Canada Deposit Insurance Corporation
2003 Annual Report

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

For the Years Ending	2003	2002	2001	2000	1999
Selected Balance Sheet Items					
Cash and investments	1,066	985	766	491	738
Provision for insurance losses	550	500	400	400	400
Surplus (deficit)	539	486	455	184	27
Selected Cash Flow Items					
Claims recovered	—	18	62	35	58
Loans recovered	—	22	40	82	73
Repayments of loans from the CRF [a]	—	—	—	—	395
Payment of guarantees	10	10	10	515 [b]	29
Selected Income Statement Items					
Premiums [c]	76	155	140	134	515
Interest on cash and investments	32	36	35	32	28
Operating expenses	26	23	21	18	17
Interest on loans from the CRF [a]	—	—	—	—	8
Adjustment to allowance and provisions for loss	46	86	(6)	(3)	(11)
Member Institutions					
Number of federal institutions — banks	34	34	42	49	54
Number of federal institutions — trust and loan companies	47	48	49	50	47
Number of provincial institutions	7	9	10	10	12
Total number of institutions	88	91	101	109	113
Total insured deposits ($ billions)	347	339	327	317	308
Employees					
Number of permanent employees [d]	92	95	86	86	83
Other					
Average yield on cash and investments	3.22%	3.36%	5.46%	5.70%	5.16%
Average cost of funds	—	—	—	—	7.0%
Growth rate of insured deposits	2.4%	3.7%	3.2%	2.7%	(2.8%)

[a] CRF — Consolidated Revenue Fund.

[b] In its 1999/2000 fiscal year the Corporation was required to honour its guarantee in the amount of $500 million to investors of distress preferred shares issued by Adelaide Capital Corporation in connection with the failure of Central Guaranty Trust.

[c] Premium revenue has declined during the course of the past five years as a result of reductions in the premium rates payable by member institutions.

[d] Represents the number of full-time, permanent employees at year-end. Vacant approved positions have not been included.

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

Ronald N. Robertson, Q.C.

Chairman of the Board
Président du conseil d'administration

June 30, 2003

The Honourable John Manley, 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, 2003.

Yours sincerely,

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Suite 1707
P.O. Box 2340, Stn. D
Ottawa, Ontario
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Canada

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:: Message from the Chairman

Last year was CDIC's 35th year in operation. The historical insert in this year's annual report offers a brief retrospective of some of the changes that have taken place over the three and a half decades — both in CDIC and in its operating environment — as the Corporation dealt with 43 failures of banks, and trust and loan companies, with a total of $23.4 billion in insured deposits. As that insert shows, CDIC has developed from being called upon only after a failure to become an active risk minimizing insurer and, in the process, has matured into one of the most highly regarded deposit insurers in the world, as evidenced by the large number of other countries which seek our advice. The Corporation's objectives now include promoting sound business and financial practices for our members and monitoring what kinds of risks they are assuming and what they are doing, but without stifling innovation and prudent risk taking. Our experience has shown that this is one of the best ways for us to contribute to the stability of the Canadian financial system and to mitigate our exposure to loss, and that of uninsured depositors.

Most of the failures of member institutions in the past, which cost our members so much in the way of higher premiums and otherwise, can be traced in large part to poor management. Hence our focus on our members following sound business and financial practices and encouraging them to do so by our differential premium regime. It is worth noting that we introduced our *Standards of Sound Business and Financial Practices* for our members long before the financial disasters abroad made good corporate governance a priority. In the debate over how far to go in mandating governance practices, it has to be recognized that the stimulus for the debate has been the destruction of shareholder value, not its maximization. As is often the case, the problem is to find the right balance between entrepreneurial freedom and prudential oversight.

Looking back over 2002/2003, it is important to consider the environment in which CDIC has operated. In the face of major crises and instability around the world, Canada has weathered the events of the past year extremely well. Our financial system has proven remarkably resilient. The stability of our financial system is reflected in our members' performance over the past year. Although overall earnings fell in 2002/2003 relative to the previous year's exceptional performance, capitalization remained strong for the membership as a whole. Member institutions have responded to the current economic challenges by refining their investment approach, tightening controls on expenditures, and strengthening governance and risk management practices.

CDIC is very conscious of the issue of regulatory costs. In recent years the Corporation has: reduced premiums by 86 per cent since 1996; reduced reporting requirements under the Standards; expanded its on-line systems to allow member institutions to file information electronically; and, most recently, engaged in a corporate reorganization resulting in a net reduction of the CDIC work force by 12 per cent.

Although we much regretted having to let valued members of our staff go, due to no fault of theirs, we did what had to be done to manage our costs of operations in line with our current needs. On behalf of the Board, I wish to express our appreciation of the dedicated service of those employees to CDIC and of their very professional attitude in accepting the decisions that were made. I also want to express our thanks to all CDIC employees for their contribution to our success over the past year and their understanding and cooperation in effecting the reorganization and streamlining of our operations.

One of our continuing problems at CDIC is what to do about public misperceptions about deposit insurance. With the recent proliferation of financial services and products, our surveys show that many Canadians are finding it difficult to understand what is and what is not insured. In addition, the current absence of any notable member failures means that people may not pay much attention to that question. Our national public awareness campaign is not intended to promote insured products, rather to encourage Canadians to become better informed about deposit insurance. Because CDIC deposit insurance is limited regarding the products insured as well as the amount for which they are insured, there are problems in providing useful information in a cost-efficient manner. We are now in the process of consulting with our members about our *Deposit Insurance Information By-law*, which, among other things, addresses who can say what about deposit insurance.

Last year saw the arrival of two new private sector directors on CDIC's Board of Directors. Darryl Raymaker, Q.C., a lawyer from Calgary, adds his extensive legal expertise to our proceedings, as well as experience from his work in the public sector. Grant Morash, FCA, is a chartered accountant who brings valuable accounting and financial knowledge to the Board's collective expertise. Both new Board members have already contributed significantly to our deliberations.

Now that we have a full complement of directors, consistent with our emphasis on the importance of corporate governance, we are in the process of evaluating our performance as a Board. As our Standards set out principles of good corporate governance for our members, we want to make sure that we are applying the same sound business practices to our own work.

As the issue of governance becomes increasingly important in the global economy, the solid performance of our members is notable. It is a testament, at least in part, to the adoption of standards by the deposit-taking industry some years ago.

R.N. Robertson, Q.C.

Message from the President and CEO

At CDIC, we've learned a lot over the past 35 years and we are putting it into practice in the work we do today. While we focused on "staying the course" in many areas during 2002/2003, the Corporation also made some strategic advances, enhancing our information systems and practices, increasing operational effectiveness, and building awareness and knowledge about deposit insurance both in Canada and abroad. With not a single failure of a member institution in seven years, we have focused our attention on a number of strategic and operational issues to address immediate and longer term requirements.

Operationally, CDIC undertook a number of initiatives that position the organization to meet the challenges of the future. Towards the end of the fiscal year, we conducted a major review of the Corporation's structure and work functions, realigning them to address changes in our workload distribution and evolving strategic priorities while, at the same time, ensuring we can continue to fulfill our mandate. It was a difficult time for all of us at CDIC as the subsequent restructuring resulted in the loss of a number of excellent employees. They will be missed.

Also due to the restructuring, many of our remaining employees have taken on new responsibilities and will be expanding the scope of their jobs. Guy Saint-Pierre has moved into the newly created position of Executive Vice-President and Chief Operating Officer. A seasoned veteran at CDIC, Mr. Saint-Pierre brings to the job a wealth of corporate knowledge and expertise in deposit insurance issues. He will be supported by a newly configured senior management team that aligns its members' unique skill sets and depth of knowledge with the Corporation's leadership requirements. In all of our operational decisions, one of our main priorities is to ensure that the appropriate mix of expertise and experience is in place to support the Corporation's mandate well into the future. With this in mind, we implemented our succession plans for CDIC's senior management and appointed three new key individuals. Michèle Bourque was appointed Vice-President, Insurance and Risk Assessment, Claudia Morrow was named Vice-President, Corporate Affairs, General Counsel and Corporate Secretary, and Thomas Vice was made Vice-President, Finance and Administration and Chief Financial Officer. All three are well experienced and respected individuals in their own fields who will add value towards ensuring continued success at CDIC.

Last year as well, the Corporation developed a *Code of Business Conduct and Ethical Behaviour* as a tool to help employees understand the standard of conduct that is expected of them as they carry out all aspects of CDIC's business. An essential element of the Corporation's control mechanisms, the Code reflects our commitment that all our work will be done with the utmost care and integrity.

On the technology front, CDIC worked closely with the Office of the Superintendent of Financial Institutions (OSFI) on joint initiatives designed to share information electronically and to identify opportunities to increase the effective and efficient use of information technology resources at our respective organizations. Most recently, our focus has been on coordinating efforts for addressing short-term business outages, developing processes for sharing protected information and exchanging information about technology applications currently being developed. We also worked with OSFI to update our *Strategic Alliance Agreement*, which sets out a framework to guide our joint activities. The new Agreement takes into account recent changes in legislation, and positions us to work together well into the future. We will continue to work with OSFI to maximize opportunities for sharing information and costs, wherever possible.

Following a review of the Corporation's treasury policies in 2002/2003, the decision was made to adjust CDIC's investment portfolio to provide for an improvement in portfolio yield characteristics by extending term in highly rated credit instruments. In line with federal treasury guidelines for Crown corporations, the adjustments continue to reflect CDIC's conservative investment strategy and focus on high quality, liquid securities.

The Corporation continued its involvement in international activities during the year, hosting various delegations from other countries and participating as an active member of the International Association of Deposit Insurers, the international voice of the world's deposit insurers. As the recently elected Chair of the Executive Council and President of the Association, I was pleased to lead in this important work, which promotes knowledge and information sharing about deposit insurance issues around the world. Global interest in deposit insurance is growing — in the last decade alone, the number of deposit insurance systems in the world has virtually doubled. In this environment, CDIC is earning a reputation as a model for deposit insurance systems worldwide.

Once again this year, my thanks go to the talented and committed employees who are the foundation of CDIC's success. I look forward to continuing to work with them and benefiting from the strong leadership provided by our Board of Directors and Chairman, Ron Robertson, as CDIC moves into the future.

J.P. Sabourin

CDIC's Vision, Mission and Values

Vision

A leader in deposit insurance.

Mission

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

Values

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

CDIC's Executive Management Committee 2002/2003

1. J.P. Sabourin
2. Guy Saint-Pierre
3. Wayne Acton
4. Bert Scheepers
5. M. Claudia Morrow
6. Gillian Strong
7. Margaret Saxon-Kopke
8. Patricia Griffin-Dobson
9. Keith Adam

Performance Overview 2002/2003

Fiscal year 2002/2003 marked the beginning of new initiatives at CDIC and significant progress on work already under way. The Corporation continued to assess members' risks and monitor their adherence to the *Standards of Sound Business and Financial Practices*. CDIC worked to enhance its own readiness to act in the event of a member institution's failure, refining its systems and processes, and making strategic investments in technology. CDIC also shared information with and learned from the experiences of others in the deposit insurance field both in Canada and around the world, and worked to enhance Canadians' awareness about deposit insurance issues.

This section of the report describes the Corporation's major activities during 2002/2003, organized under the four business strategies identified in its annual Corporate Plan. Developed in support of CDIC's statutory mandate and based on the current financial and economic environment, the business strategies are:

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

All major projects were substantially completed on schedule and within budget — 92 per cent of key initiatives supporting CDIC's business strategies were completed on schedule and within budget. Certain initiatives were deferred or rescheduled as a result of the reprioritization of resources during the year. These initiatives are reflected in the business plans presented in CDIC's Summary of the Corporate Plan 2003/2004 to 2007/2008. The scorecards that follow report on our performance in 2002/2003:

Scorecard Progress Symbols Legend

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

- ▲ Planned progress completed and within budget as per original plans.
- ▼ Experiencing some slippage in terms of time to completion and/or budget overruns.
- ● Cancelled.
- ⦸ Deferred to a future year.

Business Strategy: Proactive Readiness

Key Supporting Initiatives

- Maintain close liaison, cooperation and information sharing with stakeholders ▲
- Maintain the CDIC/OSFI Strategic Alliance Agreement ▲
- Maintain professional advisory/supplier network ▲
- Identify and assess capabilities of service providers ▲
- Prepare and execute standby arrangements for critical service providers[1] ●
- Enhance relationships with member institutions/expand member obligations with respect to Standards compliance ▲
- Further develop asset recovery initiatives/principles ▲
- Maintain technology required to make deposit insurance payments ▲
- Develop operational payout communication plan ▲
- Update plans for multiple/simultaneous, large/complex, new forms of institution failures ▲
- Review failure resolution methodologies ▲
- Maintain capacity to assess the risk to CDIC posed by member institutions ▲
- Develop MIDAS II data warehouse of member information ▲
- Research Financial Institutions Restructuring Program (FIRP) and other intervention-related issues ▲
- Establish processes/opportunities for the continuous exchange of information internally and with external parties critical to CDIC's success ▲
- Provide assistance to other countries and support the creation of an international association of deposit insurers ▲

Measures	Targets	Performance Against Targets
Level of preparedness to deal with the failure of any size of member institution.	Plans in place and validated by safety net participants and other stakeholders.	Contingency plans are in place and have been shared with other safety net participants. Such exchange of preparedness plans and information will continue on an ongoing basis. ▲
Implementation of ongoing risk assessment of all members and the membership as a whole.	Full implementation by March 31, 2003.	Process in place including annual reporting to CDIC Board of Directors. ▲
Percentage of member institutions for which risk is being assessed.	100% of membership.	All members assessed at least once a year. ▲
Conduct of successful payout simulations involving key service providers.	Staged payout simulations achieve effective, coordinated actions to produce intended results.	A payout system update including user acceptance testing is scheduled for completion in 2003. A full internal simulation will also take place in 2003. ▼
An adequate provision for insurance losses.	Provision supported by appropriate current methodology — validated by external experts.	Enhanced methodology introduced in fiscal 2001/2002. Work surrounding qualitative adjustment is under way and being reported on to CDIC's Audit Committee. ▲
Retention being managed through effective recruiting, compensation, succession planning and training.	Employee retention factor of 95% annually.	The voluntary turnover rate was 2%, or a 98% retention rate. ▲

[1]This initiative has been stopped and an alternate approach of developing ongoing working relationships with key suppliers is being pursued as part of the Contingency Planning Project.

Business Strategy: Investing in Technology to Leverage Information

Key Supporting Initiatives

- Enhance network infrastructure in accordance with Information Systems (IS) Strategic Plan ▲
- Develop/expand electronic filing for member institutions ▲
- Implement secure web component development and web-based technologies ▲
- Implement Electronic Document Management System (EDMS) ▲
- Implement Library Information Management System ▲
- Redevelop or enhance Integrated Financial Information System ▲
- Redevelop or enhance model used in estimations of costs of resolution (Valuation Model)[2] ⦸
- Redevelop or upgrade Payout System ▲
- Implement new technologies (Extranet technology, video/audio conferencing, and wireless technology) ▲
- Develop MIDAS II Data Warehouse of member information ▲
- Develop automated risk assessment and management tools[3] ▼
- Integrate 1-800 call management system with PC Payout system[4] ▼
- Further the Corporate Knowledge Management project ▲
- Provide training programs covering individual and corporate IT training ▲

Measures	Targets	Performance Against Targets
Annual review of IS Strategic Plan.	All IS infrastructure initiatives to be directly related to IS strategic directional statements.	Annual review of strategic plan completed. ▲
Knowledge Communication — ability to present, as appropriate, experience and lessons learned.	CDIC explicit knowledge and information is current and accessible through an EDMS.	EDMS functionality limited to existing iRIMS system, which is currently under review. ▲
Solid technology infrastructure in place that is flexible and secure.	All initiatives identified in the annual operational plans are linked to one or more of the six directional statements in the IS strategy.	All initiatives are linked to the IS Strategy. ▲
Ability to share information on the web with member institutions.	CDIC has flexible and secure technology to provide and receive information to and from member institutions.	Ability to receive secure information exists. (A fully interactive system to allow such exchange will evolve as industry security standards are established.) ▲
Modify the data structure to integrate all related financial information.	Completion of data structure modification by March 31, 2003.	On schedule per plan. ▲
Ability to publish reports that can be accessed by CDIC executive management in a web-based environment.	Capacity to publish reports in a web-based environment by December 31, 2002.	Completed. ▲
Use of sophisticated graphing software to aid in risk assessment, presentation and reporting.	Implementation of graphing software by December 31, 2002.	Deferred until 2003/2004.[5] ⦸
Ability to access multiple information sources, apply analytical tools and automatically generate Risk Assessment Profiles using a secure electronic portal.	Implementation of electronic portal by March 31, 2003.	Portal project being implemented on a phased approach — Phase I completed. Phase II scheduled for 2003/2004. ▲
Ability to communicate on a confidential basis with OSFI and other supervisors using secure technology.	100% usage of Public Key Infrastructure (PKI) technology for secure communication of all information classified up to Protected B.	Secure technology for Protected B Information is in place. Plans and work are progressing for the integration of secure technology. ▲

[2] This project has been reprioritized and will be started in 2003/2004.
[3] Some automation of risk assessment tools was completed and the balance of the work (largely focused on risk management tools) will take place in 2003/2004.
[4] This project has been delayed. Alternative approaches are being explored as part of Contingency Planning and will be tested in June 2003.
[5] This project has been deferred to 2003/2004 as a result of resource reprioritization.

Business Strategy: Follow Sound Business and Financial Practices

Key Supporting Initiatives

- Implement and administer a program respecting CDIC's adherence to Standards as applicable ▲
- Research current best practices in all areas ▲
- Implement a regular self-assessment process ▲
- Capture and report on progress re: following sound business and financial practices — incorporate reporting into performance management scorecard ▲
- Apply effective performance measurement and management in all areas ▲
- Provide effective, efficient and economical facilities management ▲
- Continue the Corporate Risk Management Project ▲
- Maintain processes to ensure currency and relevancy of key corporate by-laws and policies ▲
- Conduct innovative policy analysis, research, financial and economic forecasting, and policy development to advance the views and interests of CDIC ▲
- Further the Corporate Knowledge Management project ▲

Measures	Targets	Performance Against Targets
Overall performance against planned initiatives.	All projects on schedule and within budget as per original plans.	All major projects (92% of key supporting initiatives) were completed or were proceeding on schedule and within budget at year end. Some projects are experiencing minor slippage or have been deferred resulting from the need to reprioritize and manage resource budgets. As such, certain initiatives were not completed this year, and will be reconsidered for future periods. ▼
Process for self-assessment in respect of sound business and financial practices.	Process to be defined and implemented by March 31, 2003.	Steps required to develop and implement a self-assessment process are under way. ▲
Knowledge Management and Transfer and Learning and Growth — sufficient time, financial resources and encouragement committed to staff to develop skills required to improve performance.	Maintain the level of resources applied to training and development at 1.5% to 2% of operating budget (net of Public Awareness costs).	The level of training and development resources amounted to 1.1% of operating costs, net of the costs of restructuring and Public Awareness. The Corporation secured training and development programs at lower-than-anticipated costs. Also, individual demand for training was lower than expected. ▼
Performance against the operating budget.	Within ± 5% of operating expenditure budget.	Actual operating expenditures of $25.7 million were $1.3 million, or 4.9%, under the approved operating budget of $27 million.* ▲

*Note: The approved operating budget of $27 million includes a one-time amount of $3 million separately approved by the Board of Directors in support of CDIC's organizational restructuring.

