These factors include historical experience, market perceptions, legal and regulatory developments, prevailing economic trends and forecasts, and accordingly involve considerable judgement.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that ultimate losses vary from the current estimates, the Corporation can recommend to the Governor in Council that the annual premium charged to member institutions be increased or decreased, depending on the situation. Also, the Corporation has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

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

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

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

In certain situations, the Corporation may be entitled to a proportional share in amounts in excess of its claim (referred to as post-liquidation interest). Such situation arises when there are assets remaining in an estate after all claims have been paid.

To the extent post-liquidation interest is recorded, it is included in other revenue.

**Allowance and Provisions for Loss.** In its financial statements, the Corporation records the following allowance and provisions for loss:

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

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

Provision for Guarantees – 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.

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

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

The market-based composite risk-weighting system is affected by two factors: (i) the credit ratings of member institutions; and (ii) the market spreads between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms.

Changes in the allowance and provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the allowance and provisions for loss in the period in which the changes occur.

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

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

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

**Pension Plan.** All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan, required from both the employees and the Corporation, are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

**Employee Future Benefits.** Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which benefits are earned by the employee.

## 3. Change in Accounting Policy

The Corporation has elected to adopt the recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes. These recommendations have been applied retroactively without restatement of the prior years' financial statements. Previously, the Corporation did not record deferred income tax assets because it was not virtually certain the losses for tax purposes incurred in prior years would be realized.

Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, 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 it is more likely than not that such losses will be ultimately utilized. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date.

The Corporation has accounted for the benefit associated with its tax losses carried forward by retroactively adjusting the surplus balance as at March 31, 2000, and by recognizing a future income tax asset. The cumulative effect of adopting this new standard is an increase in the opening surplus of $114 million. A future income tax asset of $83 million has been recognized as of March 31, 2001.

## 4. Cash and Short-Term Investments

The short-term investments have a weighted-average term to maturity of less than 90 days. All of these investments are highly liquid fixed rate contracts.

| | March 31, 2001 | | | March 31, 2000 | | |
|---|---|---|---|---|---|---|
| | (in thousands of dollars) | | | | | |
| | **Amount** | **Weighted Average Effective Yield** | **Weighted Average Days to Maturity** | **Amount** | **Weighted Average Effective Yield** | **Weighted Average Days to Maturity** |
| Short-Term Investments | $203,217 | 5.65 % | 43 | $45,583 | 5.28% | 50 |
| Cash | 355 | | | 108 | | |
| **Total** | **$203,572** | | | **$45,691** | | |

## 5. Investments

Investments have a term to maturity of 90 days or greater but less than one year. All investments are highly liquid fixed rate contracts.

| | March 31, 2001 | | | March 31, 2000 | | |
|---|---|---|---|---|---|---|
| | (in thousands of dollars) | | | | | |
| | **Amount** | **Weighted Average Effective Yield** | **Weighted Average Days to Maturity** | **Amount** | **Weighted Average Effective Yield** | **Weighted Average Days to Maturity** |
| Treasury Bills | $291,896 | 5.27% | 189 | $329,894 | 5.78% | 300 |
| Bankers' Acceptances | 158,903 | 5.51% | 148 | 56,629 | 5.46% | 119 |
| Bearer Deposit Notes | 72,601 | 5.68% | 121 | 49,378 | 5.85% | 267 |
| Commercial Paper | 29,725 | 5.24% | 115 | 6,714 | 5.55% | 144 |
| Sub Total | 553, 125 | | | 442,615 | | |
| Accrued Interest | 9, 481 | | | 3,004 | | |
| **Total** | **$562,606** | **5.39%** | **164** | **$445,619** | **5.74%** | **274** |

## 6. Loans and Claims Receivable

| | March 31, 2001 | March 31, 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Loans receivable | $21,920 | $70,025 |
| Allowance for loss | – | (8,200) |
| Net loans receivable | 21,920 | 61,825 |
| Claims receivable | 37,847 | 99,572 |
| Allowance for loss | (6,000) | (4,800) |
| Net claims receivable | 31,847 | 94,772 |
| **Total** | **$ 53,767** | **$156,597** |

The loans receivable are repayable on demand and bear interest at floating rates varying with either prime rate or the 90-day Treasury Bill rate. No interest revenue was recognized on existing loans receivable, as the criteria for interest revenue recognition on the loans were not met (2000: nil). No new loans were made during the year.

