CDIC

Canada Deposit Insurance Corporation

ANNUAL REPORT 1998–1999

CELEBRATING ACHIEVEMENT

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

Canada

Mission Statement

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

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

Grant L. Reuber

Chairperson of the Board Président du conseil d'administration

June 30, 1999

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

Dear Minister:

I have the honour to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Canada Deposit Insurance Corporation for the year ended March 31, 1999.

Yours sincerely,

50 O'Connor Street
17th Floor
P.O. Box 2340, Station D
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General Observations

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

Grant L. Reuber and Jean Pierre Sabourin

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

- Its debt and accumulated deficit have been eliminated.
- Adequate reserves have been established to cover potential future losses.
- The premium rates for most members are near all-time lows.
- The premium rates are now based on a member's risk profile instead of being a flat rate for all members.
- No failures have occurred among its members in almost three years.
- The number of members on its watch list is close to historical lows.
- By-law development and updating is virtually complete.
- Financial data and data systems have been greatly enhanced.
- The human resource function has been enhanced.
- Policies and procedures have been documented.
- Corporate governance has been reviewed, clarified and strengthened.

CDIC's debt and accumulated deficit have been eliminated.

One of the most important developments has been the continuing maturity of CDIC's experience and competence in its two key functions: insurance and risk assessment, and claims and recoveries. The insurance and risk assessment group assesses, reduces, and manages risk. The claims and recoveries group manages payouts and maximizes the net return on CDIC's claims and recoveries arising from the liquidation of failed member institutions.

CDIC in Historical Perspective

CDIC's history can be divided into distinct periods. From its inception in 1967 until 1980, CDIC was essentially a passive paying agency with little or no role in assessing and managing its insurance risks. Apart from paying depositors as required, CDIC's activities were limited mostly to liquidating or in other ways disposing of assets that came to CDIC as a result of the failures of member institutions. As shown in the following table, the scale of CDIC's activities during this period was very limited.

CDIC Statistical Summary

				$Billions	$Millions		
End of Fiscal Year	No. of Members	No. of Employees	Cumulative No. of Failures	Insured Deposits	Debt	Accumulated Surplus/(Deficit)	Annual Budget
1967	69	1*	–	17	15.7	6	0.4
1980	123	5	3	96	–	196	0.8
1982	186	7	4	118	–	253	1
1987	162	45	24	199	1,258	(1,108)	9
1992	142	94	34	302	3,715	(1,451)	29
1998/99**	113	83	43	308	–	27	17

* *Staff was also provided by the Department of Insurance and the Department of Finance.*

** *In 1993/94, CDIC changed its year-end from December 31 to March 31.*

Although a few members failed during the 1970s, losses were relatively small and readily financed through premium revenues. Early in the 1980s, however, the number of failures began to grow, and CDIC's losses and its deficit accelerated. In 1985, two banks failed, the first bank failures in Canada in over 60 years. The failures continued through the 1980s and early 1990s, ending with CDIC having a record level of outstanding debt of $3.7 billion in 1992 and a record accumulated deficit of $1.7 billion in 1995.

In response to the failures in the early 1980s, the Government established the Wyman Committee, which reported on CDIC's mandate in 1985, and the Estey Inquiry in 1986, which examined the failures of the Canadian Commercial Bank and Northland Bank. Both reports recommended major revisions to CDIC's mandate. The new mandate, enacted in 1987, kept CDIC's earlier role as paying agent and "work out" agent—overseeing the liquidation and other forms of closing down failed institutions—but added the responsibility of assessing and managing the risks it insured and minimizing its exposure to loss. This mandate was reconfirmed by the Dodge Committee in 1993, which was set up to review Canada's deposit insurance system yet one more time.

In 1995, the words "and competitiveness" were removed from CDIC's mandate "to promote and otherwise contribute to the stability and competitiveness of the financial system in Canada" on the grounds that CDIC had no means available to address this objective and that it was inconsistent with the other objectives included in CDIC's mandate.

Although the major change in CDIC's mandate was enacted in 1987, its impact did not become apparent until after 1992. This was partly because of problem institutions already in the pipeline before the new mandate was established and partly because it took some time to develop the policies and procedures created by the new mandate, for example, the *Standards of Sound Business and Financial Practices* and the Standards Assessment and Reporting Program. The latest period in CDIC's history began in 1993 and has been marked by important changes in many areas, as described at the outset.

Whither Now? The Task Force on the Future of the Financial Services Sector

Major reductions in premium rates have been made possible.

In September 1998 the Task Force on the Future of the Canadian Financial Services Sector published its report, parts of which are directly relevant to deposit insurance and the future of CDIC. The report emphasizes that "this is an era of turbulence in the financial services sector everywhere in the world." Turbulence creates risks. Risk assessment and management is fundamental to an insurer, and CDIC is far and away the major insurer of deposits held at Canadian financial institutions.

Among the recommendations made by the Task Force, several that have special significance for CDIC are general in nature: the recommendations on holding companies, on the mixing of commercial and financial ownership interests and on new entrants. In addition, the Task Force made two specific recommendations related to CDIC: an organizational change that would amalgamate CDIC and the Canadian Life and Health Insurance Compensation Corporation (CompCorp), either as a public or a private corporation, and the transfer of responsibility of CDIC's *Standards of Sound Business and Financial Practices* to the Office of the Superintendent of Financial Institutions (OSFI).

CDIC presented its views, orally and in writing, on both the general and specific recommendations affecting it at hearings on the Task Force report convened late in 1998 by the Standing Senate Committee on Banking, Trade and Commerce and by the House of Commons Standing Committee on Finance. All of the recommendations made by the Task Force and others have been reviewed by the Government, and a policy paper has been published outlining the Government's response to these recommendations.

In response to the concerns expressed about CDIC's *Standards of Sound Business and Financial Practices* by the Task Force and the industry, CDIC commissioned a study by Robert Bench, Managing Partner and National Director of Regulatory Advisory Services of PricewaterhouseCoopers LLP in Washington. The study reviews the substance of CDIC's Standards and any changes that might be desirable, how the cost of compliance for the industry might be reduced, how the administration of the Standards might be streamlined, how any unproductive duplication between CDIC and OSFI might be eliminated, and how collaboration between OSFI and CDIC in dealing with the Standards and related issues, such as the sharing of information, might be strengthened. This study was completed in June 1999, and follow-up action is under way.

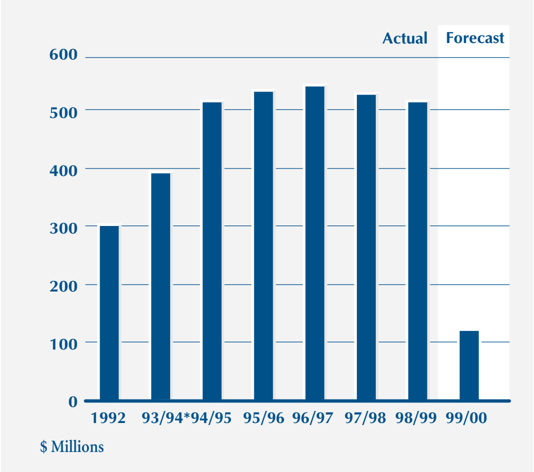
Premium Rates and Revenues

In the past, CDIC levied the same premium rate on all member institutions: most recently one-sixth of one percent of insured deposits. In 1996, legislation was approved to allow CDIC to levy different rates on member institutions based on the risk profile of each institution. A by-law implementing this legislation was made in March 1999. It applies to the premium rates levied in 1999.

The main objective of the new set of premium rates is to provide an incentive for members to follow more prudent policies in the conduct of their business. At the same time that CDIC was developing its differential premium rate system, it was also repaying its debt, reducing its accumulated deficit and establishing adequate reserves against the risk of future losses. As a result, major reductions in premium rates have been made possible at the same time as a new premium rate structure is introduced. Under current policies, and assuming no significant unforeseen changes to CDIC's financial position occur, further reductions in premium rates for the first three categories can be expected next year.

Under the new system, four premium rate categories have been established. Criteria for determining the classification of member institutions, as explained in more detail later in this report, include capital adequacy, profitability, asset concentration, regulatory ratings, and adherence to CDIC's *Standards of Sound Business and Financial Practices*. The procedures include a provision for member institutions to request a review of their classification. As in other countries, the rate applicable to individual member institutions will be confidential.

FIGURE 1:
Premium Revenues



* *In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

Under this new system, premium rates applicable to most members will be reduced by either 50 or 75 percent. At the same time, a significant incentive is established for members to follow prudent practices. No institution will pay higher premiums except for the very few that, after a two-year transition period, fail to improve their risk profile and fall into the highest premium rate category. The new structure was worked out after extensive consultation during the past two years with CDIC members, investment analysts, academics, deposit insurers, and supervisors in the U.S. and Britain.

Figure 1 indicates the premium revenues since 1992. The amounts in 1994 and 1995 mostly reflect the increase in premium rates, in two steps, from one-tenth to one-eighth and then to one-sixth of one percent. The increase was implemented to cope with CDIC's large debt and accumulated deficit. Subsequent changes have reflected changes in the level of insured deposits, which have declined modestly but steadily since 1997. The reasons for this decline are not very clear but seem to include the growth of a wider array of products that are seen by the public as close substitutes for insured deposits, inter-firm and intra-firm consolidations that have resulted in the consolidation of accounts, the increased securitization of the balance sheets of larger deposit-taking institutions resulting in less pressure to raise relatively low-cost deposit funds and, finally, the cost of deposit insurance.

CDIC's use of funds primarily determines the level of premium rates and consists of four major components: the cost of running CDIC, interest and debt repayment, insurance losses, and provisions for future losses. The cost of running CDIC has remained the same, at about $14 to $15 million, for the past six years. CDIC's debt has been fully repaid, and CDIC has not had any insurance losses for almost three years. Thus the main factor is the level of reserves held to cover the risk of future losses.

The provision for insurance losses represents CDIC's best estimate of the losses it will incur as a result of insuring deposits of member institutions. This provision is established by (i) assessing the aggregate risk of member institutions based on CDIC's special knowledge of its members, (ii) providing for the risk of loss relating to insured deposits by using a market-based composite risk-weighting system, and (iii) applying loss experience discounted to a present-value basis to past member institution failures during the preceding nine years. The market-based component is affected by the credit ratings of member institutions and the market spread between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms.

In 1996 the Board of Directors passed a resolution defining the basis on which future premium recommendations will be made: that CDIC design its risk-based premium by-law and recommend premium rates to the Minister "so that its operating costs and provisions will be covered without also building up a further surplus."

The rationale for the Board's resolution essentially is that having fully provided for the risk of loss against all member institutions, there is no satisfactory reason to provide for an additional reserve.

More specifically:

(i) There is no statutory requirement for CDIC to accumulate a surplus or build a fund.

(ii) Based on experience, CDIC's provision for insurance losses conservatively addresses discernable risks.

(iii) Over its 31 years of existence, CDIC's available cash resources (including its borrowing authority) of approximately $6.5 billion would have never been needed to its full extent in any given year.

(iv) CDIC's provision for insurance losses of $400 million and a forecast surplus of $176 million at March 31, 2000, would be sufficient to cover the loss on the failure of all but the largest member institutions.

(v) CDIC's present provision and available cash resources would allow it to resolve the failure of even large member institutions if a resolution method other than a deposit insurance payout were available to meet CDIC's objects, for example, the assisted sale to another institution.

(vi) Unexpected or catastrophic risks are not provided for by deposit insurance schemes anywhere in the world. In virtually all countries these exposures are addressed by governments through other measures.

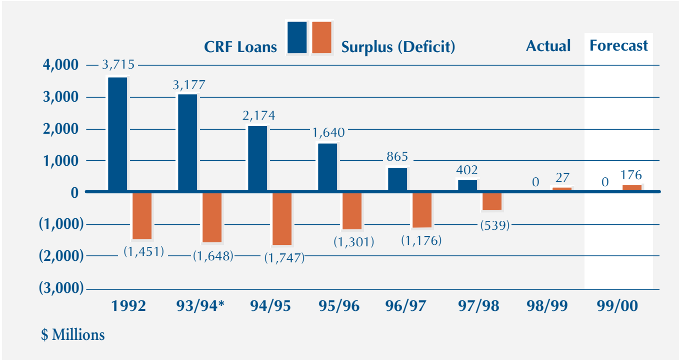
(vii) From an economic efficiency standpoint, money is likely to be more productively employed in the hands of CDIC's member institutions than if held by CDIC as a surplus or a fund. Further, a large surplus might weaken CDIC's incentives to control costs and minimize its exposure to loss.

1993 to 1999: Priorities and Performance

In 1993 CDIC established a set of priorities, which remained essentially unchanged through 1998/99. A few highlights of CDIC's accomplishments in achieving these priorities are outlined below.

1 Debt and deficit reduction: CDIC paid off its debt in mid-1998, and its deficit was eliminated at year-end. Figure 2 shows the pace at which this priority has been achieved since 1992, when CDIC's debt was at a peak of $3.7 billion and its accumulated

FIGURE 2:
Loans from the Consolidated Revenue Fund and Surplus (Deficit)



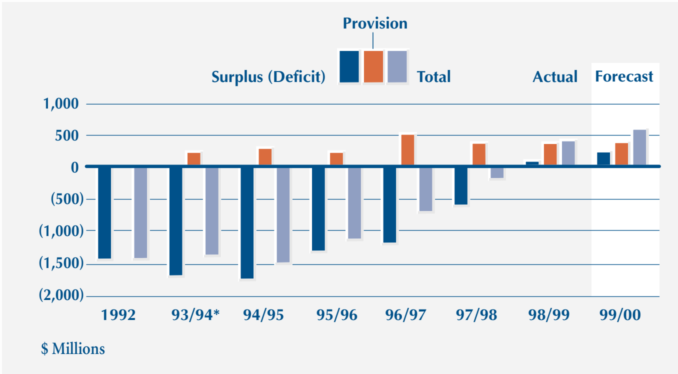
** In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

deficit was $1.5 billion. At the same time that CDIC eliminated its debt and deficit, it built up a provision for insurance losses that adequately reflected its risks and a provision for losses against watch list members, as shown in Figures 3 and 4.

In 1997, due to a statutory amendment, CDIC set up a treasury function in case it has to borrow in private markets, or from the Government, to deal with funding requirements as a result of the failure of a member institution. The treasury also manages CDIC's cash and investments. This latter function is likely to become more and more important as the share of assets held in cash and investments increases, as shown in Figure 5.