Business Strategy: Enhancing Public Awareness and Education

Key Supporting Initiatives

- Foster public awareness and understanding of deposit insurance, and CDIC's role ▲
- Maintain the CDIC *Deposit Insurance Information By-law* and administer the related insured deposit register clearance process ▲
- Maintain close liaison and cooperation with member institutions, the Bank of Canada, Department of Finance, OSFI, provincial regulators, industry associations and international organizations ▲
- Continue to expand CDIC's international contacts and work with other deposit insurers, the Financial Stability Forum and international organizations, as well as provide assistance to other governments and deposit insurers, including regular participation in conferences and seminars to share information globally on deposit insurance issues ▲
- Familiarize interested international deposit insurers with the operation of ROADMAP — software designed to facilitate the payout process ▲
- Conduct International Claims and Recoveries courses and presentations ▲
- Implement efficiently, professionally and in a timely fashion the Corporation's overall communications objectives ▲
- Enhance internal communications — implement communications activities to support teamwork and open communications ▲

Measures	Targets	Performance Against Targets
Uniform information on deposit insurance is developed and disseminated to member institutions and the public.	Information developed and disseminated to all members and the public.	CDIC web site continually updated. CD ROM containing Public Awareness materials and television commercials distributed to all members. Joint CDIC/FCAC (Financial Consumer Agency of Canada) consumer education brochure distributed. ▲
Level of awareness of deposit insurance and CDIC.	Increases in awareness levels as set yearly. Move from current level of 54% to 59%.	Public survey conducted: awareness level of 62%. ▲
Level of awareness of $60,000 limit.	Increase in awareness levels as set yearly. Increase from current level of 27% to 30%.	Public survey conducted: awareness level of 32%. ▲

Activities and Accomplishments

Proactive Readiness

The nature of CDIC's mandate as a deposit insurer requires that it maintain an effective state of readiness at all times. The Corporation must be able to accurately assess and address the risks posed by member institutions, as well as maintain ongoing operational readiness to intervene effectively if problems arise.

Assessing Members' Risk

CDIC has learned from experience that minimizing its own exposure to loss requires careful and ongoing scrutiny of the risks inherent in the business objectives, strategies, plans and operations of its member institutions. During 2002/2003, the Corporation continued to strengthen its risk assessment function by:

- working through a peer group process to refine individual member assessments, and validating current risk assessment processes through simulations performed on previous interventions of failed institutions
- collaborating with the Office of the Superintendent of Financial Institutions (OSFI) to monitor higher risk members
- participating in a contingency planning process for potential failure of a member institution
- submitting a detailed report to the Board on CDIC's overall membership risk profile
- conducting quarterly reviews of the financial results of CDIC's largest members
- establishing a mentoring process in which senior risk managers oversee assessments and share knowledge with other risk managers

An internal audit review conducted during the year determined that the Corporation's risk assessment division was functioning very well overall. The audit highlighted the need for more documentation on the risk assessment process, which is now being completed.

Preparing for Future Failures

CDIC consolidates and builds on past experience, incorporating best practices and leveraging its knowledge base to ready itself for future failures. Once again last year, the Corporation's preparedness activities included setting out detailed approaches for attaining optimal outcomes related to special examinations, interventions, rehabilitation, payouts, failure resolution and liquidations. Meetings and discussions with other organizations, including Canadian law firms, accounting firms, insolvency specialists and the U.S. Federal Deposit Insurance Corporation, contributed to the planning process. Internal meetings focused on high risk characteristics of financial institutions and on the playing out of a simulated failure scenario. The emphasis was on identifying the steps involved in resolving a failure, including those required for a payout and formal liquidation.

Promoting *Standards of Sound Business and Financial Practices*

As part of its statutory mandate, CDIC is required to promote standards setting out its expectations regarding the business and financial practices of member institutions. These *Standards of Sound Business and Financial Practices* (the Standards) are an important way for the Corporation to promote the appropriate management of risk by members, thus helping CDIC to manage its own exposure as an insurer.

The Corporation's Standards describe what constitutes sound practices for CDIC member institutions, with particular emphasis on enterprise-wide governance and risk 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 the institution's board of directors. Again this year, member institutions were required to report on their adherence to the Standards. Those found to be in breach of the Standards are subject to a range of sanctions — from higher deposit insurance premiums to terminating their deposit insurance policy, which prevents them from taking future deposits. During 2002/2003, CDIC sent letters to those institutions not in compliance and monitored correction of deficiencies.

To keep the Standards and related materials up-to-date, CDIC conducted a review of practices in the areas of domestic and international corporate governance, strategic management, risk management and control initiatives in regulatory and supervisory agencies (including OSFI and provincial regulators, the U.S. Federal Deposit Insurance Corporation and the Bank for International Settlements). As well, the Corporation meets from time to time to discuss the Standards with regulators and member institutions and their associations, and periodically employs independent experts to evaluate the Standards.

Strengthening Strategic Relationships

During 2002/2003, CDIC worked closely with OSFI to update the *Strategic Alliance Agreement*. First signed in 1992, the Agreement provides a framework for coordinating the two organizations' activities, promoting consultation and encouraging the exchange of information designed to enhance their performance. The Agreement was revised to reflect changes such as the legislative amendments to the *Canada Deposit Insurance Corporation Act*, new application processes (e.g., opting out, branching), OSFI's revised supervisory framework, CDIC's new risk assessment process and joint information technology initiatives. Access to, and the ability to share, member information with OSFI facilitates the Corporation's ability to assess risk in the membership, as well as its overall preparedness to address problem situations.

An International Presence

CDIC is an active participant in the International Association of Deposit Insurers (IADI), a global forum for exchanging views and experience, and conducting research on deposit insurance issues. In addition to encouraging closer ties among member countries, the IADI contributes to the overall stability of the world's financial system and encourages a common understanding of deposit insurance issues and systems. In 2002, CDIC's President and Chief Executive Officer, Jean Pierre Sabourin, was elected by acclamation the first Chair of the Executive Council and President of the IADI, and is currently serving a two-year term.

Surveying Deposit Insurers Around the World

CDIC has developed an on-line survey on deposit insurance issues to gather information from organizations around the world that provide deposit insurance, depositor protection or depositor guarantee arrangements. The findings are being shared globally with policy makers and practitioners, and will be used as the basis for practitioner-focused research aimed at identifying effective deposit insurance practices. They will also assist CDIC in future strategic planning and preparedness activities.

Bilateral International Collaboration

In addition to work with members of the IADI, the Corporation continued to work one-on-one with a number of countries. Visiting delegations to CDIC included Malaysia, Vietnam, Korea, Indonesia, Japan and Mexico. Other collaboration and information sharing was done with Hong Kong Special Administrative Region, Jamaica, Singapore and the United States.

Investing in Technology to Leverage Information

As for many organizations, technology is an essential tool in meeting the Corporation's business objectives. CDIC requires technology systems and processes that support the effective delivery, receipt and assessment of information, both internally and with stakeholders outside the organization.

Leveraging Technology to Improve Service Levels

During the past year, CDIC successfully undertook a number of technology initiatives designed to leverage information and enhance service levels to members and stakeholders. These included implementing:

- a system that allows member institutions to download the reporting form for the Corporation's *Differential Premiums By-law* and to file their reports electronically — a project that is part of CDIC's ongoing process to enhance electronic interaction with members

- a system for capturing and evaluating data required to assess members' adherence to CDIC's *Standards of Sound Business and Financial Practices*, and distribution of the results to regulators, examiners and financial institutions — the new system is flexible enough to accommodate CDIC's evolving requirements with respect to Standards monitoring and compliance

Focusing on Internal Systems

In addition, the Corporation undertook several projects aimed at improving its internal reporting system — specifically:

- refurbishing of a system supporting the payout process for small- and medium-sized institutions in the event of a failure — an initial phase of a longer term, comprehensive assessment of the payout process

- development of a management reporting facility that permits easy access to a variety of internally produced reports on member institutions and the membership as a whole

- creation of a report that updates automatically a series of predetermined ratios and indicators on a biweekly basis

- introduction of new software that facilitates the production of ad hoc analytical reports

- completion of the initial phase leading to the implementation of a new Integrated Financial Information System (IFIS II)

Building on the Data Warehouse

CDIC's data warehouse is an essential tool that helps collect, consolidate and distribute financial information in support of the Corporation's risk assessment function. The primary data source for CDIC's data warehouse is the Tri-Agency Data System (TDS) which stores common regulatory information obtained from federally-incorporated member institutions and distributes it between CDIC, OSFI and the Bank of Canada. Housed at the Bank of Canada, TDS is a joint shared-cost initiative between CDIC, OSFI and the Bank of Canada — significantly reducing the cost

Over the past year, CDIC added significantly to the security of its overall information network, upgrading existing systems and implementing new, more secure technology solutions.

of developing and maintaining three independent systems. This single databank has reduced regulatory burden on member institutions by simplifying their filing of regulatory information.

With its foundation of warehouse architecture now in place, CDIC is turning its attention to establishing the warehouse as a fully integrated, centralized repository with a single point of end user access and delivery of all electronic information related to risk assessment. During 2002/2003, the Corporation:

- implemented a pilot web-based portal system that will eventually offer a centralized point for searching and managing information
- added data sources to what was already available in the data warehouse — including geographic returns of information on exposures outside of Canada, as well as data on differential premiums and return of insured deposits
- consolidated summary level information — for example, on assets, liabilities, income and capital — into a single, more readily accessible financial statement format
- shared "lessons learned" from the data warehouse project with other potential users of the technology within the Corporation through presentations to senior management and various corporate divisions, as well as to our counterparts at OSFI

Collaboration with OSFI

Since 2002, CDIC and OSFI have worked together on a joint committee to coordinate and build on each other's information technology strategies and initiatives. Created through the *OSFI/CDIC Strategic Alliance Agreement*, the Committee provides the two organizations with an opportunity to work on joint initiatives designed to share information electronically and to identify opportunities to increase the effective and efficient use of IT related resources. To date, the Committee has discussed:

- coordinating their respective Business Resumption Planning processes for addressing short-term business outages
- developing a process to share protected information securely
- sharing the status of various applications currently under development
- establishing a cost-sharing arrangement for subscriptions to rating services

Safeguarding Information

While CDIC adheres closely to Treasury Board guidelines on information security, as well as to the confidentiality provisions of the CDIC Act, the organization must also have systems that enable the secure sharing of information with key partners. Over the past year, CDIC added significantly to the security of its overall information network, upgrading existing systems and implementing new, more secure technology solutions. One of the ways the Corporation safeguards its information systems is by conducting vulnerability assessments to identify potential areas of weakness and to recommend security countermeasures. Depending on how severe the system's vulnerabilities are, these countermeasures range from minor corrections to a complete redesign and/or reconfiguration of the system's security model. In recent years, CDIC has conducted five vulnerability assessments on various components of its information system. Although no serious vulnerabilities have been identified, the Corporation continues to work on the directions provided in the assessments, such as the implementation of enhanced PKI (Public Key Infrastructure) technology for secure remote access to CDIC's network.

Following Sound Business and Financial Practices

Like any well-run organization, CDIC must be able to demonstrate that effective controls and governance are in place in all aspects of its operations. CDIC has in place a sound system of internal controls as well as a strong strategic management process. The next step is to refine the management of the Corporation's risks through the implementation of formal risk management processes.

Implementing an Enterprise Risk Management Process

CDIC uses the *Standards of Sound Business and Financial Practices* that its members are required to follow as a benchmark for assessing its own operations. In 2002/2003, the Corporation evaluated its performance related to an integral component of the Standards — risk management — and concluded that its activities in this area should be enhanced and formalized on a corporate-wide basis. In light of this review and the fundamental nature of risk management to overall strategic management and sound governance, CDIC established a corporate risk function. This function's mandate is to identify and assess key areas of risk, formalize policies and practices concerning enterprise risk management and management of specific risks, and enhance risk management reporting procedures.

Scheduled for completion by the end of fiscal year 2003/2004, this work is well under way. For example, during 2002/2003, CDIC's management team finalized risk definitions and consulted with the Corporation's Audit Committee on an overall approach to implementing enterprise risk management. For its part, CDIC's Board of Directors assigned responsibility for oversight of enterprise risk management initiatives to the Audit Committee.

The enterprise risk management processes will build on other initiatives undertaken recently to enhance the Corporation's business and financial practices, in particular, its strategic management process and corporate governance practices.

Optimizing Claims and Recoveries

Since CDIC was created in 1967, it has dealt with the failure of 43 members, with total insured deposits of almost $23.4 billion. When a member institution fails, CDIC pays the insured depositors in a timely and effective manner, and works to maximize recoveries and minimize losses. Once the institution's depositors are paid, CDIC takes on the role of creditor, assuming the same risks as other uninsured depositors. Usually the largest creditor, CDIC insists on the highest standards in the liquidation process to maximize recoveries.

Enterprise Risk Management: The identification, assessment, management, monitoring and reporting, at any point in time, of the significant risks inherent in objectives, strategies, plans and operations of an organization.

Recoveries on Claims in 2002/2003

During the year, an additional $8 million was recovered from failed institutions, bringing total recoveries over the past five years to $493 million. The largest receipt ($7 million) was received from Adelaide Capital Corporation, a workout company with significant non-cash assets.

Future Recoveries

The liquidators of the failed institutions currently have approximately $95 million of remaining assets. CDIC projects that approximately $35 million will be received from these assets after liquidation expenses and after providing equitable satisfaction of other claims against the estates.

There is always considerable uncertainty with forecasting the timing and amount of recoveries in the final stages of liquidation. The factors contributing to this uncertainty are the size of the claim, creditor disputes, lawsuits against the estates or specific assets, and the quality of the remaining non-cash assets. Although most of the remaining assets in the eight active estates are in the form of cash, final distribution cannot be made until litigation and claims have been completed.

Discharges in 2002/2003

CDIC's involvement in the monitoring of the liquidation of a member institution is a lengthy process spanning pre-failure deliberations, payout, strategic asset management and disposition, and claims and litigation. The goal of discharging the liquidator of an estate on a timely basis is achieved by CDIC working with the liquidator to develop and execute close-out plans for assets that cannot be sold, as well as on claims, litigation and administrative matters such as tax issues.

During the year, CDIC worked with a court-appointed liquidator to assist in the discharge of the Bank of Credit and Commerce Canada (BCCC). In 1991, the

CDIC's Claims, Recoveries and Losses on Failed Member Institutions

Name of Institution (Method of Failure Resolution — Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2003	CDIC's Projected Loss and (Gains) as % of	
	($ Millions)	($ Millions)	Claims and Loans	Claims and Loans — NPV [a] Basis
Bank of Credit and Commerce Canada (Formal Liquidation — 1991) — Liquidator Discharged	22	20	9%	25%
Confederation Trust Co. (Formal Liquidation — 1994)	680	700	(3%)	2%
Saskatchewan Trust Co. (Formal Liquidation — 1991)	64	56	10%	18%
Income Trust Co. (Formal Liquidation — 1995)	193	174	8%	15%
Security Home Mortgage Corp. (Formal Liquidation — 1996)	42	41	1%	17%
Adelaide Capital Corp. (CGT/TD) (Management Agreement — 1992)	1,758	1,471	6%	12%
Shoppers Trust Co. (Formal Liquidation — 1992)	492	464	5%	15%
Standard Loan Co./Standard Trust Co. — 1991	1,321	1,122	14%	25%

[a] All cash flows are discounted on an annual basis to arrive at the net present value.

Superintendent of Financial Institutions placed BCCC into liquidation after its foreign parent bank was seized by its regulator because of serious allegations of fraud and money laundering. Claims paid to insured depositors totalled $22 million.

Assets Subject to Deficiency Coverage Agreements

On January 1, 1993, the largest financial transaction in Canadian history to date closed when assets valued at $9.8 billion, deposit liabilities and operations of Central Guaranty Trust and Central Guaranty Mortgage were transferred to the Toronto Dominion Bank with CDIC financial support.

As part of an alternative to liquidation, CDIC entered into 10-year Deficiency Coverage Agreements (DCAs) with the Toronto Dominion Bank on December 31, 1992. When the DCAs began, $2 billion in commercial loans, $4.26 billion in residential mortgage loans and $84 million in personal loans were eligible for claims coverage against losses; however, total potential claims under the agreements were limited to $2.49 billion. At the end of the 10-year coverage period on December 31, 2002, total claims paid to date amounted to $172 million.

Although coverage on the loans ended on December 31, 2002, under the terms of the guarantees, claims for losses incurred during the coverage period can be filed with the Corporation subsequent to that date.

Safeguarding CDIC's Investment Portfolio

Each year, CDIC reviews the Corporation's investment policies to align them with corporate objectives and take into account relevant guidance — specifically, the *Minister of Finance Credit Policy Guidelines for Crown Corporations* and the *Financial Risk Management Guidelines for Crown Corporations*.

Following a third party review last year, CDIC adjusted its investment portfolio to provide for improvement in portfolio yield characteristics by extending term in highly rated credit instruments. The primary objectives of the Corporation's investment portfolio are preservation of funds and liquidity. With this goal in mind, the changes in its investment policy provide opportunities for additional yield with a relatively minor increase in the level of risk taken.

Realigning Organizational Structure and Functions

During fiscal year 2002/2003, CDIC undertook a comprehensive review of its organizational structure and work functions. A number of key factors prompted the review, including: changing workloads in essential areas; the potential to streamline overall workflow and processes; and the need to closely manage rising corporate operating costs. Throughout the review, careful attention was given to retaining the core competencies of the Corporation, ensuring that the mandate of CDIC would continue to be properly fulfilled, and addressing succession planning issues.

The review confirmed the need for the Corporation to realign its organizational structure and functions. The subsequent restructuring resulted in a 12 per cent reduction in person-years and the departure of a number of excellent employees. Those who did not remain in the new structure were provided with severance or retirement packages commensurate with their seniority level and length of employment with the Corporation. Also as a result of the restructuring, many employees were asked to take on new roles and responsibilities. The Corporation has provided a full range of employee assistance services to ease the transition for departing and remaining employees.

While the results of CDIC's awareness efforts are encouraging overall, much work remains to be done in building consumer awareness about the deposit insurance system.

Human Resources

During 2002/2003, CDIC employees took part in a professional development conference scheduled as part of the Corporation's annual general meeting. Held in Ottawa, the conference gave employees an opportunity to hear invited guests speak about current economic issues and challenges, and to share information and experiences about the importance of communication in strengthening the organization.

CDIC developed its *Code of Business Conduct and Ethical Behaviour* as a tool to help employees understand the standard of conduct that is expected of them. The Code reinforces the Corporation's tradition of professionalism and excellence, while supporting a positive, respectful work environment. During the year, CDIC also established a policy to provide for internal disclosure of wrongdoing in the workplace.

Employee well-being was a focus of internal activity during the past year as the Corporation continued its vigilance to ensure workplace safety and security. CDIC's Health and Safety Committee worked with the Security Committee on communication protocols in the event of an emergency, and a number of employees were trained in first aid. As well, the workplace was outfitted with automated defibrillators and volunteers were trained in their use.

For the Benefit of Others

CDIC is committed to investing in the community. In 2002, CDIC raised close to $45,000 for United Way, as well as almost $4,000 for a number of other charitable organizations such as Habitat for Humanity, The Snow Suit Fund, and the Ottawa Hospital's Palliative Care Outreach Program and the Ottawa Hospital Foundation. Staff also made their own memorial donations to support ovarian cancer research, breast cancer awareness, Heart and Stroke Foundation, Fondation des amis de l'enfance Inc. and Saint Vincent Hospital.

Enhancing Public Awareness and Education

CDIC's public awareness and education program helps to increase depositors' knowledge about the benefits and limitations of the federal deposit insurance system. In doing so, this initiative also helps to fulfill the Corporation's statutory mandate to protect depositors and contribute to the stability of the Canadian financial system.

Deposit Insurance — Getting the Word Out

Fiscal year 2002/2003 marked the third year of CDIC's five-year national campaign to increase public awareness about deposit insurance. As part of the year's initiatives, the Corporation refined its key messages and promoted them via a new set of television commercials and print advertisements. According to consumer research studies, the commercials contributed to a substantial increase in general awareness of CDIC — to 62 per cent from 47 per cent prior to the campaign. Awareness of the $60,000 deposit insurance limit also rose — from 23 per cent to 32 per cent. While the results of CDIC's awareness efforts are encouraging overall, much work remains to be done in building consumer awareness about the deposit insurance system. For example, 37 per cent of Canadians still believe, incorrectly, that mutual funds are insured at the end of the third year of this campaign.

