For the Benefit of Depositors

Canada Deposit Insurance Corporation
2001/2002 Annual Report



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

Canada

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Société d'assurance-dépôts du Canada

Ronald N. Robertson, Q.C.

Chairman of the Board
Président du conseil d'administration

June 28, 2002

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, 2002.

Yours sincerely,

50 O'Connor Street
Suite 1707
P.O. Box 2340, Stn. D
Ottawa, Ontario
K1P 5W5

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Pièce 1707
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Canada

For the Benefit of Depositors

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Message from the Chairman

Thirty-five years ago this past April 17, Parliament passed the *Canada Deposit Insurance Corporation Act*. Since then, CDIC has dealt with 43 failures of banks, and trust and loan companies, which had $23.4 billion in insured deposits. It seems appropriate in our 35th year that we reflect on what we do for the depositors who rely on us for protection. Accordingly, the theme of this year's annual report is "For the Benefit of Depositors."

The Act requires us to pursue our objects for the benefit of members' depositors and to do so in such a manner as will minimize our exposure to loss. As all deposits, whether insured or not, rank the same in the insolvency of a member, what we do to minimize our losses ultimately helps all depositors.

The overall health and stability of our financial system is very good. Furthermore, there has not been a failure among our member institutions for more than five years. However, even seemingly excellent businesses are vulnerable to poor management, third party error and changes in economic conditions. Accordingly, the work of maintaining and enhancing our overall preparedness continues. We are also continuing our public awareness program to encourage depositors to become more informed regarding which products are, and which are not, insured.

Experience has shown the importance of avoiding potential problems before they can occur. Our collaboration with the Office of the Superintendent of Financial Institutions (OSFI) is key to doing so. The 2001 amendments to the *Canada Deposit Insurance Corporation Act* now require CDIC to make its own determination of the risk posed by its member institutions. These changes have helped to forge an even more effective partnership between CDIC and OSFI, and provincial regulators as we work together to ensure that member risk assessments are based on the most in-depth information possible.

The experience gained handling previous insolvencies has made it apparent that good corporate governance practices are of critical importance to the success and well-being of our members. Reflecting that, our mandate also includes the obligation to promote standards of sound business and financial practices.

It seems appropriate in our 35th year that we reflect on what we do for the depositors who rely on us for protection.

We have now put into effect our modernized *Standards of Sound Business and Financial Practices* which all of our members are required to follow. The Standards combined with our Differential Premiums By-law provide our members with an effective incentive to be prudent in the conduct of their affairs.

Again last year, CDIC's financial position improved. This, together with our members' solid financial results, allowed our Board of Directors to recommend to the Minister a reduction in the premiums payable by member institutions by 50 per cent for the next premium year. As a result, our best-rated members will pay premiums of only 2 basis points, compared with 17 basis points in the 1994 to 1998 premium years when we were eliminating our deficit and paying off our loans to the Consolidated Revenue Fund.

CDIC's work last year also included responding to requests from other countries for help in establishing or improving their own deposit insurance regimes. Doing so is mutually beneficial, as it enables our employees to gain experience and sharpen their skills. Our President and CEO, Jean Pierre Sabourin, who chaired the Financial Stability Forum Working Group on Deposit Insurance, was invited to lead the creation of an international association of deposit insurers. It is a tribute to Mr. Sabourin and to CDIC that he was asked to take on this endeavour. On behalf of the Board of Directors, I offer him our congratulations on his many achievements.

This year saw the departure of two valued members of our Board. Colin P. MacDonald resigned after serving more than seven years as a member of the Board and as the Chair of our Human Resources and Compensation Committee. Also after serving seven years, John R.V. Palmer retired as the Superintendent of Financial Institutions. Their insight and thoughtful advice will be greatly missed. With the proclamation of the recent financial sector legislation, Bill Knight, the Commissioner of the Financial Consumer Agency of Canada, joined the CDIC Board. He is a most welcome addition.

Our aim this past year has been to enhance the Corporation's focus on strategic issues in support of our work on behalf of Canadian depositors. Although we have accomplished much, we will continue to build on our achievements as we move into the coming year. With the diligent work of CDIC's dedicated Board of Directors and employees, I am confident that we will continue to meet the needs of depositors as we face the challenges of the years to come.

R.N. Robertson, Q.C.

Message from the President and CEO

Once again, CDIC ended the year in a sound financial position, a reflection of the absence of member institution failures. At year end the Corporation had a surplus of $486 million.

In 2001/2002, CDIC set out business strategies to guide our work in fulfilling our mandate. We focussed on various initiatives designed to meet these strategies. To manage the risks of providing deposit insurance, we continued to build on initiatives designed to assess the risks associated with CDIC's membership. We also completed the modernization of our *Standards of Sound Business and Financial Practices*. We believe that the two-year process, which involved ongoing discussion with a range of stakeholders, has produced a very valuable tool that will also contribute to our assessment of the safety and soundness of our member institutions.

Our public awareness initiatives continued this past year. A key element of the program, CDIC's television advertising campaign, proved effective in increasing public awareness levels about deposit insurance. Among other messages, this campaign was intended to convey to the public the importance of determining whether or not their products are covered and to direct them to where they can obtain this essential information. CDIC will continue to explore effective ways of providing depositors with the knowledge they need to make informed decisions. CDIC also established an arrangement with the Financial Consumer Agency of Canada to provide it with information services in regard to dealing with consumer enquiries, which both organizations offer to the public. This has allowed us to reduce overall costs in this area and to create an important link between our two organizations.

CDIC WILL CONTINUE TO EXPLORE EFFECTIVE WAYS OF PROVIDING DEPOSITORS WITH THE KNOWLEDGE THEY NEED TO MAKE INFORMED DECISIONS.

The tragic events of September 11th led to increasing concerns about security and our business resumption plans. We confirmed that both areas were being appropriately addressed. Testing of our business resumption plan verified that it would function appropriately in the event that it should be required.

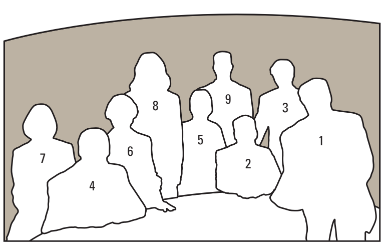
CDIC continued its involvement in international activities during 2001/2002. As Chairperson of the Financial Stability Forum Working Group on Deposit Insurance, I tabled the Working Group's final report in September 2001. In addition, CDIC hosted a number of international delegations and responded to a request by the Hong Kong Monetary Authority to assist with the development of its payout system. Recently, I was asked to chair the International Association of Deposit Insurers and have accepted the honour. CDIC's international activities give CDIC employees a unique opportunity to share best practices with colleagues in other countries.

Our employees are the mainstay of CDIC. During the year, CDIC undertook an employee survey that confirmed the high morale of employees and reinforced CDIC as an excellent workplace. As I move into my 11th year as CEO of the Corporation, I continue to reflect on my good fortune in being supported by such a talented and professional group of people. CDIC's success is also a reflection of the leadership and support of our Board of Directors and our Chairman, Ron Robertson, to whom I am very grateful. I look forward to working with them all in the coming years as we continue to meet our mandate.

J.P. Sabourin

CDIC's Senior Management Team

CDIC's senior management team is actively involved in all internal functions and in initiatives with federal and provincial counterparts and international organizations. The team includes:



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

Highlights of 2001/2002

CDIC established four corporate objectives for fiscal year 2001/2002. Designed to provide an intermediate linkage between the Corporation's statutory objects and the many activities it carries out during the year, the objectives were to:

» ENSURE CDIC'S FINANCIAL STABILITY AND EFFICIENT OPERATIONS

» PROACTIVELY MANAGE THE RISKS OF PROVIDING DEPOSIT INSURANCE

» CONTINUALLY ASSESS AND ENHANCE RELATIONSHIPS WITH STAKEHOLDERS

» SUSTAIN A STRONG PEOPLE AND KNOWLEDGE BASE

One of the tools linking CDIC's performance to its strategic management process is the Performance Management Scorecard, which is designed to track, assess and report on achievements of planned initiatives, as measured against a range of predetermined performance targets.

A detailed list of the year's major initiatives in support of these objectives is presented in the Scorecard that appears below. Overall, the Corporation was very successful in achieving its objectives. Of the 37 key initiatives outlined in CDIC's 2001/2002 Corporate Plan (the Plan), 89 per cent (33) proceeded on schedule, within budget, and have been successfully completed. Similarly, the Plan set out 11 corporate performance measures and targets of which 91 per cent (10) have been met or exceeded. An overview of the variances between plans and performance is provided following the Scorecard.

Performance Management Scorecard 2001/2002

(as of March 31, 2002)

Corporate Objective: To Ensure CDIC's Financial Stability and Efficient Operations

Key Supporting Initiatives	– Apply effective performance measurement and management in all areas. ▲ – Develop economic and financial forecasts to proactively enhance the management of the Corporation's affairs. ▲ – Conduct review of Provision for Insurance Losses and Deposit Insurance Fund. ▲ – Effectively manage the Corporation's treasury activities. ▲ – Provide effective, efficient and economical facilities management. ▲ – Develop MIDAS II Data Warehouse. ▲ – Redevelop or enhance existing systems (valuation model, payout system, Integrated Financial Information System). ▼ – Implement new technologies (Extranet technology, video/audio conferencing, and wireless technology). ▲ – Improve CDIC's Official Language performance. ▲ – Implement efficiently, professionally and in a timely fashion the Corporation's overall communications strategy. ▲ – Develop/expand electronic filing. ▲

Measures	Targets	Performance Against Targets
Financial performance against budget.	» Within ± 5 per cent of operating and capital budgets.	» Actual operating expenses exceeded budget by $919,000, or 4.2 per cent. ▲
Establishment of a provision and/or a surplus/ fund based on an appropriate supporting methodology.	» Appropriately supported provision and/or a surplus/fund methodology in place by March 31, 2002.	» A review of CDIC's provisioning methodology was completed during the year. The concept of a Deposit Insurance Fund will be pursued commencing in 2002/2003. ▼
Recommendations arising from any audit and/or special examination are identified, and addressed on a timely basis.	» All audit recommendations are addressed in an appropriate, effective and timely manner.	» Action matrices were created for each completed audit report and submitted to the Audit Committee. Recommendations were addressed on a timely basis, and the status of each was reported to the Audit Committee regularly. ▲

Scorecard Legend

▲ Planned progress completed and within budget as per original plans.

▼ Experiencing some slippage in terms of time to completion and/or budget over-runs.

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

Corporate Objective: To Proactively Manage the Risks of Providing Deposit Insurance

Key Supporting Initiatives	– Finalize the revision of *CDIC Standards of Sound Business and Financial Practices* to align more closely with current concepts of risk management. – Implement and administer a program respecting Standards adherence. – Develop capacity to assess, on a timely basis, the risk to CDIC posed by member institutions. – Manage the risk posed by problem member institutions. – Implement amendments to the policy of deposit insurance. – Maintain the CDIC application for deposit insurance and the CDIC exemption from deposit insurance by-laws and administer the related processes. – Develop, implement and maintain leading edge and user-friendly risk assessment and risk management tools. – Maintain the CDIC Deposit Information By-law and administer the related insured deposit register clearance process. – Conduct innovative policy analysis, research and policy development. – Foster public awareness and understanding of deposit insurance, and CDIC's role. – Develop payout communication plan.

Measures	Targets	Performance Against Targets
CDIC's Standards of *Sound Business and Financial Practices* will be current and relevant.	» Complete modernization of the Standards and administrative processes, and establish a sound system to keep them current and relevant.	» CDIC's modernized Standards were implemented in October 2001 and administrative processes are being completed. Work on keeping the Standards current and relevant is ongoing.
Uniform guidance is developed and disseminated to member institutions and the public regarding deposit register, recent CDIC developments, legislative changes, etc.	» Guidance developed and disseminated to all members and the public.	» Information regarding CDIC developments, legislative changes and other pertinent topics is appropriately disseminated to member institutions and the public through consultation papers, press releases and CDIC's web site.
Capability and capacity to assess risk in the membership.	» Development and implementation of a risk assessment system and associated processes.	» A risk assessment system and processes were put in place during the year. Using this methodology, all member institutions have been and continue to be assessed.
Level of preparedness to deal with the failure of any size member.	» Plans in place to deal with any size and type of member institution failure.	» Contingency planning has proceeded with the completion of documentation relating to: the identification of possible causes of failure, the powers of CDIC and other agencies, CDIC's resources and techniques for failure resolution and a review of resolutions in other countries.

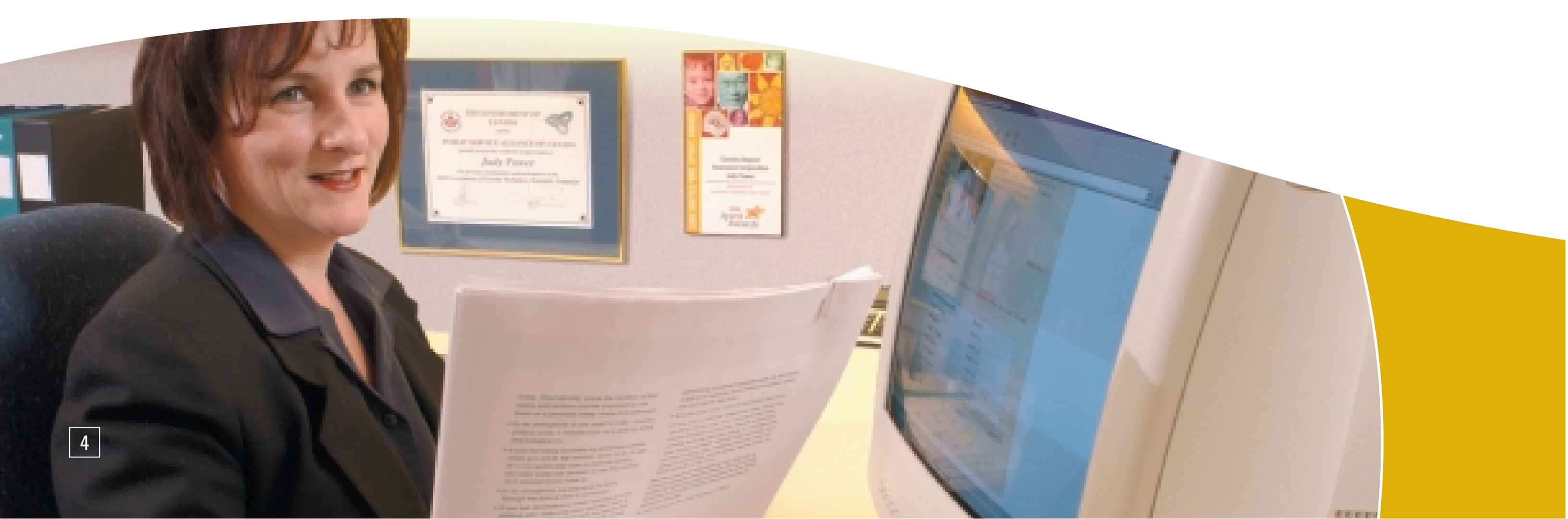
Performance Management Scorecard 2001/2002