During the year, the Corporation recorded $21 million in post-liquidation interest (2000: $2.9 million).

## 7. Provision for Guarantees

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation provided deficiency coverage guarantees. These guarantees provide for payment of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees will remain in force, on a diminishing basis, until December 31, 2002.

The provision for guarantees as at March 31, 2001 is $43 million (2000: $60 million) against a nominal amount of $332 million (2000: $548 million).

The nominal amount represents the maximum exposure for the Corporation with respect to the guarantees provided. This amount is not necessarily representative of the amount the Corporation expects to pay to a third party to meet its obligations under these guarantees.

## 8. Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2001 with corresponding totals as at March 31, 2000.

| | March 31, 2001 | | | | | March 31, 2000 |
|---|---|---|---|---|---|---|
| | Loans Receivable | Claims Receivable | Guarantees | Insurance Losses | Total | Total |
| | (in thousands of dollars) | | | | | |
| Beginning of period | $8,200 | $4,800 | $60,000 | $400,000 | $473,000 | $1,001,000 |
| Payments | | | (10,462) | | (10,462) | (515,821) |
| Write-offs | (7,755) | | | | (7,755) | (9,252) |
| Adjustment to allowance and provisions for loss | (445) | 1,200 | | (6,538) | (5,783) | (2,927) |
| **End of period** | **$0** | **$6,000** | **$43,000** | **$400,000** | **$449,000** | **$ 473,000** |

The allowance and provisions for loss are subject to measurement uncertainty. As such, actual losses may differ significantly from these estimates.

## 9. Financial Instruments

**Credit Risk.** The Corporation is subject to credit risk from its holdings of short-term investments and investments. The Corporation minimizes its credit risk by adhering to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*, by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

Loans and claims receivable relate to failed member institutions. Loans receivable is directly impacted by the ability of these entities to generate sufficient cash to meet their obligations to the Corporation as they become due. Realization of claims receivable is largely dependent on the credit quality or value of assets held within the estates of failed member institutions.

**Fair Value.** Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2001 and involve uncertainties and matters of significant judgement. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, investments, premiums and other accounts receivable and accounts payable approximate fair value because of their short term to maturity.

The book value of loans and claims receivable approximates fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of loans and claims receivable. The Corporation bases its estimates on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The book value of the provisions for guarantees and for insurance losses approximates fair value as it represents the Corporation's best estimate of future payments to be made under the guarantees, and losses on future claims.

## 10. Income Taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years' earnings for tax purposes.

Such losses total $458 million and expire as follows:

| Year | Amount (in millions of dollars) |
|---|---|
| 2002 | $202 |
| 2003 | 126 |
| 2004 | 90 |
| 2005 | 40 |
| **Total** | **$458** |

Some $11 million of undepreciated capital cost and $205 million of the total $458 million losses carried forward have been applied in calculating the future income tax asset of $83 million.

## 11. Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2000 and 1999, were as follows:

| | 2000 | 1999 |
|---|---|---|
| | (in billions of dollars) | |
| Federal institutions | $325 | $315 |
| Provincial institutions | 2 | 2 |
| **Total** | **$327** | **$317** |

Under CDIC's differential premiums by-law, member institutions are classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for 2000 are 1/24 of 1% of insured deposits for members in category 1, 1/12 of 1% for category 2 and 1/6 of 1% for members in categories 3 and 4. These premium rates were also in effect for 1999.

## 12. Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2001 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

## 13. Operating Leases

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2001 are as follows:

| Year | Amount (in thousands of dollars) |
| --- | --- |
| 2002 | $571 |
| 2003 | 571 |
| 2004 | 571 |
| 2005 | 571 |
| 2006 | 613 |
| 2007-2011 | 2,948 |
| **Total** | **$5,845** |

## 14. Comparative Figures

Certain of the 2000 figures have been reclassified to conform to the presentation adopted for 2001.