Meeting the Needs of Financial Consumers

Working in cooperation with the Financial Consumer Agency of Canada, CDIC participated in financial forums for consumers in Toronto and Vancouver. More than 15,000 people visited these events seeking information to help them make informed financial decisions. The two organizations also collaborated on a pilot publication entitled *Financial Facts and Fiction*. Distributed in the Halifax area, the publication was well received and will be produced on a biannual basis for distribution in selected regions across the country.

Over the course of the year, CDIC distributed more than two million copies of its two primary publications, *Protecting Your Deposits* and *CDIC Membership*, through its member institutions and in collaboration with the Federation of Canadian Independent Deposit Brokers.

As part of its work with stakeholders in the financial community, CDIC took part in two annual meetings of the Consumer Protection Forum to establish closer ties with consumer protection fund agencies across Canada. The Consumer Protection Forum is an association that meets twice a year to discuss elements of common interest faced by member organizations in addressing Canadian financial institution insolvency issues. The Forum includes participants from the Canada Deposit Insurance Corporation, the Canadian Investor Protection Fund, the Property and Casualty Insurance Compensation Corporation, the Régie de l'assurance-dépôts du Québec, the Deposit Insurance Corporation of Ontario, the Mutual Fund Dealers Association — Investor Protection Corporation, and the Canadian Life and Health Insurance Compensation Corporation.

Communicating via Telephone, Internet and Print

CDIC's web site and toll-free telephone information service are the primary vehicles for getting information out to its members and the public. Peak periods in public inquiries are particularly noticeable when CDIC commercials are being televised. In 2002/2003, the number of visits to CDIC's web site totalled 280,000, while calls to the toll-free information lines remained steady at 16,000. For the first time last year, CDIC posted an interactive version of its 2001/2002 Annual Report on its web site.

CDIC also puts considerable effort into the writing and publication of its Summary of the Corporate Plan and Annual Report. As a result, CDIC was a finalist once again in the 2002 Auditor General's Award for Excellence in Annual Reporting by Crown Corporations.

Consulting on the *Deposit Insurance Information By-law*

CDIC works closely with member institutions to improve the flow of information to consumers. During 2002/2003, consultations began on proposed changes to the *CDIC Deposit Insurance Information By-law*, to provide for greater clarity among depositors in member institutions about deposit insurance services and eligibility. A consultative committee of member institutions began studying the options for amending the By-law and a consultation paper was distributed in February to member institutions and other stakeholders. CDIC's goal is to determine the best approach for meeting depositors' needs for accurate and timely information, while minimizing the administrative burden on members.

Membership Performance and Profile

Membership Performance

Changes in CDIC Membership

As at March 31, 2003, CDIC had 88 member institutions, three less than the previous year. Deposit insurance policies for two members (BNY Trust Company of Canada and United Overseas Bank (Canada)) were cancelled after they requested the cancellation of their policy of deposit insurance, since they were no longer accepting retail deposits. Two members were amalgamated with their sister companies — Montreal Trust Company was amalgamated into Montreal Trust Company of Canada and Victoria and Grey Mortgage Corporation was amalgamated into National Trust Company. Also during the year, Bank of Tokyo-Mitsubishi (Canada) "opted out" of CDIC membership, using current legislation permitting banks that accept primarily wholesale deposits to do so. Since the legislation was passed in 1999, a total of 12 members have exercised this option.

CDIC gained two new members during the year — Bank West and Canada Life Trust Company.

Financial Performance

Despite a third consecutive year of stock market declines, continued deterioration in corporate credit quality and various geopolitical concerns, the overall financial performance of CDIC's member institutions remained strong in fiscal 2002 as a result of strong consumer spending and economic growth.

Profits were good, although lower than the previous year ...

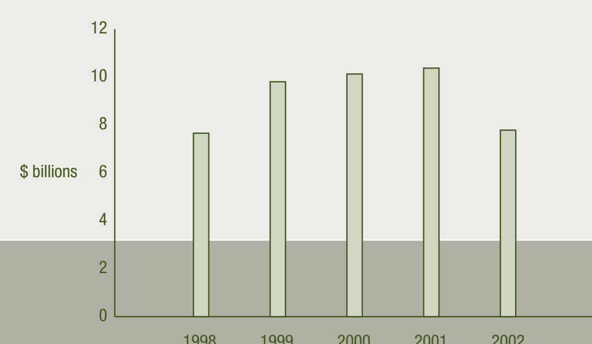
Total profits dropped to approximately $7.8 billion[6] from the record profit of $10.4 billion achieved in fiscal year 2001/2002. This decrease was led by a 28 per cent decline in profits at domestic banks and subsidiaries. Of note, profitability for subsidiaries of foreign institutions rose 27 per cent, although individual performance varied considerably. Domestic trust and loan companies also fared relatively well, experiencing an average 8 per cent increase in profits. Return on Assets (ROA) for CDIC's member institutions declined noticeably to 46 basis points of total assets, compared to 66 basis points in fiscal year 2001/2002. ROA fell for both domestic banks and their subsidiaries, domestic trust and loan companies. Decreases in ROA for the latter group can be attributed to asset growth outpacing profit increases.

Impairment charges continued to rise sharply ...

In 2002, member institutions once again faced challenges with asset quality. However, the deterioration was concentrated in corporate lending (particularly in the telecommunications and energy trading and power generation sectors). Impairment charges for 2002 rose by approximately 50 per cent following a

[6] Unless otherwise specified in this section, year references are to member institutions' fiscal year ends.

Net Income of CDIC Members, 1998-2002*



*For members' fiscal year end.

Charge for Impairment of CDIC Members, 1998-2002*

*For members' fiscal year end.

57 per cent spike in fiscal 2001. While domestic banks experienced the largest increases in charges, the trend was visible across most of CDIC's membership.

Net interest income increased due to higher spreads …

Total revenues (net interest income plus other income) rose by less than 2 per cent, the slowest growth of the last five years. This was due to the drop in other income (non-interest income), which almost entirely offset the growth in net interest income.[7] Net interest income benefited from a noticeable rise in gross spreads (before charges for impairment). Although gross spreads declined slightly in the latter part of 2002, at 198 basis points of average total assets, they were still an improvement over the previous year's level of 189 basis points. The rise in spreads primarily benefited the larger domestic banks, which enjoyed a lower cost of funds.

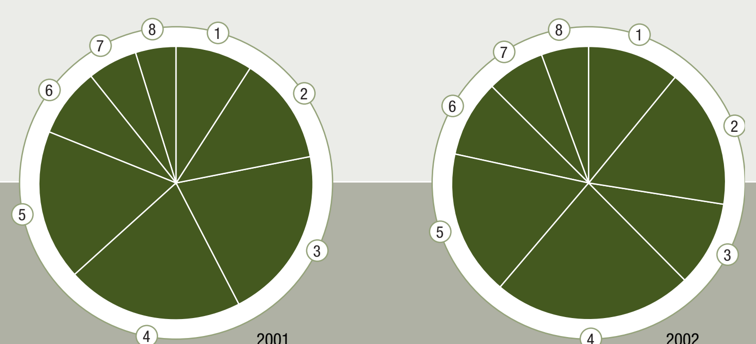
… but weak capital markets caused other income to fall for the first time since fiscal 1998

Other income declined by $2.6 billion or close to 8 per cent in fiscal 2002 to 48.4 per cent of total revenues, a level not seen since early 1999. The process of diversifying revenues towards other income, which took place at the larger domestic banks in the mid-nineties, paused in fiscal 2002.

The declines in other income were almost entirely due to lower trading revenues (from trading book and investment book securities) at the larger banks. Trading revenues, which represented more than 20 per cent of other income in fiscal 2001, fell by more than half to $3.2 billion (10.1 per cent of other income) in fiscal 2002 as market volumes and equity prices plummeted.

[7]Net interest income is the difference between interest income and interest expenses.

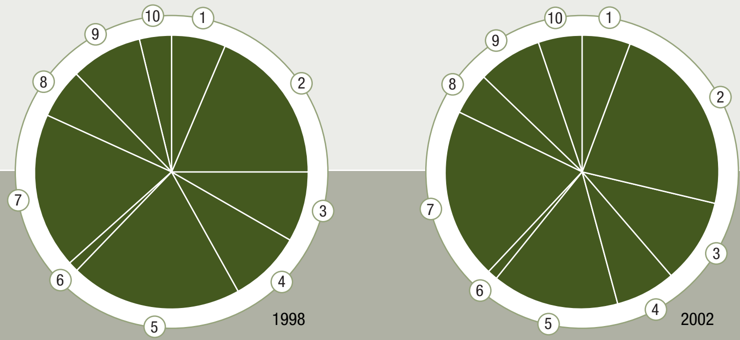
Components of Other Income, 2001 vs. 2002*



*For members' fiscal year end (in per cent).

	2001 ($33.9 billion)	2002 ($31.3 billion)	
1	9.1	10.9	Service charges
2	12.8	16.6	Investment management and custodial services
3	20.5	10.1	Income from trading and non-trading instruments
4	20.9	23.6	Securities commissions and underwriting fees
5	17.8	17.2	Other
6	8.2	9.1	Loan, guarantee and bankers' acceptances (BAs) fees
7	5.9	6.9	Credit and debit cards fees
8	4.8	5.6	Income from securitization of assets

Asset Mix, 1998 vs. 2002*



	1998 ($1.34 trillion)	2002 ($1.67 trillion)	
1	6.4	**5.7**	Cash
2	18.6	**23.0**	Securities
3	8.3	**10.0**	Personal/consumer loans
4	8.6	**7.1**	Reverse repurchase agreements
5	20.3	**15.0**	Commercial loans
6	1.2	**1.2**	Non-residential mortgage loans
7	18.4	**20.2**	Residential mortgage loans
8	5.9	**5.0**	Other loans and BAs
9	8.5	**7.6**	Derivatives related amounts
10	3.8	**5.2**	Other assets

*As at members' fiscal year end (in per cent).

Good cost controls limit the deterioration in the efficiency ratio …

Non-interest expenses rose by a modest 3 per cent in fiscal 2002 evidencing good cost controls. However, the efficiency ratio for the membership deteriorated from 67.2 per cent in fiscal 2001 to 68.9 per cent in fiscal 2002 due to lower contributions from other income. Most CDIC members actually experienced improved efficiency ratios but the average was affected by weaker performance at some of CDIC's largest members. Several members may confront higher pension expenses in the coming years due to the weaker position of defined benefit pension plans.

Modest asset growth overall masked strong growth at several smaller and medium-size members …

Asset growth for the membership as a whole rose by 2 per cent to $1.67 trillion, following on the considerable growth of 11 per cent experienced in fiscal 2001. Domestic banks and subsidiaries experienced a 1 per cent increase in assets, mainly as a result of modest growth at the largest Canadian banks. Meanwhile, domestic trust and loan companies, and subsidiaries of foreign institutions had asset increases of 27 per cent and 10 per cent, respectively. While smaller CDIC members faced strong competition from larger domestic banks in 2002, many of them succeeded in increasing their market share of mortgage loans by capitalizing on the growing popularity of independent mortgage brokers.

Commercial loans and non-residential mortgages fell by a total of $22 billion, while personal loans and residential mortgages together rose by $43 billion or 9 per cent in fiscal 2002. The strategic shift of assets into retail loans may put pressure on interest margins in this business segment for the membership as a whole in fiscal 2003. Despite the fall in equity prices, total securities (of which approximately 26 per cent were equity instruments, 30 per cent were Canadian government (federal, provincial, municipal) debt instruments and 44 per cent were other debt instruments) rose by 2 per cent to $383 billion by the end of fiscal 2002. Securities represented 23 per cent of total assets compared to only 19 per cent in fiscal 1998. These changes reflect the trend towards disintermediation (obtaining funding via capital markets instead of bank borrowing) and asset securitization, which accelerated in the mid-nineties. Securities may include some structured finance instruments whose value could be adjusted downwards during fiscal 2003, as was the case during fiscal 2002.

Domestic assets represented approximately 64 per cent of membership assets at fiscal year end 2002, a similar proportion to fiscal 2001. Exposures to Asia and Latin America, which fell in 2002,[8] remain conservative relative to total assets, but may be susceptible to current geopolitical risks. International exposures to Venezuela totalled approximately $600 million, while exposure in Brazil stood at approximately $2 billion.

[8]Based on exposures as at December 31, 2002, versus December 31, 2001.

Credit quality continued to decline but impaired assets were fully covered …

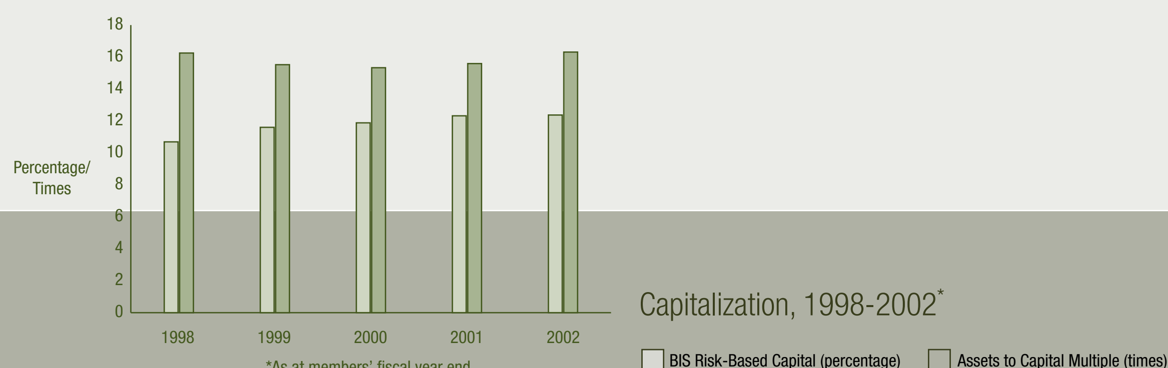
Impaired assets rose by 10 per cent to more than $15 billion, following a 32 per cent rise in fiscal 2001. The growth in impaired loans in fiscal 2002 was partially offset by strong write-offs and loan sales. Gross impaired assets rose to 1.6 per cent of loans, compared to 1.5 per cent in fiscal 2001. Telecom and energy loans (power generation and trading) continued to make up a considerable share of total impaired loans. On the other hand, impaired loans in consumer lending and residential mortgages remained relatively low. Moreover, the higher level of impaired loans continued to be fully covered by the total of specific and general allowances (for the membership as a whole). Specific provisions reached $6.2 billion (compared to $6.1 billion the previous year), while group and general allowances rose by 13 per cent to $9.4 billion. Group and general allowances amounted to 56 basis points of assets compared to 51 basis points the previous year. To some degree, the higher level of general allowances reflected the prudent general allowance policy of members confronted with deterioration in sectoral performance (i.e., telecom and energy loans).

Some members have taken on noticeable levels of higher risk real estate loans. While these assets are generally performing well, circumstances could change if commercial and residential real estate experiences a slowdown. In addition, given the slower growth in the United States and considerable geopolitical risks, new problem sectors could emerge in fiscal 2003. Sectors that are potentially vulnerable include airlines/aviation, automobile and tourism/hospitality.

Capitalization remains strong …

The membership's assets to capital ratio increased in fiscal 2002, despite modest asset growth. The ratio rose to 16.3 times, compared to 15.6 times for fiscal year end 2001. Regulatory capital as a whole fell slightly due to lower profits, strong dividend payments and share buy-backs. However, risk-weighted assets fell to a greater extent, resulting in a marginal increase in the BIS capital ratio to 12.4 per cent.

In summary, CDIC's membership continues to have a satisfactory level of profitability. Although risks associated with corporate and, to some extent, higher risk real estate loans persist, consumer loans and residential mortgage loans show little, if any, deterioration. In addition, capital and general allowances levels built over the past several years provide the membership with a significant measure of comfort to tackle future risks.



Capitalization, 1998-2002*

Adherence to *Standards of Sound Business and Financial Practices*

As mentioned earlier in this report, the current CDIC *Standards of Sound Business and Financial Practices* came into effect in October 2001 and the first reporting cycle will end in July 2003. Before July 14, 2003, each member institution must attest to whether it is conducting its operations in accordance with the Standards. Member institutions classified in categories 3 and 4 under the CDIC *Differential Premiums By-law* must also file a more detailed Standards report.

During 2002/2003, CDIC continued to monitor adherence to the Standards, including deficiencies identified and carried over under CDIC's previous program. Of the deficiencies that are outstanding, 13 per cent fall under the "in control" standard (see sidebar), 63 per cent relate to risk management and 24 per cent concern corporate governance.

About Control

A member institution is "in control" if it can demonstrate that its operations are:

- subject to effective governance by its board of directors
- being managed in accordance with ongoing, appropriate and effective strategic, risk, liquidity, funding and capital management processes
- being conducted in an appropriate control environment

It must also demonstrate that:

- processes are in place to identify significant weaknesses or breakdowns relating to those matters
- appropriate and timely action is being taken to address them

Differential Premiums By-law — Premium Categories of Member Institutions

CDIC is funded primarily by deposit insurance premiums payable annually by member institutions. Premiums are based on the total amount of insured deposits held by the member as of April 30 of a given year, and are calculated in accordance with the *Canada Deposit Insurance Corporation Act* and the CDIC *Differential Premiums By-law*.

Under the CDIC *Differential Premiums By-law*, member institutions are classified into one of four premium categories, with Category 1 being the highest rated (best) and Category 4 being the lowest rated (worst). Except in the special circumstances set out in the By-law (relating to new member institutions, subsidiaries of member institutions and certain amalgamation scenarios), classification is based on a number of quantitative and qualitative criteria or factors. Quantitative factors include capital adequacy, earnings, asset quality and asset concentration, while qualitative factors include the examiner's rating and adherence to CDIC Standards. The chart below provides additional detail on how differential premium scores are assigned.

The 2002 premium rate for each category was reduced by one half. The rate for Category 1 was set at 1/48 of 1 per cent (2 basis points) of insured deposits, while the rates for Categories 2, 3 and 4 were set at 1/24 of 1 per cent (4 basis points), 1/12 of 1 per cent

(8 basis points), and 1/6 of 1 per cent (16 basis points), respectively.

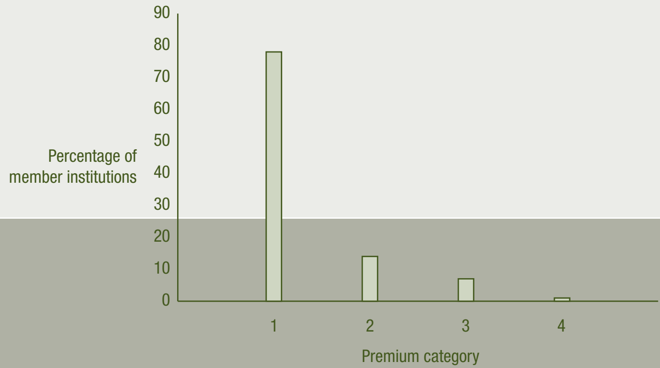
In the 2002 premium year, 78 per cent of member institutions ranked in the highest premium category, a 12 per cent increase from the previous year. As the chart on the next page shows, from 1999 to 2002, more than 90 per cent of CDIC members were classified as either Category 1 or 2.

Membership Profile

The following profile provides comparative information on CDIC's membership. It is not intended, in any way, to reflect or otherwise comment on risk to CDIC. This profile has been prepared from financial information supplied by 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. Every effort has been made to ensure that the compilation is correct; however, because the financial information comes from varied sources, CDIC does not guarantee its accuracy.

Overview of CDIC's Differential Premiums System: Criteria/Factors

Criteria or Factors	Maximum Score
Capital Quantitative	
Capital Adequacy	20
:: Assets to capital multiple	
:: Tier 1 risk-based capital ratio	
:: Total risk-based capital ratio	
Other Quantitative	
:: Return on risk-weighted assets	5
:: Mean adjusted net income volatility	5
:: Volitility adjusted net income	5
:: Efficiency ratio	5
:: Net impaired assets (including net unrealized losses on securities) to total capital	5
:: Aggregate counterparty asset concentration ratio	5
:: Real estate asset concentration	5
:: Aggregate industry sector asset concentration	5
Subtotal: Quantitative Score	60
Qualitative	
:: Examiner's rating	25
:: Extent of adherence to CDIC Standards	10
:: Other information	5
Subtotal: Qualitative Score	40
Total Score	**100**



Member Institution Distribution by Premium Category*

*For premium year 2002.