(as of March 31, 2002)

Corporate Objective: To Continually Assess and Enhance Relationships with Stakeholders

Key Supporting Initiatives	– Maintain, in cooperation with the Office of the Superintendent of Financial Institutions, the CDIC/OSFI Strategic Alliance Agreement. ▼ – Develop and maintain close liaison and cooperation with member institutions, OSFI, the Bank of Canada, Department of Finance, provincial regulators, industry associations and international organizations. ▲ – Continue to expand CDIC's international contacts to share information globally on deposit insurance issues. ▲ – Enhance the credibility of the Corporation via speaking engagements and participation at external functions. ▲ – Continue work with the Financial Stability Forum, as well as providing assistance to other governments, deposit insurers and international organizations, including regular participation in conferences and seminars. ▲

Measures	Targets	Performance Against Targets
Level of depositor awareness.	» Year-over-year increases in awareness levels leading to a level of at least 70 per cent after five years.	» Measure of awareness survey conducted in March 2002. Results indicate that awareness levels continue to rise and are on target to reach the objective within the established time frame. ▲
CDIC's level of compliance with authorities (including appropriately addressing all audit and Special Examination recommendations).	» 100 per cent compliance by the Corporation.	» Achieved 100 per cent compliance re all statutory reporting and filing requirements. All audit and special examination recommendations being appropriately addressed via consolidated corporate action matrix and tracked by the Audit Committee. ▲



Corporate Objective: To Sustain a Strong People and Knowledge Base

Key Supporting Initiatives	– Provide training programs covering individual training, corporate training and statutory official languages training. ▲ – Continue international work with other deposit insurers to exchange knowledge. ▲ – Implement Library Information Management System. ● – Implement communications activities to support teamwork and open communication. ▲ – Implement next generation of PC Payout System. ▼ – Maintain technology required to make deposit insurance payments (ROADMAP — software designed to facilitate the payout process). ▲ – Conduct International Claims and Recoveries course and presentations. ▲ – Implement Electronic Document Management System. ▲ – Corporate Knowledge Management project. ▲ – Contingency Planning initiative. ▲

Measures	Targets	Performance Against Targets
Ability to retain employees with appropriate skills, qualifications and experience through effective recruiting, compensation, succession planning, training and offer of challenging workplace.	» Levels of resources applied to training and development initiatives on an annual basis — $300,000 or 1.4 per cent of total operating expenses.	» Actual resources applied to training amounted to $270,000, or 1.2 per cent of total operating expenses. Training programs planned for the year were, in some cases, cancelled due to the press of work internally. Skills training for new and existing staff was the priority over professional development. ▲
Knowledge Management and Transfer and Learning and Growth — time, financial resources and encouragement should be committed to staff to develop skills required to improve their performance, both on-the-job and through formal training.	» CDIC explicit knowledge and information is current and readily available for access through an Electronic Document Management System.	» The first component of Records Management was implemented and is fully operational. ▲

Overview of Variances Between Plans and Performance

Corporate Objective: To Ensure CDIC's Financial Stability and Efficient Operations

Initiative	▼ **Redevelop or enhance existing systems (Valuation Model, Payout System, Integrated Financial Information System)** Concentration of effort on higher priority initiatives has caused delays and/or postponements in these initiatives during the year. For example, costs relating to CDIC's member electronic filing project for differential premiums purposes exceeded those originally planned for that initiative in this period and, as a result, funds were re-allocated from other planned initiatives. Consequently, these initiatives have been postponed to 2002/2003.
Target	▼ **Appropriately supported provision and/or a surplus/fund methodology in place by March 31, 2002** The variables underlying the provisioning methodology were enhanced in 2001/2002. Work surrounding the deposit insurance fund methodology has been delayed to 2002/2003. It was decided to separate the two projects by revising the methodology first and thereafter consider the merits of establishing a deposit insurance fund.

Corporate Objective: To Continually Assess and Enhance Relationships with Stakeholders

Initiative	▼ **Maintain, in cooperation with the Office of the Superintendent of Financial Institutions, the CDIC/OSFI Strategic Alliance Agreement** The existing Strategic Alliance Agreement required a number of changes given recent legislative amendments. During 2001/2002, substantial work was undertaken to review the agreement. A final draft is near completion. The new agreement will be executed in 2002/2003.

Corporate Objective: To Sustain a Strong People and Knowledge Base

Initiative	● **Implement Library Information Management System** Due to a reprioritization of resources, implementation of this system has been rescheduled for next year.
Initiative	▼ **Implement next generation of PC Payout System** Although functional, the existing payout system needs updating. Various components of this project are proceeding as planned. Other components such as the analysis segment and actual implementation of ensuing recommendations for improvement have been deferred and included as an important priority initiative for 2002/2003.

Activities and Accomplishments

During fiscal year 2001/2002, CDIC continued its work on a number of important fronts. The Corporation's many activities included modernizing and promoting its *Standards of Sound Business and Financial Practices* (Standards) for member institutions, assessing members' risks and ensuring its readiness in the event of a member institution's failure, sharing information with and learning from organizations in Canada and abroad, and increasing public awareness about deposit insurance. This section of the report provides an overview of the Corporation's key activities for the year, organized under the statutory objects that guide its work.

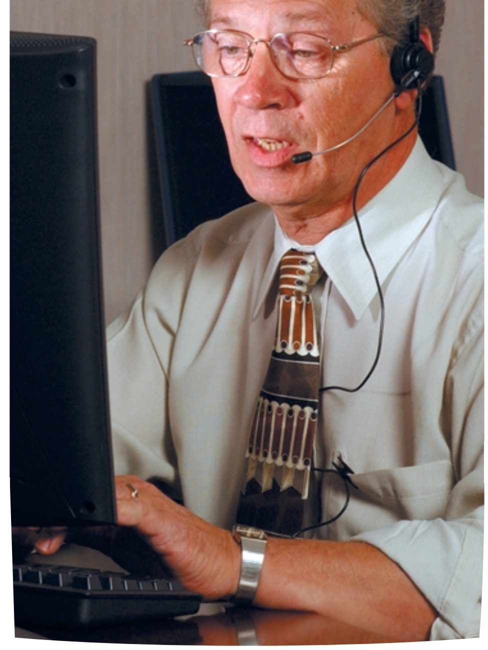
CDIC's statutory objects are to:

» Provide deposit insurance

» Promote standards of sound business and financial practices

» Contribute to the stability of the financial system

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



Telephone enquiries on toll-free information lines are up by over 20 per cent since 2000 – operators handled over 16,000 last year.

Provide Deposit Insurance

Assessing Members' Risk

Minimizing CDIC's exposure to loss is an essential component of the Corporation's work and one of its statutory objects. With this in mind, a major focus of the Corporation's activities in 2001/2002 was the implementation of a new risk assessment framework. During the year, efforts were focussed on expanding CDIC's risk assessment capacity and conducting an analysis of each member institution.

The Corporation's risk assessment function now benefits from regular and frequent updates on environmental issues relevant to member institutions, including reports on emerging issues in the banking sector, national and provincial economic outlooks, as well as North American industrial sectors reports. The new reporting arrangements between CDIC and the Office of the Superintendent of Financial Institutions (OSFI) also contributed significantly to the expansion of the risk assessment function. CDIC risk managers and OSFI examiners now meet on a more frequent basis to exchange and review information on all member institutions. This ongoing exchange of information on member institutions provides an improved basis for reliance on supervisory information and helps to ensure that both organizations have a full understanding of the associated risks. Information exchange arrangements remain in place with provincial regulators and the Quebec Deposit Insurance Board.

While CDIC's primary focus was on reviewing the risks of individual member institutions, work has also continued on profiling the Corporation's overall membership. In March 2002, the Board of Directors received a detailed presentation on CDIC's membership review. This annual review highlights trends and risks in the membership as a whole, as well as those in individual peer groups. During 2002/2003, CDIC will continue its in-depth analysis of membership issues.

Enhancing CDIC's Provisioning Methodology

As a Crown corporation, CDIC is required to comply with the *Financial Administration Act* which includes a requirement that the Corporation prepare its financial statements in accordance with generally accepted accounting principles (GAAP). Canadian GAAP requires CDIC to provide for the risk associated with insuring the deposits of its member institutions if the amount can be reasonably estimated.

Although CDIC's provisioning methodology has provided a reasonable estimate of this risk since it was first developed in 1996/1997, it has become dated. Last year, the Corporation undertook a comprehensive review of the methodology. As a result, the underlying variables of the provisioning methodology were refined to incorporate the best data currently available. The changes to the provisioning methodology are described in greater detail in the Management's Discussion and Analysis section.

Information technology plays an increasingly important role in the delivery, receipt and assessment of CDIC's internal and external information.

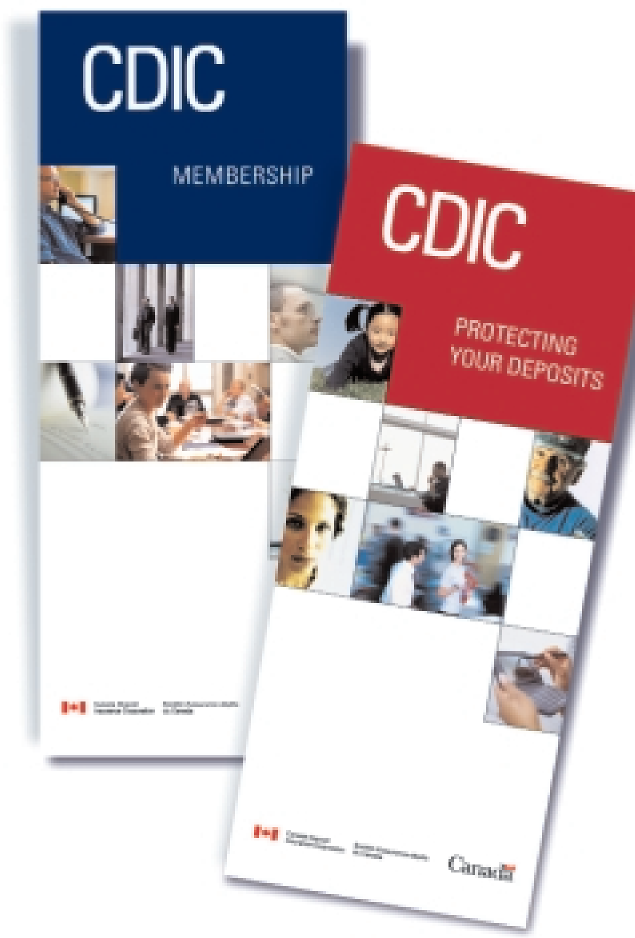
Improving Information Technology

Information technology plays an increasingly important role in the delivery, receipt and assessment of CDIC's internal and external information. Accordingly, a major emphasis of the Corporation's Information Technology (IT) Strategy is on improving access to information — primarily through Internet-based technology.

During 2001/2002, the Corporation continued to upgrade its network to take advantage of new technology and business applications. Consistent with the IT Strategy, CDIC also reduced the life cycle of its technology platform. In addition, the Corporation's system development approach is being modernized to incorporate "best practice" methodologies. Also during 2001/2002, CDIC undertook a review of its security systems. It was confirmed that as a prudent measure, CDIC should continue to explore and upgrade security solutions as new systems are made available.

A number of improvements were made to CDIC's analytical capabilities and communications channels during the year. For example, a new data warehouse system supports risk assessment activities through the use of sophisticated analytical tools. Over time, the data warehouse will provide employees with a single point of access to a variety of CDIC member institution-related information. As well, the Corporation enhanced its systems to allow member institutions to electronically file, on a secure basis, information used to determine their differential premiums category.

Print information is one component of CDIC's comprehensive public awareness initiative.



Increasing Public Awareness

CDIC continued its efforts to increase public awareness about deposit insurance. As part of a five-year national campaign — launched in 2000 — CDIC placed print ads in selected general interest and finance-related magazines, and aired television advertisements on network and cable stations across the country. In keeping with CDIC's partnership arrangement with the Quebec Deposit Insurance Board, television advertisements airing in Quebec were co-sponsored by both organizations.

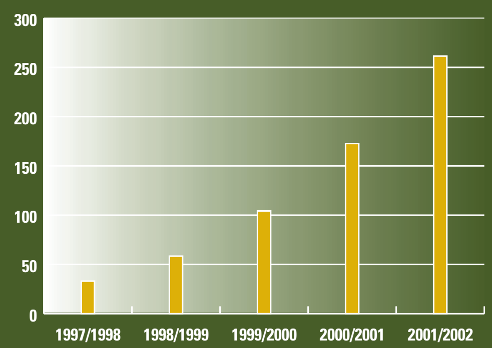
During the year, CDIC restructured its web site which now includes an interactive subscription service for visitors who want to receive automatic updates on the Corporation's activities. The number of visits increased by 50 per cent since last year. The figure below illustrates visits to CDIC's web site over the past five years.

As well, the Corporation continued to provide its toll-free information lines service, responding to almost 16,000 calls during the year, an increase in volume of almost 22 per cent since 2000. The figure below illustrates enquiries received on CDIC's toll-free information line over the past five years.

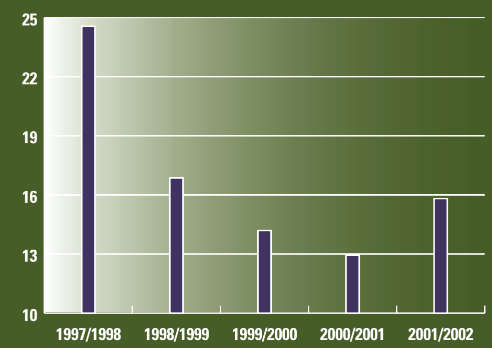
CDIC implemented a similar service on behalf of the new Financial Consumer Agency of Canada (FCAC), an organization that works to protect and educate consumers about financial services. CDIC has a cost-recovery agreement in place with the FCAC for the sharing of personnel, equipment and other related expenses.

CDIC continued to work with member institutions to improve the flow of information to consumers. Introduced in 1996, the *Deposit Insurance Information By-law* provides for member institutions to maintain a Deposit Register listing products that are eligible for CDIC protection. In the past year, CDIC has increased its efforts to make Deposit Registers more readily available. The Corporation initiated a review of the by-law and determined that amendments were required to provide for greater clarity about deposit insurance products and eligibility. Consultation with member institutions will be undertaken during the next year to determine the best approach to meet depositors' needs for accurate and timely information while keeping the administrative burden on members at a minimum.