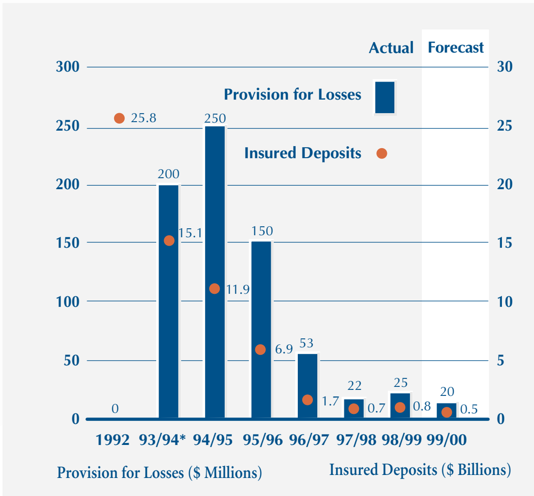
2 Strengthen CDIC's capacity to assess and manage risk and to maximize its net claims and recoveries: Since 1993 the number of failures among CDIC's members has decreased sharply, and there have been no failures since June 1996. As mentioned earlier, this has resulted from favourable economic and financial circumstances and a more effective regulatory regime, but it has also reflected the work of CDIC in anticipating problems and promoting changes to avoid failures. Among the most important of these has been the *Standards of Sound Business and Financial Practices* and the Standards Assessment and Reporting Program.

FIGURE 3:
Accumulated Surplus (Deficit) + Provision for Insurance Losses



* *In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

FIGURE 4:
Provisions for Losses Applicable to Watch List Members and Insured Deposits Held by Watch List Members

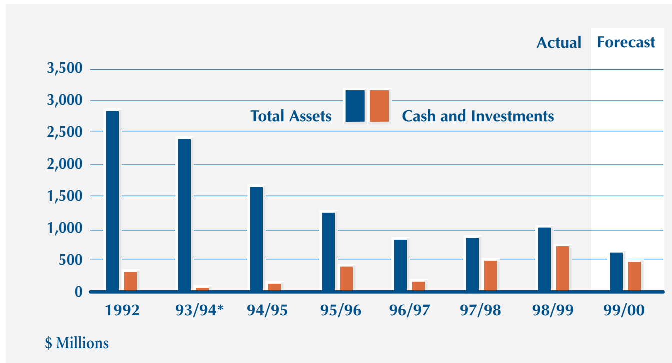


* *In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

Another factor that has contributed to CDIC's success in achieving this priority has been the development of a comprehensive data bank, jointly sponsored by OSFI, the Bank of Canada and CDIC, that makes possible much more effective and up-to-date analysis of developments among member institutions. Work is under way on a system to permit members to file data for CDIC electronically.

CDIC's capacity to assess and manage risk has improved because of the ability and experience of the people doing this work at CDIC. There are now 20 full-time senior professionals doing this work at CDIC compared with 5 in 1993. They are widely recognized as a first-class group of professionals dealing with risk and risk management issues related to deposit-taking institutions. Reflecting this recognition, three CDIC employees were seconded to OSFI for three months in 1998 to assist in assessing the risks associated with the bank merger proposals then being reviewed.

FIGURE 5:
CDIC Assets in Cash and Investments



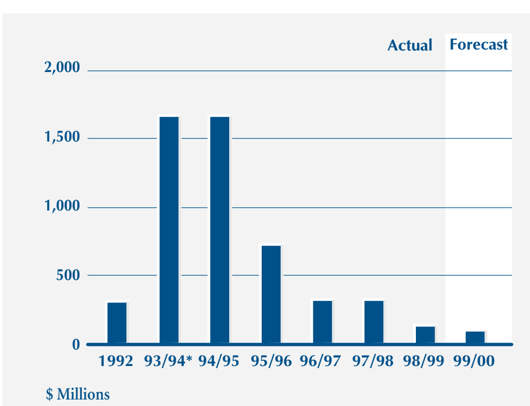
** In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

In 1993, CDIC began to pursue claims and recoveries much more aggressively and to reduce the cost of these activities. As shown in Figure 6, cash flow from this source accelerated, resulting in a sharp reduction in claims outstanding, as illustrated in Figure 7. If there are no additional failures, CDIC estimates its outstanding claims and outstanding loans and guarantees will be eliminated by 2003.

Claims and recoveries are handled by the Field Operations Division, consisting of 13 full-time, permanent employees. This number is less than in 1993, reflecting the decrease in outstanding claims and recoveries. During the past six years, CDIC's methods for maximizing net returns from claims and recoveries have become much more cost-effective. Today, the quality of the work of this unit compares with the best in this business in Canada.

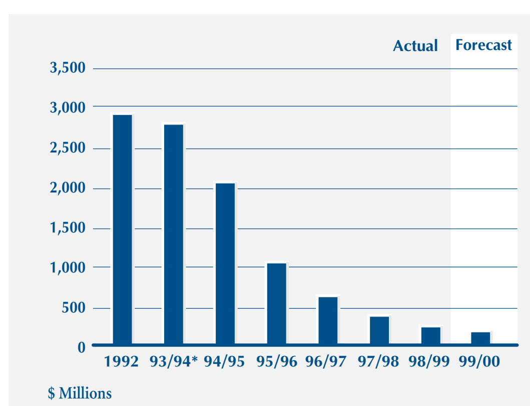
3 To reduce the risk of losses: This priority is closely related to the second but focusses more specifically on improved monitoring of risks, earlier intervention and stronger incentives for members to follow more prudent policies. The role of the Standards and improvements in the availability of meaningful, up-to-date

FIGURE 6:
Cash Recoveries of Claims and Loans



** In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

FIGURE 7:
Loans and Claims Outstanding



** In 1993/94, CDIC changed its year-end from December 31 to March 31. Therefore, 1993/94 was a 15-month period.*

data have already been mentioned. The differential premium system will provide a strong financial incentive for members to follow prudent policies. These measures have been supplemented by much fuller documentation of CDIC's policies and procedures and the range of risk management options available.

A valuation model was developed in 1993 to perform detailed financial analysis of member institutions. The model is capable of simulating various scenarios as a means of assessing risk exposure and is used as a basis for recommending actions most likely to minimize CDIC's exposure to loss. In the past this model has been used mainly to assess higher-risk members, particularly those that face serious financial problems.

Another improvement since 1993 has been the *Guide to Intervention,* developed jointly with OSFI in 1994. It provides a defined, reliable and pre-specified structure for earlier intervention and resolution of problems faced by member institutions. As such, it promotes awareness and enhances the transparency of the system of intervention for deposit-taking institutions.

4 By-law development: Since 1993 CDIC has made the following by-laws:

- *Application for Deposit Insurance By-law*
- *Policy of Deposit Insurance By-law*
- *Deposit Insurance Information By-law*
- *Differential Premiums By-law*
- *Premium Surcharge By-law*
- *Standards of Sound Business and Financial Practices*
- *Joint and Trust Account Disclosure By-law*

The *Interest Payable on Certain Deposits By-law,* the *Opting-Out By-laws* and a new standard on the estate, trust and agency business of member institutions are expected to be completed by the fall. As well as completing the by-laws above, CDIC has actively participated in the development and implementation of various legislative changes related to financial institutions.

In addition, CDIC has reviewed, updated and expanded its corporate by-law and conflicts of interest code.

5 Improve productivity and cost-effectiveness: After a reduction in the operating budget of 18 percent in 1994, CDIC's operating budget has remained roughly unchanged at between $14 and $15 million. The operating budget for 1999/2000 is $14.4 million. Annual intervention costs vary with the number and magnitude of each intervention and have decreased sharply from $12 million in 1992 to $2 million in 1998/99. The budget for intervention costs in 1999/2000 is $2 million and is largely accounted for by the estimated legal costs associated with past interventions.

To improve accountability and transparency, CDIC recently adopted the Balanced Scorecard method to assess its performance. As this method is implemented during the next two years and performance is more directly linked to CDIC's objectives, CDIC will be able to monitor its productivity, improvement and cost-effectiveness more directly.

6 Maintain fair and effective human resource and salary policies: CDIC's compensation policy, followed since 1993, has been to

(i) administer the salary system fairly and equitably and maintain consistency in the methods used to establish and review salary and benefit levels;

(ii) ensure that CDIC's salary ranges are competitive with its defined markets;

(iii) motivate staff to achieve and maintain high levels of individual and team performance in support of CDIC objectives by financially rewarding performance;

(iv) achieve equity in pay for jobs of similar skill, effort, responsibility and working conditions; and

(v) assess the quality and effectiveness of such initiatives through employee surveys and other measures.

Over 80 percent of employees reported that they are proud to work for CDIC.

CDIC conducted employee surveys in 1994, 1996 and 1999 as a means of assessing the effectiveness of its policies and as a guide to further policy changes. The survey results have shown consistent and substantial improvements over the period covered. CDIC is regarded by a large majority of its employees as a good place to work: morale is high, working conditions are seen as good, and the work is interesting. In the last survey, which had a response rate of 92 percent, over 80 percent of employees reported that they are proud to work for CDIC and would recommend CDIC to others as a good place to work.

7 Improve accounting, information and reporting systems: Since 1993 CDIC has substantially improved its accounting, information and reporting systems. Perhaps the most important improvement has been the data bank shared with OSFI and the Bank of Canada. As a result, CDIC's ability to analyse, compare and run simulations on current and historical data for member institutions has been greatly enhanced.

8 Propose and assess public policies: To help develop its public policy expertise, in 1993 CDIC began inviting guests to address directors and officers on particular issues relevant to CDIC at a dinner convened the night before regular Board meetings. This practice has proven helpful and has been strongly endorsed by the Board. During the past year, the following speakers addressed this gathering: Gillian Garcia, International Monetary Fund; Gordon Thiessen, Governor, Bank of Canada; and Paul Wright, Bank of England. Other invited guests included Charles Baillie, The Toronto-Dominion Bank; Bruce Birmingham, The Bank of Nova Scotia; John Cleghorn, Royal Bank of Canada; Léon Courville, National Bank of Canada; and Raymond Protti, Canadian Bankers Association.

Further, during the past two years, CDIC convened two seminars on recent developments and issues in the financial services industry: one seminar was held before the MacKay Task Force began its work and one after its report was available. In addition to CDIC Board members and staff, several guests with particular expertise attended the seminars, including Robert Bench, referred to earlier; C. Freedman of the Bank of Canada; George Kaufman of the School of Business Administration, Loyola University Chicago, and Chairman of the Shadow Financial Regulatory Committee; Peter Maurice of Canada Trust and Chairman of CDIC's Committee on Risk Assessment and Intervention Policies; Edward Neufeld, formerly of the Royal Bank; R. N. Robertson of Fasken Campbell Godfrey and former CDIC Board member; and Edward Waitzer of Stikeman Elliot and former Chairman of the Ontario Securities Commission.

9 Maintain close liaison with government, regulators and industry: The key relationship for CDIC is with OSFI. Maintaining and developing this relationship has been a major priority for CDIC over the past six years. And although there is no quantitative measure, it is fair to say that the relationship today is much more co-operative and congenial than it was six years ago. This has occurred not only because of the commitment and insistence of the Superintendent of Financial Institutions and the Chairperson of CDIC but also because of the formal process put in place to deal with issues as they arise.

To facilitate a closer and more co-operative relationship with the industry, early in 1999, at CDIC's initiative, a joint CBA/CDIC/OSFI Task Force was established. As described in the section Corporate Governance, the Task Force will review and resolve, as fully as possible, supervisory, regulatory and insurance issues raised by the industry and will foster co-operative and constructive relations between the industry and the two agencies.

Objectives for the Future

Many of the priorities established in 1993 have either been met or have been overtaken by events and need to be modified. As a result, CDIC has established four new objectives that will guide it in the future.

During 1998, a joint ad hoc Board/management planning committee was formed. The committee will establish the parameters for the five-year planning process required by the *Financial Administration Act* and recommend these parameters to the Board for approval. However, because the Government's response to the MacKay Task Force's recommendations remained unknown, this year's version of the five-year plan is necessarily more tentative than usual.

Now that the Government's response is known, the Board will be in a position to make firmer and more explicit recommendations based on the future role and status of CDIC. One of the Board's first tasks in the coming year will be to review, in light of the Government's decisions, the foregoing objectives and make any adjustments that may be warranted.

During the past year, the Board met seven times. One meeting was held in Toronto. The remainder were held in Ottawa. Two meetings were specially convened and conducted by telephone.

In February 1999, Mr. Shawn Murphy of Charlottetown, a partner with the law firm Stewart McKelvey Stirling Scales, was appointed to the Board of Directors. He replaces Mr. Bernard Ghert, who had served as a director since June 1993. During his period in office, Mr. Ghert contributed greatly to the success of CDIC.

On March 16, 1999, the Board of Directors recognized the continuing strong performance of CDIC by passing a resolution expressing its appreciation to the management and staff for their excellent and conscientious work during the past year.

The term of the Chairperson expires on July 8, 1999. He wishes to express his deep gratitude to all those with whom he has worked since January 1993 for their help, co-operation, goodwill and patience during his term in office.

Grant L. Reuber
Chairperson of the Board

Jean Pierre Sabourin
President and Chief Executive Officer

Insurance and Risk Assessment

The Year in Review

Supported by low interest rates and historically low inflation, the Canadian economy remained healthy and continued to grow in 1998. South of the border, the United States had an even stronger year of positive economic results. However, for many other countries, 1998 was a year of economic turmoil.

The "Asian crisis" or "Asian flu" was undoubtedly the most serious economic phenomenon of 1998. Economies in Asia were crippled by recessions, currency devaluations, falling stock markets, and, in many cases, financial institution failures. Some economies have since partially recovered, such as those of Korea and Thailand. Others remain plagued with fundamental economic and banking problems, including reduced investor and public confidence, recession, and deflation.

The Asian crisis spread quickly to other countries, fuelled by investor anxiety and underlying weaknesses in the domestic economies. For example, Russia experienced severe currency devaluation, a stock market collapse and a banking crisis. Latin-American countries also experienced serious difficulties during 1998, as they were sideswiped by the contagion from Asia. The most adversely affected was Brazil.

Finally, during 1998, the financial crisis that started in Southeast Asia sent shock waves throughout world stock markets. Overall, owing more to these international events than any inherent weakness in the domestic economy, Canadian stock markets finished the year with a lacklustre performance; the year-over-year loss of three percent in the TSE 300 composite index is in sharp contrast to the double-digit increases posted in the past three years.

The 1998 financial performance of CDIC's membership did not match the previous year's record.

This unstable and difficult international environment in 1998 affected the performance of many financial institutions around the world, including Canadian ones.

CDIC's Membership

Not surprisingly, the 1998 financial performance of CDIC's membership did not match the previous year's record. Nonetheless, 1998 was a good year for CDIC's membership. Total net income at all member institutions was only 10 percent lower than in 1997 and was approximately 40 percent higher than the average between 1992 and 1996. However, 16 institutions reported a loss in 1998 compared with 10 in 1997.

Small Downturn in Profit

In total, CDIC's member institutions reported net profits of close to $8 billion, as shown in Figure 8. Although this represents the first decline since 1992, profitability remained strong with a healthy return on equity averaging 13 percent.

The decline in total profit was mainly the result of a further narrowing of interest margins. Also contributing to the decline were losses in trading income and an increase in non-interest expenses, mostly related to acquisitions and higher charges for possible asset impairment.