Distribution of Member Institution by Premium Category and Premium Year (percentage)

Premium Category	Premium Year 2002	Premium Year 2001	Premium Year 2000	Premium Year 1999
1	78	66	74	69
2	14	24	20	22
3	7	9	5	7
4	1	1	1	2
Total	100	100	100	100

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 financial information is presented as aggregates and averages; financial information for individual members can vary significantly from these amounts. Of note as well, off-balance sheet activities, including estate, trust and agency business, are not included.

Based on CDIC membership as at March 31, 2003, the financial information has been classified into three major peer groups: domestic banks and their subsidiaries, domestic trust and loan companies, and subsidiaries of foreign financial institutions. These peer groups reflect the unique characteristics established by governing legislation and regulatory frameworks.

The membership profile includes:

:: Membership Information

:: Summary Financial Information — Total CDIC Membership

:: Asset Size and Quality Measures

:: Deposit Liabilities in Canada

:: Capitalization Measures

:: Income and Profitability Measures

A note about the summary financial information: In its five-year tables, CDIC restates 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, 2003.

Membership Information

CDIC Members as at March 31, 2003[9]

Domestic Banks and Subsidiaries	Domestic Trust and Loan Companies
Bank of Montreal Bank of Montreal Mortgage Corporation BMO Trust Company	AGF Trust Company
Bank of Nova Scotia (The) Bank of Nova Scotia Trust Company (The) Montreal Trust Company of Canada National Trust Company Scotia Mortgage Corporation	Canada Life Trust Company
Bank West	CIBC Mellon Trust Company
Canadian Imperial Bank of Commerce Amicus Bank CIBC Mortgages Inc. CIBC Trust Corporation Services Hypothécaires CIBC Inc.	Clarica Trust Company
Canadian Western Bank Canadian Western Trust Company	Community Trust Company Ltd.
Citizens Bank of Canada Citizens Trust Company	Co-operative Trust Company of Canada
CS Alterna Bank	Desjardins Trust Inc.
Laurentian Bank of Canada B2B Trust Laurentian Trust of Canada Inc. LBC Trust	Effort Trust Company (The)
Manulife Bank of Canada	Equisure Trust Company
National Bank of Canada Natcan Trust Company National Bank Trust Inc.	Equitable Trust Company (The)
Pacific & Western Bank of Canada	Home Trust Company
President's Choice Bank	Household Trust Company
Royal Bank of Canada Royal Bank Mortgage Corporation Royal Trust Company (The) Royal Trust Corporation of Canada	Industrial-Alliance Trust Company
Toronto-Dominion Bank (The) Canada Trust Company (The) Canada Trustco Mortgage Company First Nations Bank of Canada TD Mortgage Corporation TD Pacific Mortgage Corporation	Investors Group Trust Co. Ltd. M.R.S. Trust Company Trust Company of London Life (The)
	League Savings & Mortgage Company
	Maple Trust Company
	MCAP Inc.
	MD Private Trust Company
	Peace Hills Trust Company
	Peoples Trust Company
	Standard Life Trust Company
	Sun Life Financial Trust Inc.
	Trimark Trust
Total: 39	*Total: 25*

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

Subsidiaries of Foreign Financial Institutions
Amex Bank of Canada
Bank of China (Canada)
Bank of East Asia (Canada) (The)
BCPBank Canada
BNP Paribas (Canada)
Citibank Canada
Computershare Trust Company of Canada
CTC Bank of Canada
First Data Loan Company, Canada
Habib Canadian Bank
HSBC Bank Canada HSBC Mortgage Corporation (Canada) HSBC Trust Company (Canada)
ING Bank of Canada
International Commercial Bank of Cathay (Canada)
IntesaBci Canada
Korea Exchange Bank of Canada
MBNA Canada Bank
National Bank of Greece (Canada)
Northern Trust Company, Canada (The)
Société Générale (Canada)
State Bank of India (Canada)
UBS Bank (Canada) UBS Trust (Canada)

Total: 24	***TOTAL: 88 members***

Membership Changes: April 1, 2002-March 31, 2003

New Members

December 2, 2002: Bank West

March 5, 2003: Canada Life Trust Company

Other Membership Changes

May 2, 2002: Bank of Tokyo-Mitsubishi (Canada) application for authorization to accept wholesale deposits payable in Canada without being a CDIC member institution was approved — policy cancelled.

August 1, 2002: Pacific & Western's eTrust of Canada Inc. was continued as a Schedule I bank under the name Pacific & Western Bank of Canada.

November 1, 2002: Montreal Trust Company amalgamated with Montreal Trust Company of Canada — continuing as Montreal Trust Company of Canada.

November 1, 2002: Victoria and Grey Trust Company amalgamated with National Trust Company — continuing as National Trust Company.

January 6, 2003: BNY Trust Company of Canada ceased to accept deposits — policy cancelled.

January 6, 2003: United Overseas Bank (Canada) ceased to accept deposits — policy cancelled.

January 31, 2003: The Trust Company of Bank of Montreal changed its name to BMO Trust Company.

March 28, 2003: Sottomayor Bank Canada changed its name to BCPBank Canada.

Summary Financial Information — Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2002		2001		2000		1999		1998	
	$	%	$	%	$	%	$	%	$	%
ASSETS										
Cash resources	95.0	6	87.3	5	85.7	6	94.9	7	85.7	6
Securities	383.1	23	377.3	23	329.8	22	298.1	22	261.1	19
Loans	930.6	56	921.4	56	856.8	58	818.4	59	819.5	59
Other assets	258.8	15	251.8	16	201.2	14	169.9	12	218.4	16
Total assets	**1,667.5**	**100**	**1,637.8**	**100**	**1,473.5**	**100**	**1,381.3**	**100**	**1,384.7**	**100**
LIABILITIES										
Deposits	1,124.1	67	1,090.0	67	1,015.1	69	948.2	69	913.0	66
Other liabilities	461.6	28	468.0	28	386.4	26	365.4	26	410.1	30
Total liabilities	**1,585.7**	**95**	**1,558.0**	**95**	**1,401.5**	**95**	**1,313.6**	**95**	**1,323.1**	**96**
Shareholders' equity	81.8	5	79.8	5	72.0	5	67.7	5	61.6	4
Total liabilities and shareholders' equity	**1,667.5**	**100**	**1,637.8**	**100**	**1,473.5**	**100**	**1,381.3**	**100**	**1,384.7**	**100**

Income Statement ($ millions)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Interest income	69,109	85,837	83,925	76,977	77,779
Interest expense	35,794	56,098	58,239	51,586	53,167
Net interest income	**33,315**	**29,739**	**25,686**	**25,391**	**24,612**
Provision for impairment	9,424	6,266	4,004	3,260	2,802
Net interest income after provision for impairment	**23,891**	**23,473**	**21,682**	**22,131**	**21,810**
Other income	31,252	33,859	32,879	27,515	22,262
Net interest income and other income	**55,143**	**57,332**	**54,561**	**49,646**	**44,072**
Non-interest expenses	44,454	43,194	39,162	35,047	31,913
Net income before provision for income taxes	**10,689**	**14,138**	**15,399**	**14,599**	**12,159**
Provision for income taxes	2,392	3,334	4,986	4,649	4,318
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**8,297**	**10,804**	**10,413**	**9,950**	**7,841**
Non-controlling interest in net income of subsidiaries and extraordinary items	516	434	288	150	187
Net income	**7,781**	**10,370**	**10,125**	**9,800**	**7,654**

Asset Size and Quality Measures

Total Assets ($ billions and percentage)

As at members' fiscal year end	2002		2001		2000		1999		1998	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	1,579.1	94.7	1,559.2	95.2	1,405.9	95.4	1,325.1	95.9	1,327.2	95.9
Subsidiaries of foreign financial institutions	76.0	4.6	68.8	4.2	58.8	4.0	48.6	3.5	49.9	3.6
Domestic trust and loan companies	12.4	0.7	9.8	0.6	8.8	0.6	7.6	0.6	7.6	0.5
Total	**1,667.5**	**100.0**	**1,637.8**	**100.0**	**1,473.5**	**100.0**	**1,381.3**	**100.0**	**1,384.7**	**100.0**

Impaired Loans to Total Assets (percentage)

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	0.9	0.8	0.7	0.6	0.6
Subsidiaries of foreign financial institutions	0.9	0.9	1.1	1.2	1.5
Domestic trust and loan companies	0.8	0.9	0.5	0.6	0.6

Impaired loans (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	1.6	1.4	1.2	1.1	1.0
Subsidiaries of foreign financial institutions	1.7	1.7	1.9	2.1	2.6
Domestic trust and loan companies	1.3	1.3	0.8	0.8	0.9

Impaired loans (gross)/total loans (gross)

Impaired Loans Unprovided For (percentage)

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	-0.1	-2.1	-12.5	-17.5	-8.3
Subsidiaries of foreign financial institutions	-13.0	-1.8	3.5	-7.2	14.8
Domestic trust and loan companies	10.6	31.7	-15.7	-17.8	1.8

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

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	0.0	-0.4	-1.8	-2.4	-1.2
Subsidiaries of foreign financial institutions	-1.8	-0.3	0.6	-1.5	4.8
Domestic trust and loan companies	1.1	3.4	-1.0	-1.1	0.1

Impaired loans (net)/average shareholders' equity

Deposit Liabilities in Canada

Total Deposits ($ billions and percentage)

As at April 30	2002		2001		2000		1999		1998	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	951.7	94.2	898.4	94.6	852.1	95.2	801.0	95.4	778.6	95.4
Subsidiaries of foreign financial institutions	50.2	5.0	44.1	4.7	37.4	4.2	33.6	4.0	32.9	4.0
Domestic trust and loan companies	8.0	0.8	7.0	0.7	5.7	0.6	5.1	0.6	5.1	0.6
Total	**1,009.9**	**100.0**	**949.5**	**100.0**	**895.2**	**100.0**	**839.7**	**100.0**	**816.6**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits of each peer group)

As at April 30	2002		2001		2000		1999		1998	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	327.5	34.4	315.3	35.1	304.6	35.7	294.5	36.8	286.0	36.7
Subsidiaries of foreign financial institutions	12.5	24.9	10.3	23.4	8.6	23.0	8.1	24.1	7.2	21.9
Domestic trust and loan companies	6.8	85.0	6.0	85.7	5.0	87.7	4.4	86.3	4.5	88.2
All peer groups	**346.8**	**34.3**	**331.6**	**34.9**	**318.2**	**35.5**	**307.0**	**36.6**	**297.7**	**36.5**

Capitalization Measures

Capitalization (percentage)

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	4.7	4.7	4.8	4.5	4.3
Subsidiaries of foreign financial institutions	6.6	6.9	6.6	5.9	4.7
Domestic trust and loan companies	8.5	9.1	9.4	9.2	11.7

Average shareholders' equity/average assets

BIS Risk-Based Capital (percentage)*

As at members' fiscal year end	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	12.2	12.2	11.8	11.5	10.6
Subsidiaries of foreign financial institutions	13.9	13.3	12.9	12.8	11.1
Federal trust and loan companies	19.2	19.7	19.7	23.3	23.6

*BIS (Bank for International Settlements): Provincial trust companies are excluded as they have to meet capital adequacy requirements that are calculated under a different basis.

Income and Profitability Measures

Net Income ($ millions)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	7,064	9,794	9,767	9,499	7,408
Subsidiaries of foreign financial institutions	624	490	280	221	165
Domestic trust and loan companies	93	86	78	80	81
Total	**7,781**	**10,370**	**10,125**	**9,800**	**7,654**

Interest Income (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	52.1	47.0	43.8	48.1	52.7
Subsidiaries of foreign financial institutions	44.8	42.8	44.4	45.4	49.0
Domestic trust and loan companies	44.8	45.6	42.9	42.7	43.4

Interest income: net interest income/total revenue

Interest Spread (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	2.0	1.9	1.8	1.8	1.8
Subsidiaries of foreign financial institutions	2.3	2.2	2.2	2.0	2.0
Domestic trust and loan companies	2.1	2.4	2.4	2.3	2.4

Interest spread: net interest income/average assets

Non-Interest Income (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	1.8	2.1	2.3	1.9	1.6
Subsidiaries of foreign financial institutions	2.8	2.9	2.7	2.4	2.0
Domestic trust and loan companies	2.6	2.8	3.2	3.0	3.1

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

Total Non-Interest Expenses (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	3.3	3.3	3.3	3.0	2.8
Subsidiaries of foreign financial institutions	4.1	4.3	4.3	3.9	3.7
Domestic trust and loan companies	4.0	4.3	4.7	4.3	4.5

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

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	0.4	0.7	0.7	0.7	0.6
Subsidiaries of foreign financial institutions	0.9	0.7	0.5	0.4	0.3
Domestic trust and loan companies	0.8	0.9	1.0	1.1	1.1

ROAA: net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	9.4	13.9	14.9	15.6	13.3
Subsidiaries of foreign financial institutions	13.0	10.9	7.5	7.5	7.0
Domestic trust and loan companies	9.9	10.1	10.2	11.6	9.3

ROAE: net income/average shareholders' equity

Efficiency (percentage)

For the members' fiscal year ending in	2002	2001	2000	1999	1998
Domestic banks and subsidiaries	69.4	68.1	66.7	65.8	67.6
Subsidiaries of foreign financial institutions	59.7	65.3	70.3	75.9	77.8
Domestic trust and loan companies	65.2	67.6	70.0	67.3	68.6

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

Corporate Governance

Ultimately accountable to Parliament through the Minister of Finance, CDIC acts within the legal framework set out in the *Canada Deposit Insurance Corporation Act* (the "Act") and the *Financial Administration Act*. The Act describes the Corporation's objects, powers and duties, as well as general terms for deposit insurance and other aspects of the Corporation's role.

Board of Directors

As stipulated in the *Canada Deposit Insurance Corporation Act*, the Corporation's affairs are administered by a Board of Directors, made up of a Chairperson and five other private sector members, and five *ex officio* directors: the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions, the Deputy Superintendent of Financial Institutions or an officer of OSFI, and the Commissioner of the Financial Consumer Agency of Canada.

Over the course of the past year, the Board focused on a number of activities such as staying abreast of contingency planning work for the Corporation and providing input to the corporate restructuring initiative. Collaborating closely with management, the Board also continued its involvement in CDIC's annual strategic planning process, participating in a planning session in June 2002.

In addition, the Board dealt with a wide range of activities, including the review of applications from potential member institutions (see sidebar). Working through its Governance Committee, the Board will also undertake an assessment of its own activities in the coming year against the benchmarks established by emerging best practices in the area of governance.

Private sector Directors are paid based on a fee structure recommended by the government and approved by Order-in-Council. For 2002/2003, the total remuneration paid to these outside Directors was $226,000.

CDIC's Application Process: A First Step in Risk Management

A financial institution's application for deposit insurance is CDIC's first and most critical level of risk assessment. The application process involves a rigorous and comprehensive analysis, assessment and evaluation of potential new members, thereby determining their overall risk to the Corporation. Exercising control over which institutions become members helps CDIC to minimize the Corporation's exposure to loss.

Board Committees

As with most boards, much of the work that comes before the CDIC Board is initially addressed by its committees. CDIC's Board had four standing committees as at March 31, 2003, which are described briefly below:

Executive Committee: Unchanged from previous years, the mandate of the Executive Committee is to manage emerging situations and other highly sensitive matters referred to it by the Board of Directors, the Chairperson or the Chief Executive Officer. On March 31, 2003, Ronald N. Robertson chaired this Committee; its other members were David A. Dodge and H. Garfield Emerson. The Executive Committee meets only when needed; there were no meetings in 2002/2003.

Audit Committee: In addition to its duties related to overseeing audits and advising the Board on financial issues, this Committee fulfills a formal risk oversight function that was entrenched in its mandate following a Board review last year. In 2002/2003, the Committee held three sessions focusing on various aspects of corporate risk, including: responsibility areas for the Board and management, and processes for meeting these responsibilities; and ranking and managing CDIC's significant risks. Other key areas of business during the year were:

- reviewing CDIC's financial statements for 2001/2002 and recommending them to the Board for approval
- reviewing the updating of the Corporation's treasury and investment policies, and development of a new liquidity policy
- reviewing a process for making qualitative adjustments to the provision for insurance losses

The Audit Committee also engaged the services of an accounting professional, Graeme Rutledge, who was previously the audit partner in charge of the audit of several large financial institutions. Mr. Rutledge provided the Committee with sound financial advice and assistance throughout the year, and will continue to provide these services, as required by the Committee.

On March 31, 2003, the Chairperson of the Audit Committee was Tracey Bakkeli; its other members were Viateur Bergeron, John Doran and Grant Morash.

Human Resources and Compensation Committee: The mandate of this Committee is to review and make recommendations to the Board on a range of human resource issue areas, such as personnel policies, training, succession planning, compensation, compliance with human resource-related legal requirements, complaints and other human resource-related matters. Among the Committee's main activities during 2002/2003 were:

- conducting a performance assessment of the CEO for 2001/2002, and reviewing a proposed performance appraisal system for the CEO for 2003/2004 and recommending it to the Board for approval
- overseeing a review and restructuring of the Corporation's organizational structure and functions — including succession planning for CDIC's President and CEO and Executive Vice President and COO
- reviewing and approving a corporate *Code of Business Conduct and Ethical Behaviour* for all employees and establishing a policy to provide for internal disclosure of wrongdoing in the workplace

Board of Directors, as at March 31, 2003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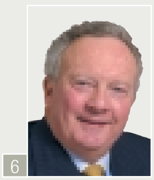
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1 Ronald N. Robertson
Chairman of the Board
Canada Deposit Insurance Corporation

2 Tracey Bakkeli
T. Bakkeli Consultants Inc.
Regina

3 Viateur Bergeron
Partner
Bergeron, Gaudreau, Laporte
Gatineau

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

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

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

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

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

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

10 Grant Morash
Financial Advisor
Halifax

11 Darryl J. Raymaker
Partner
Raymaker, Bontorin
Calgary

12 Julie Dickson
Assistant Superintendent
Regulation
Office of the Superintendent of Financial Institutions
(Alternate)

13 Charles Freedman
Deputy Governor
Bank of Canada
(Alternate)

14 Michael Horgan
Senior Associate Deputy Minister
Department of Finance
(Alternate)

Meetings and Attendance,[a] April 1, 2002-March 31, 2003

	Board of Directors		Board Committees[b]: Executive Committee	Audit Committee	Governance Committee	HRC Committee
Number of Meetings	6[c]			3	3	4
Attendance:[d]						
R.N. Robertson, Chairperson	6				3	4
V. Bergeron	6			3		
H.G. Emerson	5			1		3
T. Bakkeli	6			3	3	1
D. Raymaker[e]	4					1
G. Morash[f]	3					1
Ex officio members (alternates):						
D.A. Dodge (C. Freedman)	4	(2)				
N. Le Pan (J. Dickson)	4	(1)		1		4
J. Doran	5			2		
K. Lynch (M. Horgan)[g]	0	(3)				
B. Knight	6				3	

[a] Also includes meetings attended by telephone.

[b] With the Board at full complement, the composition of Board Committees was changed at the Board of Directors meeting in March 2003.

[c] Also includes the June 11, 2002, Strategic Planning session.

[d] C.P. MacDonald resigned from the Board of Directors as at April 12, 2002, and therefore did not attend any meetings.

[e] D. Raymaker was appointed to the Board of Directors as at August 7, 2002.

[f] G. Morash was appointed to the Board of Directors as at November 26, 2002.

[g] In addition, R. Hamilton attended two meetings of the Board of Directors as an observer from the Department of Finance.

On March 31, 2003, the Chairperson of the Human Resources and Compensation Committee was Ronald N. Robertson and its members were Nicholas Le Pan, Darryl Raymaker, Grant Morash and Garfield Emerson.