Web Site Visits from 1997/1998 to 2001/2002
(in thousands)



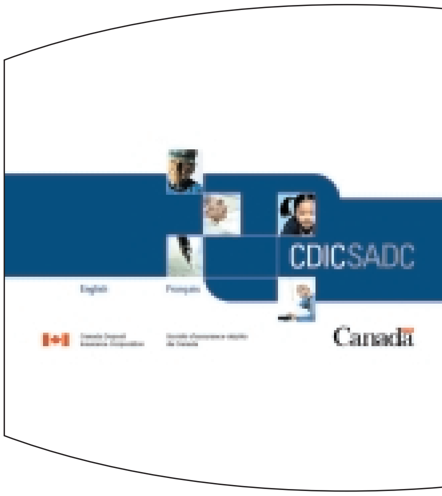
Toll-Free Information Line Enquiries from 1997/1998 to 2001/2002
(in thousands)



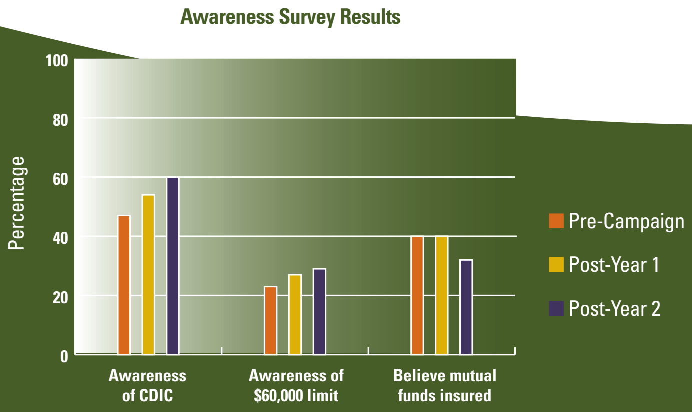
As demonstrated by CDIC's annual public opinion survey, awareness-building efforts are having a positive impact. The figure below shows that 60 per cent of those recently surveyed were aware of CDIC, up from 47 per cent prior to the campaign. Moreover, the number of Canadians who incorrectly believe that mutual funds are insured products declined from 40 per cent to 32 per cent. CDIC will use these findings to help determine future directions of its public awareness program, as well as possible amendments to the by-law.

Minimizing Losses to CDIC

CDIC's mandate was expanded in 1987, from a paybox (confined in its role to paying the claims of creditors after a bank is closed) to a risk minimizer with requisite powers to reduce or avert a threatened loss to CDIC. As a result, CDIC introduced a policy to intervene early into the affairs of a problem member institution, developed *Standards of Sound Business and Financial Practices* aimed at enhancing corporate governance practices and sound risk management systems in member institutions, and instituted a differential premiums system designed to provide financial incentives for lower-risk profile member institutions, among other things. CDIC's losses from post-1987 failures, as a percentage of insured deposits, have averaged less than half the level sustained from pre-1987 failures.



A 50 per cent increase in visits to CDIC's Web site over the year indicates growing awareness of the importance of deposit insurance.



Recoveries on claims in 2001/2002

During the year, the Corporation recovered $40 million against outstanding claims and loans from failed institutions, bringing the total recoveries for the past five years to $754 million. Of the $40 million, $22 million was recovered from Adelaide Capital Corporation, a work out company with significant non-cash assets. An additional $11 million was recovered from Northland Bank as a result of the residual asset agreement, and $7 million was received from Security Home and Mortgage Corporation. In addition, $26 million was recovered against amounts previously written off. Most of the remaining assets in the nine active estates are in cash and remain in active liquidation due principally to legal matters.

Discharges in 2001/2002

During the year, CDIC worked with a court-appointed liquidator and a privately appointed manager to complete the liquidation of Northland Bank and Settlers Saving and Mortgage Corporation. A third estate, Canadian Commercial Bank, was discharged.

Assets subject to Deficiency Coverage Agreements

On December 31, 1992, CDIC entered into two 10-year Deficiency Coverage Agreements (DCAs) with the Toronto-Dominion Bank (TD) to facilitate the acquisition of approximately $9.8 billion in assets from Central Guaranty Trust. At that time, total assets of $7.1 billion were eligible for claims. However, the agreements limited total claims to $2.49 billion.

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

Non-Cash Assets Liquidated as a Percentage of Total Non-Cash Assets (Method of Failure Resolution — Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2002		CDIC's Projected Loss and (Gains) as % of	
	($ Millions)	($ Millions)	As % of Total Expected	Claims and Loans	Claims and Loans — NPV[a] Basis
Completed between April 1, 2001 and March 31, 2002					
Settlers Savings & Mortgage Corp. (Formal Liquidation — 1990)	84	66	100%	21%	26%
Northland Bank (Formal Liquidation — 1985)	321	223	100%	29%	66%
More than 99% of Non-Cash Assets Liquidated					
Bank of Credit and Commerce Canada (Formal Liquidation — 1991)	22	20	99%	10%	25%
Confederation Trust Co. (Formal Liquidation — 1994)	680	700	99%	(3%)	2%
Saskatchewan Trust Co. (Formal Liquidation — 1991)	64	56	98%	10%	18%
Between 95%-99% of Non-Cash Assets Liquidated					
Income Trust Co. (Formal Liquidation — 1995)	193	174	98%	8%	15%
Adelaide Capital Corp. (CGT/TD) (Management Agreement — 1992)	1,758	1,464	98%	6%	12%
Shoppers Trust Co. (Formal Liquidation — 1992)	492	464	99%	4%	17%
Standard Loan Co./Standard Trust Co. (Formal Liquidation — 1991)	1,321	1,122	99%	14%	25%
Security Home Mortgage Corp. (Formal Liquidation — 1996)	42	41	97%	1%	17%

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

Over the years, CDIC's total recoveries in estates arising from actions against directors, officers and auditors have been approximately $200 million.

During the year, CDIC paid capital and income claims of $10 million with claims paid since 1992 totalling $162 million. The claims projected to be paid to the end of 2002 represent only 60 per cent ($181 million out of a possible $300 million) of the total expected at the outset of the agreement. The original $7.1 billion in assets covered by the DCAs has been reduced to $201 million through the normal paydown of loans, TD's renewal of loans at its own risk, the acquisition of loans by others and the disposal of assets. CDIC continues to monitor the DCAs in order to minimize its exposure, particularly as the agreements draw to an end on December 31, 2002.

Claims and legal management

An ongoing priority during 2001/2002 was the study of how to enhance litigation performance assessment and management. Over the years, CDIC's total recoveries in estates arising from actions against directors, officers and auditors have been approximately $200 million.

Reviewing the Policy Framework

Initially enacted in 1993 and subsequently amended in 1999, the *Deposit Insurance Policy By-law* prescribes the terms and conditions with which CDIC member institutions must comply. On March 7, 2002, the Board of Directors made further amendments to the by-law. Implemented following a comprehensive review and consultation with member institutions and their associations, the changes to the by-law were designed to harmonize the deposit insurance policy with recent amendments to the *Canada Deposit Insurance Corporation Act* included in the *Financial Consumer Agency of Canada Act* and to the *Bank Act* and *Trust and Loan Companies Act* and their regulations. Some of the key amendments to the by-law were:

(a) making permanent the prohibition against member institutions disclosing prescribed information about their differential premiums categorization

(b) requiring a member to comply with any undertaking that it has given to CDIC and any agreement it has entered into with CDIC

(c) clarifying that members need only notify CDIC of any actual or proposed change in control of, or any actual or proposed amalgamation, merger, arrangement or acquisition of an affiliate where the change affects or could affect the operations or financial condition of the member, and

(d) requiring a member to prepare and maintain records that accurately and fully describe and disclose its off-balance sheet assets and liabilities

Developing a Knowledge-Based Organization

During 2001/2002, CDIC undertook a number of important knowledge management initiatives. The Corporation developed a draft knowledge management strategy that will serve as a guide for investment into the human, structural and technology resources required to drive CDIC initiatives. As well, the Corporation began preparing an inventory of key knowledge activities, such as contingency planning, and achieved significant progress in integrating these activities into the knowledge management framework.

Promote Sound Business and Financial Practices

Promoting CDIC's Standards of Sound Business and Financial Practices

As part of its statutory mandate, CDIC is required to promote standards of sound business and financial practices for member institutions. Following a comprehensive consultative process with members, industry associations, regulators and interested parties, CDIC completed the modernization of its *Standards of Sound Business and Financial Practices* (Standards) and streamlined its reporting program for member institutions. The new by-law came into effect on October 24, 2001 and members will report to CDIC on adherence to the new Standards between July 15, 2002 and July 14, 2003.

In updating the Standards, CDIC achieved its three main objectives: to align the Standards with current management practices at well-run institutions; to recognize that organizational structures and management processes vary among member institutions depending on such factors as their size, geographic diversity and business activities; and to ensure consistency and compatibility between the Standards and federal or provincial statutory and regulatory requirements.

A process is now being developed to ensure that any requirements for additional modernization of the Standards or streamlining of the related reporting procedures are identified on an ongoing basis. This process will include regular review of domestic and international corporate governance, strategic management, risk management and control initiatives in regulatory and supervisory agencies (e.g. OSFI and provincial regulators, the U.S. Federal Deposit Insurance Corporation and the Bank for International Settlements); periodic meetings with regulators and member institutions, and their associations; and periodic independent validation of the Standards and related reporting program by outside experts.

Following Sound Business and Financial Practices

As the Standards are brought into effect in CDIC's member institutions, the Corporation is initiating a process to gauge its own performance. CDIC is also enhancing its strategic management process and validating processes for identifying and managing its risks in providing deposit insurance.

Supporting a Positive Work Environment

CDIC has long recognized the importance of a positive work environment in improving employee satisfaction and productivity. Last year, CDIC employees participated in an employee survey designed to take the pulse of employee satisfaction and identify any need for improvement within the organization. The survey results on employee morale and satisfaction were well above industry-wide benchmarks. Employees also took part in a series of focus group sessions led by the President and CEO to set out specific actions that could be taken to

EACH YEAR, OSFI AND CDIC CHALLENGE EACH OTHER AS A MEANS OF INCREASING THE AMOUNT OF MONEY RAISED FOR THE UNITED WAY.

LAST YEAR, CDIC EMPLOYEES RAISED OVER $39,000.

address certain issues raised in the survey that, if left unattended, could be detrimental in the long run to future employee morale and satisfaction. Work is well under way on implementing many of the suggested improvements, such as providing more detailed communications to employees about corporate direction.

CDIC also maintains a culture of awareness about equity and diversity issues. As a Crown corporation, it is required to comply with various statutes that address these issues. The Corporation also recognizes the need to weave these principles into the fabric of its operations. Corporate values and ethics are also a cornerstone of employee behaviour. CDIC has commenced a review designed to bring together various internal documents addressing corporate values into a consolidated code of ethics for the organization.

As part of its commitment to the broader community, CDIC promotes environmental awareness among its employees. A number of initiatives were undertaken during 2001/2002, including the installation of video conferencing facilities, an action aimed at reducing the amount of employee travel between CDIC's Ottawa and Toronto offices. To encourage the use of public transportation, CDIC implemented a transit pass for employees derived through a payroll deduction program. In addition to existing activities, a number of new initiatives were also undertaken, such as reducing paper consumption by providing communications via the intranet rather than in paper copy.

CDIC has long recognized the importance of a positive work environment in improving employee satisfaction and productivity.

Each year, OSFI and CDIC challenge each other as a means of increasing the amount of money raised for the United Way. Last year, CDIC employees raised over $39,000. Employees also support a variety of other events aimed at raising money for charitable organizations.

Contribute to the Stability of the Financial System

CDIC undertakes a variety of initiatives designed to promote the stability of member institutions and Canada's financial system. Among the Corporation's activities in this regard are contributing to relevant policy and legislative reforms, monitoring economic trends and maintaining ongoing operational readiness in the event that a member institution should fail in the future.

Working with Key Partners

Maintaining relationships with key stakeholders and partners is important for CDIC. In 2001/2002, the Corporation worked closely with OSFI and provincial counterparts, the Department of Finance, the Bank of Canada and other organizations to promote information sharing. The Corporation also began a number of initiatives with the newly-formed Financial Consumer Agency of Canada (FCAC). CDIC's Chairperson is a statutory member of the Financial Institutions Supervisory Committee and a member of the Senior Advisory Committee, which also include as members the Superintendent of Financial Institutions, the Deputy Minister of Finance, the Governor of the Bank of Canada and the Commissioner of the FCAC. Employees work together with representatives from these organizations on a regular basis to ensure a good flow of information and coordination of activities of common interest.

Planning for Contingencies

CDIC regards contingency planning as an essential element in managing its risks, and addresses the subject on several broad fronts — by doing what it can to prevent failures in the first place; by being prepared to deal with failures if they occur; by improving its management of the aftermath of failures; and by training people to face whatever situation might arise.

CDIC has in place the competencies to identify, assess and manage significant risks in its members before these risks lead to serious concerns. To name some of its major initiatives, CDIC has devoted significant resources to developing *Standards of Sound Business and Financial Practices*, to designing a risk management methodology, to instituting a risk management group that works closely with regulators and supervisors, and to bringing into effect a differential premiums regime.

…CDIC will continue with its research of issues such as electronic banking, the implications of new deposit products and cross-border and insolvency issues.

Accepting that even in the best regulated systems there can be failures, CDIC also continues to prepare for contingencies in the face of changes taking place in the global economy, the Canadian financial sector and its own operations.

During 2001/2002, CDIC focused on extracting from past experiences what might be useful for dealing with unknown, future events. In this regard, CDIC has laid a useful foundation by compiling essential reference materials and precedents; reviewing legal powers to act, both its own and those of other agencies; reviewing the experiences of other countries in dealing with and preparing for contingencies; and identifying subject matters that require further research.

In 2002/2003, CDIC will refine this understanding of the broad responses and actions that could be exercised under various powers in response to potential scenarios that could occur.

While considering certain scenarios is of assistance in planning practical steps, CDIC will still need a good understanding of many subject matters. Consequently, CDIC will continue with its research of issues such as electronic banking, the implications of new deposit products and cross-border and insolvency issues.

CDIC is continuing to work on re-engineering its processes and systems to pay out insured deposits in the event of a failure. The aim is to identify efficiencies and improvements that could lead to the reduction in the time and money required to effect a payout. CDIC is also continuing to work on post-failure issues such as asset portfolio management and disposition, and asset valuation methodologies.

With respect to planning for contingencies, CDIC is conscious of having to ensure that the requisite employee skills are maintained. Since the last failure of a CDIC member was in 1996, many employees have no experience in dealing with a member failure. As a consequence, senior managers at CDIC have instituted a series of sessions designed to familiarize key new employees with the important issues surrounding a failure, with the aim of sharing accumulated knowledge and experience.

Participating in International Activities

CDIC participates in several fora where issues of financial stability and the important role of effective deposit insurance systems are discussed. The Corporation's main objectives in its international work are to maintain and enhance CDIC's proactive readiness, to respond to the challenges and opportunities of globalization, and to contribute to the stability of Canada's financial system. To undertake effective contingency planning, it is important to develop and draw on international networks and experts familiar with the best deposit insurance practices and resolution methods. In addition, promoting Canada's safety net internationally enhances the reputation and quality of Canada's financial and regulatory system. Expenses associated with such activities are incidental to the CDIC budget and there is a firm basis for cost recovery where CDIC is asked to provide its expertise to other countries.