Interest margins continued to decline in 1998, reflecting the increasingly competitive deposit-taking and lending businesses. Members' interest margins for fiscal 1998 were 185 basis points of average assets. This is significantly lower (by as much as 100 basis points) than the spreads recorded in the United States.

Non-Interest Income

Non-interest income for the year for CDIC's member institutions grew by more than 10 percent. In fiscal 1998, members, and particularly domestic banks, relied more and more on this source of income than on the traditional interest income.

Fourth-quarter results for fiscal 1998, however, indicate an overall decline in total trading income, reflecting the impact of turmoil in capital markets during the period. This setback had the effect of reducing non-interest income for CDIC members, which would have otherwise brought the 1998 total profit close to 1997 levels.

Securities commissions and underwriting fees were the largest source of non-interest income, followed by fees from investment management and custodial services (Figure 9). Income from asset securitization reached almost $700 million in 1998, reflecting member institutions' increasing involvement in secondary markets.

Costs

Member institutions continued their efforts to increase productivity. The increase in the year-end operating expenses ratio for the membership mostly reflects non-recurring expenses. Cost control efforts were partly offset by the larger charge for asset impairment. The total charge for impairment rose from $2.2 billion in 1997 to $3.0 billion in 1998, the result in large part of the push for higher general allowances for losses.

FIGURE 8:
Net Income of CDIC Members

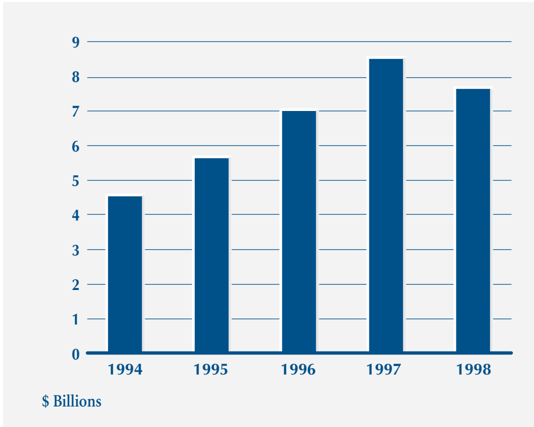
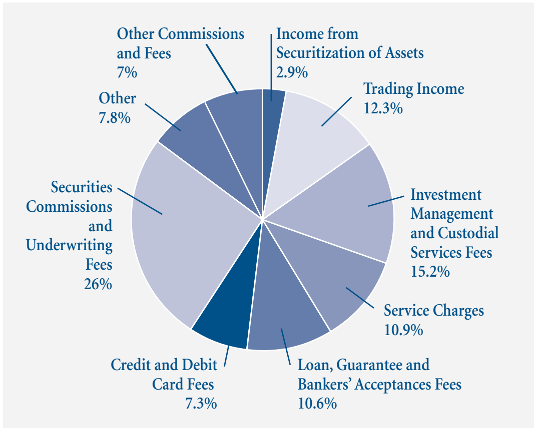


FIGURE 9:
Components of Other Income (1998)



Continued Asset Growth

Member institutions' total assets surged by 12 percent in 1998. A healthy economy and low interest rates were the main engines for this growth, bringing the total assets of CDIC member institutions to more than $1.4 trillion.

All peer groups benefited from the strong growth of their asset portfolios. At the end of fiscal 1998, total loans outstanding amounted to almost $850 billion, a seven percent gain over the previous year. This increase is particularly notable given the securitization effect on loan portfolios, including credit card receivables and mortgages.

Asset securitizations by deposit-taking institutions accelerated in the second half of 1996 to reach $35 billion outstanding at December 31, 1998. The asset securitizations in 1998 were mostly in conventional residential mortgages and credit card receivables. These securitizations have reduced the growth in total risk-weighted assets and contributed to an increase in institutions' risk-based capital ratios. Asset securitizations will likely continue to increase rapidly and expand to other loan types such as commercial mortgages.

Commercial loans, which include loans to individuals and corporations for business purposes, grew rapidly in 1998, surpassing total mortgage loans at member institutions. Reverse repurchase agreements[1] also continued to grow rapidly during 1998. At the end of fiscal 1998, they represented approximately eight percent of the total assets of all member institutions (Figure 10).

Other assets, including derivative- and insurance-related amounts, also advanced in the past year, chiefly at domestic banks. Amounts related to derivative activity demonstrated significant volatility over the course of the year, reflecting capital market variability.

Improving Asset Quality

Asset quality continued to improve during 1998. This improvement was visible in all loan categories.

At the end of fiscal 1998, impaired mortgages as a percentage of all mortgages outstanding at CDIC's member institutions dropped to 0.5 percent. This is lower than the percentage of impaired non-mortgage loans (1.5 percent of total non-mortgage loans).

Overall, allowances for loan losses, including general allowances, were sufficient to cover all impaired loans at the end of fiscal 1998 (Figure 11). This is largely the result of large increases in general allowances. At the end of fiscal 1998, general

FIGURE 10:
Asset Mix (1998)

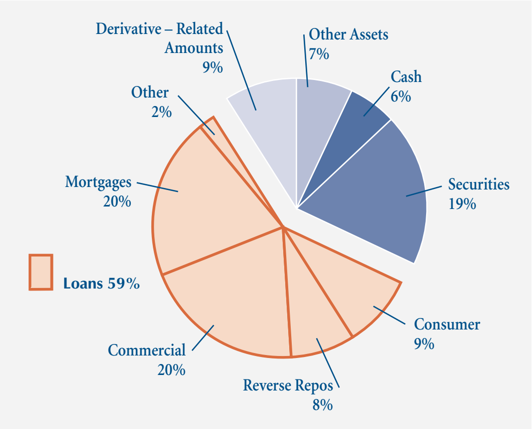
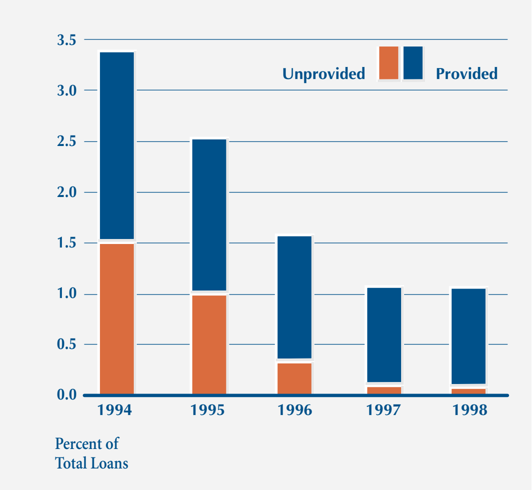


FIGURE 11:
Impaired Loans to Total Loans

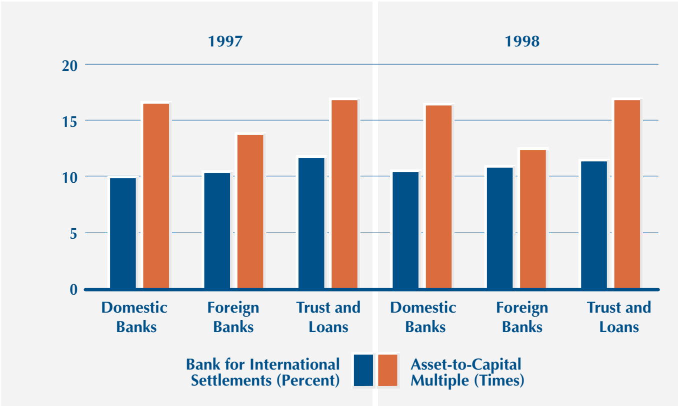


[1] *A repurchase agreement, or repo, is an agreement whereby an institution agrees to sell securities at a specified price and repurchase the securities on a specified date and at a specified price. The transaction is regarded as a liability for accounting purposes. A reverse repo is the opposite of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

allowances at member institutions totalled $6 billion and represented 0.4 percent of total assets. These increases in general allowances reflect the efforts of the Office of the Superintendent of Financial Institutions (OSFI) to raise allowances in Canada to levels that are more in line with U.S. levels. OSFI has also recently introduced a guideline that permits a portion of the general allowances of federally incorporated member institutions to be treated as tier 2 capital (to a maximum of 0.75 percent of risk-weighted assets).

Capitalization, as measured by the risk-based capital ratio of the Bank for International Settlements, continued to improve during 1998, mainly reflecting increased retained earnings, capital increases and reduced growth of assets on a risk-weighted basis. More than 90 percent of all member institutions reported total risk-based capital ratios in excess of 10 percent, the level recommended by OSFI. In addition, the industry's asset-to-capital ratios declined in 1998 for almost all peer groups (Figure 12).

FIGURE 12:
Comparative Capitalization



Further Improvements in Adherence to CDIC's Standards of Sound Business and Financial Practices (Standards) By-laws

CDIC's Standards by-laws have been in place since 1993. For each of the last four years, member institutions have reported their adherence to the Standards through a self-assessment and reporting program supplemented by a regulator verification system.

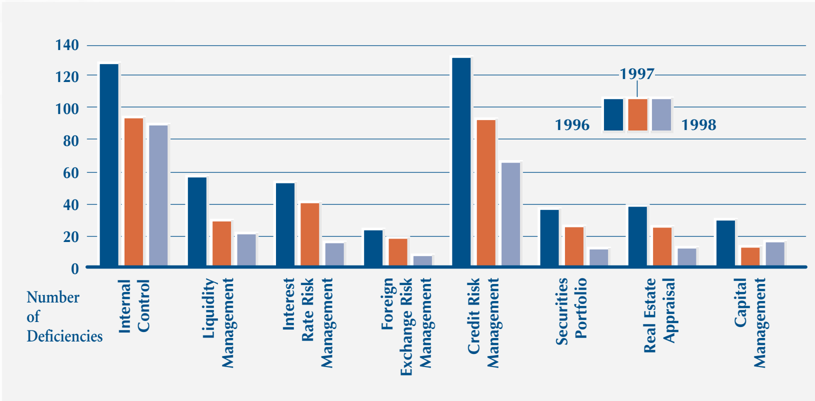
From 1997 to 1998, member-identified deficiencies decreased by 19 percent, from 236 to 191 (Figure 13). The areas having the greatest number of member-reported deficiencies continued to be internal control and credit risk management, which together accounted for 62 percent of all member-identified deficiencies in 1998.

The number of institutions reporting deficiencies has also decreased over the last few years. In 1998, however, five member institutions reported 50 percent of all the member-identified deficiencies.

In 1996 and 1997, deficiencies identified by the regulator and by CDIC accounted for 40 percent and 33 percent respectively of total deficiencies. In 1998, this number fell to 22 percent[2]. CDIC believes that member institutions have benefited from both the Standards and the self-assessment process.

[2] *For 1998, only institutions whose reports to CDIC under section 29 of the CDIC Act had been received at the time of writing were included.*

FIGURE 13:
Number of Total Deficiencies by Standard



CDIC continues to monitor adherence to the Standards to ensure that members are addressing outstanding deficiencies. Nine percent of the reported deficiencies in 1997 remained uncorrected at the time of the 1998 report. In general, however, member institutions have been addressing their deficiencies in a timely manner.

CDIC has a number of recourses in instances of non-adherence to the Standards. These include a premium surcharge and the termination of deposit insurance. In addition, the results of the self-assessments, and the manner and timeliness of an institution's handling of deficiencies, will affect the categorization of the member institution under CDIC's new differential premium system, explained later in this chapter.

The financial services industry is undergoing significant change.

Looking Ahead

Overall, 1998 was a good year for CDIC's member institutions. Results for the first quarter of 1999 suggest that this year's financial performance will also be strong. However, uncertainties remain. Recent economic reports suggest that the effects of the crises in Asia, Russia and Latin America could continue at least in the short term. For example, the Japanese economy shrank during the past two years and is not expected to grow at all in 1999 as that country continues to undergo significant restructuring within its banking sector. Similarly, European economies—notably France, Germany and the U.K.—are expected to achieve only modest growth in the coming year. On the positive side, interest rates are forecast to remain low in the United States, which should mitigate possible global liquidity problems.

For CDIC's members, these economic trends may increase the pressure on earnings as it becomes more difficult to grow assets and find profitable investment opportunities. In addition, the overall positive trend in asset quality could be difficult to improve on in the future.

Changes in CDIC's Membership during 1998/99

At March 31, 1999, CDIC had 113 members, virtually unchanged from the previous year.

During the year, four applicants were approved for membership in CDIC: (1) Comerica Bank-Canada, a wholly owned subsidiary of Comerica Incorporated, a U.S. bank holding company; (2) CTC Bank of Canada, 100 percent owned by Chinatrust Commercial Bank, Ltd., a Taiwanese bank; (3) MD Private Trust Company, 100 percent owned by the Canadian Medical Association; and (4) President's Choice Financial Trust Company, a wholly-owned subsidiary of Loblaw Companies Limited.

One member, Banco Central Hispano – Canada, ceased accepting deposits upon receiving regulatory approval for voluntary dissolution and therefore had its policy of deposit insurance cancelled. Two foreign banks—National Westminster Bank of Canada and Union Bank of Switzerland—amalgamated with other CDIC member institutions.

Trends and New Risks

The financial services industry is undergoing significant change. Increased competition from non-traditional institutions, new information technologies, declining processing costs, and the erosion of product and geographic boundaries have all played a role in this transformation. This process of change will continue and may even accelerate in the coming years.

Consolidation and Competition

The Canadian deposit-taking industry is consolidating but remains competitive. It has undergone serious consolidation since the early 1980s. In 1983, for example, CDIC had 188 members, 75 more than at March 31, 1999. Consolidation has been the most intensive in the trust and loan company segment, particularly during the early 1990s. This is a result of legislative changes in 1992 that allowed financial institutions to enter other regulated businesses. Many domestic banks entered the trust and securities businesses, and insurance companies entered the deposit-taking business.

Non-bank players are increasingly competing with CDIC members in many business areas.

But competition for deposit-taking and lending businesses in Canada extends beyond the banks and trust and loan companies. Co-operatives and caisses populaires (which are not members of CDIC) are a significant force, especially with regard to deposit-taking. Moreover, non-bank players, such as specialized niche lenders, mutual fund companies, and insurance companies, are increasingly competing with CDIC members in many business areas.

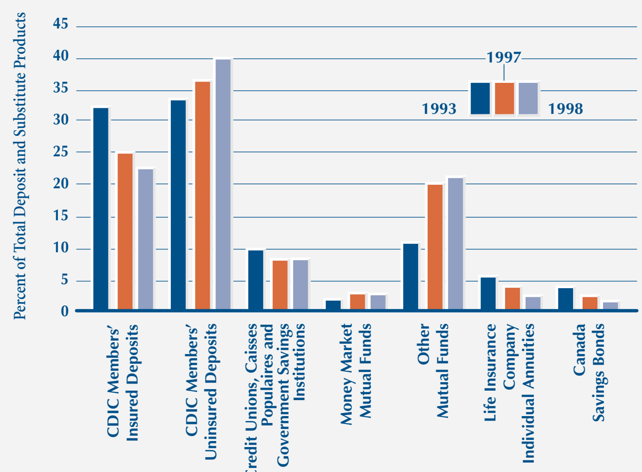
Globalization

Through branches, subsidiaries, and electronic and other means, certain Canadian deposit-taking institutions are now making investments and raising money in other areas of the world. Member institutions' total foreign assets amounted to $557 billion at the end of fiscal 1998 and represented 37 percent of total assets. These international activities permit members to achieve a greater diversification. However, increased complexity in the risk assessment and risk management processes for both the institutions and regulatory bodies also arises through these international activities.