Governance Committee: Newly established in 2002, this Committee has a mandate to ensure that appropriate structures and processes are in place to provide effective oversight of and direction for the Corporation's activities. Among its primary roles are reviewing Board membership and recommending future appointments, providing governance-related information and training to the Board, and reviewing the Corporation's mandate as set out in the *Canada Deposit Insurance Corporation Act*. During 2002/2003, the Committee's main activities included initiating the evaluation process for the Board, reviewing the terms of reference of all Board committees, and undertaking a number of annual reviews of the Board's processes and structures.

On March 31, 2003, Ronald N. Robertson chaired the Governance Committee; the Committee's other members were Tracey Bakkeli, Bill Knight and Darryl Raymaker.

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 *Canada Deposit Insurance Corporation Act*. The President and CEO is appointed by the Governor in Council for a five-year term.

Salary ranges for CDIC's officers are set out below:

- the position of President and Chief Executive Officer: $178,000 to $209,500
- the position of Executive Vice President and Chief Operating Officer: $147,460 to $196,620
- the position of Vice President: $141,330 to $188,435

Following a corporate reorganization effective April 1, 2003, CDIC officers going forward are:

1 Jean Pierre Sabourin
President and
Chief Executive Officer
(June 1, 2001; reappointed to June 1, 2006)

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

3 Michèle Bourque
Vice-President
Insurance and
Risk Assessment

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

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

2 3 1 4 5

CDIC officers for fiscal year 2002-2003 were:

Jean Pierre Sabourin
President and Chief Executive Officer

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

Wayne Acton
Senior Vice-President
Field Operations

Michèle Bourque
Acting Senior Vice-President
Insurance and Risk Assessment

M. Claudia Morrow
Corporate Secretary

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

Gillian Strong
General Counsel

Thomas J. Vice
Senior Director
Finance and Treasurer

Inter-Agency Committees

Created under the CDIC/OSFI Strategic Alliance Agreement, the OSFI/CDIC Liaison Committee is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. The Committee coordinates the activities of the two organizations, with a view to avoiding unwarranted duplication and cost, and fostering close and effective working relationships. On March 31, 2003, the members of the Liaison Committee were as follows:

Co-Chair

Nicholas Le Pan
Superintendent of Financial Institutions
OSFI

Co-Chair

Ronald N. Robertson
Chairperson of the Board
CDIC

Members

Jean Pierre Sabourin
President and Chief Executive Officer
CDIC

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

Michèle Bourque
Acting Senior Vice-President
Insurance and Risk Assessment
CDIC

John Doran
Assistant Superintendent, Supervision
OSFI

Pamela Hopkins
Managing Director
OSFI

CDIC Committees

The Real Estate Advisory Panel (REAP) was established in 1993 to provide advice to CDIC management on maximizing recoveries on major real estate assets in which the Corporation has an interest. In recent years, REAP has also brought its members' broad business and management experience to bear on general recovery strategies and organizing liquidations. On March 31, 2003, the members of REAP were as follows:

Chair

Daniel F. Sullivan
Deputy Chairman
Scotia Capital Inc.

Members

J. Lorne Braithwaite
Chairman and CEO
Park Avenue Ventures

Randy M. Grimes
Director
IBI Group

Stephen E. Johnson
President and CEO
Canadian Real Estate Investment Trust

Alvin G. Poettcker
President and CEO
UBC Properties Trust

Kenneth Rotenberg
President
Kenair Apartments Limited

John Latimer
Director
Talisker Corporation

Statutory Requirements

As a Crown corporation, CDIC is required to comply with various statutes, including the *Financial Administration Act*, which requires that CDIC submit an annual corporate plan (and a summary of the plan) and an annual report to the Minister for approval. The Minister then tables the summary and annual report in each House of Parliament.

In 2002/2003, CDIC submitted its corporate plan and summary, and its annual report to the Minister within the statutory time frames required by the *Financial Administration Act*.

During the year, CDIC was required to report on the status of the following:

Access to Information Act and *Privacy Act* Annual Reports

Last year, CDIC received two requests under the provisions of the *Access to Information Act*. No outstanding requests were carried forward from the previous reporting period. For one request, CDIC disclosed the relevant records in severed form within 30 days, while the other request was abandoned by the applicant. As at March 31, 2003, no complaint, investigation or appeal related to the above requests had been brought to the attention of CDIC. During fiscal year 2002/2003, CDIC did not receive any requests under the provisions of the *Privacy Act*.

Health and Safety

CDIC is subject to Part II of the *Canada Labour Code* and its regulations regarding health and safety. As required by the Code, the Corporation maintains a Health and Safety Committee comprised of both employees and management representatives. The Committee held 11 meetings in 2002/2003.

As well, CDIC is required by the *Canadian Occupational Health and Safety Regulations* to report each year to Human Resources Development Canada on incidents, injuries and action taken on health and safety during the previous calendar year. As reported by the Corporation on March 1, 2003, there were no injuries, accidents or deficiencies to address in calendar year 2002.

Official Languages

During 2002/2003, CDIC filed its annual assessment on official languages with Treasury Board Secretariat (TBS). TBS confirmed that CDIC met its obligations well during the fiscal year.

Employment Equity

With fewer than 100 employees, CDIC is not required under section 18(6) of the *Employment Equity Act* to report on its employment equity measures. However, the Corporation continues to honour the Act's employment equity provisions, tracking its progress internally and implementing various initiatives aimed at promoting employment equity.

Multiculturalism

CDIC's ongoing involvement in international activities offers a range of opportunities for enhancing cross-cultural awareness. Many of the Corporation's initiatives in this area are captured in its annual report to the Minister of Canadian Heritage on activities under the Multiculturalism Program.

:: 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.

Head Office

Canada Deposit Insurance Corporation

50 O'Connor St., 17th Floor
P.O. Box 2340, Station D
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Canada Deposit Insurance Corporation

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

CDIC's Executive Management Committee

New appointments were made to CDIC's Executive Management Committee on April 1, 2003. The team plays a major role in all CDIC activities — day to day internal functions, as well as in partnership with federal and provincial counterparts and international organizations.

1 Jean Pierre Sabourin
2 Michèle Bourque
3 Margaret Saxon-Kopke
4 Guy L. Saint-Pierre
5 M. Claudia Morrow
6 Keith Adam
7 Ken Mylrea
8 Thomas J. Vice
9 Patricia Griffin-Dobson

:: Financial Review

Management's Discussion and Analysis

Balance Sheet Highlights

Cash and Investments

As at March 31, 2003, the combined balance of cash and investments was $1,066 million, made up of cash and short-term investments of $353 million and investments of $713 million. The weighted average yield was 3.22 per cent. The sources and uses of cash are described fully in the Statement of Cash Flows.

CDIC's Investment Strategy

CDIC's investment strategy is based on two key underlying principles:

(i) limiting credit and market risk to preserve capital

(ii) using the investment portfolio as the primary initial funding source for intervention activity

These principles require that CDIC maintain a conservatively structured portfolio. The Corporation's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* (Guidelines) issued by the Minister of Finance. The Corporation's investment policy requires that investments be limited to only those that meet or exceed the credit quality criteria mandated by the Guidelines. CDIC's investment policy further limits risk by setting a maximum amount and term that can be invested in each qualifying instrument. During the year the Corporation revised its Treasury Policies to enable it to take advantage of additional yield opportunities while still maintaining its focus on high quality and liquid investments.

Claims Receivable

The net claims receivable declined by $410,000 resulting from a combination of the Corporation receiving net recoveries of $344,000 from the estates of failed member institutions and the write-off of some $66,000 in uncollectible claims. As at March 31, 2003, the allowance for loss on claims receivable was $4 million, a decline of $2 million from March 31, 2002. During the year, the Corporation wrote off $2 million that was previously provided for in the allowance for loss on claims receivable.

Future Income Tax Asset

In accordance with CICA recommendations, this asset is revalued each year. As at March 31, 2003, the future income tax asset was $16 million, representing an increase of $9 million from March 31, 2002. The increase was primarily as a result of an increase in the estimated future years' taxable income due to revised economic assumptions underlying the estimate of interest revenue on cash and investments.

Provision for Guarantees

As at March 31, 2003, the provision for guarantees was $5 million, a decrease of $14 million from $19 million as at March 31, 2002. During 2002/2003, the Corporation paid $10 million to the Toronto Dominion Bank under a Deficiency Coverage Agreement

Cash and Investments, 1999-2003

and also reduced its estimates on this guarantee by $4 million. As mentioned in Note 6 to the financial statements (Provision for Guarantees), the guarantees remained in force until December 31, 2002, although under the terms of the guarantees, claims for losses incurred during the coverage period can be filed with the Corporation subsequent to that date.

Provision for Insurance Losses

The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. As at March 31, 2003, the provision was $550 million, an increase of $50 million from March 31, 2002. During the year there were a number of rating downgrades of member institutions impacting the risk profile of the Corporation's membership.

The Corporation's provisioning methodology was enhanced in its 2001/2002 fiscal year in order to provide a more robust estimate of the Corporation's risk associated with insuring deposits of member institutions. The provision is estimated based on a number of inputs including the level of insured deposits; the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and an expected loss given default.

The derivation of default probabilities includes both historical and market-based perspectives. Moody's and Standard & Poor's default statistics are used to derive a historical component while Moody's KMV, a well-known provider of market-based quantitative credit risk products for financial institutions and credit risk investors, is used to provide a market-based component to the probability of default estimate.

The loss given default estimate is the cumulative unweighted average loss sustained by CDIC in member failures since 1987 when the Corporation's legislation was changed to require that it pursue its objects in a manner so as to minimize its exposure to loss.

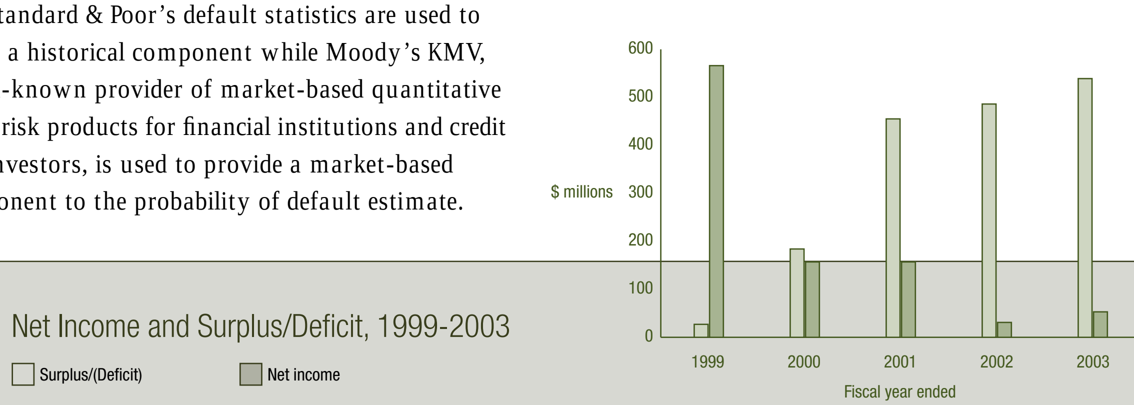
Statement of Income and Surplus Highlights

The Corporation ended 2002/2003 with a surplus of $539 million, an increase of $53 million over 2002. For the year ended March 31, 2003, the Corporation's revenues totalled $108 million offset by total expenses and adjustments of $55 million, resulting in a net income for the year of $53 million.

The Board of Directors recommended a 50 per cent reduction in the premium rates charged to member institutions in all four premium categories. As a result, premium revenue decreased to $76 million in 2002/2003 from $155 million in the previous year.

The Corporation continues to generate sufficient interest revenue on its cash and investments to cover the Corporation's operations. Interest revenue from cash and investments was $32 million in 2002/2003, a decline of $4 million from the previous fiscal year. The decline in interest revenue reflects lower investment yields earned during the year than in the previous period.

Net Income and Surplus/Deficit, 1999-2003



Operating expenses for the year ended March 31, 2003, totalled $26 million ($23 million in 2001/2002). As discussed in Note 14 to the financial statements (Restructuring Charges), the operating expenses for the year ended March 31, 2003, includes a one-time $2.6 million in costs associated with the corporate restructuring.

Net income for the year was $22 million higher than in 2001/2002. The decline in premium and interest revenue as well as a reduction in recoveries of amounts previously written-off was more than offset by differences in the adjustment to the allowance and provisions for loss and to the future income tax asset.

Comparison with 2002/2003 Corporate Plan

Balance Sheet

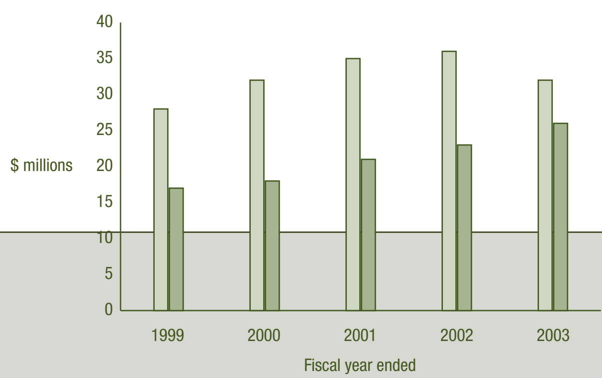
Total assets as at March 31, 2003, were $1,102 million, compared to the planned amount of $1,060 million. This positive variance was the result of higher than planned cash and investments, claims receivable and future income tax asset balances. The Corporation concluded its 2002/2003 fiscal year with cash and investments of $1,066 million, representing a positive variance from plan of approximately $22 million.

This was the result of the Corporation's 2001/2002 fiscal year, in which the Corporation finished the year with $17 million higher than planned cash and investments combined with the results of the current year's operations. Net claims receivable of $14 million as at March 31, 2003, were $14 million higher than planned, due to timing differences in the expected recoveries from various estates of failed member institutions. The positive variance in the future income tax asset reflects an increase in the estimate of future years' taxable income due to revised economic assumptions underlying interest revenue forecasts.

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

Statement of Income and Surplus

Total revenue during the year was $108 million or $4 million higher than planned. Premium revenue of $76 million was $4 million lower than planned, due to a combination of lower than planned growth in insured deposits and the movement of members between premium categories. Interest on cash and investments for the year ended March 31, 2003, was $32 million or $8 million higher than planned. This positive variance reflects higher than planned yields on investments during the year.



Interest Revenue vs. Operating Expenses, 1999-2003

Interest revenue
Operating expenses

Net income for the year ended March 31, 2003, was $53 million or $18 million lower than planned. This is primarily the result of the adjustment to the allowance and provision for loss of $46 million, and higher than planned operating expenses offset by higher than planned revenue and the increase in the future income tax asset. Primarily as a result of the adjustment to the allowance and provision for loss, expenses totalled $64 million or $44 million higher than planned. This adjustment reflects the $50 million increase in the Corporation's provision for insurance losses offset by the $4 million reduction in the liability relating to an outstanding guarantee, neither of which was planned.

During the year the Corporation had total operating expenses of $26 million compared to a planned amount of $24 million. The variance is primarily the result of one-time costs totalling $2.6 million associated with corporate restructuring. During the year, CDIC's Board of Directors approved a one-time budget of $3.0 million in support of the Corporation's organizational restructuring.

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

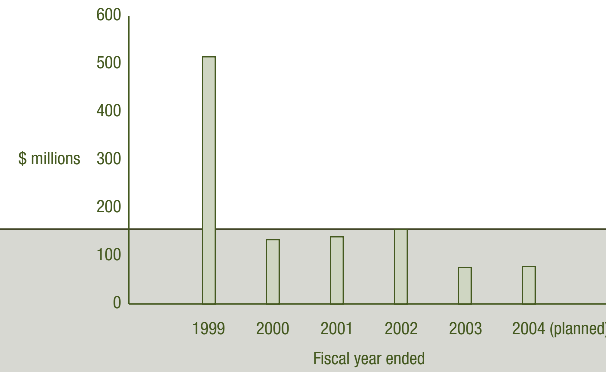
2003/2004 Corporate Plan

Given CDIC's current healthy financial position, premiums will remain unchanged for the 2003 premium year. This is expected to result in $78 million in premium revenue for the 2003/2004 fiscal year. Combined with a planned $39 million in interest on cash and investments, the Corporation's total income is expected to be $117 million, offset by net expenses of $8 million, for a projected net income before reduction in future income tax asset of $109 million.

As at March 31, 2004, cash and investments and surplus are planned to be $1,180 million and $690 million, respectively.

The Corporation's 2003/2004 Corporate Plan does not reflect two events occurring subsequent to the Plan's completion. The adjustment made to the provision for insurance losses in the current year is not reflected in the planned surplus, as the estimate was not finalized at the time of the completion of the Corporate Plan. If incorporated, the adjustment to the provision for insurance losses would reduce the projected 2003/2004 surplus by $50 million to $640 million. In addition, since the time the Plan was completed the Corporation underwent a restructuring the result of which is a reduction of approximately $2 million in the Corporation's 2003/2004 operating budget primarily as a result of reduced personnel costs.

Premium Revenue, 1999-2004



Comparison to Corporate Plan Balance Sheet

(as at March 31, 2003)

	$ Millions		
	2003/2004 Corporate Plan	2002/2003 Actual Results	2002/2003 Corporate Plan
ASSETS			
Cash and investments	1,180	1,066	1,044
Accounts receivable	5	5	5
	1,185	1,071	1,049
Capital assets	1	1	1
Claims receivable	—	18	—
Allowance for loss on claims receivable	—	(4)	—
	1,186	1,086	1,050
Future income tax asset	11	16	10
Total Assets	1,197	1,102	1,060
LIABILITIES			
Accounts payable	7	8	6
Provision for guarantees	—	5	—
Provision for insurance losses	500	550	400
	507	563	406
Surplus	690	539	654
Total Liabilities and Surplus	1,197	1,102	1,060

Statement of Income and Surplus

(for the year ended March 31, 2003)

	2003/2004 Corporate Plan	2002/2003 Actual Results	2002/2003 Corporate Plan
REVENUE			
Premiums	78	76	80
Interest on cash and investments	39	32	24
	117	108	104
EXPENSES			
Operating expenses	25	26	24
Adjustment to allowance and provision for loss	2	46	2
Recovery of amounts previously written off	(19)	(8)	(6)
	8	64	20
Net income before increase/(reduction) in future income tax asset	109	44	84
Increase/(reduction) in future income tax asset	(5)	9	(13)
Net income	104	53	71
Surplus, beginning of year	586	486	583
Surplus, end of year	690	539	654

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

June 11, 2003

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 Canadian generally accepted accounting principles. The financial statements include some amounts, the most significant ones being the provision for insurance losses, the provision for guarantees, the future income tax asset and the allowance for loss on claims receivable, 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 her report is included herein.