> ...IT IS IMPORTANT TO DEVELOP AND DRAW ON INTERNATIONAL NETWORKS AND EXPERTS FAMILIAR WITH THE BEST DEPOSIT INSURANCE PRACTICES AND RESOLUTION METHODS.

J.P. Sabourin (right) with Winston Carr of Jamaica (left). CDIC spearheaded the formation of the International Association of Deposit Insurers.

Financial Stability Forum (FSF)

CDIC was an active participant in the work undertaken by the FSF. Last year, CDIC's President and CEO, Jean Pierre Sabourin, chaired the FSF's Working Group on Deposit Insurance. The Working Group's final report was endorsed by the FSF in September 2001, and many countries are now using the guidance in the design or reform of their deposit insurance systems and practices. This report contains practical guidance on a range of deposit insurance issues, focussed on such themes as public policy issues, transitioning, moral hazard, mandates and the interrelationship between safety net players.

International Association of Deposit Insurers (IADI)

CDIC took a leadership role in the creation of the IADI which was established in Basel, Switzerland, on May 6, 2002. The Association is a not-for-profit organization which has, as its mandate: enhancing an understanding of common interests and issues related to deposit insurance, setting out guidance to improve the effectiveness of deposit insurance systems, encouraging international contacts, undertaking research on deposit insurance issues for the benefit of practitioners, facilitating information sharing through training opportunities and educational programs not available elsewhere, and providing advice on deposit insurance matters. Mr. Sabourin was elected Chair of the Executive Council and President of the Association.

Providing advice to other countries

CDIC provides advice and technical assistance to countries wishing to establish or reform their deposit insurance systems. Last year, CDIC continued its collaboration with Hungary, Jamaica, the Philippines, Ukraine and Thailand. As well, the Corporation provided advice — on a cost-recovery basis — to the Hong Kong Monetary Authority on the design of a payout system for their proposed deposit insurance system.

On the international stage

An expert on deposit insurance issues, Mr. Sabourin, has developed working relationships with many countries and receives numerous requests to make presentations at international fora. In fiscal year 2001/2002, Mr. Sabourin delivered numerous speeches and presentations on deposit insurance issues, including remarks at the 37th Annual Conference on Bank Structure and Competition held at the Federal Reserve Bank of Chicago, the International Seminar on Legal and Regulatory Aspects of Financial Stability in Basel and the International Seminar on Comparative Experiences in Confronting Banking Sector Problems in Latin America and the Caribbean (World Bank) in Montevideo.

Membership Performance and Profile

Membership Performance

Changes in CDIC Membership

At March 31, 2002, CDIC had 91 members, 10 less than the previous year. The decrease is mainly attributable to new legislation allowing foreign banks to establish branches in Canada and to legislation passed in October 1999 allowing banks which mostly accept wholesale deposits (defined as $150,000 or more) to take such deposits without being members of CDIC (also referred to as opting-out).

During the year, four members (Bank One Canada, Comerica Bank — Canada, Credit Suisse First Boston Canada and Deutsche Bank Canada) transferred their assets and liabilities to their foreign bank parents' newly established Canadian branches and ceased accepting deposits. As a result, CDIC cancelled their policies of deposit insurance.

Three banks (Chase Manhattan Bank of Canada, Mizuho Bank Canada and Tokai Bank Canada) were granted authorization to accept wholesale deposits without being CDIC members. This brings to 11 the number of banks that have chosen to opt out of CDIC membership since 1999.

Other changes involved: CIBC Mortgage Corporation, Fortis Trust Corporation and State Street Trust Company of Canada, all of which ceased accepting deposits and had their deposit insurance policies cancelled; and CCF Canada, which amalgamated with HSBC Bank Canada. There was only one new member, BNY Trust Company of Canada.

Financial Performance

Notwithstanding the North American economic slowdown that started early in 2001 and was accelerated by the events of September 11, the overall financial performance of CDIC's member institutions remained strong in fiscal year 2001/2002.

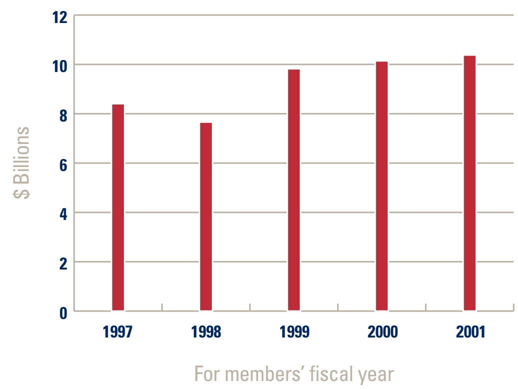
Higher profits in 2001/2002

CDIC member institutions this year had a record profit of $10.4 billion, an increase of 2 per cent from 2000[1] profit levels. However, the strong results achieved in the first three quarters of the year was not sustained in the fourth quarter of 2001. This was due to the sharp slowdown in the economy at the end of the year and the consequent impact on asset quality and level of loan-loss provisions, as well as the adverse impact of sluggish capital markets on the generation of non-intermediary income ("other income").

Spreads increased ...

Net interest income[2] increased by 16 per cent in fiscal year 2001, compared to a 1 per cent increase in fiscal year 2000. For the first time since 1996, gross interest spreads (before provision for loan losses) increased for the membership, reaching 190 basis points of average assets compared to 180 basis points in 2000. The falling interest rate environment contributed to some extent to the improved spreads. For most member institutions, deposit liabilities have a shorter term than assets, so liabilities re-price more frequently than assets. Therefore, with declining interest rates, the interest cost on an institution's liabilities typically reduces at a faster pace than the pace at which the income earned on its assets declines, leading to widening interest rate spreads. This increase in gross spreads was most apparent among domestic banks.

Net Income of CDIC Members, 1997 – 2001



Operating expenses at member institutions continued to increase by approximately 10 per cent in 2001. This trend, along with the decline in non-interest income, resulted in some deterioration of efficiency ratios for many CDIC members.

... But weak capital markets affected other income

In recent years, other income of the members has steadily increased as a share of total income, compared to interest income, a trend which reflects the growing importance of capital market activities to member institutions. Although other income has exceeded interest income in every year since 1997 (reaching 59 per cent of total income in 2001), the rate of growth declined to only 3 per cent in 2001 from 20 per cent in 2000. This lower growth largely reflects the reduced level of investment banking activity during the year.

Specifically, the share of other income generated by securities commissions and underwriting fees dropped to 21 per cent in 2001 from 26 per cent in the previous year. At the same time, however, there was an increase in non-market related components of other income, such as service charges, thus allowing for an overall increase in total income.

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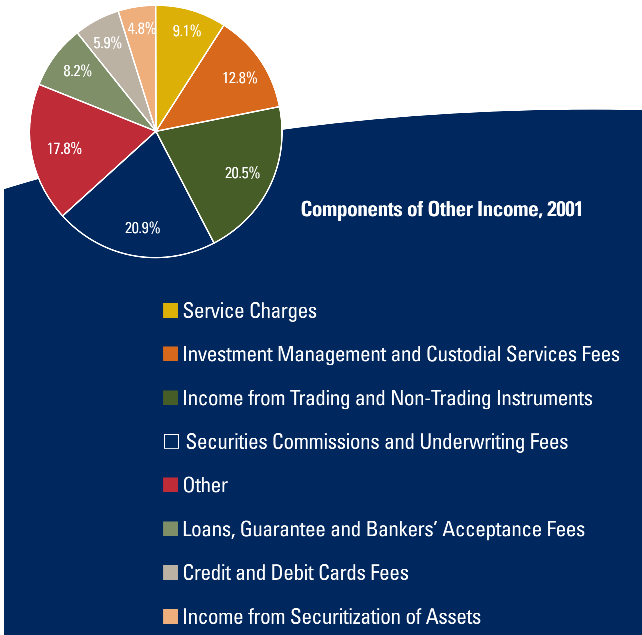
[1] Unless otherwise specified in this section, year references are to member institution fiscal year ends.

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



Components of Other Income, 2001

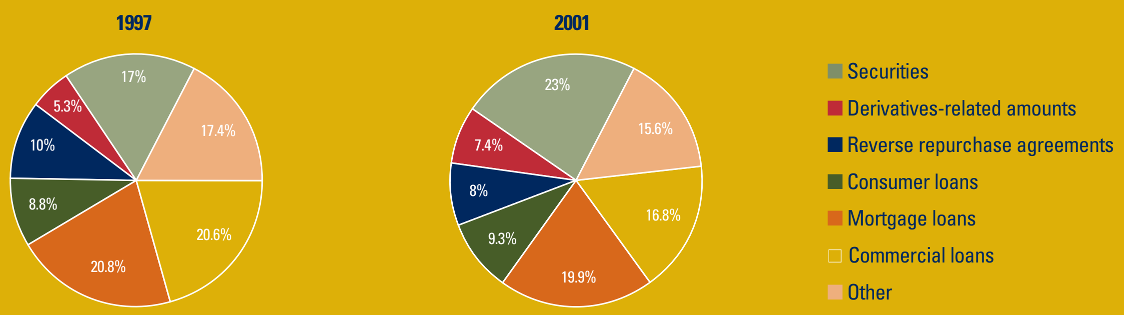
For members' fiscal year

Strong asset growth for member institutions

Total assets of member institutions achieved a double-digit growth (approximately 11 per cent) in 2001, improving on the already strong 7 per cent of the previous year. Total assets reached $1.64 trillion, with loans continuing to be the dominant asset category. Personal, mortgage and commercial loans reached $793 billion in 2001, accounting for more than 48 per cent of total member assets.

Year over year, most other asset categories witnessed lower growth, with the exception of the reverse repurchase agreements ("reverse repos") and derivatives-related assets, which registered higher growth rates of approximately 40 per cent and 30 per cent, respectively. By comparison, derivatives grew by 20 per cent in 2000 and reverse repos actually declined that year. Members' securities portfolios maintained nearly the same growth achieved in the previous year and represented 23 per cent of total assets at the end of 2001, compared to 22 per cent at the end of 2000. Over the past five years, securities have displaced commercial loans as the dominant asset category in members' portfolios. The steady growth in securities and derivative related assets indicates the growing importance of capital market-based transactions in the business mix of the members, especially that of the large banks.

Asset Mix, 1997 vs. 2001



As at members' fiscal year end

Although securitized activity declined by 14 per cent year over year, securitized assets (excluding third party securitizations) still amounted to a substantial $90 billion at the end of 2001.

The decline is primarily the result of a sharp reduction in the level of commercial loans securitized, which was partially offset by an increase in the securitization of insured residential mortgages.

Worsening credit quality leads to an increase in impaired assets

The deterioration in credit quality was evident early in 2001, with a sharp increase in levels of impaired loans. Overall, impaired loans grew by 31.5 per cent during 2001, more than double the rate recorded in 2000 (14 per cent). This resulted in an increase in gross impaired loans from 1.2 per cent of total loans in 2000 to 1.5 per cent in 2001. The higher level of impaired loans at member institutions continues to be fully covered by allowances for impairment as of the end of fiscal year 2001.

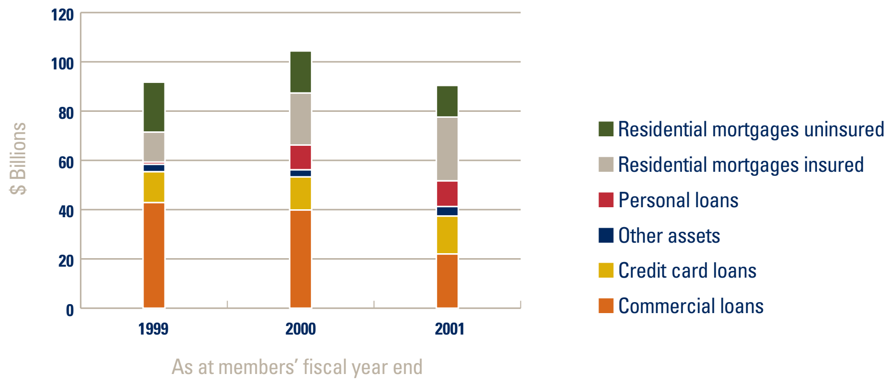
Specific provisions reached approximately $6 billion at the end of fiscal year 2001, compared to $4.6 billion at the end of fiscal year 2000. Total general allowances at member institutions amounted to about $8.3 billion at the end of 2001, an increase of 11 per cent for the year. General allowances amounted to 51 basis points of total assets in 2001, compared to 47 basis points in 2000. This reflects both prudent general allowance policy on the part of members and OSFI's capital treatment that permits a certain proportion of general allowances (currently 0.875 per cent of risk-weighted assets) to be included in capital.

Capitalization remains strong

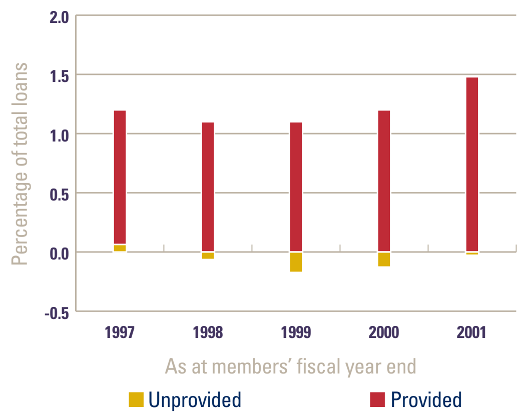
The membership's asset growth has resulted in an increase in the assets to capital ratio of the membership over the past few years. However, the lower overall risk weighting of assets, combined with increases in regulatory capital, led to an improvement in Bank for International Settlements (BIS) capital ratios over the past five years, rising to 12.8 per cent in 2001.

In summary, the past several years has seen a strengthening of the balance sheets of member institutions, accompanied by growing profits and increasing general allowances. Overall, the membership appears to be well positioned to deal with future risks.

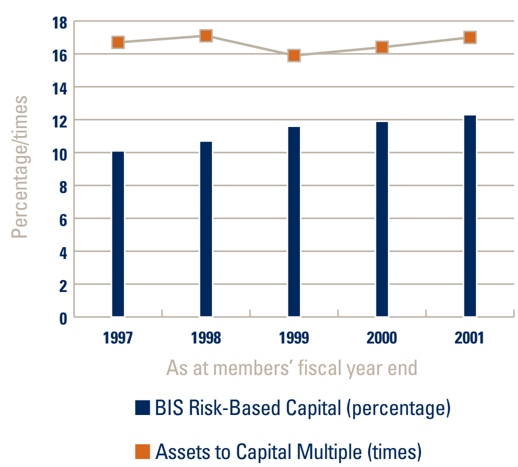
Securitized Assets Mix, 1999 – 2001



Impaired Loans to Total Loans, 1997 – 2001



Capitalization, 1997 – 2001



Adherence to Standards of Sound Business and Financial Practices

For the seventh and final year, member institutions reported their adherence to the CDIC Standards through the Standards Assessment and Reporting Program (SARP). As a result of the recent modernization of the Standards, the SARP program will be replaced.