Deposits and New Deposit Products

Much has been written during the past few years about the shift in consumer purchases of savings products. Consumers are moving away from traditional deposit products such as guaranteed investment certificates, which are eligible for CDIC insurance, and choosing to invest instead in non-insurable financial products (Figure 14). Changes of this nature are particularly important for CDIC because insured deposits are a key source for assessing revenue.

FIGURE 14:
Trends in Deposit and Substitute Products



Sources:
Canada Deposit Insurance Corporation
Bank of Canada Review
Investment Funds Institute of Canada

One element affecting the demand for traditional deposits is interest rates. Low interest rates make fixed-term deposits less attractive while boosting the returns and the attractiveness of close deposit substitutes such as money market mutual funds. Industry consolidation, deposit sales and transfers among bank subsidiaries and banks, and the activities of specific institutions in aggregating, classifying and marketing deposits are also affecting the amounts of insurable deposits reported by CDIC members.

Recently, however, new deposit products that combine fixed and floating rates of return, such as index-linked GICs, have entered the marketplace to appeal to changing consumer demands. They have helped compensate somewhat for the movement away from insured deposits.

Technological Risk

The most important technological risk faced by member institutions in the near future is undoubtedly the year 2000 problem (see page 19). However, recent technological developments, such as those in information processing, management, and delivery, have led to a number of significant changes in the way financial institutions operate and to new risks.

Technological changes have recently led to the merger of some of the backroom operations of large Canadian banks and to the outsourcing of some of these activities to specialist service providers. Outsourcing raises important issues regarding the operations of financial institutions. For example, outsourcing traditional financial intermediation activities to unsupervised third parties creates new risks and supervisory requirements.

Electronic money and commerce are also new and important areas of technological development. Stored value cards and "network money" are two good examples. Stored value cards store money on a microchip. Network money involves funds held on computer software that could be used to pay for purchases on the Internet. In addition to raising questions about security and consumer protection, these technological developments raise the question of deposit insurability.

The Year 2000 Issue

Readiness for the year 2000 is presenting extraordinary challenges for financial institutions and regulators because the problem involves the readiness of financial institutions' customers and suppliers, complex technology, and a deadline that cannot be postponed. Fortunately, the Canadian financial sector is well advanced in dealing with this issue.

CDIC is closely monitoring the Y2K preparedness of its member institutions through discussions with regulators and information obtained from member institutions. Regulators issued guidelines and best practices papers on Y2K preparations that identified key dates for completion of Y2K work. Furthermore, CDIC required Y2K preparedness statements from member institutions as part of their standard self-assessment reports for 1998 and 1999.

The focus in 1998 was mainly on assessing and correcting systems. Regulators and CDIC expected institutions to have essentially completed assessing their mission critical systems by the end of 1998. The vast majority of CDIC member institutions indicated that they have met this deadline.

During 1999, institutions are required to complete the following year 2000 work:

- *Renovations, internal testing, and implementation of mission critical systems by March 31, 1999;*
- *Testing with external parties (e.g., other financial institutions, business partners, intermediaries) by June 30, 1999;*
- *Review of the year 2000 readiness of borrowers and counterparties by June 30, 1999; and*
- *Testing of year 2000 contingency plans by June 30, 1999.*

CDIC is developing its own year 2000 contingency plan in relation to member institutions. CDIC is also exchanging information with OSFI, the Bank of Canada and the Department of Finance on the year 2000 preparations of financial institutions.

CDIC's mission is to provide deposit insurance and contribute to the stability of the financial system in Canada. CDIC does not expect problems in January 2000 but is able and ready to meet its obligations to depositors if the need arises.

CDIC Developments

While the business of deposit-taking has been changing, so has the business of deposit insurance. New programs and by-laws recently implemented or currently under development must all cope with the forces of change, while simultaneously working to safeguard the deposits of Canadians.

The industry's favourable financial condition in 1998/99 resulted in few problem member institutions. The insured deposits of higher-risk members represented less than a half of one percent of the total insured deposits as at April 30, 1998. CDIC continued to closely monitor the progress at higher-risk institutions as well as new areas of risk and potential problems.

CDIC has allocated resources to enhance the risk assessment and risk management processes, the development of the proposed opting-out regime and a new standard of sound business and financial practices. Furthermore, CDIC has been working with the Department of Finance and other federal agencies on various issues related to deposit insurance and the structure of the Canadian financial sector. The single most important development for CDIC during 1998/99 was the implementation of the *Differential Premiums By-law*.

Table 1 - Summary of Criteria or Factors, Measures and Scores

Criteria or Factors • Measures	Maximum Score
Capital Quantitative:	
Capital Adequacy	20
• Assets to Capital Multiple	
• Tier 1 Risk-Based Capital Ratio	
• Total Risk-Based Capital Ratio	
Other Quantitative:	
Profitability	
• Return on Risk-Weighted Assets	5
• Mean Adjusted Net Income Volatility	5
• Volatility Adjusted Net Income	5
Efficiency	
• Efficiency Ratio	5
Asset Quality	
• Net Impaired Assets (Including Net Unrealized Losses on Securities) to Total Regulatory Capital	5
Asset Concentration	
• Aggregate Counterparty Asset Concentration Ratio	5
• Real Estate Asset Concentration Ratio	5
• Aggregate Industry Sector Asset Concentration Ratio	5
Subtotal: Quantitative Score	**60**
Qualitative:	
Examiner's Rating	25
Extent of Adherence to CDIC Standards	10
Other Information	5
Subtotal: Qualitative Score	**40**
Total Score	**100**

Differential Premiums By-law

Following extensive consultations with CDIC member institutions, their associations, financial regulators in Canada and abroad, and academics, CDIC developed a differential premiums by-law that was brought into force on March 31, 1999.

Under the by-law, member institutions are now being classified into different categories based on a system that scores them according to a number of criteria or factors, grouped into three broad categories: capital adequacy, other quantitative measures and qualitative measures. The criteria or factors and scoring system are summarized in Table 1.

Member institutions must file information with respect to their quantitative results by April 30 of each year. With some exceptions, new member institutions and members that are subsidiaries of member institutions are exempt from filing. New members are automatically classified in premium category 1, and subsidiary members are classified in the same premium category as that of their parent member.

To provide a transition period, CDIC will increase the quantitative scores of all member institutions by 20 percent in the first year of implementation and by 10 percent in the second year, with no adjustment thereafter. Moreover, the rate for category 4 is 50 percent of the maximum premium rate, or the same as category 3, for the first two years. Thereafter, the rate for category 4 will be 100 percent of the maximum.

The rates payable under the new by-law for the 1999 premium year are shown in Table 2.

CDIC expects the large majority of its member institutions to be classified in categories 1 and 2. Consequently, most institutions will see a reduction in their premium rates for the 1999 premium year.

Table 2

Premium Category	Rate	Result
1	12.5% x 0.33%*	0.0417% or 1/24 of 1%
2	25% x 0.33%	0.0833% or 1/12 of 1%
3	50% x 0.33%	0.1667% or 1/6 of 1%
4	a) 50% x 0.33% for the first two years of the by-law	0.1667% or 1/6 of 1%
	b) 100% x 0.33% thereafter	0.3333% or 1/3 of 1%

** The maximum rate permitted under the CDIC Act is one-third of one percent of insured deposits.*

Opting-Out By-laws

In 1997, legislation permitting foreign banks to accept deposits without being member institutions—typically referred to as "opting out" of CDIC membership—received royal assent but was not enacted. CDIC has been working closely with the Department of Finance and the Department of Justice to develop the required by-laws. The legislation should be proclaimed in force in the fall of 1999.

The opting-out provisions apply to existing foreign banks that are CDIC members and to new institutions seeking to incorporate a foreign bank without being a CDIC member under the provisions of the *Bank Act*. Generally, banks opting out of CDIC will be permitted to accept only wholesale deposits (which for opting-out purposes are defined as deposits in excess of $150,000).

Interest Payable on Certain Deposits By-law

In 1997, amendments to the CDIC Act authorized CDIC to make a by-law prescribing rules for calculating the interest on index-linked deposits in the event of a payment of insured deposits. The by-law does not affect member institutions and imposes no burden on depositors. Rather, it is a benefit to them as it provides a mechanism for calculating interest in the event that CDIC is required to pay out depositors of a failed institution. The *Interest Payable on Certain Deposits By-law* will come into effect in 1999.

Estate, Trust and Agency Risk Management Standard

The development of a ninth standard of sound business and financial practices is under way. This standard will focus on the identification, assessment and management of risks, such as fiduciary and operational risks, associated with the estate, trust and agency business of CDIC member institutions. The business areas to be addressed will include institutional trust and custody, personal trusts, and investment and wealth management.

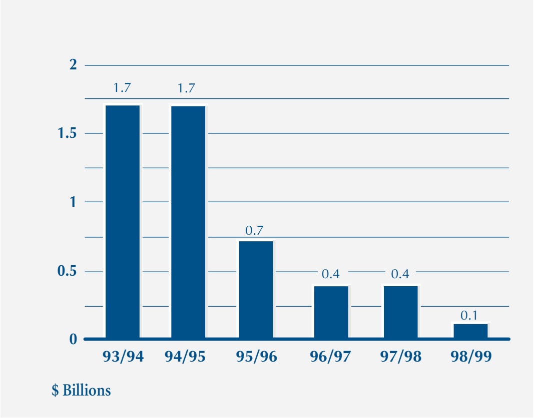
Consistent with CDIC's practice of engaging in extensive consultation for any significant initiative where its member institutions may be affected, consultations on the new standard are now under way, and a discussion paper will soon be circulated to all member institutions, regulators, relevant government agencies, other stakeholders and interested parties. Full reporting on the new standard by member institutions is expected to begin in 2001.

Claims and Recoveries

Recoveries in 1998/99

During the past year, CDIC recovered $142 million on its claims and loans (including approximately $10 million of post-liquidation interest), thereby reducing outstanding claims and loans (net of write-offs and provisions) to $268 million and bringing the total recoveries since the beginning of fiscal 1993/94 to $5 billion (Figure 15). Recoveries in 1998/99 were mostly from asset realizations in Adelaide Capital Corporation ($72 million) and Principal Savings and Trust Company ($27 million).

FIGURE 15:
Recoveries



CDIC projects further recoveries of approximately $320 million from the remaining $470 million in assets under administration, mainly over the next three years. The projected cash flows exclude any recoveries from third parties arising from litigation and from inter-creditor disputes. The cash flows are subject to a wide range of variance since the remaining assets are largely sub- and non-performing.

In most estates, total recoveries do not usually cover the original claims, resulting in a loss for CDIC and other unsecured creditors. As illustrated in Table 3, nominal and net present value (NPV) recoveries vary widely from one estate to another. The differences in outcomes are a function of variables such as asset quality, the presence or absence of prior claims, litigation, and the duration of the liquidation.

Assets Under Administration in Estates and Workout Companies

As at March 31, 1999, CDIC had outstanding claims and loans in 21 estates and workout companies. In all but two estates, more than 95 percent of the non-cash assets had been liquidated. Attention is therefore focussed on the remaining impediments to closing the estates. Among these impediments are residual assets—non-performing mortgages, unsecured notes, and assets that are difficult to liquidate. Disposing of these types of assets takes time and requires more effort. As illustrated in Figure 16, the majority of the good-quality performing loans in each estate at the time of liquidation as well as a substantial proportion of the sub- and non-performing assets had been disposed of as at December 31, 1998.

FIGURE 16:
Net Book Value of Assets Under Administration in Liquidations and Workout Companies as at December 31, 1998

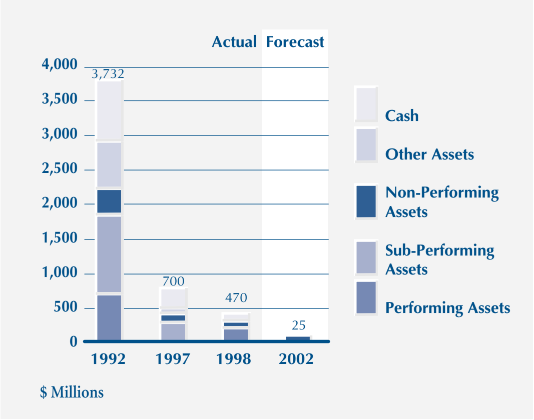


Table 3 - CDIC's Claims, Recoveries, and Losses on Failed Member Institutions

Non-Cash Assets Liquidated as a Percentage of Total Non-Cash Assets (Method of Failure Resolution – Year of Failure)	Total Claims and Loans	Recoveries to March 31, 1999		CDIC's Projected Loss	
	($ millions)	($ millions)	as % of Total Expected	as % of Claims and Loans	as % of Claims and Loans – NPV[1] Basis
Completed Between April 1, 1997, and March 31, 1999					
AMIC Mortgage Investment Corp. (Formal Liquidation – 1983)	28	16	100%	43%	65%
Pioneer Trust (Formal Liquidation – 1985)	201	177	100%	12%	31%
Prenor Trust (Formal Liquidation – 1993)	820	794	100%	3%	6%
More than 99% of Non-Cash Assets Liquidated					
Bank of Credit and Commerce Canada (Formal Liquidation – 1991)	22	20	98%	10%	24%
Crown Trust Co. (Agency[2]/Formal Liquidation – 1983)	930	935	99%	-1%	2%
Dominion Trust Co. (Formal Liquidation – 1993)	431	358	99%	16%	20%
Fidelity Trust Company (Agency[2]/Formal Liquidation – 1983)	792	437	99%	45%	51%
Greymac Mortgage Corp./Greymac Trust Co. (Agency[2]/Formal Liquidation – 1983)	414	208	99%	50%	63%
Northland Bank (Formal Liquidation – 1985)	321	203	91%	30%	66%
Principal Savings and Trust Co. (Formal Liquidation – 1987)	116	126	82%	-33%	17%
Saskatchewan Trust Co. (Formal Liquidation – 1991)	64	56	98%	10%	19%
Seaway Trust Co./Mortgage Corp. (Formal Liquidation – 1983)	420	366	99%	13%	47%
Between 95%-99% of Non-Cash Assets Liquidated					
CCB Mortgage Investment Corp. (Agency[2]/Formal Liquidation – 1985)	123	109	94%	6%	26%
Confederation Trust Co. (Formal Liquidation – 1994)	680	647	97%	0%	6%
Income Trust Co. (Formal Liquidation – 1995)	193	173	97%	8%	19%
Monarch Trust Co. (Formal Liquidation – 1994)	65	60	96%	5%	13%
Settlers Savings & Mortgage Corp. (Formal Liquidation – 1990)	84	63	95%	21%	26%
Shoppers Trust Co. (Formal Liquidation – 1992)	492	454	96%	4%	16%
Standard Loan Co./Standard Trust Co. (Formal Liquidation – 1991)	1,321	1,097	97%	15%	31%
Between 75%-95% of Non-Cash Assets Liquidated					
Adelaide Capital Corp.[3] (CGT/TD) (Management Agreement – 1992)	1,758	1,325	89%	6%	13%
Security Home Mortgage Corp. (Formal Liquidation – 1996)	42	25	63%	6%	24%

[1] *All cash flows are discounted on an annual basis using CDIC's weighted average costs of funds.*

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

[3] *In ACC, the recovery amount excludes proceeds from a $500 million distress preferred share issue.*

The number of full-time-equivalent liquidator/manager staff involved in estate administration and recoveries, which peaked at 650 in 1992, was reduced to 50 in 1998.