Jean Pierre Sabourin
President and Chief Executive Officer

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

Auditor General of Canada
Vérificatrice générale 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, 2003 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, 2003 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 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, 2003

Canada Deposit Insurance Corporation
Balance Sheet as at March 31

(in thousands of dollars)

	Note	2003	2002
ASSETS			
Cash and short-term investments	3	$ 353,271	$ 325,671
Investments	4	712,799	659,195
Accounts receivable		5,348	5,171
		1,071,418	990,037
Capital assets		1,248	901
Net claims receivable	5, 7	13,881	14,291
Future income tax asset	9	15,777	7,040
		$1,102,324	**$1,012,269**
LIABILITIES			
Accounts payable	14	$7,905	$6,810
Provision for guarantees	6, 7	5,300	19,000
Provision for insurance losses	7	550,000	500,000
		563,205	525,810
SURPLUS		539,119	486,459
		$1,102,324	**$1,012,269**
Contingent Liabilities and Commitments	11, 12		

(See accompanying notes)

Approved by the Board: ______________________
Director

____
Director

Canada Deposit Insurance Corporation
Statement of Income and Surplus
for the year ended March 31

(in thousands of dollars)

	Note	2003	2002
REVENUE			
Premiums	10	$ 75,679	$154,646
Interest on cash and investments		32,378	36,104
Other revenue		309	128
		108,366	190,878
EXPENSES			
Operating expenses	14	25,662	22,775
Adjustment to allowance and provisions for loss	7	46,221	86,376
Recovery of amounts previously written off		(7,440)	(25,871)
		64,443	83,280
Net income before increase/(reduction) in future income tax asset		43,923	107,598
Increase/(reduction) in future income tax asset	9	8,737	(76,108)
Net income		52,660	31,490
Surplus, beginning of year		486,459	454,969
Surplus, end of year		**$539,119**	**$486,459**

(See accompanying notes)

Canada Deposit Insurance Corporation
Statement of Cash Flows
for the year ended March 31

(in thousands of dollars)

	2003	2002
OPERATING ACTIVITIES		
Premium revenue received	$ 75,379	$154,829
Claims recovered	344	17,556
Loans recovered	—	21,920
Interest revenue received	35,113	37,881
Recovery of amounts previously written off	7,440	21,112
Other amounts received/(paid)	341	(718)
Payment of guarantees	(9,855)	(10,376)
Payments to suppliers and employees	(24,822)	(21,739)
Cash flows from operating activities	83,940	220,465
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(1,135,655)	(1,125,339)
Redemption of securities and term deposits	1,079,315	1,026,973
Cash flows used in investing activities	(56,340)	(98,366)
CASH AND SHORT-TERM INVESTMENTS		
Increase during the year	27,600	122,099
Balance, beginning of year	325,671	203,572
Balance, end of year	**$353,271**	**$325,671**

(See accompanying notes)

Canada Deposit Insurance Corporation

Notes to Financial Statements
March 31, 2003

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

The Corporation reviews these estimates annually. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- the timing and extent of losses the Corporation incurs as a result of future failures of member institutions;
- the extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others;
- the Corporation's ability to generate sufficient taxable income to benefit from tax loss carry-forwards; and
- The ability of the Corporation to recover its claims receivable based on prevailing economic trends and expectations as to future developments 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 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 actual results vary from the current estimates, the Corporation can recommend that the annual premium charged to member institutions be increased or decreased, depending on the situation. The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. The Corporation 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.

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.

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

> Allowance for Loss on Claims Receivable — The allowance for loss on claims receivable reflects the Corporation's best estimate of losses in respect of claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.
>
> Claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectation of realization. In certain situations, the Corporation will receive payments on loans and claims receivable that have been previously written off. In such situations, any payments received are recorded first to recover amounts previously written off before recognizing additional amounts 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 the losses it is likely to incur as a result of insuring deposits of member institutions.
>
> The provision for insurance losses is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and (iii) an expected loss given default. The Corporation calculates its losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage and reflects the cumulative un-weighted average of losses sustained since the CDIC Act was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

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.

Pension Plan. All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. The Corporation's contributions 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 liability for these benefits is recorded in the accounts as the benefits accrue to employees.

3. Cash and Short-Term Investments

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

	March 31, 2003			March 31, 2002		
	(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	$352,823	3.06%	36	$324,719	3.49%	49
Cash	448			952		
Total	**$353,271**			**$325,671**		

4. Investments

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

	March 31, 2003			March 31, 2002		
	(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	$501,881	3.22%	246	$275,988	3.36%	224
Bonds	183,118	3.49%	330	205,727	3.43%	671
Bankers' acceptances	11,177	3.16%	181	86,903	3.02%	190
Commercial paper	4,846	3.21%	203	—	—	—
Bearer deposit notes	4,845	3.18%	182	82,873	3.09%	207
Subtotal	**705,867**			**651,491**		
Accrued interest	6,932			7,704		
Total	**$712,799**	**3.29%**	**267**	**$659,195**	**3.30%**	**360**

5. Net Claims Receivable

	March 31, 2003	March 31, 2002
	(in thousands of dollars)	
Claims receivable	$17,881	$20,291
Allowance for loss	(4,000)	(6,000)
Net claims receivable	**$13,881**	**$14,291**

6. Provision for Guarantees

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation has in the past provided deficiency coverage guarantees. These guarantees provide for payment by the Corporation of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees provide coverage for losses incurred to December 31, 2002, although under the terms of the guarantees, claims for losses incurred during the coverage period can be filed with the Corporation subsequent to that date.

The provision for guarantees as at March 31, 2003, is $5.3 million (2002: $19 million) against a nominal amount of $34 million (2002: $201 million).

The nominal amount represents the maximum exposure for the Corporation with respect to the guarantees provided as at March 31, 2003. This amount is not necessarily representative of the amount the Corporation expects to pay a third party to meet its obligations under these guarantees.

7. Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2003, with corresponding totals as at March 31, 2002.

	March 31, 2003				March 31, 2002
	(in thousands of dollars)				
	Claims Receivable	Guarantees	Insurance Losses	Total	Total
Beginning of period	$6,000	$19,000	$500,000	**$525,000**	**$449,000**
Payments	—	(9,855)	—	**(9,855)**	**(10,376)**
Write-offs	(2,066)	—	—	**(2,066)**	—
Adjustment to allowance and provisions for loss	66	(3,845)	50,000	**46,221**	**86,376**
End of period	**$4,000**	**$ 5,300**	**$550,000**	**$559,300**	**$525,000**

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

8. 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.

Claims receivable relate to failed member institutions. 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 judgments 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, 2003, and involve uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

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

The Corporation's investments in bonds consist solely of Government of Canada obligations. As at March 31, 2003, the fair value of these investments, based on observable market prices, is $206 million, which compares to the book value of $203 million.

The book value of 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 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.

9. 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 $93 million and expire as follows:

Year	Amount (in millions of dollars)
2004	$65
2005	28
Total	**$93**

Some $11.7 million of undepreciated capital cost (2002: $11 million) and $33 million (2002: $8.4 million) of the total $93 million losses carried forward (2002: $181 million) have been applied in calculating the future income tax asset of $15.8 million (2002: $7 million).

During the year the future income tax asset increased by $8.7 million, primarily as a result of an increase in the estimated future years' taxable income due to revised economic assumptions underlying the estimate of interest revenue on cash and investments.

10. 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, 2002 and 2001, were as follows:

	2002	2001
	(in billions of dollars)	
Federal institutions	$345	$337
Provincial institutions	2	2
Total	**$347**	**$339**

Under CDIC's *Differential Premiums By-law*, members 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 2002 are 1/48 of 1 per cent of insured deposits for members in Category 1, 1/24 of 1 per cent for Category 2, 1/12 of 1 per cent for Category 3 and 1/6 of 1 per cent for members in Category 4. By way of comparison, the premium rates in effect for 2001 were 1/24 of 1 per cent of insured deposits for members in Category 1, 1/12 of 1 per cent for Category 2, 1/6 of 1 per cent for Category 3 and 1/3 of 1 per cent for members in Category 4.

11. 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, 2003, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

12. Operating Leases

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2003, are as follows:

Year	Amount (in thousands of dollars)
2004	$ 983
2005	983
2006	1,024
2007	1,074
2008-2012	4,262
Total	**$8,326**

13. Pension Plan

The contributions to the Public Service Superannuation Plan during the year were as follows:

	2003	2002
	(in thousands of dollars)	
Employer	$1,983	$1,641
Employee	$ 535	$ 440

14. Restructuring Charges

During the year the Corporation completed a restructuring to streamline its overall workflow and processes, as well as to reduce operating costs. As a result, included in the Corporation's operating expenses for the year ended March 31, 2003, are restructuring costs of $2.6 million relating to employee departures. The costs not paid as at March 31, 2003 have been accrued in accounts payable and it is expected that substantially all of these accrued costs will be paid in the Corporation's fiscal year ending March 31, 2004.

15. Comparative Figures

Certain of the 2002 figures have been reclassified to conform to the presentation adopted for 2003.

Glossary

Basic Coverage: CDIC insures eligible deposits in the name of the same person at a member institution up to $60,000, including principal and interest. Separate coverage is provided for other eligible deposits in joint and trust accounts, Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs) and mortgage tax accounts. (“Couverture de base”)

Brokered Deposits: Retail deposits raised through brokers or agents, who receive a fee or a commission for their services. (“Dépôts de courtier”)

CDIC Membership Sign: A red and white sign that CDIC members must display at all their branches or places of business, indicating that the institution is a member and displaying the toll-free number for CDIC’s information line. (“Signe d’adhésion à la SADC”)

Credit Enhancement Fee: A special fee CDIC may be required to pay to the government pursuant to the *Canada Deposit Insurance Corporation Act* should CDIC have to borrow funds from either the private markets or government. (“Droits de renforcement du crédit”)

Demand Deposit: A deposit that can be withdrawn at any time, and which has no fixed maturity date. Contrast with a “term deposit.” (“Dépôt à vue”)

Deposit: As defined in the *Canada Deposit Insurance Corporation Act*, a deposit is the unpaid balance of money received or held by a CDIC member institution from or on behalf of a person in the usual course of deposit-taking business for which the member:

(a) is obliged to give credit to that person’s account or is required to issue an instrument for which the member is primarily liable

(b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person (“Dépôt”)

Deposit Register: A list of deposit products offered by a member institution that have been confirmed by CDIC as being eligible for CDIC deposit insurance. Member institutions must provide a copy of this register to consumers, if requested. (“Répertoire des dépôts assurables”)

Deposits Held in Registered Plans: Eligible deposits held in Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs) are insured separately from other eligible deposits held in the name of the same person at a member institution. Eligible deposits in Registered Education Savings Plans (RESPs) will only receive separate insurance protection if they qualify as trust deposits. (“Dépôts placés dans des régimes enregistrés”)

Eligible Deposits: Deposits that are eligible for CDIC insurance under the *Canada Deposit Insurance Corporation Act*. Also called “insurable deposits.” (“Dépôts assurables”)

Ex officio: Holding a second position or office by virtue of being appointed to a first. For example, when individuals are appointed to certain senior government positions (Governor of the Bank of Canada, Superintendent or Deputy Superintendent of Financial Institutions, Deputy Minister of Finance or Commissioner of the Financial Consumer Agency of Canada), they automatically become members of CDIC’s Board of Directors, and continue as directors as long as they hold those positions. (“Nommé (ou membre) d’office”)

Failure Resolution: The process of arranging the orderly resolution of the business and affairs of a failed member, either as a going-concern solution or as a winding up. (“Règlement des faillites”)

Federal Member: A federally-incorporated financial institution that is a member of CDIC. See "provincial member." ("Institution membre fédérale")

Guide to Intervention for Federal Financial Institutions: This document, developed by OSFI and CDIC, outlines the intervention steps that may be taken when a federally regulated financial institution or CDIC member is experiencing problems. It describes the coordination mechanisms in place between OSFI and CDIC, summarizes the circumstances under which certain intervention measures may be taken and defines a graduated and progressive set of responses, based on the institution's particular circumstances. ("Guide en matière d'intervention à l'intention des institutions financières fédérales")

Joint Deposit: A deposit jointly held by two or more owners, all of whom are identified on the records of the member institution holding the deposit as having an interest in the deposit. ("Dépôt en commun")

Member Institution: A bank, trust company, loan company or an association governed by the *Co-operative Credit Associations Act* that has applied for and been granted CDIC membership. ("Institution membre")

Payout: The process undertaken by CDIC to make deposit insurance payments to the insured depositors of a failed member institution. CDIC may make a payment of deposit insurance in one of two ways — (1) by issuing cheques to insured depositors; and/or (2) by providing insured depositors with new demand deposits at another member institution. ("Remboursement des dépôts assurés")

Premiums: The amount that is payable to CDIC by a member institution for deposit insurance coverage. It is calculated annually as a percentage of the total eligible insured deposits that are held by the institution as of April 30th. CDIC has a differential premiums system in which institutions are classified into one of four premium categories. Institutions classified in the best premium category pay the lowest premiums. ("Primes")

Provincial Member: A provincially-incorporated financial institution that is a member of CDIC. See "federal member." ("Institution membre provinciale")

Regulatory Capital: Capital designed to provide a cushion to absorb unexpected losses and thus offer a measure of protection to depositors and other creditors in the event of the failure of a financial institution. The 1988 Basel Capital Accord, agreed to by the G-10 supervisory authorities, sets out a framework for measuring capital adequacy and the minimum capital ratios to be achieved, which were implemented at the individual supervisory level. The Accord maintains a minimum risk-based requirement of 8 per cent but OSFI has established a target level of 10 per cent for federally-regulated deposit-taking institutions. ("Capital réglementaire")

Retail Deposit: For CDIC purposes, deposits of less than $150,000. ("Dépôt de detail")

Separate Coverage: The insurance protection that is available to eligible deposits held jointly or in trust, or in RRSPs, RRIFs or mortgage tax accounts. See "basic coverage." ("Assurance distincte")

Term Deposit: A deposit for a fixed length of time. Contrast with "demand deposit." ("Dépôt à terme")

Wholesale Deposit: For CDIC purposes, deposits of $150,000 or more. ("Dépôts de gros")

:: **35** YEARS STRONG | **1967 to 2002**

The Early Years
A Clear Need and a Strong Vision

Canadians were on top of the world in 1967, as Expo 67 brought visitors from far and wide to Montreal, and the Toronto Maple Leafs took home hockey's coveted Stanley Cup. In Ottawa, Lester B. Pearson was in his fourth year as Prime Minister, and Mitchell Sharp was serving as Minister of Finance.

On April 17th of that year, the *Canada Deposit Insurance Corporation Act* was proclaimed into force. The primary purpose of the new legislation was to provide depositors in Canadian banks and other financial institutions with insurance protection against the loss of all or part of their deposits. In the Canada Deposit Insurance Corporation's first year, 69 financial institutions (mostly federal) became members and CDIC insured $17 billion in deposits. Thirty-five years later, the Corporation's raison d'être has not changed significantly although its mandate has been expanded over time. At the same time, CDIC has grown along with Canada and its financial services industry to provide sophisticated, leading-edge service to depositors and its 88 member institutions.

CDIC is created in 1967 — depositors are insured for up to $20,000 on deposits held in member financial institutions.

Before CDIC

As early as the 1890s, holders of Canadian bank notes were protected under the Bank Circulation Redemption Fund. However, as the financial sector grew and diversified both in Canada and abroad, there was increasing concern that ordinary Canadians needed insurance in the event that the institution holding their deposits became insolvent. Nevertheless, even into the 1960s efforts to adopt government guarantees were rejected by both government and the financial services sector. For example, the Porter Commission recommended in 1964 that Canada not adopt an explicit system of deposit insurance, based on the argument that sufficient protection to depositors was provided through the concentrated nature of the Canadian financial system, good supervision of that system, and a collaborative approach by government and industry to addressing the rare problem that did arise.

It was the failure of a number of financial institutions in the mid-1960s that tipped the scale in favour of deposit insurance. These failures led a number of provincial governments to establish provincial deposit insurance schemes. Canada's federal government did not favour a patchwork system of deposit insurance arrangements without federal oversight, and so set in motion action to set up a federal scheme.

In 1967, then Minister of Finance Mitchell Sharp presented a bill to the House of Commons that led to the establishment of CDIC. The draft legislation argued that deposit insurance would make a substantial contribution to the government's goal of achieving greater competition and flexibility in Canada's financial system. By leveling the playing field among financial institutions, Canadians would have greater choice among equally secure institutions, both new and established. If a financial institution failed, CDIC would be responsible for reimbursing depositors (up to a maximum of $20,000 each) with money borrowed from a treasury fund. Under the proposed legislation, CDIC would liquidate the institution's assets at a later date when market conditions were better, and repay the loan to the treasury fund without a net loss to government revenues.

CDIC's First Offices and Staff

At the time of initially setting up CDIC, another federal organization, the Municipal Development and Loan Board was winding down and the Executive Director of that organization, T.J. Davis, was available to act as CDIC's first Secretary. The first offices were opened in the premises then occupied by the Municipal Development and Loan Board at 99 Bank Street in Ottawa, where the office remained until it moved to Tower A in Place de Ville in 1979. The initial staff consisted of T.J. Davis, one clerk-stenographer

CDIC in 1967

- :: Chairman of the Board: Antonio Rainville
- :: Insured deposits: $17 billion
- :: Maximum amount insured per depositor: $20,000
- :: Member institutions: 69
- :: Maximum premium rate: 1/30 of 1 per cent
- :: Borrowing limit: $500 million
- :: Operating budget: $114,000
- :: Year-end surplus: $6.1 million

The Birth of CDIC — April 17, 1967

Despite some opposition, the *Canada Deposit Insurance Corporation Act* was passed in April of 1967. In addition to providing for the protection of Canadian depositors in member institutions, the Act also stipulated that all federal institutions were automatically insured. Moreover, CDIC was given the discretion to insure a provincial institution that applied for deposit insurance, provided the application was authorized by the provincial government.

By 1968, one institution (Security Trust Company Limited) had failed and the Act had been amended to enable CDIC to start termination proceedings if, for example, a member was found to be following unsound business or financial practices. By this time, fundamental changes were also taking place in the financial industry as consumers and retailers embraced the credit card as the new way of doing business — “Will that be cash, or Chargex?”

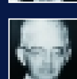
CDIC’s first Board of Directors included five members, as then set out in the Act. The Corporation’s first Chairman was Antonio Rainville. The first meetings of the new Board dealt with a wide range of issues — from authorizing the rental of a post office box, to ordering a Corporate Seal from the Royal Canadian Mint, to defining “deposit” in the by-laws of the Corporation and approving its first-ever annual report. It is important to acknowledge the work of then Superintendent of Insurance, Richard Humphrys (an original member of CDIC’s Board of Directors) in developing the initial legislation and logistics in support of CDIC — and in later years chronicling its history and evolution. Mr. Humphrys was a member of CDIC’s Board of Directors from April 1967 to March 1982.

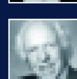
As CDIC headed into the 1970s, Pierre Elliot Trudeau was at the helm and “Trudeaumania” was in full swing, the federal government formally recognized French and English as Canada’s two official languages (1969), and the world watched in awe as the Apollo 11 mission landed on the moon (1969). With good reason, Canadians were optimistic about the future — unemployment was low (4.4 per cent in 1969), interest rates were among the lowest they would be for the next 30 years and it appeared that the country’s stable economy was assured well into the coming decade.

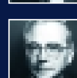
and a bookkeeper. Mr. Davis served as Secretary from July 1967 to February 1985 and was responsible for hiring Jean Pierre Sabourin on November 1, 1976, who later went on to become CDIC’s President and CEO. CDIC’s first legal counsel, Harry MacDonald, began his association with CDIC in 1977 — on loan from the Department of Justice. Mr. MacDonald subsequently retired from the Department of Justice, but continued to work for CDIC until November of 1985.

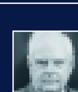
35 Years of CDIC Chairmen

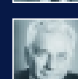

1967-1972 Antonio Rainville

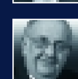

1972-1977 Gérard Gingras


1977-1983 John F. Close


1983-1985 Robert de Coster


1985-1992 Ronald A. McKinlay


1993-1999 Grant L. Reuber


1999-present Ronald N. Robertson

The 1970s
Slow and Steady Expansion

The 1970s were marked by new beginnings, as well as some notable "firsts" and endings — Canada won the first hockey challenge against the Soviet team (1972), and Toronto's CN Tower became the world's tallest free-standing structure (1975). Canadian society was also marked by the removal of capital punishment from the *Criminal Code*, the end of Eaton's catalogue sales, and the replacement of all highway signs with metric versions. Environmental issues were becoming an increasing concern both at home and around the world, and Canada's Gerhard Herzberg won the Nobel Prize in chemistry for his studies of smog.

CDIC entered the 1970s much the same as it had started out in 1967. Still housed in tiny offices on Bank Street in Ottawa, CDIC handled its second failure — Commonwealth Trust Company — in 1970. Throughout a decade of relative economic stability, Commonwealth Trust would prove to be the only failed CDIC member institution. Interestingly, the litigation related to the Commonwealth Trust failure has yet to be completed, although CDIC's involvement in it ended in 1999.