Total deficiencies either reported by the member institutions or identified by examiners and CDIC remained almost the same in 2001 as in the previous year. Over the past three years there has been a significant decline in deficiencies. Of the deficiencies reported by members, 17 per cent were carried over from the year 2000. Four-fifths of the deficiencies related to two specific Standards: Internal Control and Credit Risk Management.

CDIC continued to monitor members' adherence to the Standards throughout 2001/2002 and to ensure that outstanding deficiencies were being addressed. Deficiencies identified by the examiners

… member institutions are continuing to recognize and report deficiencies more effectively.

and CDIC accounted for 19 per cent of the total in 2001, compared to 25 per cent in 2000 and 57 per cent in 1999. Overall, member institutions are addressing their deficiencies in a timely manner. This positive trend indicates that member institutions are continuing to recognize and report deficiencies more effectively.

Differential Premiums By-law — Premium Categories of Member Institutions

CDIC is funded primarily by deposit insurance premiums payable annually by member institutions. The premium payable by a member institution is based on the total amount of insured deposits held by the member as of April 30 and 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 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 system that scores a member institution according to a number of quantitative and qualitative criteria or factors. Quantitative factors include capital adequacy, earnings, asset quality and asset concentration. Qualitative factors include the examiner's rating, adherence to CDIC Standards and other information.

The 2001 premium rate for Category 4 was set at 1/3 of 1 per cent of insured deposits, which is the maximum allowed under the *Canada Deposit Insurance Corporation Act*. The rates for categories 1, 2 and 3 were the same as the previous year — 1⁄24th of 1 per cent, 1⁄12th of 1 per cent and 1⁄6th of 1 per cent respectively. In previous years, the rate for Category 4 was 1⁄6th of 1 per cent, the same as Category 3.

In the 2001 premium year, 67 per cent of all member institutions ranked in the best premium category and 90 per cent ranked in either Category 1 or 2 (see the table below).

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

Premium Category	Premium Year 2001	Premium Year 2000	Premium Year 1999
1	67	74	69
2	23	20	22
3	9	5	7
4	1	1	2
Total	**100**	**100**	**100**

Membership Profile

The following profile provides comparative information on CDIC's membership for the last five years. The profile is not intended, in any way, to reflect or otherwise comment on risk to CDIC. The profile has been prepared from financial information supplied by members through their normal reporting requirements, and from some financial information received directly by CDIC. Every effort has been made to ensure that the compilation is correct; however, as the financial information comes from varied sources, CDIC cannot guarantee its accuracy.

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

Based on CDIC membership as of March 31, 2002, the financial information has been classified into three major peer groups: domestic banks and their subsidiaries; subsidiaries of foreign institutions; and domestic trust and loan companies. These peer groups reflect 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

Note: 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 financial information from institutions that were no longer members as of March 31, 2002.

Membership Information

CDIC Members as of March 31, 2002[3]

Domestic Banks and Subsidiaries

Bank of Montreal Bank of Montreal Mortgage Corporation Trust Company of Bank of Montreal (The)
Bank of Nova Scotia (The) Bank of Nova Scotia Trust Company (The) Montreal Trust Company Montreal Trust Company of Canada National Trust Company Scotia Mortgage Corporation Victoria and Grey Mortgage Corporation
Canadian Imperial Bank of Commerce Amicus Bank CIBC Mortgages Inc. CIBC Trust Corporation Services Hypothécaires CIBC Inc.
Canadian Western Bank Canadian Western Trust Company
Citizens Bank of Canada Citizens Trust Company
CS Alterna Bank
Laurentian Bank of Canada B2B Trust Laurentian Trust of Canada Inc. LBC Trust
Manulife Bank of Canada
National Bank of Canada National Bank Trust Inc. Natcan Trust Company
President's Choice Bank
Royal Bank of Canada Royal Bank Mortgage Corporation Royal Trust Company (The) Royal Trust Corporation of Canada
Toronto-Dominion Bank (The) Canada Trust Company (The) Canada Trustco Mortgage Company First Nations Bank of Canada TD Mortgage Corporation TD Pacific Mortgage Corporation
Total: 39

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

Domestic Trust and Loan Companies

AGF Trust Company
CIBC Mellon Trust Company
Clarica Trust Company
Community Trust Company Ltd.
Co-operative Trust Company of Canada
Desjardins Trust Inc.
Effort Trust Company (The)
Equitable Trust Company (The)
Home Trust Company
Household Trust Company
Industrial-Alliance Trust Company
Investors Group Trust Co. Ltd. Trust Company of London Life (The) M.R.S. Trust Company
League Savings & Mortgage Company
Maple Trust Company
MCAP Inc.
MD Private Trust Company
Pacific & Western's eTrust of Canada Inc.
Peace Hills Trust Company
Peoples Trust Company
Standard Life Trust Company
Sun Life Financial Trust Inc.
Trimark Trust
Total: 24

Subsidiaries of Foreign Institutions

Amex Bank of Canada
Bank of China (Canada)
Bank of East Asia (Canada) (The)
Bank of Tokyo-Mitsubishi (Canada)
BNP Paribas (Canada)
BNY Trust Company of 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 Equisure Trust Company
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)
Sottomayor Bank Canada
State Bank of India (Canada)
UBS Bank (Canada) UBS Trust (Canada)
United Overseas Bank (Canada)
Total: 28

TOTAL: 91 members

Membership Changes: April 1, 1997 – March 31, 2002

New Members

September 10, 1997: MBNA Canada Bank	*May 31, 2000:* First Data Loan Company, Canada
September 10, 1997: Rabobank Canada	*May 31, 2000:* Habib Canadian Bank
October 24, 1997: Services Hypothécaires CIBC Inc.	*September 27, 2000:* CIBC Mellon Trust Company
May 21, 1998: Comerica Bank — Canada	*December 6, 2000:* Industrial-Alliance Trust Company
December 2, 1998: CTC Bank of Canada	*January 31, 2001:* Amicus Bank
December 2, 1998: MD Private Trust Company	*January 31, 2001:* Computershare Trust Company of Canada
December 2, 1998: President's Choice Financial Trust Company	*October 24, 2001:* BNY Trust Company of Canada
April 5, 2000: CCF Canada	

Other Membership Changes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

March 2, 2000: Rabobank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved — policy cancelled.

March 9, 2000: Home Savings & Loan Corporation was continued as a federal trust company under the name Home Trust Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

March 19, 2001: Crédit Lyonnais Canada amalgamated with CCF Canada — continuing as CCF Canada.

April 1, 2001: CCF Canada amalgamated with HSBC Bank Canada — continuing as HSBC Bank Canada.

April 17, 2001: Tokai Bank Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved — policy cancelled.

June 18, 2001: The Chase Manhattan Bank of Canada's application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved — policy cancelled.

June 29, 2001: State Street Trust Company Canada ceased to accept deposits — policy cancelled.

October 10, 2001: Fortis Trust Corporation ceased to accept deposits — policy cancelled.

October 31, 2001: General Trust of Canada changed its name to National Bank Trust Inc.

November 1, 2001: Banca Commerciale Italiana of Canada changed its name to IntesaBci Canada.

November 9, 2001: Bank One Canada ceased to accept deposits — policy cancelled.

November 9, 2001: CIBC Mortgage Corporation ceased to accept deposits — policy cancelled.

November 9, 2001: Deutsche Bank Canada ceased to accept deposits — policy cancelled.

January 4, 2002: Comerica Bank — Canada ceased to accept deposits — policy cancelled.

January 21, 2002: Credit Suisse First Boston Canada ceased to accept deposits — policy cancelled.

March 5, 2002: Mizuho Bank (Canada)'s application for authorization to accept deposits payable in Canada without being a CDIC member institution was approved — policy cancelled.

Summary Financial Information — Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2001		2000		1999		1998		1997	
	$	%	$	%	$	%	$	%	$	%
Assets										
Cash resources	87.5	5	85.8	6	94.9	7	85.7	6	97.5	8
Securities	377.2	23	329.8	22	298.5	22	261.4	19	213.1	17
Loans	925.3	57	859.7	58	822.6	59	824.1	59	773.2	63
Other assets	251.9	15	201.3	14	170.0	12	218.6	16	151.1	12
Total assets	**1,641.9**	**100**	**1,476.6**	**100**	**1,386.0**	**100**	**1,389.8**	**100**	**1,234.9**	**100**
Liabilities										
Deposits	1,092.4	66	1,016.8	69	951.5	69	916.5	66	843.3	68
Other liabilities	469.4	29	387.6	26	366.4	26	411.3	30	336.9	27
Total liabilities	**1,561.8**	**95**	**1,404.4**	**95**	**1,317.9**	**95**	**1,327.8**	**96**	**1,180.2**	**95**
Shareholders' equity	80.1	5	72.2	5	68.1	5	62.0	4	54.7	5
Total liabilities and Shareholders' equity	**1,641.9**	**100**	**1,476.6**	**100**	**1,386.0**	**100**	**1,389.8**	**100**	**1,234.9**	**100**

Income Statement ($ millions)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Interest income	86,037	84,116	77,282	78,112	66,022
Interest expense	56,267	58,397	51,830	53,438	42,063
Net interest income	**29,770**	**25,719**	**25,452**	**24,674**	**23,959**
Provision for impairment	6,265	4,003	3,260	2,820	2,275
Net interest income after provision for impairment	**23,505**	**21,716**	**22,192**	**21,854**	**21,684**
Other income	33,873	32,892	27,496	22,241	19,938
Net interest income and other income	**57,378**	**54,608**	**49,688**	**44,095**	**41,622**
Non-interest expenses	43,213	39,177	35,052	31,921	28,103
Net income before provision for income taxes	**14,165**	**15,431**	**14,636**	**12,174**	**13,519**
Provision for income taxes	3,346	5,001	4,664	4,325	4,939
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**10,819**	**10,430**	**9,972**	**7,849**	**8,580**
Non-controlling interest in net income of subsidiaries and extraordinary items	434	288	150	188	175
Net income	**10,385**	**10,142**	**9,822**	**7,661**	**8,405**

Asset Size and Quality Measures

Total Assets ($ billions and percentage)

As at members' fiscal year end	2001		2000		1999		1998		1997	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	1,558.4	94.9	1,405.2	95.2	1,326.6	95.7	1,329.0	95.6	1,178.9	95.5
Subsidiaries of foreign institutions	73.1	4.5	62.1	4.2	51.4	3.7	53.0	3.8	48.3	3.9
Domestic trust and loan companies	10.4	0.6	9.3	0.6	8.0	0.6	7.8	0.6	7.7	0.6
Total	**1,641.9**	**100.0**	**1,476.6**	**100.0**	**1,386.0**	**100.0**	**1,389.8**	**100.0**	**1,234.9**	**100.0**

Impaired Loans to Total Assets (percentage)

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	0.8	0.7	0.6	0.6	0.7
Subsidiaries of foreign institutions	0.9	1.1	1.2	1.5	1.8
Domestic trust and loan companies	0.9	0.5	0.5	0.6	0.8

Impaired loans (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	1.5	1.2	1.1	1.1	1.1
Subsidiaries of foreign institutions	1.6	1.9	2.0	2.6	3.0
Domestic trust and loan companies	1.3	0.7	0.8	0.9	1.2

Impaired loans (gross)/total loans (gross)

Impaired Loans Unprovided For (percentage)

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	-2.1	-12.5	-17.7	-8.2	4.5
Subsidiaries of foreign institutions	-3.2	1.8	-8.4	16.6	14.9
Domestic trust and loan companies	31.1	-30.1	-29.6	0.8	14.0

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

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	-0.4	-1.8	-2.4	-1.2	0.8
Subsidiaries of foreign institutions	-0.4	0.3	-1.6	5.4	5.9
Domestic trust and loan companies	3.3	-1.7	-1.8	0.1	1.4

Impaired loans (net)/average shareholders' equity

Deposit Liabilities in Canada

Total Deposits ($ billions and percentage)

As at April 30	2001		2000		1999		1998		1997	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	897.8	94.4	851.6	95.0	800.7	95.2	778.4	95.1	715.7	95.0
Subsidiaries of foreign institutions	46.2	4.8	39.0	4.3	35.0	4.2	35.0	4.3	31.6	4.2
Domestic trust and loan companies	7.5	0.8	6.1	0.7	5.5	0.6	5.4	0.6	5.7	0.8
Total	**951.5**	**100.0**	**896.7**	**100.0**	**841.2**	**100.0**	**818.8**	**100.0**	**753.0**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits)

As at April 30	2001		2000		1999		1998		1997	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	314.7	33.1	304.0	33.9	294.1	35.0	285.8	34.9	293.2	38.9
Subsidiaries of foreign institutions	10.4	1.1	8.7	1.0	8.2	1.0	7.3	0.9	7.2	1.0
Domestic trust and loan companies	6.5	0.7	5.4	0.6	4.8	0.6	4.7	0.6	5.0	0.7
Total	**331.6**	**34.9**	**318.1**	**35.5**	**307.1**	**36.6**	**297.8**	**36.4**	**305.4**	**40.6**

Capitalization Measures

Capitalization (percentage)

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	4.7	4.8	4.5	4.2	4.3
Subsidiaries of foreign institutions	6.9	6.6	6.0	4.8	4.8
Domestic trust and loan companies	8.7	8.8	8.5	8.4	7.9

Average shareholders' equity/average assets

BIS Risk-Based Capital (percentage)*

As at members' fiscal year end	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	12.2	11.8	11.5	10.7	10.1
Subsidiaries of foreign institutions	13.3	12.9	12.9	11.1	10.4
Federal trust and loan companies	19.5	20.1	22.2	22.7	24.3

* BIS (Bank for International Settlements): Provincial trusts have in most cases 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	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	9,793	9,764	9,511	7,414	8,072
Subsidiaries of foreign institutions	506	297	230	167	258
Domestic trust and loan companies	86	81	81	80	75
Total	**10,385**	**10,142**	**9,822**	**7,661**	**8,405**

Interest Income (percentage)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	47.0	43.8	48.2	52.8	54.8
Subsidiaries of foreign institutions	43.2	44.9	46.0	49.7	52.0
Domestic trust and loan companies	45.6	43.2	46.0	46.4	44.5

Interest income: net interest income/total revenue

Interest Spread (percentage)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	1.9	1.8	1.8	1.8	2.0
Subsidiaries of foreign institutions	2.1	2.1	1.9	1.9	2.0
Domestic trust and loan companies	2.2	2.3	2.1	2.2	2.0

Interest spread: net interest income/average assets

Non-Interest Income (percentage)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	2.1	2.3	1.9	1.6	1.7
Subsidiaries of foreign institutions	2.8	2.6	2.2	1.9	1.9
Domestic trust and loan companies	2.7	3.0	2.5	2.6	2.5

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	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	3.3	3.3	3.0	2.9	3.0
Subsidiaries of foreign institutions	4.1	4.2	3.7	3.5	3.3
Domestic trust and loan companies	4.1	4.4	3.5	3.8	3.6

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	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	0.7	0.7	0.7	0.6	0.7
Subsidiaries of foreign institutions	0.7	0.5	0.4	0.3	0.6
Domestic trust and loan companies	0.9	0.9	1.0	1.0	0.9

ROAA: net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	13.9	14.9	15.5	13.4	16.6
Subsidiaries of foreign institutions	10.6	7.5	7.3	6.5	11.9
Domestic trust and loan companies	9.9	10.6	12.1	12.4	11.8

ROAE: net income/average shareholders' equity

Efficiency (percentage)

For the members' fiscal year ending in	2001	2000	1999	1998	1997
Domestic banks and subsidiaries	68.1	66.7	65.8	67.6	63.8
Subsidiaries of foreign institutions	65.0	69.7	75.3	77.1	69.9
Domestic trust and loan companies	68.2	69.9	63.7	66.4	63.2

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

Corporate Governance

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

Board of Directors

The *Canada Deposit Insurance Corporation Act* states that the Board of Directors "shall administer the affairs of the Corporation in all things ..." The Board is made up of the Chairperson, appointed by the Governor in Council, five *ex officio* directors — the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions and the Deputy Superintendent or an officer of OSFI and the Commissioner of the Financial Consumer Agency of Canada — and five private sector members.