The net book value of assets under administration declined from a peak of $3.7 billion in December 1992 to $470 million in December 1998. The assets outstanding varied widely over this period as a result of the failure and winding-up of six institutions during the period. CDIC projects that less than $25 million of sub- and non-performing assets will remain in 2002.

The reduction in the value of assets under administration is also reflected in the declining number of full-time-equivalent liquidator/manager staff involved in estate administration and recoveries, which peaked at 650 in 1992. This number was reduced to 50 in 1998.

Approximately 65 percent of the remaining non-cash assets under administration at December 31, 1998, were held by Adelaide Capital Corporation (ACC). ACC was established in January 1993 to manage and liquidate the assets of Central Guaranty Trust that were not purchased by The Toronto-Dominion Bank in 1992. As at December 31, 1998, ACC had generated $1,472 million, or approximately 89 percent of the expected cash flows. To that date, CDIC had received $1,319 million from the liquidation of assets and a further $500 million as a result of a related refinancing transaction (distress preferred shares) that matures in 1999.

Figure 17 shows the geographic distribution of the non-cash assets under administration at December 31, 1998. Approximately half of the total assets are cash and liquid investments (Figure 18). The cash is held as a reserve for claims and litigation against the estates. As a consequence, it cannot be distributed to creditors until the claims and litigation issues have been settled. CDIC cannot obtain an advance or a distribution on its claim since it is, effectively, one of the competing claimants. Mortgages account for

FIGURE 17:
Geographic Distribution of Assets

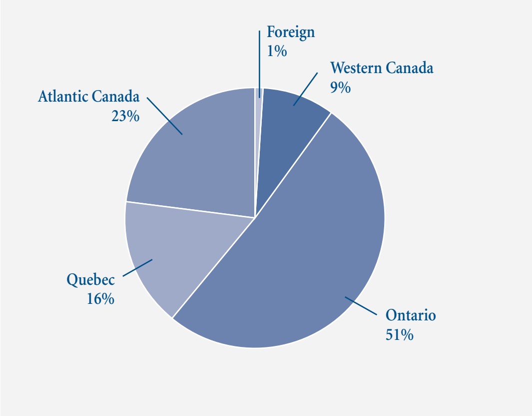
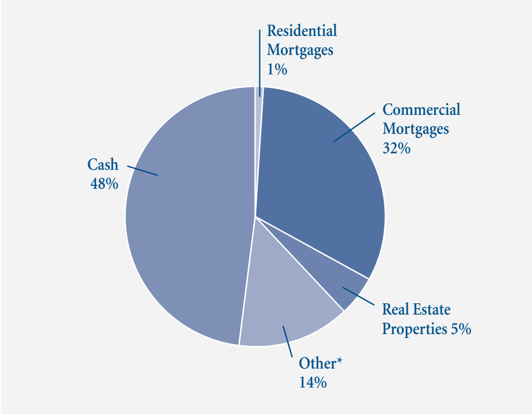


FIGURE 18:
Asset Type



** Includes mainly miscellaneous loans and receivables.*

65 percent of all non-cash assets and are of varying size. Of the remaining 430 mortgages, 340 have a book value of less than $500,000.

Claims and Litigation Issues

Litigation by or against an estate is often the main reason why a liquidation may take many years to complete. Claims and litigation issues are generally more complex than other types of estate activities, and the litigation process is often lengthy. Litigation may involve issues of preference or priority, creditor-debtor issues as well as employment, commercial, administrative, and environmental matters. In approximately 70 percent of the estates under administration, litigation and competing claims have required liquidators to set aside cash reserves or have caused substantial delays in terminating the liquidation of estates.

CDIC has a significant interest in promoting the efficient and effective management of legal issues by liquidation professionals from the perspective of maximizing recoveries. In this area, CDIC encourages liquidators to develop plans, budgets, and cost-benefit analyses and to apply lessons learned in past insolvencies to streamline and improve performance and results. CDIC's concern is to assess, quickly and at minimum cost, the merits of commencing, continuing, or terminating a legal proceeding. The Corporation also reviews legal costs incurred in liquidations and is developing benchmarks by which the performance and value contributed by liquidators' legal counsel may be assessed.

It is CDIC policy to investigate the cause of each member failure and ensure that appropriate action is taken against directors, officers, auditors, and other relevant parties—either directly, through liquidators, or both—in instances where CDIC has suffered damages and there is a reasonable case of negligence or willful misconduct or wrongdoing.

Liquidators have initiated in some instances lawsuits against directors, officers, auditors, and other parties.

Litigation by or against an estate is often the main reason why a liquidation may take many years to complete.

These lawsuits have achieved successful outcomes, from a cost-benefit perspective, frequently by means of mediated settlements. Prior to a liquidator commencing such an action, CDIC reviews the results of forensic investigations, considers the legal issues and complexities involved and undertakes a rigorous cost-benefit analysis. In some instances, where it is advantageous or appropriate, CDIC has commenced its own cause of action or has joined a liquidator in pursuing litigation.

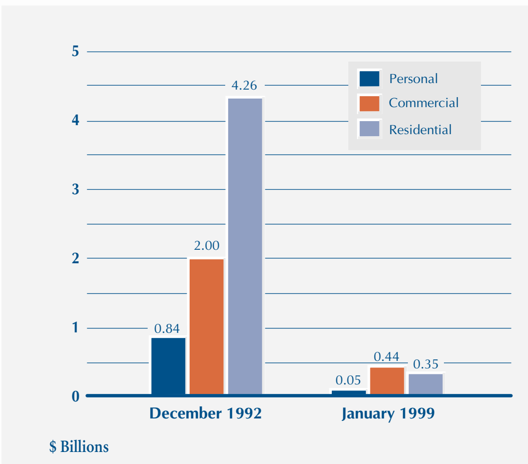
During 1998, the lawsuit by CDIC and the Government of Canada against the directors and officers of Northland Bank was discontinued, following settlement with the defendants. This settlement, together with past settlements reached in lawsuits, has provided recoveries in excess of $175 million to CDIC, estates in liquidation, and other creditors.

Assets Subject to Deficiency Coverage Agreements

On December 31, 1992, The Toronto-Dominion Bank (TD) acquired approximately $9.8 billion in assets from the ailing Central Guaranty Trust. As an alternative to liquidation, this transaction avoided the costs associated with funding a $10 billion payout of insured deposits and liquidating assets in a depressed real estate market. To facilitate the transaction, CDIC entered into deficiency coverage agreements (DCAs) with TD to provide certain income and capital loss guarantees. Coverage under the DCAs for these losses is limited to $2.49 billion, and TD will not call on the full amount available. The DCAs expire on December 31, 2002.

At the start of the DCAs, $7.1 billion in loans ($2 billion commercial, $4.3 billion residential, and $0.8 billion personal) was covered. This balance has been reduced by $6.26 billion through normal paydown, TD's renewal of loans at its own risk, the acquisition of loans by others, and TD's disposal of some of the underlying assets (Figure 19). The remaining $0.84 billion is eligible for coverage as it does not currently meet TD's normal underwriting criteria.

FIGURE 19:
Assets Under TD Deficiency Coverage Agreements



Since 1992, CDIC has paid $127 million in capital and income claims to TD, including $29 million in 1998/99. These claims represent 1.8 percent of the assets originally covered under the DCAs, and they fall well within CDIC's provision for losses. All claims made under the DCAs are audited by an independent public accounting firm. Close monitoring of the DCA agreements will continue in order to minimize CDIC's exposure.

Claims Management in Liquidations

When a member institution has been placed in liquidation, CDIC normally becomes the largest creditor in the estate as holder of the subrogated claims of insured depositors, ranking equally with the uninsured depositors. In its capacity as creditor, CDIC seeks to

- recover, in a timely manner, all claims to which it is entitled;
- advance its interests in the resolution of claim disputes and competing claims; and
- pursue suitable and timely exit strategies.

The relevant legislation under which failed member institutions are liquidated sets out a priority ranking of creditors, which can have a significant effect on CDIC's recovery. In addition, disputed claims affect the estate's ability to dispose of the assets and manage costs, as mentioned earlier. This directly influences CDIC's recoveries and their timing. A timely closure may therefore be impossible when there are many complicated legal issues to resolve.

When a surplus is available in an estate after the claims of creditors have been paid in full, creditors may seek post-liquidation interest. In such instances, issues of entitlement and calculation methods require CDIC's active monitoring and liaison with liquidators. The final resolution and entitlement to post-liquidation interest require court approval.

Claim Optimization and Loss Minimization

CDIC optimizes recoveries by ensuring that the strategies used in liquidations maximize net revenues on a net present value basis. CDIC minimizes exposure to loss by ensuring that the liquidation process is carried out in a cost-effective manner. CDIC also approves claims made against it under certain facilitation agreements provided in respect of failed members.

CDIC measures the performance of liquidators with regard to the recoveries achieved and the costs incurred. In the case of liquidations, four key performance indicators are measured:

1. Progress on the liquidation of non-cash assets and resolution of claims;
2. The speed and progress of distributions;
3. Liquidation costs; and
4. The loss suffered by CDIC on a nominal and net present value basis.

Final Steps in Winding up Estates

To achieve a timely discharge of an estate, CDIC reviews the close-out work plans with each liquidator to ensure that all the essential steps in the discharge process are undertaken at the appropriate time. Liquidators must ensure that all known assets have been liquidated. When there are assets that cannot be sold to third parties, their disposal must be resolved—for example by sale or *in specie* distribution to creditors. Liquidators likewise must address all outstanding claims, litigation, and administrative matters, including the treatment of unclaimed dividends, the filing of final tax returns and the receipt of tax clearance certificates.

Liquidator discharge requires a court approval of a final distribution plan and the approval of liquidator and lawyers' fees.

During the year, CDIC concluded its involvement in the Pioneer Trust Company estate after a final distribution to CDIC of $4.7 million. The liquidator of Pioneer Trust was discharged in November 1998.

Failure Resolutions since 1967

CDIC has used several failure resolution methods since 1967. They include nominating a court-appointed liquidator, creating a company to manage and dispose of certain assets, and providing guarantees or other financial assistance to facilitate the sale of a failed institution's assets to another member institution. In all cases, CDIC's objective has been to minimize its exposure to loss and maximize the net present value of its recoveries.

Of the $26 billion in insured deposits that has been protected by CDIC since 1967, approximately $17 billion, or 65 percent, has been protected by way of CDIC assisting in the sale of troubled member institutions to other member institutions (Figure 20).

The most commonly used method of failure resolution has been a formal liquidation—Figure 21—in which CDIC pays depositors the value of their insured deposits and assumes their claims against

FIGURE 20:
Insured Deposits Protected in Member Institution Failures, 1967–1999

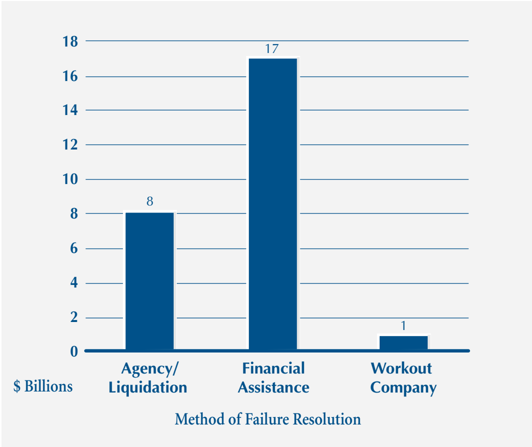
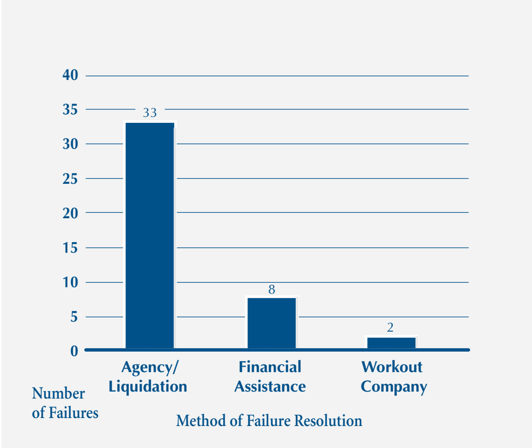


FIGURE 21:
Number of Failures, 1967–1999

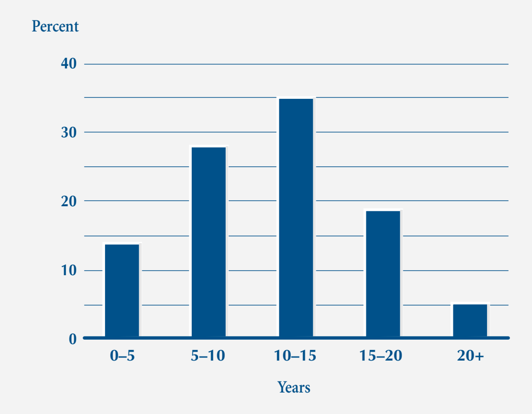


the estate of the failed institution (the “estate”). The payment of insured deposits involves a number of important activities, such as converting and balancing the institution’s financial records, making advance insurance payments and deposit insurance payments, and filing CDIC’s proof of claim.

In a formal liquidation the estate’s assets are liquidated under the jurisdiction of a court-appointed liquidator, who takes control of the member institution, liquidates assets, calls for claims, and distributes the proceeds of the liquidation to approved creditors. All aspects of the liquidation are subject to the direction of the court. Applications for the direction of the court can be brought by the liquidator or by any creditor and are frequently relied upon to resolve difficulties or issues arising in the liquidation and administration of an estate.

CDIC’s involvement in liquidations and other forms of failure resolution often results in complex and extended relationships with regulators, liquidators, professional firms and member institutions acting as CDIC’s agents. The length of time of CDIC’s involvement in the resolution of a failed member institution has varied considerably—from less than 5 years to upwards of 20 years (Figure 22). In each instance, substantial resources were allocated in the early stages of failure—in preparing for the member institution’s closure, making deposit insurance payments, developing, with the liquidators, strategies for liquidating assets, dealing with creditor and litigation issues, and investigating the causes of failure.