A Decade of Growth

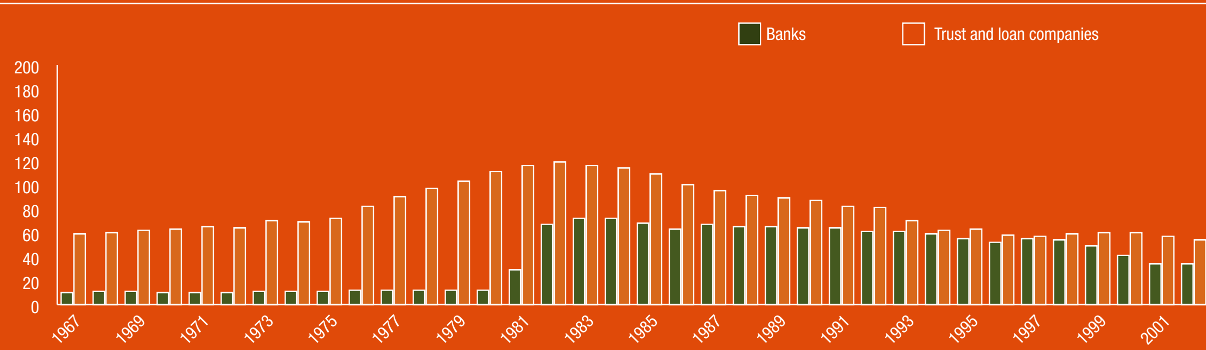
Because of the Corporation's limited initial mandate and relatively low levels of activity, CDIC staff numbers stayed small throughout the 1970s (there were only three employees in 1979); however, growth was evident on virtually every other front. In fact, over the course of the seventies, CDIC's membership grew from 73 institutions (1970) to 115 (1979). Similarly, insured deposits grew by 232 per cent increasing from $25 billion to $83 billion and, as a result, the Corporation's revenue from member premiums increased steadily from $8.2 million in 1970 to $17.4 million in 1979.

New members over the decade included both federal and provincial institutions, with the mix of member institutions comprised of 6 banks, and 49 federal and 54 provincial loan and trust companies.

1970s Phenomena — Dividends and Premium Rebates

During the strong economic growth of the 1970s, CDIC paid dividends on its shares — all held by the federal government — for six consecutive years (1972 to 1977), after which the capital stock was retired. For the following two years, and the only time in CDIC's history, members received premium rebates.

Member Institutions, 1967-2003*



*As at CDIC's year ends (fiscal year ends from 1993-1994 to 2002-2003).

Heading into the volatile 1980s, CDIC had faced only two failures of member institutions. In a strong financial position itself, CDIC ended the 1970s with a net income of $19 million and a surplus of $165 million. Depositors with deposits in a CDIC member institution were covered to a maximum of $20,000. In 1979, the Corporation moved into its new offices in downtown Ottawa's Place de Ville office and shopping complex.

As they left the 1970s, little did Canadians know the extent to which the economic downturn of the next decade would affect them. Prime Minister Pierre Trudeau and the Liberal Party had lost the federal election of 1979, and Joe Clark's Conservatives took the lead. Interest rates were on a steep climb — at 8 per cent in 1979, they were as high as they had been in Canadian history but, as Canadians were to soon find out, they hadn't seen anything yet!

CDIC in 1979

:: Chairman of the Board: John F. Close
:: Insured deposits: $83 billion
:: Maximum amount insured per depositor: $20,000
:: Member institutions: 115
:: Maximum premium rate: 1/30 of 1 per cent
:: Borrowing limit: $500 million
:: Operating budget: $482,000
:: Year-end surplus: $165 million

The 1980s
Managing Through Adversity

The 1980s began with some significant changes. Joe Clark's career as Prime Minister was short-lived, as Canadians brought Pierre Trudeau back to power before 1980 had come to a close. *O Canada* became the country's official anthem (1980), and Terry Fox began his cross-Canada run to collect money for cancer research, raising $10 million in just a matter of months (1980). Sadly, Terry Fox's Marathon of Hope ended in 1981 when he died of cancer, but his dream lived on. Bertha Wilson became the first woman appointed to the Supreme Court of Canada in 1982. The same year, Canada's Constitution was brought home through the *Constitution Act*, 1982. A year later, Jeanne Sauvé was named the country's first female Governor General, and Lincoln Alexander was appointed Ontario's first black Lieutenant Governor. In 1984, Marc Garneau joined the team on the U.S. shuttle Challenger to become the first Canadian in space.

Changes were under way at CDIC as well, as amendments to both the *Banks and Banking Law Revision Act* and the CDIC Act reflected Canada's evolving financial sector.

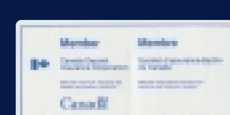
The Changing Face of CDIC

The economic turmoil of the 1980s was felt in every corner of the country. In fact, the worst recession since the Great Depression began in 1982. By 1986, the Canadian dollar hit its lowest point to date, at 70.2 US cents on international markets. Unemployment was at the highest point of the decade — or any other decade since — at 11.9 per cent. CDIC and its member institutions felt the impact as well — 23 member institutions failed, the highest number in any decade of CDIC's history. As Robert de Coster, the Chairman of CDIC's Board of Directors, remarked in 1983:

> "The recent simultaneous failures of seven major trust and loan companies have radically changed, in a matter of weeks, the scale of the operations and the profile of the Corporation. A traditionally low-key, relatively important insurer of last resort, it was abruptly propelled into a high leadership role in minimizing the financial, social and political impact of a severe crisis."

Once the initial impact of these failures was contained, CDIC revised its approach, structures and operations to deal with the long-term fallout of failed institutions. At the same time, the Corporation worked to maintain its ability to protect deposits in its many robust member institutions. In 1983, CDIC recorded a general provision

Sadly, Terry Fox's Marathon of Hope ended in 1981 when he died of cancer, but his dream lived on.



Charles de Léry — Building the Management Team

The first of only two CEOs in CDIC's history, Charles de Léry was brought on board in 1984 to build a management team. With the financial sector in crisis, and CDIC faced with managing many member failures, de Léry rose to the challenge.

After a concerted effort to expand CDIC's management team to meet the new realities of the 1980s, de Léry was able to conclude in CDIC's 1986 Annual Report that: "We are now confident that the Corporation has built a team with the required background and expertise to allow it not only to meet its objectives and discharge its obligations but also to face any future problems. … Indeed one can now see some light at the end of the tunnel, we are most grateful to all of our personnel who have, by and large, performed and worked often times far beyond what one can or should expect."

for loss of $650 million — up to then, the highest provision in its history had been $3.2 million in 1981. As a point of comparison, the provision at March 31, 2003, is $550 million. The mid-decade scenario was much the same, with another institution failure in 1984 and seven more in 1985.

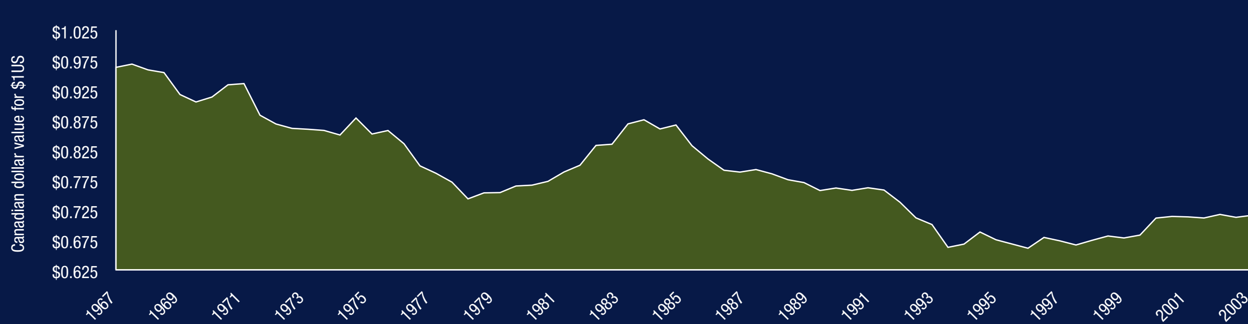
CDIC's ability to act quickly on a number of fronts in response to the demise of so many institutions helped prevent a loss of public confidence in the Canadian financial system as a whole. In fact, the situation served to confirm the importance and necessity of the deposit insurance program allowing CDIC to limit the damages through efficient, concerted and prompt interventions.

New Strategies and Tools

At the same time, the upheaval of the 1980s was a call for change. CDIC conducted a comprehensive review of its business processes and tools. External reviews, including the *Report of the Inquiry into the Collapse of the Canadian Commercial Bank and Northland Bank* (The Honourable William Z. Estey), led Parliament to make legislative changes that expanded CDIC's role — from "paybox" to the more complex role of risk minimizer. Aimed at reducing costs to the system, some of the key changes included:

- Maximum deposit coverage was increased from $20,000 to $60,000 (1983).
- CDIC's borrowing limit went from $0.5 billion to $1.5 billion (1983), and to $3 billion (1987).
- Premium rates were increased from 1/30 of 1 per cent (held since 1967) to 1/10 of 1 per cent (1986).
- CDIC's powers were expanded to enable better and more effective handling of failures — for example, the Corporation gained the power to act as liquidator and its payout powers were increased (e.g., CDIC was authorized to conduct preparatory examinations) (1987).
- The Board of Directors grew by four members, to a total of nine, with the additional members coming from the private sector (1986).
- CDIC's mandate was expanded to include the promotion of standards of sound business and financial practices and standards by-laws were introduced (1987).

Canadian Dollar Fluctuation, 1967-2003*



*As at March 31st.

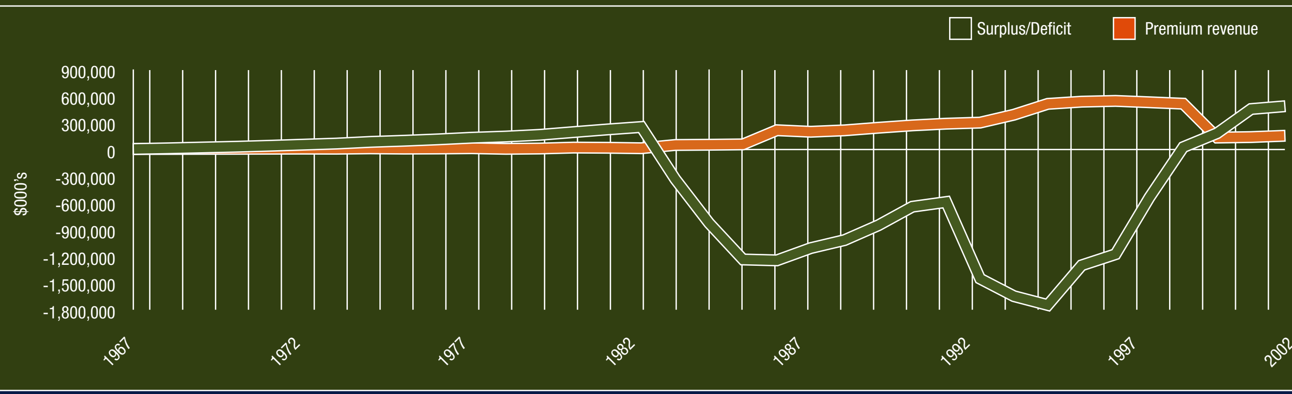
One of CDIC's key changes was to augment its management team to meet the challenges of the decade. Charles C. de Léry, a veteran Royal Trust executive, was appointed as CDIC's first President and CEO.

Many of these changes were designed to strengthen CDIC's capacity to achieve its goals in the changing economic environment. While Canadians and their institutions struggled with the impact of a long and difficult recession, CDIC equipped itself to deal more effectively with the failure of financial institutions. For the first time in its history, the Corporation faced outstanding debt from funding the failures of the 1980s, debt that continued to grow into the next decade as a result of further member financial institution failures. Whereas dividends and premium rebates were tools to manage CDIC's growing surplus in the 1970s, increases in borrowing limits and higher premiums were the order of the day for managing the Corporation's deficit during the 1980s.

Continuing Challenges

By the end of the decade, interest rates had already peaked, but were still far higher than many Canadians could manage. The number of CDIC members dropped to 154 in 1989, down from its peak of 188 in 1983. The Corporation's revenue from premiums was still

Historical Premium Revenue and Surplus/Deficit, 1967-2002



Why a Separate Deposit Insurer and Regulator?

Extract from the General Observations of Chairman Grant Reuber in CDIC's 1994-1995 Annual Report:

"… having two independent agencies reduces the moral hazard of assigning responsibility for supervision and regulation along with insuring deposits exclusively to one agency. Providing regulators with powers to tax deposits to cover potential delays, misjudgements and mismanagement is as questionable as providing the deposit insurer with powers to avoid losses by potentially suffocating the system with restrictions and regulations and undertaking premature interventions. A better balance is likely to be struck by having two agencies working in collaboration with each other but each pursuing its own separate mandate. Under present arrangements, the system is not solely dependent upon the judgements, priorities and incentives of one agency single-mindedly pursuing its own agenda.

"This was recognized in the Blue Paper in 1986, which stated that by ensuring that the views and concerns of the deposit insurer are given full weight in decisions on the nature and timing of supervisory actions, the supervisor's will to act will be strengthened. This was also an important concern raised by Mr. Justice Estey."

Failures Over Time

If one of CDIC's roles is to manage the closing down of failed member institutions, then one measure of its work is the value of insured deposits managed by the Corporation in the failed institutions. A decade-by-decade look shows the number of failed member institutions and the corresponding value of insured deposits:

1967-1969	1 failure ($10 million in insured deposits)
1970-1979	1 failure ($5 million in insured deposits)
1980-1989	23 failures ($6.8 billion in insured deposits)
1990-1999	18 failures ($19.5 billion in insured deposits)
2000-present	0 failures

growing ($244.9 million in 1989), as was its deficit ($850.8 million) – a problem that would worsen before it improved. At the same time, legislative changes in 1987 had put CDIC in a stronger position to minimize its exposure to loss by providing it with intervention powers, and to better protect depositors.

Towards the end of the decade, the Office of the Superintendent of Financial Institutions (OSFI) was established, effectively combining the Offices of the Inspector General of Banks and the Superintendent of Insurance. Since then, OSFI has become one of CDIC's strongest and closest partners.

By the end of the 1980s, the Free Trade Agreement had come into effect (1989), and a new species in the financial world was born — the "loonie." With the economy slowly improving, more Canadians were working (unemployment was at 7.5 per cent) than had been the case mid-decade.

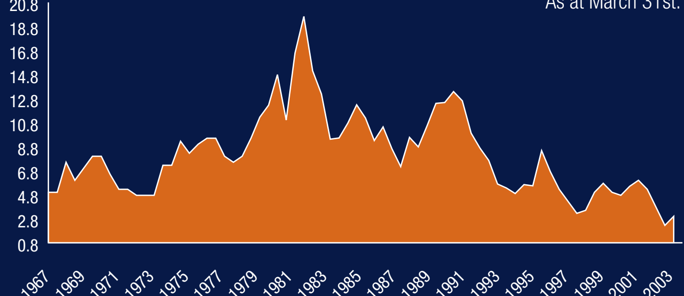
Toronto Field Office Operations — 1983 to 2002

In 1983, CDIC opened its first and only field office. Located in Toronto, the small staff was charged with managing assets, estate monitoring and payout, all related to the recent rash of failures (a total of nine between 1980 and 1983). This focus was maintained until the mid-1990s, when the direction of CDIC broadened to include assessing member risks. In recent years, field office operations have become more streamlined — work on recovering claims, forecasting and planning for future recoveries, and liquidation, as well as building best practices through such activities as simulated payout and liquidation — all contributing to the active readiness of CDIC.

At the end of 2002, with 20 years of outstanding contribution to the Corporation, this division was down-sized and integrated with the Insurance and Risk Assessment Division based in Ottawa. CDIC still maintains an office in Toronto.

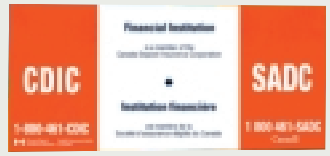
Bank Rate, 1967-2003*

*As at March 31st.



CDIC in 1989

:: Chairman of the Board: Ronald A. McKinlay
:: President and CEO: Charles C. de Léry
:: Insured deposits: $245 billion
:: Maximum amount insured per depositor: $60,000
:: Member institutions: 154
:: Maximum premium rate: 1/10 of 1 per cent
:: Borrowing limit: $3 billion
:: Operating budget: $16.5 million
:: Year-end deficit: $850.8 million



The 1990s
Consolidation and Maturity

When the 1990s began, interest rates were on the rise, the federal government had introduced the Goods and Services Tax (GST) and a technological revolution was beginning that would set the stage for new ways of doing business in every sector of the economy. Roberta Bondar became the first Canadian female astronaut in space (1992), the Toronto Blue Jays won the World Series — twice (1992 and 1993), and the introduction of the “toonie” spelled the demise of Canada’s two dollar bill (1996). As the decade wound to a close, an ice storm paralyzed much of Ontario and Québec (1998), shutting down entire cities and resulting in billions of dollars worth of damage. As the new millennium approached, many Canadians feared the worst as Y2K brought with it the spectre of computer systems crashing around the world as they set to turn to 01/01/00.

CDIC Grows into the Decade

By the 1990s, CDIC had gained a lot of valuable experience. The optimism of the 1970s was replaced with grim determination in the 1980s. As the 1990s unfolded, the Corporation had consolidated its experience and put it to work with a strategic approach and the kind of practical tools that come from hands-on learning. Much of the decade was devoted to building capacity by enhancing and strengthening its systems, policies and practices with a focus on readiness that remains one of the Corporation’s cornerstones to this day. As did organizations in every sector, CDIC devoted considerable time and resources to adapting its work to rapidly changing technologies. For most CDIC employees, the computer and electronic communication systems became indispensable tools for conducting their day-to-day business.

Although economic recovery was a primary goal of the Conservative Government of the time, the failure of CDIC member institutions remained a reality. There were 18 failures in the 1990s, 14 of which occurred between 1990 and 1995. The number of member institutions declined steadily over the decade, from 151 in 1990 to 113 in 1998/1999. CDIC full-time staff numbers increased overall, peaking for the decade at 94 in 1992 and settling at 84 in 1999. The Corporation’s operating budget followed a similar trend.

CDIC in the World

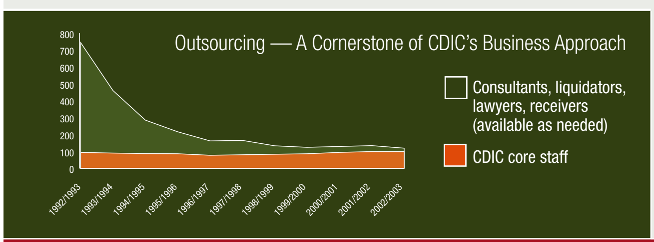
Currently a world leader in deposit insurance issues, CDIC’s involvement in the international arena began in the 1990s. A founding member of the International Bank Researchers Group (1994), CDIC hosted the Group’s second international meeting the following year. In developing its *Differential Premiums By-law*, the Corporation drew on the experiences of the Bank of England, the Federal Deposit Insurance Corporation (USA) and the Office of the Controller of the Currency. By the end of the decade, CDIC was working both bilaterally and multilaterally on a number of international fronts.

J.P. Sabourin, CDIC’s President and CEO, currently serves as the founding Chair of the Executive Council and President of the newly formed International Association of Deposit Insurers.

CDIC — "Virtually" Ready, All the Time

Readiness is one of CDIC's four business strategies. The necessity of being equipped to respond to member failures and the needs of their depositors was brought to the fore in the 1980s and continued through the 1990s. One of the prime tools that the Corporation created to ensure readiness is the "outsourcing as required" approach to having the right skills available at the right time. By keeping its core staff at a steady level (relatively unchanged at approximately 100, from 1992 to 2002), and by drawing from a pool of professionals in a variety of fields, CDIC is ready to meet increased workload in any of its areas of responsibility. The graph illustrates CDIC's capacity to draw together resources — in this case, to manage failures of the early 1990s, payouts and other activities related to member failures.

CDIC reduced its deficit for the fifth consecutive year in 1991. However, the next few years saw an increase in the Corporation's deficit, followed by aggressive action that would eliminate it completely by 1998/1999.