During the past year, the Board continued work on its governance practices based on a series of recommendations arising from an independent review commissioned in 2000 and comments from the Auditor General. One of the review's recommendations was that the Board enhance its involvement in the Corporation's annual strategic planning process leading to approval of the Corporate Plan. Although the Board has always been involved in strategic planning, in October 2001 it formalized its processes by holding an all-day strategic planning session. With input from management, the Board discussed the Corporation's longer-term direction, and validated business objectives and strategies to fulfill these objectives over a five-year period. The Board will continue to be involved in the strategic planning process throughout the year and will dedicate a session annually to strategic planning issues. Working under the aegis of the newly created Governance Committee, the Board will continue to assess its own activities on a regular basis, setting benchmarks against evolving best practices in this area. The work of the Board's committees during the year is described more fully below.

Composition of the Board

On March 31, 2002, the composition of the Board of Directors was as follows:

Ronald N. Robertson
Chairperson of the Board
Canada Deposit Insurance Corporation
(September 15, 1999)

Tracey Bakkeli, Consultant
T. Bakkeli Consultants Inc.
Regina
(March 1, 2001)

Viateur Bergeron, Partner
Bergeron Gaudreau Laporte
Gatineau
(April 3, 2000)

David A. Dodge, Governor
Bank of Canada
(ex officio)
(February 1, 2001)

John Doran
Assistant Superintendent, Supervision
Office of the Superintendent of
Financial Institutions *(ex officio)*
(February 22, 2002)

H. Garfield Emerson
National Chairman and Senior Partner
Fasken Martineau DuMoulin LLP
Toronto
(December 20, 2000)

Bill Knight, Commissioner
Financial Consumer Agency of Canada
(ex officio)
(November 1, 2001)

Nicholas Le Pan, Superintendent
Office of the Superintendent of
Financial Institutions *(ex officio)*
(September 1, 2001)

Kevin Lynch, Deputy Minister
Department of Finance
(ex officio)
(March 20, 2000)

Colin P. MacDonald, Partner
Borden Ladner Gervais LLP
Calgary
(December 20, 1997)

The alternates were:

Julie Dickson
Assistant Superintendent Regulation
Office of the Superintendent of
Financial Institutions
(February 26, 2002)

Charles Freedman
Deputy Governor
Bank of Canada
(May 7, 2001)

Michael Horgan
Senior Associate Deputy Minister
Department of Finance
(October 1, 2001)

CDIC's statutory objects are to:

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

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

Working under the aegis of the newly created Governance Committee, the Board will continue to assess its own activities on a regular basis.

Board Committees

On March 31, 2002, there were four standing Board committees.

Executive Committee: Unchanged from previous years, the mandate of the Executive Committee is to manage emergency situations and other highly sensitive matters referred to it by the Board of Directors, the Chairperson or the Chief Executive Officer. On March 31, 2002, the Committee was chaired by the CDIC's Chairperson; its other members were H. Garfield Emerson and David A. Dodge. The Executive Committee meets only when needed; there were no meetings in 2001/2002.

Audit Committee: In reviewing the mandate of the Audit Committee last year, members of the Committee and the Board considered the potential benefits of incorporating a risk oversight function. Subsequently added to the Committee's mandate, this formal role will provide the Board with important input on the risk management of the Corporation. A number of other, more technical changes were also made to the Committee's mandate.

On March 31, 2002, the Chairperson of the Audit Committee was H. Garfield Emerson; its other members were Viateur Bergeron, Tracey Bakkeli and Nicholas Le Pan. The Audit Committee's principal activities over the course of its meetings during the year included:

- reviewing the Corporation's financial statements and recommending them to the Board for approval
- reviewing a new provisioning methodology with the assistance of an independent advisor with financial expertise
- conducting a self-assessment against the recommendations set out in chapter 18 of the Auditor General's report to Parliament on best practices for audit committees (*Report of the Auditor General of Canada — December 2000, Governance of Crown Corporations*)

Human Resources and Compensation Committee: On March 31, 2002, the Chairperson of this Committee was Colin P. MacDonald, and its members were Nicholas Le Pan and Ronald N. Robertson. Among the Committee's main activities over the course of meetings during the year were:

- reviewing and making recommendations to the Board on personnel policies, training, succession planning, compensation, compliance with human resource-related statutory requirements, complaints and other human resource-related matters
- reviewing a proposed new performance appraisal system, including objectives, for the CEO and recommending it to the Board for approval
- considering the results of the 2001 employee survey and related action plans

Ad Hoc (Governance) Committee: Chaired by Ronald N. Robertson, the Committee's other members were Tracey Bakkeli, Viateur Bergeron, H. Garfield Emerson and Colin P. MacDonald. The mandate of this Committee was to address the recommendations arising from the independent review of the Board commissioned in 2000. At the March 7, 2002 Board Meeting, the Ad Hoc (Governance) Committee was replaced by the permanent standing Governance Committee. The Ad Hoc (Governance) Committee undertook the following key activities over the course of its meetings during the year:

- revising an existing Directors' Profile setting out the most advantageous skill sets for Directors, and conducting a gap analysis to determine what skill sets needed to be augmented
- addressing several outstanding items from the 2000 governance review
- reviewing revised mandates of the Board's committees and recommending the creation of a new Governance Committee
- recommending objectives for the Chief Executive Officer to the Board (as of March 2002, this role is delegated to the Human Resources and Compensation Committee)

Governance Committee: On March 31, 2002, the Committee was chaired by CDIC's Chairperson; its other members were Tracey Bakkeli and Bill Knight. New as of March 2002, the Governance Committee's primary roles include: considering future appointments to the Board and making recommendations to the Minister; providing information and training to the Board; reviewing, on a periodic basis, the Corporation's mandate as set out in the *Canada Deposit Insurance Corporation Act*, and all other matters that may affect the Board's effectiveness.

Meetings and Attendance[a] (April 1, 2001 – March 31, 2002)

	Board of Directors	Executive Committee	Audit Committee	Ad Hoc Committee	HRC[b] Committee
	Board Committees				
Number of Meetings	9[c]	0	3	3	3
Attendance: R.N. Robertson — Chairperson	9			3	3
V. Bergeron	9		3	3	
H.G. Emerson	8		3	2	
C.P. MacDonald	8			3	3
T. Bakkeli	9		3	3	
Ex officio members (alternates): D.A. Dodge (C. Freedman[d])	7 (5)		1		
J.R.V. Palmer[e] (J. Doran)	3 (1)		1 (1)		
N. Le Pan[f] (J. Dickson[g])	7		2		3
J. Doran[h]					
K. Lynch (I. Bennett[i]/M. Horgan[j])	(4)[k]				
B. Knight[l]	4				

[a] Also includes meetings attended by telephone.

[b] The Employee Relations Committee's name was changed to Human Resources and Compensation Committee effective May 31, 2001.

[c] Includes the October 2, 2001 Board strategic planning session.

[d] C. Freedman was appointed Alternate to the Governor, Bank of Canada as at May 7, 2001.

[e] J.R.V. Palmer ceased to be Superintendent to the Office of the Superintendent of Financial Institutions as at September 1, 2001.

[f] N. Le Pan was appointed Superintendent to the Office of the Superintendent of Financial Institutions as at September 1, 2001.

[g] J. Dickson was appointed Alternate to the Superintendent to the Office of the Superintendent of Financial Institutions as at February 26, 2002.

[h] J. Doran was appointed a Director as at February 26, 2002.

[i] I. Bennett ceased to be the Alternate to the Deputy Minister of Finance as at September 1, 2001.

[j] M. Horgan was appointed Alternate to the Deputy Minister, Finance as at October 1, 2001.

[k] In addition, R. Hamilton attended four meetings of the Board as an observer from the Department of Finance.

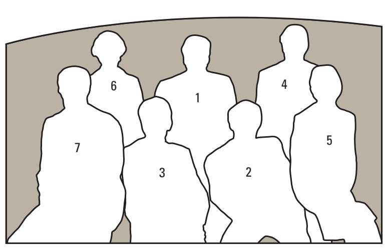
[l] B. Knight was appointed Commissioner of the Financial Consumer Agency of Canada as at November 1, 2001.

Officers and External Committees

Officers

Officers of CDIC include the President and Chief Executive Officer (CEO) and those 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.

On March 31, 2002, CDIC officers were as follows:



1) Jean Pierre Sabourin
President and CEO
(June 1, 2001) (re-appointed to June 1, 2006)

2) Wayne Acton
Senior Vice-President
Field Operations

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

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

5) M. Claudia Morrow
Corporate Secretary

6) Gillian Strong
General Counsel

7) Thomas J. Vice
Senior Director, Finance and Treasurer

Inter-Agency Committees

The OSFI/CDIC Liaison Committee is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. This Committee coordinates the activities of OSFI and CDIC in order to avoid unwarranted duplication and cost, and to foster close and effective working relationships between the two agencies. On March 31, 2002, the members of the Liaison Committee were as follows:

Co-Chair

Ronald N. Robertson
Chairperson of the Board
CDIC

Co-Chair

Nicholas Le Pan
Superintendent
Office of the Superintendent of Financial Institutions
OSFI

Members

Jean Pierre Sabourin
President and CEO
CDIC

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

Ken Mylrea
Senior Director
Insurance
CDIC

John Doran
Assistant Superintendent
Supervision
OSFI

Pamela Hopkins
Managing Director
OSFI

CDIC Committees

The Real Estate Advisory Panel (REAP) reviews, evaluates and makes recommendations on proposals brought forward by CDIC management with respect to the realization of major real estate assets in which the Corporation has an interest. On March 31, 2002, the members of the Panel were as follows:

Chair

Daniel F. Sullivan
Deputy Chairman
Scotia Capital Inc.

Secretary

Christopher J. Porter
Director, Claims and Recoveries
CDIC

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

Assessment Against Governance Guidelines

In 1996, CDIC conducted a self-assessment to determine how well it was fulfilling its responsibilities as set out in Treasury Board of Canada's *Corporate Governance in Crown Corporations and Other Public Enterprise Guidelines (1996)*.

The results of this review were presented in *CDIC — Annual Report 1996/1997*. The Guidelines remain in effect. The results of the Corporation's 2001/2002 self-assessment are presented below.

Guidelines (Summary)

Guideline 1

Board Responsibilities

The board of directors of every Crown corporation should explicitly assume responsibility for the stewardship of the corporation. The board should:

(i) approve the strategic direction and corporate plan

(ii) identify principal risks

(iii) approve a succession plan

(iv) ensure the board receives adequate information

(v) ensure the effectiveness of its audit regime

Actions Undertaken

(i) CDIC's Board reviews and approves the Corporation's strategic direction in its annual Corporate Plan. Last fall, the Board held a formal strategic planning session to provide input to management on the longer-term direction of the Corporation.

(ii) The corporate risk project is an integral part of the strategic management process. Ensuring that corporate risks are being managed is also a key component of the Audit and Consulting Services Department's annual plan.

During the year, CDIC's principal risks were identified and reported to the Board. Among them is a consideration of the overall membership and the risk it poses. This is addressed throughout the life cycle of a member from entry (upon Board approval), management of risks and exit strategies. A major report reviewing the CDIC membership was provided to the Board this past year.

(iii) A short-term succession plan for the position of CEO has been approved and a longer-term succession plan is being developed. A succession plan for senior management is in place.

(iv) The Board monitors the nature and quality of the information it receives. This practice is now part of the mandate of the new Governance Committee.

(v) The Board receives reports from the Audit Committee and is satisfied that the Committee is effective.

This past year, the Audit Committee undertook a self-assessment against the *Report of the Auditor General of Canada — December 2000, Governance of Crown Corporations* and, in particular, the best practices for audit committees. The Committee determined that it is following these best practices.

Guidelines (Summary)

Guideline 2

Public Policy Objectives

The board of directors of every Crown corporation should examine its public policy objectives and periodically the legislated mandate to ensure their continuing relevance. The board should:

(i) document public policy objectives

(ii) appreciate the contemporary trade-offs between public policy and commercial objectives

(iii) assess the relevance of its mandate

Actions Undertaken

The Board has considered its statutory objects in the past. The mandate will continue to be addressed at future strategic planning sessions of the Board.

Guideline 3

Communications

The board of directors of every Crown corporation should ensure that the corporation communicates effectively, with the Crown, other stakeholders and the public. The board should:

(i) communicate effectively with the Crown, other stake-holders and the public

(ii) report in a timely and comprehensive manner

(i) The Corporation discharges its responsibilities in this area in a variety of ways, including publishing a Summary of its Corporate Plan and its Annual Report. Effective communication is further enhanced by the presence on CDIC's Board of the Superintendent of Financial Institutions, the Deputy Minister of Finance, the Governor of the Bank of Canada, and the Commissioner of the Financial Consumer Agency of Canada. These individuals also serve on the Financial Institutions Supervisory Committee, the Senior Advisory Committee of the Department of Finance and meet with CDIC representatives in other venues.

CDIC meets periodically with the Minister responsible for CDIC, the Auditor General of Canada, and other government departments and agencies on an as-needed basis.

The Chairperson and CEO attend Parliamentary committees when requested.

CDIC member institutions are regularly consulted on a variety of issues.

CDIC is in its third year of a comprehensive five-year public awareness and education program.

(ii) CDIC's Summary of the Corporate Plan and Annual Report are tabled in Parliament.

Guidelines (Summary)

Actions Undertaken

Guideline 4

Board and Management Relations

Boards of directors and management should develop an effective working relationship. The board should:

(i) allocate responsibilities

(ii) build a relationship

(iii) establish accountability

Actions undertaken:

(i) Position descriptions for the Chairperson and the CEO are in place, together with a Memorandum of Understanding addressing the practical implications of their respective roles. The Board will review these documents in the upcoming year.