FIGURE 22:
Length of Failure Resolutions, 1967–1999



Research Activities

CDIC reviews the Corporation’s experience in such areas as deposit payouts, litigation, forensic investigations, claims management, and asset management and disposition. Studies completed to date identify and confirm best practices, including the following points:

- Early intervention is necessary to minimize CDIC’s exposure to loss.
- Use of discount cash flow analysis is required to ensure that the liquidation approaches recognize the time value of money.
- Asset management strategies need to reflect the type and quality of assets being realized.
- Clearly articulated plans and supporting budgets by which liquidators conduct the winding-up of a failed member need to be developed and tracked, including cost-benefit analyses of litigation undertaken in the capacity of plaintiff and defendant.
- Appropriate legal action needs to be identified, evaluated and managed appropriately where CDIC has suffered damages as a result of wrongdoing or negligence by directors, officers, auditors, or other parties.

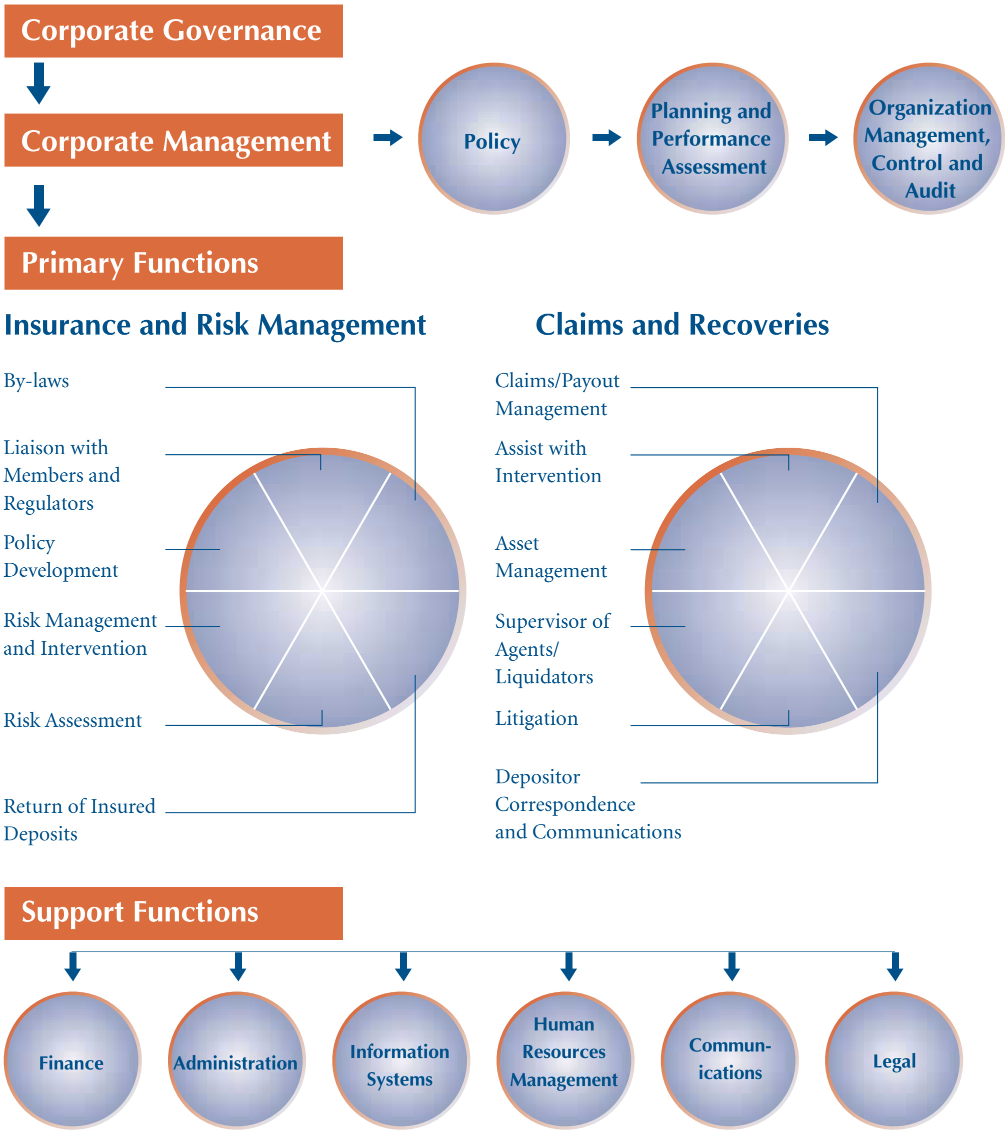
These observations reflect CDIC policies and practices and provide benchmarks to address issues that CDIC may face in the future.

Corporate Management

Organizational Structure and Functions

The organizational structure of CDIC and the distribution of principal functional responsibilities are shown in Figure 23.

FIGURE 23:
CDIC Business Model



Planning and Accountability

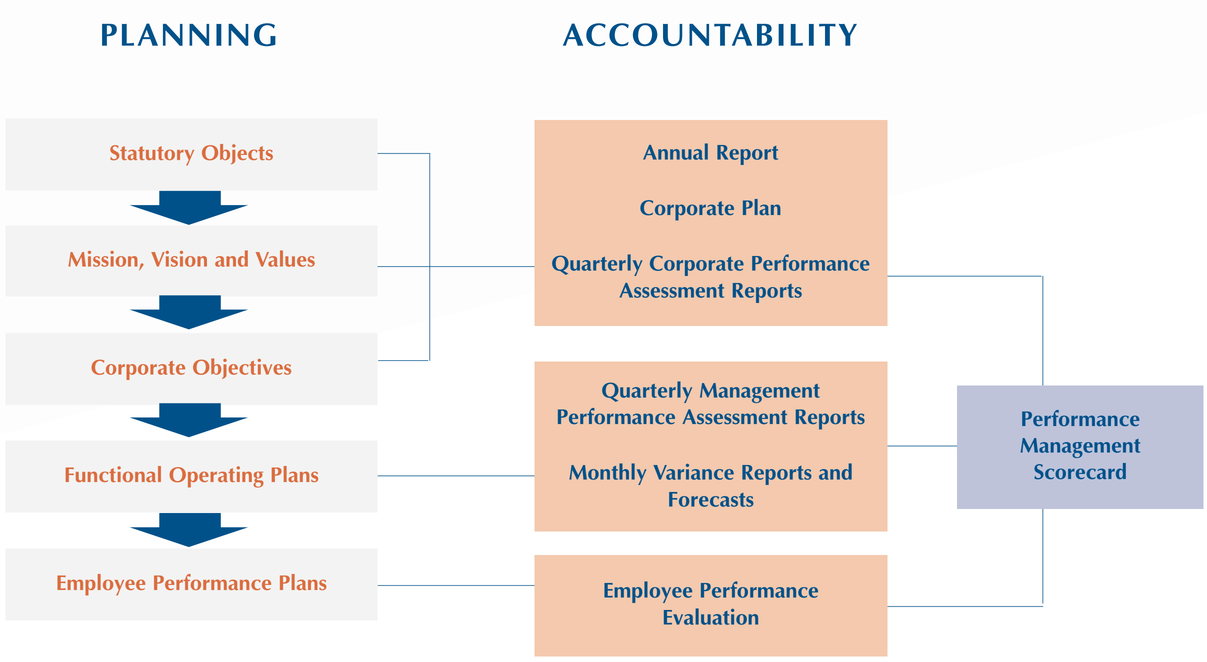
CDIC continues to adhere to the planning and accountability framework shown in Figure 24, which is based on the Corporation's statutory objects. The Corporation's mission statement was developed directly from these objects. Together, the statutory objects and the mission statement act as a base for determining the Corporation's priorities and business strategies. During 1998/99 CDIC developed a strategy statement describing how the Corporation will satisfy its statutory objects:

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

The Board of Directors establishes CDIC's overall strategic direction. Through the corporate planning process, strategic and operational plans are developed, as are annual operating and capital budgets.

Accountability is an essential element of the corporate management process. As a Crown corporation, CDIC is held accountable to Parliament through the Minister of Finance. Accountability for achieving the objects and priorities is communicated by two significant corporate documents: the *Annual Report*

FIGURE 24:
Planning and Accountability Framework



and the *Corporate Plan*. In addition, corporate performance assessment reports, which summarize CDIC's financial performance as well as the impact of departmental activities on the achievement of the corporate priorities, are prepared and presented quarterly to the Board of Directors.

Performance Management

To enhance accountability and increase efficiency, CDIC has developed and reported on a number of performance indicators over the years. During the past year, the Corporation began expanding these indicators into an overall corporate scorecard for performance measurement and management (Figure 25).

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

1. Maintain CDIC's financial stability and the efficiency of its operations;
2. Manage risks of insuring deposits; and
3. Manage relationships with stakeholders.

FIGURE 25:

CDIC's Performance Management Scorecard (objectives grouped into three key themes)

Public Policy Mandate and Other Legislation

For the benefit of depositors:

- Provide Deposit Insurance
- Promote Standards
- Contribute to the Stability of the Financial System

…while minimizing exposure to loss.

Theme A	Theme B	Theme C
Maintain CDIC's Financial Stability and the Efficiency of its Operations	Manage Risks of Insuring Deposits	Manage Relationships with Stakeholders
Objectives	**Objectives**	**Objectives**
Maintain efficient, cost-effective operations	Maintain a strong core capacity to minimize the cost of deposit insurance by: • assessing the risk of losses • reducing and managing the risk of losses • maximizing net recoveries	Improve consumer information Keep abreast of developments and emerging issues relevant to CDIC

People and Knowledge (Human Resources, Technology, Capital)

- Maintain core competencies and high-quality staff
- Keep pace with technology

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

Performance measures for each strategic objective have been drafted. During the implementation of the scorecard over the next two years and as the Corporation gains experience with this tool, targets will also be developed for each measure. Regular reviews of the scorecard will be conducted to ensure it remains relevant and useful. Implementation of the scorecard at all levels of the Corporation over a two-year period will help to measure the attainment of corporate objectives and enhance CDIC's accountability.

Finance

CDIC's Finance Department is responsible for the accounting, corporate planning (in conjunction with the Executive Office), financial planning, and treasury activities of the organization.

Finance is responsible for the annual financial statements and CDIC's financial plans and budgets, which are encapsulated annually in the five-year *Corporate Plan*. Finance maintains the integrity of the financial affairs of the Corporation by maintaining proper financial systems and records and establishing appropriate internal controls to safeguard the Corporation's assets.

CDIC's Asset/Liability Management Committee meets regularly to assess and manage CDIC's financial risk exposures. The Risk Management Unit, a committee comprised of senior representatives of CDIC's operating divisions, also meets regularly to deal with the risk issues to which CDIC is exposed. It also plays an active role in ensuring that CDIC meets the control requirements outlined in the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance.

CDIC's investment portfolio is governed by internal policies, approved by the Board of Directors, that adhere to the Minister's Risk Management Guidelines and are consistent with the credit guidelines applicable to Crown corporations. The portfolio, which had a par value of approximately $730 million as at March 31, 1999, generates sufficient income to cover CDIC's annual operating expenses.

During 1998/99, CDIC completed the installation and testing of its treasury system, which now serves as the backbone of its treasury operations. Enhancements to the system in respect of risk management tools are now being assessed.

Information Systems and Management

CDIC undertook to overhaul its network infrastructure last year, and the project is scheduled to be completed in mid-1999. The new environment offers better security and enhanced performance and is the first major upgrade to the network since 1987. With this upgrade, CDIC's systems are year 2000 compliant. CDIC will confirm this compliance by conducting full year 2000 compliance testing on all of its systems during the summer of 1999.

CDIC's records management software was replaced with a new version that centralizes records information from both the Ottawa and Toronto offices. A project to establish an electronic document management system has begun and is expected to take two years to complete. To enhance internal communications channels, an Intranet was implemented during the year.

The development and full implementation of the tri-agency database was completed during the year. This project was undertaken by OSFI, the Bank of Canada and CDIC for the purpose of having a centralized data storage facility for the financial information collected from institutions. All three parties shared the cost of developing the system and will share the operating costs. CDIC began work on phase 2 of the Member Institution Data Analysis System, CDIC's internal system that receives the financial data from the Bank of Canada and other sources. Phase 2 involves, among other things, modifying the system architecture to accept electronically the information requirements of the differential premiums classification system.

Human Resources Management

Human resources management continued to be a priority during the year. A third employee survey was conducted in 1999 to provide data on the status of human resources management issues. The response rate was 92 percent. The results of the survey are very positive, with improved results in virtually all areas, both compared with previous surveys and with composite survey data from other organizations. Work will be undertaken during the upcoming year on the areas that need improvement.

CDIC continues to meet its statutory obligations with respect to employment equity, health and safety, official languages, and multiculturalism and filed annual reports on its compliance with these requirements. A significant effort was made during the year to update human resources policies, to develop an effective succession planning process and to establish a corporate training framework. Over the past six years, a full slate of human resource policies has been developed, enhanced and approved.

To ensure that CDIC employees are paid fairly, the Job Evaluation Committee was set up in 1992 to review job descriptions and assess job worth by ranking and to establish an overall consistency of position ratings throughout the organization. CDIC has also conducted a market comparison salary survey annually since 1996 to assess salaries against current market data.

An enhanced employee performance review process has been conducted annually since 1995. Performance expectations for each employee, worked out annually between the employee and his or her supervisor, reflect corporate priorities, management and personal skills requirements, and training and development actions to be taken over the year. At the evaluation phase, employee accomplishments are assessed against the pre-established performance expectations. Only employees whose performance meets or exceeds expectations are eligible for any salary adjustments. Employees whose overall performance exceeds expectations are eligible for a re-earnable performance bonus.

CDIC has always identified training and development as a key priority, this year spending about $2,900 per employee (which includes both individual and corporate training and travel associated with training). Employees have been encouraged to maintain and enhance their knowledge of the financial services sector, of specific areas of knowledge related to CDIC's activities, and effective managerial practices.

The current annual turnover rate of CDIC employees is 4.5 percent of the total number of full-time, permanent employees. This is low by comparison to 18 percent in 1993 and on a par with comparable organizations. The current absenteeism rate is 5.1 days per year, down slightly from 5.3 days in 1993.

Although survey results demonstrate the success of many of these initiatives, the challenge remains to ensure that the human resources practices and policies continue to serve the needs of the Corporation and its employees. Further opportunities to improve human resources services and programs will be identified through the findings of the Audit and Consulting Services' 1999 review of the Human Resources Department and the Auditor General's special examination, which will be completed in 1999.