Changing with the Times

Among the key changes to legislation and practice affecting CDIC over the decade were:

Standards of Sound Business and Financial Practices By-laws — introduced in 1992, the Standards provided a framework for strengthening CDIC's ability to manage members' risk. By 1995, members were making their first reports to the Corporation under the Standards Assessment and Reporting Program (SARP). In modernizing the Standards and eliminating SARP in 2001, CDIC contributed to the easing of regulatory burden on its member institutions. Following the CDIC Standards means following sound business and financial practices — demonstrating this should merely be a by-product of good management practices. The streamlined reporting requirement under the modernized standards has been developed such that member institutions need only provide information they would otherwise be generating in following sound business practices. This flexibility was lauded by CDIC member institutions.

:: Differential premiums — the CDIC Act was amended in 1996 to allow for differential premiums, and by 1999 they were a reality. The *Differential Premiums By-law* established four categories of members, with a different rate attached to each category. The By-law

Strengthening Corporate Governance

One positive result of the economic turmoil of the 1980s and early 1990s was that it underscored the clear need for CDIC to build its capacity to lead through uncertain times. In response, CDIC strengthened its Board of Directors and management team, enacted by-laws supporting the Corporation's goals and established a system of internal review to ensure that CDIC lived by the same high standards it set for members. During the 1990s, CDIC set a number of priorities for itself including:

:: reducing and eliminating debt and deficit (achieved in 1999)

:: strengthening the capacity to assess and manage risk and to maximize net claims and recoveries (e.g., by developing the *Standards of Sound Business and Financial Practices*, the Standards Assessment and Reporting Program, and processes for sharing information with OSFI and the Bank of Canada)

:: implementing a system of Differential Premiums Assessment

:: reducing the risk of loss (by better monitoring of members' risks, earlier intervention and stronger incentives for members to follow more prudent policies) is reviewed annually, and changes have been made to the premiums.

- CDIC's borrowing limit from the Consolidated Revenue Fund (CRF) rose from $3 billion to $6 billion in 1992 — CDIC's powers were later broadened to allow the Corporation to borrow by any means, including the issuance and sale of bonds, debentures, notes or any other evidence of indebtedness (1996).

- Provisions were made for Governor in Council orders to vest in CDIC the shares or subordinated debt of a federal member institution (share-based Financial Institutions Restructuring Program) (1992); in 1996 additional provisions allowed for a Governor in Council order to appoint the Corporation as receiver for a member institution (either federal or provincial).

- Deposit insurance information — a CDIC by-law (1996) required member institutions to list products eligible for deposit insurance and, later (1998), to ensure that this list or register was prominently displayed in each place of business.

- Opting out — legislation was passed permitting banks that intend to take primarily wholesale deposits to opt out of membership in CDIC (1997); later legislation (1999) amended the process for opting out.

- CDIC on display — making the most of the World Wide Web, CDIC launched its first web site in 1997. The same year, the Corporation won the Auditor General's Award for Excellence in Reporting for Crown Corporations for the previous year's (1995/1996) annual report.

By the late 1990s, much of the world celebrated the 50th anniversary of the Universal Declaration of Human Rights (1998), and Canadians were proud of the contribution of one of its drafters — Canadian jurist and McGill University law professor, John Peters Humphrey. Canada received a United Nations award for sheltering world refugees, and one of its citizens, John Polyani, shared the Nobel Prize for chemistry.

Early Warning + Sound Management = Lower Risk

In his Chairman's remarks included in CDIC's 1992 Annual Report, Ronald A. McKinlay wrote the following on the need for institutions to follow *Standards of Sound Business and Financial Practices*:

"The question has been asked as to what could have been done to prevent the failures and resultant losses experienced by CDIC during 1992; would earlier warning of the problems have helped to reduce significantly the losses? Certainly, earlier warnings of these problems might have reduced somewhat our losses. In fact, such was the case with First City Trust Company where a collective effort by CDIC and regulators, over several years, was able to reduce, though not prevent, a significant loss. However, it is a truism that prevention, or at least minimization of losses, can only be accomplished by member institutions avoiding as many bad loans as possible in the first place. This requires that good judgement and sound day-to-day management practices be followed within member institutions. The onus must be here — not with regulators and regulations. Our experience has been that all CDIC members which have failed have had important management shortcomings. From an insurer's point of view then, in the interest of avoiding losses, and in the interest of the financial system in general, it is fundamental that members be well managed. It has long been the accepted wisdom that fire prevention is better — for the insured and the insurer — than simply insuring and paying for damage. So it is with member institutions — prevention of losses is better than paying claims."

The 1990s — A Decade of Accomplishments

In his general observations appearing in CDIC's 1998-1999 Annual Report, Chairman Grant L. Reuber summarized CDIC's accomplishments and solid foundation going forward:

"The year 1999 marks the end of an era in the annals of CDIC. During the past six years, virtually every aspect of the Corporation has been transformed: its balance sheet, its information systems, its method of working, and its governance. In part this transformation reflects changes in the economic and financial conditions in which CDIC's member institutions function. And in part it reflects changes in government policies and regulations as well as in regulatory practice. But in no small part it also reflects the initiatives introduced and the actions taken by CDIC itself.

"The extent of the transformation of CDIC is apparent in many areas:

:: Its debt and accumulated deficit have been eliminated.

:: Adequate reserves have been established to cover potential future losses.

:: The premium rates for most members are near all-time lows.

:: The premium rates are now based on a member's risk profile instead of being a flat rate for all members.

:: No failures have occurred among its members in almost three years.

:: The number of members on its watch list is close to historical lows.

:: By-law development and updating is virtually complete.

:: Financial data and data systems have been greatly enhanced.

:: The human resource function has been enhanced.

:: Policies and procedures have been documented.

:: Corporate governance has been reviewed, clarified and strengthened."

CDIC in 1998/1999

:: Chairman of the Board: Grant L. Reuber
:: President and CEO: Jean Pierre Sabourin
:: Insured deposits: $308 billion
:: Maximum amount insured per depositor: $60,000
:: Member institutions: 113
:: Maximum premium rate: 1/6 of 1 per cent
:: Borrowing limit: $6 billion
:: Operating budget: $15 million
:: Year-end surplus: $26.9 million

Historical Premium Revenue, 1967-2002

Looking Ahead
A Solid Foundation

When Canadians greeted the year 2000, the electronic world was still functioning — we had survived "Y2K" largely unscathed. Financial systems were becoming increasingly complex and global. Canadian depositors were beginning to have much broader choice about where to place their deposits, including international deposit-takers that were not CDIC members. Technological innovation continued to offer new opportunities, and CDIC positioned itself to both serve members better through technology, and to work more closely and effectively with partners at home and abroad.

Focus on Partnerships

In fact, much of the Corporation's recent activity has focused on strengthening links with its key partners — in particular, the Office of the Superintendent of Financial Institutions and its provincial counterparts, the Bank of Canada, the Department of Finance and the Financial Consumer Agency of Canada. In addition to improving the safety net for Canadian depositors, this collaborative approach is enabling CDIC to streamline its services, enhance efficiency and build the knowledge, skills and capacity that will better equip the Corporation to meet the challenges of the future.

Making the Most of Technology

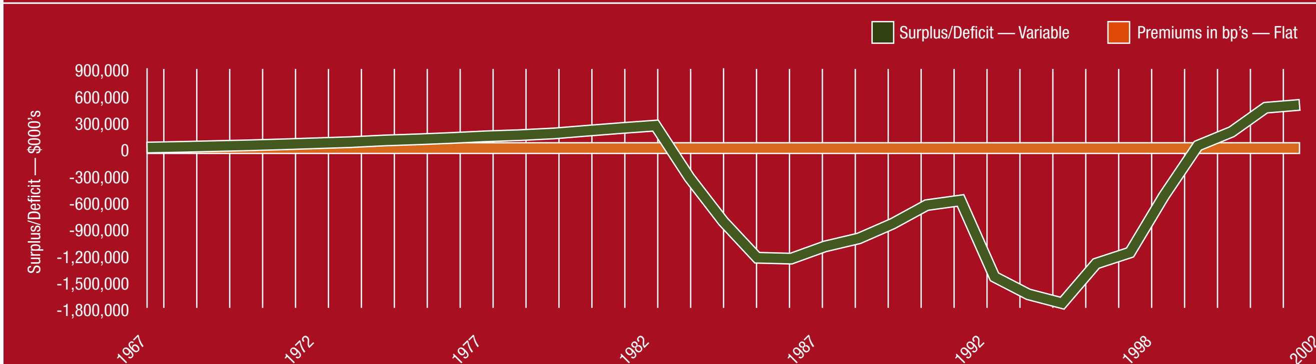
At the same time, the Corporation's use of technology has supported the rapid development of new products and services — such as electronic filing of the information required from member institutions and the potential for electronic payout to depositors of failed institutions. Innovations such as these have been developed with security as the top priority, and have resulted in greatly improved efficiency in CDIC's operations.

Future Stability

The effort CDIC has invested in strengthening its policies and procedures, its systems and practices has paid off. Never before in its 35-year history has the Corporation been stronger and more ready to fulfill its mandate.

As CDIC moves into its 36th year, the outlook is good. Canada is enjoying a relatively stable economy, the last failure of a member institution was seven years ago, and the Corporation has established strong and effective partnerships both in Canada and abroad. In the coming years, CDIC will continue to strengthen these relationships with other members of the broader safety net. As always, however, CDIC will continue to be vigilant in protecting the interests of Canadian depositors. We will continue to stay strong and ready in the face of change.

Hypothetical Flat Premium Rate and Surplus/(Deficit) Over 35 Years, 1967-2002



If CDIC had maintained the "flat rate" premium approach throughout the past 35 years, the rate would have been 6.57 basis points.

Keeping CDIC's Board Current

CDIC's Board was established in 1967 to include five members: the Governor of the Bank of Canada, the Deputy Minister of Finance, the Inspector General of Banks, the Superintendent of Insurance and the Chairman (appointed by the Governor in Council).

Upheaval of the financial sector in the 1980s led to the first change in the Board's composition, in 1986. Four more members — all drawn from the private sector — were added to increase the capacity of the Board.

In 2001/2002, financial legislation again expanded the Board to include the Commissioner of the newly formed Financial Consumer Agency of Canada and an additional private sector member.

In fact, CDIC's Board has shown its dedication and commitment to members and depositors by meeting whenever required. For example, in 1986, the Board held 23 meetings as it wrestled with the failure of 10 member institutions between 1985 and 1986. In 1992, the Board met 19 times. Each meeting carries with it significant work of reviewing analyses and information in order to discuss and make sound decisions.

With an eye to the future, CDIC will focus on the evolving financial sector, watching for trends, products, successes and failures that could affect Canadian depositors.

Never before in its 35-year history has the Corporation been stronger and more ready to fulfill its mandate.

CDIC in 2002/2003

- Chairman of the Board: R.N. Robertson, Q.C.
- President and CEO: Jean Pierre Sabourin
- Insured deposits: $346.8 billion
- Maximum amount insured per depositor: $60,000
- Member institutions: 88
- Premium rates: differential premiums
- Borrowing limit: $6 billion
- Operating budget: $24 million
- Year-end surplus: $539 million

Prime Ministers of Canada (1968 to present)

Pierre Trudeau

Joe Clark

35 Years of CDIC Chairmen

Antonio Rainville

Gérard Gingras

John F. Close

CDIC is created in 1967 — depositors are insured for up to $20,000 on deposits held in member financial institutions.

A staff of three — corporate secretary, clerk-stenographer and bookkeeper — manages the CDIC workload in the early years.

CDIC membership grows from 73 to 115 members over the 1970s.

The decade rounds out with only one member failure, and a move to new offices in Place de Ville.

The Board of Directors includes five members.

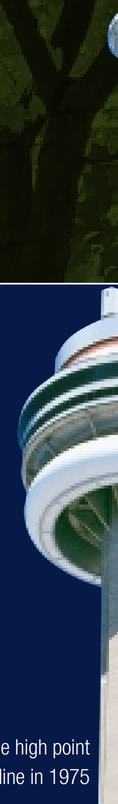
CDIC is in a strong financial position — net income of $19 million and surplus of $165 million in 1979.

Depositors are still insured for up to $20,000.

Toronto Maple Leafs take the Stanley Cup in 1967

The world visits Montreal at Expo 67

Moishe — a mainstay of CDIC's early public awareness campaigns



The CN Tower becomes the high point of Toronto's skyline in 1975

1960s | **1970s**

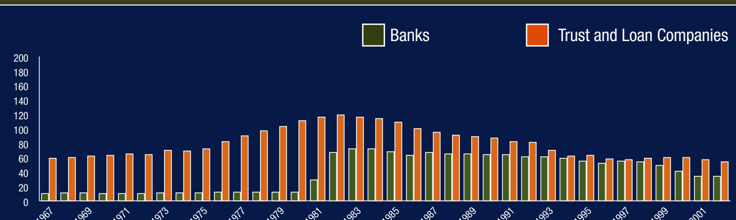
CDIC in 1967

- Chairman of the Board: Antonio Rainville
- Insured deposits: $17 billion
- Maximum amount insured per depositor: $20,000
- Member institutions: 69
- Maximum premium rate: 1/30 of 1 per cent
- Borrowing limit: $500 million
- Operating budget: $114,000
- Year-end surplus: $6.1 million

CDIC in 1979

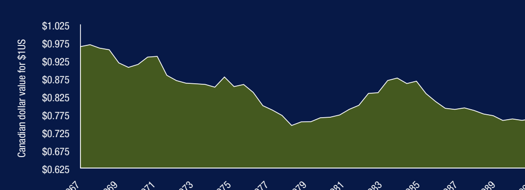
- Chairman of the Board: John F. Close
- Insured deposits: $83 billion
- Maximum amount insured per depositor: $
- Member institutions: 115
- Maximum premium rate: 1/30 of 1 per cer
- Borrowing limit: $500 million
- Operating budget: $482,000
- Year-end surplus: $165 million

Member Institutions, 1967-2003*



*As at CDIC's year ends.

Canadian Dollar Fluctuation, 1967-



Pierre Trudeau

John Turner

Brian Mulroney

Kim Ca

Robert de Coster

Ronald A. McKinlay

1983 sees depositors insured for up to $60,000.

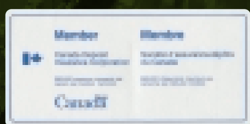
CDIC's Toronto field office opens in 1983 to help manage the unprecedented number of member failures.

Charles de Léry comes on board in 1984 as CDIC's first CEO to build a strong management team — essential to weathering the economic turmoil of the 1980s.

CDIC's Board of Directors grows by four members in 1986 — all from the private sector.

Legislation (1987) expands CDIC's powers to include promotion of standards of sound business and financial practices.

Membership peaks at 188 in 1983 — and drops to 154 by the end of the 1980s.



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CDIC focuses effo
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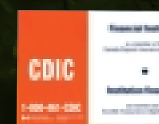
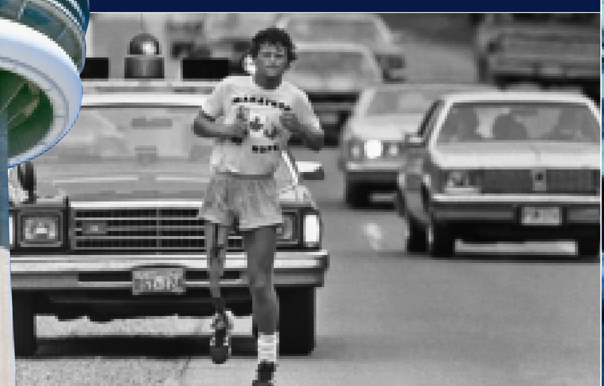
Differential premi

CDIC in the world
of Deposit Insurer



Terry Fox's Marathon of Hope, 1980



The first Canadian in space, 19

The "loonie" makes Canadi
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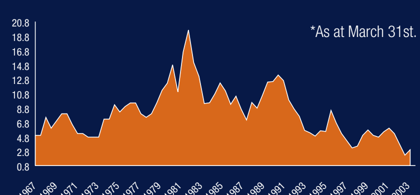
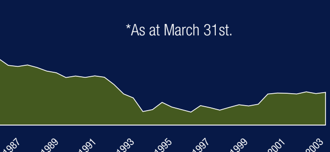
Bank Rate, 1967 to 2003*



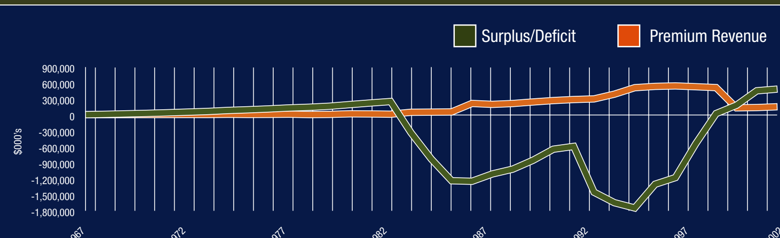
CDIC in 1989

- Chairman of the Board: Ronald A. McKinlay
- President and CEO: Charles C. de Léry
- Insured deposits: $245 billion
- Maximum amount insured per depositor: $60,000
- Member institutions: 154
- Maximum premium rate: 1/10 of 1 per cent
- Borrowing limit: $3 billion
- Operating budget: $16.5 million
- Year-end deficit: $850.8 million

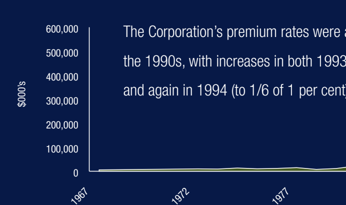
ion, 1967-2003*



Historical Premium Revenue and Surplus/Deficit, 1967-2002



Historical Prem



Kim Campbell   Jean Chrétien

 Grant L. Reuber

 Ronald N. Robertson

ology changes the workplace — CDIC launches its web site in 1997.

numbers peak for the decade at 94, and settle at 84 by the end of the 1990s. CDIC builds and maintains a strong f professional resources to draw on — if and when required.

focuses effort on reducing the risk of loss — better monitoring of members' risks, earlier intervention and stronger tives for members to follow prudent business and financial practices.

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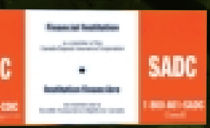
n the world — current President and CEO J.P. Sabourin contributes to the formation of the International Association osit Insurers, and later becomes the organization's founding Chair of the Executive Council, and President.



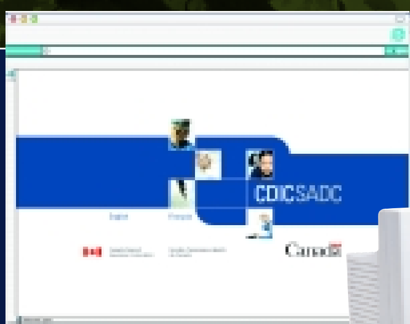
Focus is on improving CDIC's capacity to work in a changing world — new tools, emphasis on partnerships and technological advances contribute to efficiency and effectiveness.

Premium rates in all four categories are cut by 50 per cent in 2002.

The Board of Directors expands by two in 2001/2002 — and now stands at 11 members.

CDIC's operating budget is $25 million — member institutions number 88 in 2003.

in space, 1984



Technology improves the way CDIC does business

The ice storm of 1998 paralyzed much of Ontario and Québec

nakes Canadians'
ets heavier, 1989

2000s

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ical Premium Revenue, 1967-2002

mium rates were a focus of significant attention in
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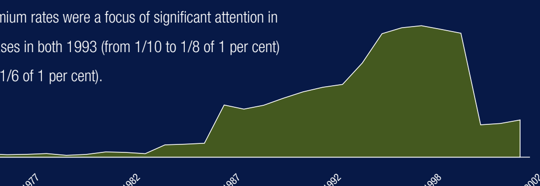
1/6 of 1 per cent).



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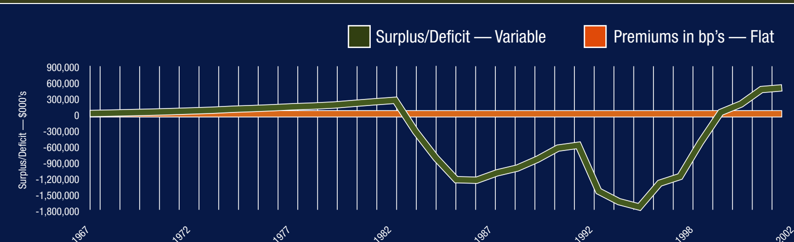

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