(ii) There is a close collaborative relationship between the Chairperson and the CEO where ongoing feedback is provided. See also points 4 (i) above and 5 (ii) below.

(iii) Consistent with the new *PCO Performance Management Guidelines for Chief Executive Officers of Crown Corporations, 2001*, the Board of Directors has instituted a process setting out the CEO's objectives for the coming year, as well as a process for assessing performance.

Guideline 5

Board Independence

The board of directors should ensure that the board can function independently. The board should:

(i) distinguish the roles of the Chair and the CEO

(ii) meet periodically without the CEO or representatives from management

(iii) ensure the independent judgment of public servants serving as Directors

(iv) delegate duties to committees

(v) obtain independent advice, as appropriate

(vi) be sensitive to conflict of interest issues

Actions undertaken:

(i) See point 4 (i) above.

(ii) The CEO is not a member of the Board. CDIC officers regularly attend Board meetings. During the course of every Board meeting, an *in camera* session is held with Directors only. The Audit Committee meets separately with the internal auditor and with the representatives of the Office of the Auditor General at each meeting.

(iii) A memorandum setting out the responsibilities of public servants who serve as *ex officio* Directors is sent to each one upon joining the Board.

(iv) This past year, the Board undertook a review of the mandates of all of its Committees and, where appropriate, amended them.

(v) This past year, the Audit Committee engaged an independent financial advisor for a specific issue with Board approval and in consultation with management.

(vi) CDIC has a *Conflict of Interest Code* describing the responsibilities of Directors in this regard. Directors report annually on any potential conflicts.

Guidelines (Summary)

Actions Undertaken

Guideline 6

The Position of the CEO

In recognition of the importance of the position of CEO, the board of directors of every Crown corporation should periodically assess the CEO's position and evaluate the CEO's performance. The board should:

(i) assess the CEO's position

(ii) evaluate performance

(i) & (ii) See point 4 (iii) above.

Guideline 7

Renewal of the Board

The board of directors of every Crown corporation should assess its effectiveness and initiate renewal of the board. The board should:

(i) assess the board

(ii) renew the board

(i) The Governance Committee will consider a regular evaluation and assessment process to determine the effectiveness of the Board and of individual Directors.

(ii) Updated last year, the CDIC Directors' Profile was submitted to the government, together with a gap analysis of the skills set required of Directors. The Minister and appropriate government departments have been provided with names of possible candidates for the private sector Director appointments to be made by the Governor in Council. The list was submitted following a gap analysis conducted of Directors' skills sets.

Guideline 8

Education of Directors

Directors of Crown corporations should receive orientation and education programs appropriate to their needs. The board should:

(i) orient new Directors

(ii) provide ongoing education

CDIC offers extensive briefing sessions to all new Directors and holds informal briefings on an ongoing basis. Reports to the Board provide comprehensive background on each issue.

Guidelines (Summary)	Actions Undertaken
Guideline 9 *Compensation* The board of directors should review the adequacy and form of compensation for directors.	Although this review is included in the mandate of the Governance Committee, the Governor in Council sets the compensation for Directors.
Guideline 10 *Responsibility for Corporate Governance* The board of directors should assume responsibility for developing the Crown corporation's approach to governance issues.	Last year, the Ad Hoc (Governance) Committee of the Board addressed a variety of governance issues. The new Governance Committee will assume this responsibility and make recommendations to the Board.

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 2001/2002, CDIC submitted its corporate plan, the summary of the corporate plan 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 three requests under the provisions of the *Access to Information Act*. No outstanding requests were carried forward from the previous reporting period. For two of the requests, CDIC provided the records requested within 30 days and, for the third, the records were provided within 60 days. As at March 31, 2002, no complaint, investigation or appeal was brought to the attention of CDIC in relation to the outcome of the above requests.

During the last fiscal year, CDIC did not receive any requests under the provisions of the *Privacy Act*.

CDIC has been recognized for leadership in implementing the federal Multiculturalism Policy.

Health and Safety

The Corporation is subject to Part II of the *Canada Labour Code* and its regulations dealing with occupational health and safety, and pursuant to the *Canadian Occupational Health and Safety Regulations*, CDIC must report each year to Human Resources Development Canada (HRDC) on incidents, injuries and action taken with regard to health and safety during the previous calendar year. There were no reportable injuries or incidents this past year.

As required by the *Canada Labour Code*, CDIC has a Health and Safety Committee comprised of employees and representatives from management. This Committee held 10 meetings during the 2001 calendar year.

On March 1, 2002, CDIC filed its annual report with HRDC for the calendar year ending December 31, 2001. There were no deficiencies to address.

Official Languages

On May 28, 2001, CDIC filed with the Treasury Board Secretariat (TBS) its annual assessment on official languages at CDIC for fiscal year 2000/2001, and TBS has confirmed that CDIC is fulfilling its obligations well.

Employment Equity

Section 18(6) of the *Employment Equity Act* provides for the mandatory filing of a narrative report on the measures undertaken to implement employment

equity and the results achieved for organizations with 100 or more employees. Due to its size, the Corporation has not been required to report on the implementation of employment equity for the past three years but has continued to respect the employment equity provisions.

CDIC tracks its progress in employment equity internally and promotes various employment equity initiatives.

Multiculturalism

On December 10, 2001, CDIC filed with the Minister of Canadian Heritage its report on activities under the Multiculturalism Program for fiscal year 2000/2001. The Corporation's increasing involvement in international activity means it has significantly enhanced opportunities for cross-cultural awareness.

In the Annual Report to Parliament on the Operation of the *Canadian Multiculturalism Act*, Canadian Heritage cites CDIC as one of the departments and agencies hosting foreign delegations every year. Canadian Heritage wrote to CDIC to acknowledge our "leadership in implementing the Multiculturalism Policy across the entire federal system."

For More Information About CDIC

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

Head Office

Canada Deposit Insurance Corporation
50 O'Connor St., 17th Floor
P.O. Box 2340, Station D
Ottawa, Ontario K1P 5W5

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

Toronto Office

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

CDIC IS COMMITTED TO PROMOTING AWARENESS AND EDUCATION ABOUT DEPOSIT INSURANCE AND THE SERVICES PROVIDED BY THE CORPORATION.

Publications

Consumer Information

Brochures

Protecting Your Deposits
CDIC Membership

Fact Sheets

CDIC Coverage for Deposits in Trust
CDIC Coverage for Joint Deposits
CDIC Coverage of Deposits when Member Institutions Amalgamate
CDIC Coverage for Deposits Held in Registered Plans
Deposit Insurance – The Basics
Deposit Insurance – Beyond the Basics
Deposit Insurance – Frequently Asked Questions

Member Institutions Information Bulletins

Return of Insured Deposits (2002-01)
Links to Deposit Registers (1999-02)
Joint and Trust Account Disclosure By-law – Information Disclosure Clarification (1998-03)
Deposit Insurance Information By-law – Post-Implementation Issues (1998-02)
Deposit Insurance Information By-law – Final (1998-01)
Deposit Insurance Information By-law – Phase II (1997-04)
Deposit Insurance Information By-law – Phase I (1997-02)
Joint and Trust Account Disclosure By-law – Information Disclosure (1997-01)
Joint and Trust Account Disclosure By-law (1996)

Corporate

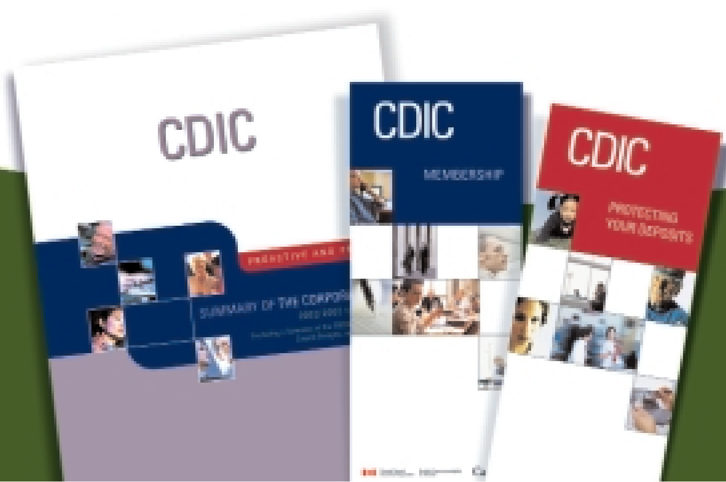
Annual Report
Summary of the Corporate Plan

General

Standards of Sound Business and Financial Practices (2001)
Guidelines for Third-party References to CDIC or Deposit Insurance (1999)
Application for Deposit Insurance (2000)

Act and By-laws

CDIC Act
Application for Deposit Insurance By-law
Deposit Insurance Application Fee By-law
Deposit Insurance Information By-law
Deposit Insurance Policy By-law
Differential Premiums By-law
Discretionary Interest By-law
Exemption from Deposit Insurance By-laws (Opting-out By-laws)
Interest Payable on Certain Deposits By-law
Joint and Trust Account Disclosure By-law
Notice Regulations (Compensation in Respect of the Restructuring of Federal Member Institutions)
Prescribed Practices Premium Surcharge By-law
Standards of Sound Business and Financial Practices By-law



Financial Review

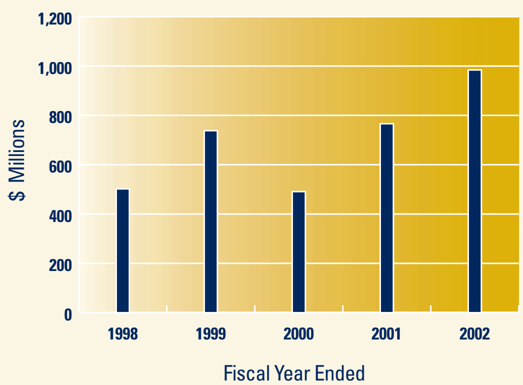
Management's Discussion and Analysis

Balance Sheet Highlights

Cash and investments

As at March 31, 2002, the combined balance of cash and investments was $985 million, made up of cash and short-term investments of $326 million and investments of $659 million. The weighted average yield was 3.36 per cent. The sources and uses of cash are described fully in the Statement of Cash Flows.

Cash and Investments, 1998 – 2002



CDIC's Investment Strategy

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

(i) limiting credit and market risk

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

These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations (Guidelines)* issued by the Minister of Finance. CDIC's investment policy requires that investments be limited to only those counterparties 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 counterparty. CDIC also limits its investment in member institutions to those in the highest category in CDIC's annual differential premiums assessment.

Loans and claims receivable

During the year, loans and claims receivable decreased by $40 million to $14 million, as a result of recoveries. As at March 31, 2002, the allowance for loss on loans and claims receivable was $6 million, the same as at March 31, 2001. At year end there were no loans receivable outstanding, as loan balances outstanding at March 31, 2001 were repaid during the year and no new loans were made. As liquidations of assets are completed the claims receivable balance will also be reduced to zero.

Future income tax asset

In 2000/2001, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning accounting for income taxes. Under these recommendations, future income tax assets and future income tax liabilities are recorded based on temporary timing differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets, including unused tax losses carried forward, are recognized to the extent that it is more likely than not that such losses will ultimately be utilized. As a result of these recommendations, the Corporation recorded a future income tax asset on its 2000/2001 financial statements.

In accordance with CICA recommendations, this asset is revalued each year. As at March 31, 2002, the future income tax asset was $7 million, representing a decrease of $76 million since March 31, 2001. Of that decrease, $71 million relates to a reduction in the estimated future years' taxable income that was primarily the result of two factors. First, the Corporation lowered its estimates of interest income on investments. Second, the Corporation no longer includes accrued interest income on an outstanding loan receivable relating to a failed member institution in its estimate of future years' taxable income, since these amounts have been assessed as non-collectible. Taken together, these two factors account for the reduction in the estimate of future years' taxable income against which future income tax benefits, such as loss carry-forwards, can be applied.

An additional $5 million reduction in the future income tax asset reflects the Corporation's current year's income tax expense that was reduced to zero through the application of a portion of the future tax asset.

Provision for guarantees

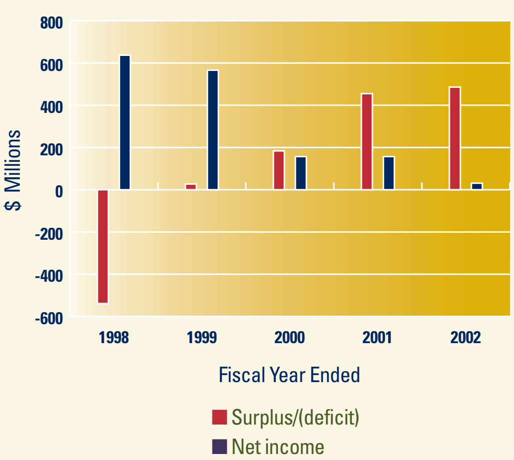
As at March 31, 2002, the provision for guarantees was $19 million, a decrease of $24 million from $43 million as at March 31, 2001. During 2001/2002, the Corporation paid $10 million to the Toronto-Dominion Bank under a deficiency coverage agreement and also reduced its estimates on this guarantee by $14 million. As mentioned in Note 7 to the financial statements (Provision for Guarantees), outstanding guarantees remain in force until December 31, 2002.

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. During the year, with the support of the Office of the Auditor General, the Corporation conducted a review of its methodology for estimating its provision for insurance losses. The review found that, while the existing methodology was consistent with industry practice, the variables used in the methodology could be enhanced to provide a more robust estimate. As a result, the Corporation implemented enhancements to the estimates for probability of default and loss given default.

Probability of default rates have been enhanced to include both historical and forward-looking perspectives. Moody's and Standard & Poor's default statistics were used to derive the historical component, while Moody's KMV, a well-known provider of market-based quantitative credit risk products for financial institutions and investors, was used to provide a forward-looking component to the probability of default estimate.

Net Income and Surplus/Deficit, 1998 – 2002



Interest Revenue vs. Operating Expenses 1998 – 2002

To provide a more reflective estimate of the Corporation's expected loss rate in the future, the loss given default estimate has been revised. It is the cumulative unweighted average loss sustained by the Corporation 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.

The effect of the enhancements has been recorded in the current year's financial statements as a change in accounting estimate. As a result, the estimate for the provision for insurance losses increased to $500 million as at March 31, 2002 from $400 million as at March 31, 2001.

Statement of income and surplus highlights

The Corporation ended 2001/2002 with a $486 million surplus, an increase of $31 million over 2001. For the year ended March 31, 2002, the Corporation's revenues totalled $191 million. This revenue was offset by total expenses and adjustments of $160 million, resulting in a net income for the year of $31 million. Net income for the year was $126 million lower than in 2000/2001, primarily as a result of the adjustment to the provision for insurance losses and the write-down of the future income tax asset. The impact of these adjustments was partially offset by the recovery of some $26 million of claims and loans receivable that were previously written off by the Corporation.

Premium revenue increased to $155 million in 2001/2002 from $140 million in the previous year, due to a combination of a higher insured deposit base and member movements between premium categories.