Communications and Public Affairs

After the full implementation of the *Deposit Insurance Information By-law* and the airing of a television commercial in March 1998, CDIC conducted a national telephone survey in April 1998 that found that an increasing number of Canadians are aware of CDIC and know how to obtain basic information about deposit insurance. Although gains have been achieved in raising awareness of CDIC's deposit insurance protection, gaps still exist in the public's understanding of the terms of deposit insurance.

To address these gaps, CDIC approached the Canadian Investor Protection Fund, the Canadian Life and Health Insurance Compensation Corporation and the Investment Funds Institute of Canada to discuss potential opportunities for joint communications initiatives with the objective of enhancing financial information to the consumer. Meetings were held throughout the year, and ongoing discussions are being held to find a suitable channel by which consumers' understanding of the various protection schemes as they apply to their investments could be enhanced. CDIC is hopeful that a resolution can be found to meet the needs of consumers.

The CDIC Web site (www.cdic.ca) continued to grow in popularity during 1998/99, receiving over 59,000 visits, an increase of almost 80 percent over last year. E-mail inquiries more than doubled during the year. On the other hand, inquiries to the CDIC toll-free information line (1-800-461-CDIC) decreased by 31 percent to 17,000. More than one million copies each of the CDIC Information and Membership brochures were distributed during the year.

Through its toll-free line, CDIC began tracking inquiries about the year 2000 issue in late 1997. The most frequently asked question was whether or not CDIC would repay insured deposits in the event of the failure of a member institution because of a Y2K problem. Notwithstanding the reason for a failure, CDIC is obligated to pay depositors under the terms of the CDIC Act. The answer to this question was highlighted on the CDIC Web site by January's Question of the Month. Communications and Public Affairs is pleased to be working with other organizations in Canada's financial services sector, both government and private sector, to ensure a useful exchange of information on this subject.

Customer satisfaction surveys indicate that 95 percent of those using CDIC's 1-800 information line are very satisfied with the quality of service received.

Legal

The Legal Division provides legal advice and support services to the Corporation, directly and through outside counsel. Members of the Legal Division perform the functions of general legal counsel, corporate secretary, and access to information and privacy co-ordinator. As legal counsel, members of the division advise the Corporation, particularly in the areas of insurance and risk management of member institutions, claims and recoveries, and administration. The Corporate Secretary serves as a primary resource and support for the Board of Directors.

In addition to the above duties, the Legal Division worked with the Department of Finance and OSFI in developing amendments to the *Canada Deposit Insurance Corporation Act* and the *Bank Act* in connection with foreign bank branching. The division also worked with the Department of Justice in developing the *Interest Payable on Certain Deposits By-law*, the *Opting-Out By-laws*, the *Differential Premiums By-law* and amendments to the *Policy of Deposit Insurance*. The division provided internal advice regarding the report of the Task Force on the Future of the Financial Services Sector and contributed to the Corporation's year 2000 preparedness.

Audit and Consulting Services

The Audit and Consulting Services Department is responsible for assessing, on an ongoing basis, CDIC's compliance with the requirements of the *Financial Administration Act* and for determining if CDIC keeps books and records and maintains systems and practices that provide assurance that

- assets are safeguarded and controlled;
- transactions are in accordance with specified authorities;
- resources are managed economically and efficiently; and
- operations are carried out effectively.

To fulfil its responsibilities, the department requires independent status and therefore reports directly to the President and Chief Executive Officer and to the Audit Committee of the Board of Directors.

During the past year, in addition to the annual audits of the accounting systems and tests for compliance with authorities, Audit and Consulting Services performed reviews of CDIC's Finance Department, Human Resources Department, and Communications and Public Affairs Department. It was also actively involved in monitoring and reporting on systems development projects, managing an audit of claims made under a deficiency coverage agreement, and assisting in the attest audit and special examination performed by the Office of the Auditor General. During 1998/99, Audit and Consulting Services also played a lead role in the development of a performance measurement system for the Corporation.

Community Involvement

CDIC employees are actively involved in the communities where they live and work. In addition to their own community contributions, employees volunteer their time and energy to corporately supported activities.

Membership Profile

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

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

Based on the March 31, 1999, CDIC membership, the financial information has been classified into three major peer groups: domestic banks and their subsidiaries, foreign bank subsidiaries, and domestic trust and loan companies.

The information compiled is presented as follows:

1.0 Membership Information

2.0 Summary financial information—total CDIC membership

3.0 Asset size and quality measures—member peer groups

4.0 Deposit liabilities

5.0 Capitalization measures

6.0 Income and profitability measures

7.0 CDIC premiums

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 (with the exception of Tables 5.2 and 7.0) exclude the financial information of institutions that were no longer members as at March 31, 1999.

1.0 MEMBERSHIP INFORMATION

1.1 CDIC MEMBERS AS AT MARCH 31, 1999[1]

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
CIBC Mortgage Corporation
CIBC Mortgages Inc.
CIBC Trust Corporation
Services Hypothécaires CIBC Inc.
Canadian Western Bank
Canadian Western Trust Company
Citizens Bank of Canada
Citizens Trust Company
Laurentian Bank of Canada
Laurentian Trust of Canada Inc.
LBC Trust
Manulife Bank of Canada
National Bank of Canada
General Trust of Canada
Natcan Trust Company
Royal Bank of Canada
Royal Bank Mortgage Corporation
Royal Trust Company (The)
Royal Trust Corporation of Canada
Toronto-Dominion Bank (The)
First Nations Bank of Canada
TD Mortgage Corporation
TD Pacific Mortgage Corporation
TD Trust Company

Total: 35

Domestic Trust and Loan Companies

AGF Trust Company
Canada Trustco Mortgage Company
Canada Trust Company (The)
Civil Service Loan Corporation
Co-operative Trust Company of Canada
Community Trust Company Ltd.
Connor Clark Private Trust Company
Desjardins Trust Inc.
Effort Trust Company (The)
Equitable Trust Company (The)
Evangeline Trust Company
Fortis Trust Corporation
Home Savings & Loan Corporation
Household Trust Company
Investors Group Trust Co. Ltd.
League Savings & Mortgage Company
Maple Trust Company
MD Private Trust Company
M.R.S. Trust Company
MTC Mortgage Investment Corporation
Mutual Trust Company (The)
Pacific & Western Trust Corporation
Peace Hills Trust Company
Peoples Trust Company
President's Choice Financial Trust Company
Standard Life Trust Company
Sun Life Trust Company
Sun Life Savings and Mortgage Corporation
Trimark Trust
Trust Company of London Life (The)

Total: 30

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

Foreign Bank Subsidiaries

ABN AMRO Bank Canada
Amex Bank of Canada
Banca Commerciale Italiana of Canada
Bank of America Canada
Bank of China (Canada)
Bank of East Asia (Canada) (The)
Bank of Tokyo-Mitsubishi (Canada)
Banque Nationale de Paris (Canada)
BT Bank of Canada
Chase Manhattan Bank of Canada (The)
Cho Hung Bank of Canada
Citibank Canada
Comerica Bank - Canada
Crédit Lyonnais Canada
Credit Suisse First Boston Canada
CTC Bank of Canada
Dai-Ichi Kangyo Bank (Canada)
Deutsche Bank Canada
Dresdner Bank Canada
First Chicago NBD Bank, Canada
Fuji Bank Canada
Hanvit Bank Canada
Hongkong Bank of Canada
HongkongBank Mortgage Corporation
Hongkong Bank Trust Company
Industrial Bank of Japan (Canada) (The)
ING Bank of Canada
International Commercial Bank of Cathay (Canada)
J. P. Morgan Canada
Korea Exchange Bank of Canada
MBNA Canada Bank
Mellon Bank Canada
National Bank of Greece (Canada)
Northern Trust Company, Canada (The)
Paribas Bank of Canada
Rabobank Canada
Republic National Bank of New York (Canada)
Sakura Bank (Canada)
Sanwa Bank Canada
Société Générale (Canada)
Sottomayor Bank Canada
State Bank of India (Canada)
State Street Trust Company Canada
Sumitomo Bank of Canada (The)
Tokai Bank Canada
UBS Bank (Canada)
UBS Trust (Canada)
United Overseas Bank (Canada)

Total: 48

TOTAL: 113 members

1.2 MEMBERSHIP CHANGES: APRIL 1, 1994 – MARCH 31, 1999

New Members

September 14, 1994:	General Trust of Canada
May 2, 1995:	State Street Trust Company Canada
December 13, 1995:	Trust Company of London Life (The)
May 22, 1996:	Swiss Bank Corporation Trust
December 4, 1996:	ING Trust Company of Canada
December 4, 1996:	First Nations Bank of Canada
January 22, 1997:	Citizens Trust Company
September 10, 1997:	MBNA Canada Bank
September 10, 1997:	Rabobank Canada
October 24, 1997:	Services Hypothécaires CIBC Inc.
May 21, 1998:	Comerica Bank — Canada
December 2, 1998:	CTC Bank of Canada
December 2, 1998:	MD Private Trust Company
December 2, 1998:	President's Choice Financial Trust Company

Other Membership Changes

April 1, 1994:	Victoria and Grey Mortgage Corporation amalgamated with The Premier Trust Company — continuing as Victoria and Grey Mortgage Corporation.
May 31, 1994:	RBC Trust Company amalgamated with The Royal Trust Company — continuing as The Royal Trust Company.
August 15, 1994:	Confederation Trust Company was placed in liquidation — policy cancelled.
August 17, 1994:	Montreal Trust Company was continued as a federal trust company.
September 14, 1994:	Trustcan Trust Company (formerly General Trust of Canada) ceased to accept deposits — policy cancelled.
October 17, 1994:	The International Trust Company ceased operations — policy cancelled.
October 25, 1994:	Inland Trust and Savings Corporation Limited ceased to accept deposits — policy cancelled.
December 8, 1994:	Overseas Union Bank of Singapore (Canada) ceased to accept deposits — policy cancelled.
December 31, 1994:	Canadian Western Bank amalgamated with North West Trust Company — continuing as Canadian Western Bank.
January 1, 1995:	Republic National Bank of New York (Canada) amalgamated with Bank Hapoalim (Canada) — continuing as Republic National Bank of New York (Canada).
March 1, 1995:	Income Trust Company's policy was terminated. A winding-up order was issued by the Ontario Court of Justice (General Division) on March 6, 1995.
March 31, 1995:	Evangeline Trust Company amalgamated with Evangeline Savings and Mortgage Company — continuing as Evangeline Trust Company.
April 6, 1995:	U.S. Bank (Canada) ceased to accept deposits — policy cancelled.

June 13, 1995:	Morgan Bank of Canada changed its name to J.P. Morgan Canada.
July 24, 1995:	Bank of Boston Canada ceased to accept deposits — policy cancelled.
October 25, 1995:	Banca Nazionale del Lavoro of Canada amalgamated with First Canadian Loan Corporation and continued as First Canadian Loan Corporation. The assets of the continuing company were transferred to, and its liabilities were assumed by, Bank of Montreal.
October 27, 1995:	Metropolitan Trust Company of Canada changed its name to Hongkong Bank Trust Company.
November 1, 1995:	Standard Chartered Bank of Canada amalgamated with TD Loan Corporation, which in turn amalgamated with The Toronto-Dominion Bank — continuing as The Toronto-Dominion Bank.
February 13, 1996:	Settlers Savings and Mortgage Corporation ceased to accept deposits — policy cancelled.
March 28, 1996:	NBD Bank, Canada changed its name to First Chicago NBD Bank, Canada.
April 1, 1996:	Mitsubishi Bank of Canada amalgamated with The Bank of Tokyo Canada — continuing as Bank of Tokyo-Mitsubishi (Canada).
April 23, 1996:	Aetna Trust Company changed its name to Canadian Western Trust Company.
May 22, 1996:	North American Trust Company ceased to accept deposits — policy cancelled.
June 4, 1996:	Security Home Mortgage Corporation's policy was terminated. A winding-up order was issued by the Alberta Court of Queen's Bench on December 4, 1996.
August 31, 1996:	Barclays Bank of Canada amalgamated with Hongkong Bank of Canada — continuing as Hongkong Bank of Canada.
October 30, 1996:	Canadian Western Trust Company was continued as a federal trust company.
October 31, 1996:	Family Trust Corporation ceased to accept deposits — policy cancelled.
November 1, 1996:	Chemical Bank of Canada amalgamated with The Chase Manhattan Bank of Canada — continuing as The Chase Manhattan Bank of Canada.
November 1, 1996:	BLC Mortgage Corporation ceased to accept deposits — policy cancelled.
December 30, 1996:	Savings and Investment Trust amalgamated with Laurentian Trust of Canada Inc. — continuing as Laurentian Trust of Canada Inc.
December 31, 1996:	The Municipal Trust Company and The Municipal Savings & Loan Corporation ceased to accept deposits — policies cancelled.
January 1, 1997:	Israel Discount Bank of Canada amalgamated with Republic National Bank of New York (Canada) — continuing as Republic National Bank of New York (Canada).
January 1, 1997:	Credit Suisse Canada changed its name to Credit Suisse First Boston Canada.
January 1, 1997:	First Line Trust Company changed its name to CIBC Mortgages Inc.
January 13, 1997:	Bayshore Trust Company changed its name to Trimark Trust.
January 20, 1997:	Citizens Trust Company was continued as a Schedule II bank under the name Citizens Bank of Canada.
February 28, 1997:	Daiwa Bank Canada ceased to accept deposits — policy cancelled.
August 18, 1997:	ING Trust Company of Canada was continued as a Schedule II bank under the name ING Bank of Canada.

August 18, 1997:	Merchant Private Trust Company changed its name to Connor Clark Private Trust Company.
October 28, 1997:	Bonaventure Trust Inc. was continued as a federal trust company under the name Bonaventure Trust Company of Canada.
November 14, 1997:	Laurentian Bank of Canada was continued as a Schedule I bank.
February 27, 1998:	Granville Savings and Mortgage Corporation ceased to accept deposits — policy cancelled.
February 27, 1998:	Bonaventure Trust Company of Canada changed its name to Standard Life Trust Company.
March 12, 1998:	National Trust Company was continued as a federal trust company.
May 1, 1998:	National Westminster Bank of Canada amalgamated with HongkongBank Loan Corporation, which 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.