Interest revenue from cash and investments was $36 million in 2001/2002 ($35 million in 2000/2001) and operating expenses for the year ended March 31, 2002 totalled $23 million ($21 million in 2000/2001).

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

For the years ending	2002	2001	2000	1999	1998
Selected Balance Sheet Items					
Cash and investments	985	766	491	738	502
Provision for insurance losses	500	400	400	400	400
Surplus (deficit)	486	455	184	27	(539)
Selected Cash Flow Items					
Claims paid	–	–	–	–	–
Claims recovered	18	62	35	58	156
Loans disbursed	–	–	–	–	–
Loans recovered	22	40	82	73	208
Repayments of loans from the CRF	–	–	–	395	460
Payment of guarantees	10	10	515[a]	29	32
Selected Income Statement Items					
Premiums	155	140	134	515	531
Interest on cash and investments	36	35	32	28	16
Operating expenses	23	21	18	17	20
Interest on loans from the CRF	–	–	–	8	46
Adjustment to allowance and provisions for loss	86	(6)	(3)	(11)	(144)
Member Institutions					
Number of federal institutions – banks	34	42	49	54	55
Number of federal institutions – trust and loan companies	48	49	50	47	45
Number of provincial institutions	9	10	10	12	12
Total number of institutions	91	101	109	113	112
Number of insolvencies	–	–	–	–	–
Total insured deposits ($ billions)	339	327	317	308	317
Employees					
Number of permanent employees[b]	95	86	86	83	80
Other					
Average yield on cash and investments	3.36%	5.46%	5.70%	5.16%	–
Average cost of funds	–	–	–	7.0%	7.0%
Growth rate of insured deposits	3.7%	3.2%	2.7%	(2.8%)	(3.4%)

[a] 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.

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

Comparison with 2001/2002 Corporate Plan

Balance Sheet

Total assets as at March 31, 2002 were $1,012 million, compared to the planned amount of $958 million. This positive variance was primarily the result of cash and investments, and claims receivable balances. The Corporation concluded its 2001/2002 fiscal year with higher than planned cash and investments of approximately $33 million. This was mainly the result of the Corporation's 2000/2001 fiscal year, in which the Corporation finished the year with $81 million higher than planned cash and investments. This positive variance, combined with the results of the current year's operations, resulted in a cash and investment balance of $985 million. Claims receivable of $20 million as at March 31, 2002 were $11 million higher than planned, due to timing differences in the expected recoveries from various estates of failed member institutions.

The provision for insurance losses increased by $100 million as the result of the enhanced provisioning methodology discussed earlier.

Statement of Income and Surplus

Total income during the year was $191 million or $3 million higher than planned. Premium revenue of $155 million was $12 million higher than planned, due to a combination of higher than planned insured deposits and the movement of members between premium categories. Interest on cash and investments for the year ended March 31, 2002 was $36 million or $9 million lower than planned. This negative variance reflects lower than anticipated yields on investments during the year due to the decline in interest rates.

Net income for the year ended March 31, 2002 was $31 million or $154 million lower than planned. This is primarily the result of the adjust-

ment to the allowance and provision loss of $87 million and the write-down of the future income tax asset of $76 million. As a result of the adjustment to the allowance and provision for loss, expenses totalled $84 million or $81 million higher than planned. This adjustment reflects the enhanced provision for insurance losses methodology as well as the reduction in the liability relating to an outstanding guarantee, neither of which was planned. The effect of this adjustment was offset by greater recoveries of claims and loans receivable that were previously written off by the Corporation.

During the year, the Corporation had total operating expenses of $23 million compared to a planned amount of $22 million. The variance is primarily the result of higher than planned salary and benefit and consulting costs.

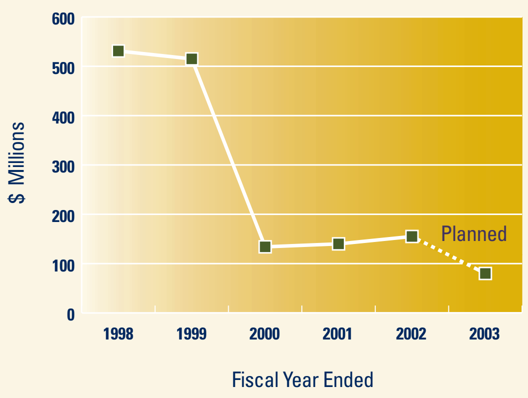
The year-end surplus of $486 million was $46 million lower than planned. This variance reflects a $108 million higher than planned opening surplus balance, which was primarily the result of the Corporation recognizing a future income tax asset on its 2000/2001 financial statements, combined with lower than planned net income for 2001/2002, as discussed above.

2002/2003 Corporate Plan

Given the Corporation's current healthy financial position, premiums have been reduced for the 2002 premium year. For all four differential premiums categories, the premium rate charged has been reduced by 50 per cent. This is expected to result in $80 million in premium revenue for the 2002/2003 fiscal year. Combined with a planned $24 million in interest on cash and investments, the Corporation's total income is expected to be $104 million, offset by net expenses of $20 million, for a projected net income before reduction in future income tax asset of $84 million.

As at March 31, 2003, cash and investments and surplus are expected to be $1,044 million and $654 million, respectively. The surplus figure does not include the adjustment made to the provision for insurance losses in the current year, as the enhancements to the methodology were 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 surplus by $100 million to $554 million.

Premium Revenue, 1998 – 2002



Balance Sheet (as at March 31, 2002)

		2002/2003 Corporate Plan	2001/2002 Actual Results	2001/2002 Corporate Plan
		$ Millions		
Assets	Cash and investments	1,044	985	952
	Premiums and other accounts receivable	5	5	–
	Capital assets	1	1	2
		1,050	991	954
	Loans receivable	–	–	8
	Claims receivable	–	20	9
	Allowance for loss on loans and claims receivable	–	(6)	(13)
		–	14	4
	Future income tax asset	10	7	–
	Total Assets	**1,060**	**1,012**	**958**
Liabilities	Accounts payable	6	7	6
	Provision for guarantees	–	19	20
	Provision for insurance losses	400	500	400
		406	526	426
	Surplus	654	486	532
	Total liabilities and Surplus	**1,060**	**1,012**	**958**

Statement of Income and Surplus (for the year ended March 31, 2002)

		2002/2003 Corporate Plan	2001/2002 Actual Results	2001/2002 Corporate Plan
		$ Millions		
Revenue	Premiums	80	155	143
	Interest on cash and investments	24	36	45
	Other income	–	–	–
		104	191	188
Expenses	Operating expenses	24	23	22[a]
	Adjustment to allowance and provision for loss	2	87	–
	Recovery of amounts previously written-off	(6)	(26)	(19)
		20	84	3
	Net income before reduction in future income tax asset	84	107	185
	Reduction in future income tax asset	13	76	–
	Net income	71	31	185
	Surplus, beginning of year	583	455	347
	Surplus, end of year	**654**	**486**	**532**

[a] The level of operating expenses approved in the Corporate Plan 2001/2002 to 2005/2006 was $21 million. An additional $0.5 million in expenditures was approved by the Board of Directors for reassessment of the provisioning methodology for insurance losses.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

June 12, 2002

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 loans and 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

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

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Canada Deposit Insurance Corporation as at March 31, 2002 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, 2002 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, 2002

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

		Note	2002	2001
Assets	Cash and short-term investments	4	$ 325,671	$203,572
	Investments	5	659,195	562,606
	Premiums and other accounts receivable		5,171	137
			990,037	766,315
	Capital assets		901	846
	Loans and claims receivable	6, 8	14,291	53,767
	Future income tax asset	10	7,040	83,148
			$1,012,269	**$904,076**
Liabilities	Accounts payable		$ 6,810	$ 6,107
	Provision for guarantees	7, 8	19,000	43,000
	Provision for insurance losses	3, 8	500,000	400,000
			525,810	449,107
Surplus			486,459	454,969
			$1,012,269	**$904,076**
Contingent Liabilities and Commitments		12, 13		

(See accompanying notes.)

Approved by the Board:

Director

Director

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

		Note	2002	2001
Revenue	Premiums	11	$154,646	$139,989
	Interest on cash and investments		36,104	35,044
	Other revenue		128	20,874
			190,878	195,907
Expenses	Operating expenses		22,775	20,801
	Adjustment to allowance and provisions for loss	3, 8	86,376	(5,783)
	Recovery of amounts previously written-off		(25,871)	(7,349)
			83,280	7,669
	Net income before reduction in future income tax asset		107,598	188,238
	Reduction in future income tax asset		76,108	30,899
	Net Income		31,490	157,339
	Surplus, beginning of year		454,969	297,630
	Surplus, end of year		**$486,459**	**$454,969**

(See accompanying notes.)

Statement of Cash Flows for the year ended March 31
(in thousands of dollars)

	2002	2001
Operating Activities		
Premium revenue received	$ 154,829	$ 139,989
Claims recovered	17,556	61,728
Loans recovered	21,920	40,350
Interest revenue received	37,881	28,567
Post-liquidation interest received	27	20,680
Recovery of amounts previously written-off	21,112	7,349
Other amounts received	101	1,408
Payment of guarantees	(10,376)	(10,462)
Payments to suppliers and employees	(21,739)	(20,579)
Other amounts paid	(846)	(639)
Cash flows from operating activities	220,465	268,391
Investing Activities		
Purchase of securities and term deposits	(1,125,339)	(819,374)
Redemption of securities and term deposits	1,026,973	708,864
Cash flows used in investing activities	(98,366)	(110,510)
Cash and Short-Term Investments		
Increase during the year	122,099	157,881
Balance, beginning of year	203,572	45,691
Balance, end of year	**$ 325,671**	**$ 203,572**

(See accompanying notes.)

Notes to Financial Statements
March 31, 2002

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 loans and 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.

- The ability of the Corporation to recover its loans and 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. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

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

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

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

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

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

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

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

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

Provision for Guarantees - In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.

Provision for Insurance Losses - The provision for insurance losses represents the Corporation's best estimate of 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.

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

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

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

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

3 – Change in Accounting Estimate

During the year, the Corporation conducted a review of its methodology for the provision for insurance losses in order to ensure the methodology used reflects current best practices. The review is part of the continuing process to measure and account for the losses the Corporation is likely to incur as a result of insuring deposits of member institutions. As a result of the review, enhancements were made to the estimates for probability of default and the loss given default.

As a result of the enhancements, the estimate for the provision for insurance losses has increased to $500 million as at March 31, 2002 from $400 million as at March 31, 2001, as reflected in Note 8.

4 – Cash and Short-Term Investments

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

	March 31, 2002			March 31, 2001		
	(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	$324,719	3.49%	49	$203,217	5.65%	43
Cash	952			355		
Total	**$325,671**			**$203,572**		

5 – Investments

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

	March 31, 2002			March 31, 2001		
	(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	$275,988	3.36%	224	$291,896	5.27%	189
Bonds	205,727	3.43%	671	–	–	–
Bankers' Acceptances	86,903	3.02%	190	158,903	5.51%	148
Bearer Deposit Notes	82,873	3.09%	207	72,601	5.68%	121
Commercial Paper	–	–	–	29,725	5.24%	115
Sub Total	**651,491**			**553,125**		
Accrued Interest	7,704			9,481		
Total	**$659,195**	**3.30%**	**360**	**$562,606**	**5.39%**	**164**

6 – Loans and Claims Receivable

The loan balances outstanding as at March 31, 2001 were repaid during the year. These loans were repayable on demand and bore interest at rates varying with either the prime rate or the 90-day Treasury Bill rate. No interest revenue was recognized during the year ended March 31, 2002 (2001: nil), as the criteria for interest revenue recognition on loans were not met. No new loans were made during the year.

During the year, the Corporation recorded $27 thousand in post-liquidation interest (2001: $21 million).

	March 31, 2002	March 31, 2001
	(in thousands of dollars)	
Loans receivable	$ –	$21,920
Allowance for loss	–	–
Net loans receivable	–	21,920
Claims receivable	$20,291	37,847
Allowance for loss	(6,000)	(6,000)
Net claims receivable	14,291	31,847
Total	**$14,291**	**$53,767**

7 – 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 will remain in force on a diminishing basis until December 31, 2002.

The provision for guarantees as at March 31, 2002 is $19 million (2001: $43 million) against a nominal amount of $201 million (2001: $332 million).

The nominal amount represents the maximum exposure for the Corporation with respect to the guarantees provided as at March 31, 2002. This amount is not necessarily representative of the amount the Corporation expects to pay to a third party to meet its obligations under these guarantees.

8 – Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2002 with corresponding totals as at March 31, 2001.

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

	March 31, 2002					March 31, 2001
	(in thousands of dollars)					
	Loans Receivable	Claims Receivable	Guarantees	Insurance Losses	Total	Total
Beginning of period	$ –	$6,000	$43,000	$400,000	$449,000	$473,000
Payments	–	–	(10,376)	–	(10,376)	(10,462)
Write-offs	–	–	–	–	–	(7,755)
Adjustment to allowance and provisions for loss	–	–	(13,624)	100,000	86,376	(5,783)
End of period	**$ –**	**$6,000**	**$19,000**	**$500,000**	**$525,000**	**$449,000**

9 – Financial Instruments

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

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

Fair Value. Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2002 and involve uncertainties and matters of significant judgement. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, investments other than bonds, premiums and other 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, 2002 the fair value of these investments, based on observable market prices, is $206 million, which approximates book value.

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

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

10 – Income Taxes

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

Such losses total $181 million and expire as follows:

Year	Amount (in millions of dollars)
2003	$ 88
2004	65
2005	28
Total	**$181**

Some $11 million of undepreciated capital cost (2001: $11 million) and $8.4 million (2001: $205 million) of the total $181 million losses carried forward (2001: $458 million) have been applied in calculating the future income tax asset of $7 million (2001: $83 million).

During the year the future income tax asset was reduced by $76 million. Of that, $71 million relates to a reduction in the estimated future years' taxable income due to a combination of revised economic assumptions and a change in the Corporation's treatment, for tax purposes, of certain amounts receivable from failed member institutions. An additional $5 million reduction reflects the current year's income tax expense.

11 – Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2001 and 2000, were as follows:

	2001	2000
	(in billions of dollars)	
Federal Institutions	$337	$325
Provincial Institutions	2	2
Total	**$339**	**$327**

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 2001 are 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. By way of comparison the premium rates in effect for 2001 were the same as 2000 with the exception of the rate for members in category 4 for which the rate in 2000 was 1/6 of 1 per cent of insured deposits.

12 – Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2002 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

13 – Operating Leases

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2002 are as follows:

Year	Amount (in thousands of dollars)
2003	$ 983
2004	983
2005	983
2006	1,024
2007	1,074
2008-2012	4,262
Total	**$9,309**

14 – Comparative Figures

Certain of the 2001 figures have been reclassified to conform to the presentation adopted for 2002.

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, RRSPs, 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, and

(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 30. CDIC has a differential premiums system in which institutions are classified in 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")