1.3 REGIONAL LOCATION OF CDIC MEMBERS*

MARCH 31, 1999	WESTERN	ONTARIO	QUEBEC	EASTERN	TOTAL
Domestic banks and subsidiaries	5	20	10	–	35
Foreign bank subsidiaries	5	38	5	–	48
Domestic trust and loan companies	5	20	2	3	30
Total	**15**	**78**	**17**	**3**	**113**

* *Based upon the location of the Chief Executive Officer*

2.0 SUMMARY FINANCIAL INFORMATION — TOTAL CDIC MEMBERSHIP

2.1 BALANCE SHEET ($ BILLIONS AND PERCENTAGE)

AS AT MEMBERS' FISCAL YEAR-END	1998 $	%	1997 $	%	1996 $	%	1995 $	%	1994 $	%
ASSETS										
Cash resources	88.8	6	101.0	8	87.7	8	87.6	9	66.5	8
Securities	269.4	19	221.8	18	204.2	19	181.0	19	156.8	18
Loans	847.5	59	794.8	62	708.5	65	625.1	64	588.9	67
Other assets	228.0	16	157.7	12	83.0	8	72.6	8	62.9	7
Total assets	**1,433.7**	**100**	**1,275.3**	**100**	**1,083.4**	**100**	**966.3**	**100**	**875.1**	**100**
LIABILITIES										
Deposits	942.9	65	867.6	68	780.9	72	739.9	77	683.1	78
Other liabilities	426.0	30	350.6	28	251.9	23	178.3	18	147.2	17
Total liabilities	**1,368.9**	**95**	**1,218.2**	**96**	**1,032.8**	**95**	**918.2**	**95**	**830.3**	**95**
SHAREHOLDERS' EQUITY	**64.8**	**5**	**57.1**	**4**	**50.6**	**5**	**48.1**	**5**	**44.8**	**5**
Total liabilities and shareholders' equity	**1,433.7**	**100**	**1,275.3**	**100**	**1,083.4**	**100**	**966.3**	**100**	**875.1**	**100**

2.2 INCOME STATEMENT ($ MILLIONS)

AS AT MEMBERS' FISCAL YEAR-END	1998	1997	1996	1995	1994
Interest income	80,690	68,011	68,253	66,104	52,701
Interest expense	55,632	43,698	44,169	43,962	31,312
Net interest income	**25,058**	**24,313**	**24,084**	**22,142**	**21,389**
Provision for impairment	2,962	2,259	2,337	2,975	4,071
Net interest income after provision for impairment	**22,096**	**22,054**	**21,747**	**19,167**	**17,318**
Other income	22,576	20,337	14,143	11,854	11,535
Net interest income and other income	**44,672**	**42,391**	**35,890**	**31,021**	**28,853**
Non-interest expenses	32,406	28,650	24,496	21,899	21,239
Net income before provision for income taxes	**12,266**	**13,741**	**11,394**	**9,122**	**7,614**
Provision for income taxes	4,375	5,048	4,287	3,299	2,920
Net income before non-controlling interest	**7,891**	**8,693**	**7,107**	**5,823**	**4,694**
Non-controlling interest in net income of subsidiaries	191	179	124	78	115
Net income	**7,700**	**8,514**	**6,983**	**5,745**	**4,579**

3.0 ASSET SIZE AND QUALITY MEASURES — MEMBER PEER GROUPS

3.1 TOTAL ASSETS ($ BILLIONS AND PERCENTAGE)

	1998		1997		1996		1995		1994	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	1,281.5	89.4	1,132.4	88.8	953.0	88.0	850.7	88.0	768.6	87.8
Foreign bank subsidiaries	96.1	6.7	88.1	6.9	74.6	6.8	62.6	6.5	54.5	6.3
Domestic trust and loan companies	56.1	3.9	54.8	4.3	55.8	5.2	53.0	5.5	52.0	5.9
Total	**1,433.7**	**100.0**	**1,275.3**	**100.0**	**1,083.4**	**100.0**	**966.3**	**100.0**	**875.1**	**100.0**

3.2 IMPAIRED LOANS TO TOTAL ASSETS (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	0.6	0.7	1.0	1.6	2.2
Foreign bank subsidiaries	1.2	1.1	1.8	2.8	4.7
Domestic trust and loan companies	0.4	0.6	0.9	0.9	1.2

Impaired loans (gross) / total assets (gross)

3.3 IMPAIRED LOANS TO TOTAL LOANS (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	1.1	1.1	1.6	2.5	3.3
Foreign bank subsidiaries	2.1	1.9	3.0	4.5	7.4
Domestic trust and loan companies	0.6	0.8	1.1	1.2	1.5

Impaired loans (gross) / total loans (gross)

3.4 IMPAIRED LOANS UNPROVIDED FOR (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	-7.3	5.5	25.6	42.8	48.0
Foreign bank subsidiaries	17.9	10.9	30.8	37.0	45.0
Domestic trust and loan companies	-38.3	-20.3	17.8	30.2	36.7

1 - (allowance for loan impairment / impaired loans (gross))

3.5 IMPAIRED LOANS TO TOTAL SHAREHOLDERS' EQUITY (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	-1.1	0.9	5.8	14.9	21.9
Foreign bank subsidiaries	4.0	2.5	11.3	20.1	38.4
Domestic trust and loan companies	-3.3	-2.4	3.2	5.2	7.8

Impaired loans (net) / average shareholders' equity

4.0 DEPOSIT LIABILITIES

4.1 TOTAL DEPOSITS ($ BILLIONS AND PERCENTAGE)

AS AT APRIL 30	1998 $	1998 %	1997 $	1997 %	1996 $	1996 %	1995 $	1995 %	1994 $	1994 %
Domestic banks and subsidiaries	750.1	87.3	689.8	87.1	614.7	86.3	580.1	86.3	545.1	86.3
Foreign bank subsidiaries	61.3	7.1	53.9	6.8	50.7	7.1	44.9	6.7	41.9	6.6
Domestic trust and loan companies	48.3	5.6	48.2	6.1	47.1	6.6	47.2	7.0	44.7	7.1
Total	**859.7**	**100.0**	**791.9**	**100.0**	**712.5**	**100.0**	**672.2**	**100.0**	**631.7**	**100.0**

4.2 INSURED DEPOSITS ($ BILLIONS AND PERCENTAGE OF TOTAL DEPOSITS)

AS AT APRIL 30	1998 $	1998 %	1997 $	1997 %	1996 $	1996 %	1995 $	1995 %	1994 $	1994 %
Domestic banks and subsidiaries	265.0	35.3	271.9	39.4	279.5	45.5	271.9	46.9	255.7	46.9
Foreign bank subsidiaries	7.4	12.2	7.3	13.6	7.8	15.4	7.6	17.0	7.0	16.6
Domestic trust and loan companies	36.0	74.4	37.7	78.1	39.5	83.8	40.1	84.8	37.7	84.4
Total	**308.4**	**35.9**	**316.9**	**40.0**	**326.8**	**45.9**	**319.6**	**47.5**	**300.4**	**47.6**

5.0 CAPITALIZATION MEASURES

5.1 CAPITALIZATION (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	4.4	4.5	4.8	5.0	5.1
Foreign bank subsidiaries	5.6	5.3	5.4	5.7	5.8
Domestic trust and loan companies	4.8	4.7	4.9	5.3	5.6

Average shareholders' equity / average assets

5.2 BIS RISK-BASED CAPITAL (PERCENTAGE)*

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	10.6	10.0	9.1	9.8	9.8
Foreign bank subsidiaries	10.9	10.6	10.5	10.2	10.5
Federal trust and loan companies	12.0	12.2	11.9	12.3	11.6

* *BIS (Bank for International Settlements): The minimum requirement is 8.0%. Provincial trust and loan companies have to meet capital adequacy requirements that are calculated under a different basis.*

6.0 INCOME AND PROFITABILITY MEASURES

6.1 NET INCOME ($ MILLIONS)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	7,152	7,551	6,410	5,264	4,340
Foreign bank subsidiaries	199	362	319	236	124
Domestic trust and loan companies	349	601	254	245	115
Total	**7,700**	**8,514**	**6,983**	**5,745**	**4,579**

6.2 INTEREST SPREAD (PERCENTAGE)

	1998	1997	1996	1995	1994
Domestic banks and subsidiaries	1.9	2.1	2.4	2.5	2.6
Foreign bank subsidiaries	1.5	1.6	1.9	1.9	1.7
Domestic trust and loan companies	2.3	2.3	2.3	2.1	2.1

Interest spread: (interest income – interest expense) / average assets

6.3 OTHER INCOME (PERCENTAGE)

	1998	1997*	1996	1995	1994
Domestic banks and subsidiaries	1.7	1.7	1.4	1.3	1.4
Foreign bank subsidiaries	1.4	1.5	1.3	1.3	1.6
Domestic trust and loan companies	1.7	1.7	1.3	1.1	0.8

Other income: other income / average assets

** 1997 percentage calculations exclude some non-recurring income.*

6.4 NON-INTEREST EXPENSES (PERCENTAGE)

	1998	1997*	1996	1995	1994
Domestic banks and subsidiaries	2.9	3.1	3.1	3.1	3.5
Foreign bank subsidiaries	2.7	2.6	2.7	2.8	3.1
Domestic trust and loan companies	3.4	3.4	3.1	2.8	2.7

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

**1997 percentage calculations exclude some non-recurring expenses.*

6.5 RETURN ON AVERAGE ASSETS (PERCENTAGE)

	1998	1997*	1996	1995	1994
Domestic banks and subsidiaries	0.6	0.7	0.7	0.7	0.6
Foreign bank subsidiaries	0.2	0.4	0.5	0.4	0.2
Domestic trust and loan companies	0.6	0.6	0.5	0.5	0.2

ROAA: net income / average assets
** 1997 percentage calculations exclude some non-recurring income.*

6.6 RETURN ON AVERAGE EQUITY (PERCENTAGE)

	1998	1997*	1996	1995	1994
Domestic banks and subsidiaries	13.5	16.1	14.9	13.1	11.6
Foreign bank subsidiaries	3.9	8.3	8.6	7.1	4.0
Domestic trust and loan companies	13.1	13.5	9.4	8.8	4.0

ROAE: net income / average shareholders' equity
**1997 percentage calculations exclude some non-recurring income.*

6.7 PRODUCTIVITY (PERCENTAGE)

	1998	1997*	1996	1995	1994
Domestic banks and subsidiaries	67.5	64.1	63.6	63.8	63.8
Foreign bank subsidiaries	74.7	70.9	68.7	69.1	67.2
Domestic trust and loan companies	71.0	68.6	68.5	71.4	77.0

Productivity: non-interest expenses / (net interest income + other income)
**1997 percentage calculations exclude some non-recurring income.*

7.0 CDIC PREMIUMS ($ MILLIONS AND PERCENTAGE)*

AS AT APRIL 30	1998		1997		1996		1995		1994	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	424.1	82.5	434.9	82.3	445.9	81.5	432.9	80.2	406.0	79.5
Foreign bank subsidiaries	11.5	2.2	12.3	2.3	13.1	2.4	12.9	2.4	12.1	2.4
Domestic trust and loan companies	78.5	15.3	81.3	15.4	88.3	16.1	93.7	17.4	92.6	18.1
Total	**514.1**	**100.0**	**528.5**	**100.0**	**547.3**	**100.0**	**539.5**	**100.0**	**510.7**	**100.0**

* *The premiums reflect amended Return of Insured Deposits filings and therefore do not necessarily agree with CDIC's premium income for accounting purposes.*

Financial Overview 1998/99

Highlights

During 1998/99, the Corporation eliminated its deficit and ended the year with a $26.9 million surplus. The accrual of $26.0 million in post-liquidation interest combined with a $10.7 million reversal of the provision for guarantees are the primary reasons for moving to a surplus position from a budgeted deficit forecast at $9.0 million in the *1999/2000 – 2003/04 Corporate Plan*. The balance of loans outstanding from the Consolidated Revenue Fund (CRF) of $395 million was repaid in July 1998.

The net recoveries of loans and claims receivable in 1998/99 totalled $104.7 million compared with the budget of $110 million. No new loans were made or new claims asserted during the year.

The provision for guarantees decreased by $39.2 million to $575.0 million at March 31, 1999. The change resulted from $28.5 million in payments made during the year as well as a $10.7 million reversal to the provision for guarantees.

The premium rate for deposit insurance was maintained at one-sixth of one percent. This rate, combined with a decrease of approximately three percent in the level of insured deposits, generated $515.0 million in premium revenue, compared with the budgeted amount of $533 million.

Interest revenue from cash and short-term investments increased to $27.6 million in 1998/99. The $12.1 million in additional revenue relative to 1997/98 resulted from a combination of better yields and higher cash and investment portfolio balances.

During the year, the Corporation recorded as other revenue $35.6 million in post-liquidation interest from the estate of Principal Savings and Trust Company, including a $26.0 million accrual for such interest at March 31, 1999.

A five-year financial and statistical summary can be found on page 51 of this report.

Cash and Short-Term Investments

The balance of cash and short-term investments increased by $228.9 million since March 31, 1998. The sources and uses of cash are described fully in the audited Statement of Cash Flows. The Corporation maintains sufficient liquidity to honour its obligations (see Provision for Guarantees).

Loans and Claims Receivable

The balance of loans and claims receivable decreased $104.7 million since March 31, 1998. During the year, the Corporation had net recoveries of $130.7 million from insolvent member institutions. No adjustments were necessary this year to the allowance for loss on loans and claims receivable.

Provision for Guarantees

The provision for guarantees as at March 31, 1999, was $575 million, down $39.2 million from $614.2 million as at March 31, 1998. During 1999/2000, the Corporation will be called upon to honour its guarantees of $500 million to the investors of distress preferred shares issued by Adelaide Capital

Corporation. As mentioned in note 5 to the financial statements, outstanding guarantees will expire, on a diminishing basis, by the year 2002.

Provision for Insurance Losses

No adjustments were made this year to the provision for insurance losses. It remained at $400 million as at March 31, 1999. The methodology used in determining the provision for insurance losses is consistent with and unchanged from last year.

Interest Costs

Interest costs were $8.3 million compared with $45.9 million in 1997/98. This substantial reduction in interest costs reflects the full repayment of loans to the Consolidated Revenue Fund during 1998/99.

Operating and Intervention Expenses

The operating expenses for 1998/99 totalled $14.7 million, down $0.9 million from 1997/98 and under budget by $0.2 million.

Intervention expenses for 1998/99 were $1.7 million, down from $3.8 million in 1997/98 and less than budget by $1.7 million. The decrease resulted primarily from savings in legal costs associated with litigation issues concerning Central Guaranty Trust Company and Northland Bank in liquidation.

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

FOR THE YEARS ENDING MARCH 31	1999	1998	1997	1996	1995
INSURANCE PROGRAM					
Surplus (deficit)	27	(539)	(1,176)	(1,301)	(1,747)
Total insured deposits ($ billions)	308	317	328	323	308
Premiums	515	531	546	538	513
ASSETS AND LIABILITIES					
Claims paid	–	–	42	–	873
Claims recovered	58	156	181	644	1,025
Loans disbursed	–	–	73	49	2
Loans recovered	73	208	181	104	651
Repayments of loans from the CRF	395	460	772	533	991
Payment of guarantees	29	32	67	342	104
OPERATIONS					
Operating expenses	15	16	14	14	14
Intervention expenses	2	4	3	4	5
Interest on loans from the CRF	8	46	85	122	182
Adjustment to allowance and provisions for loss	(11)	(144)	334	(30)	430
MEMBER INSTITUTIONS					
Number of federal institutions - banks	54	55	52	55	59
Number of federal institutions - trust and loan companies	47	45	44	43	42
Number of provincial institutions	12	12	14	20	20
Total number of institutions	113	112	110	118	121
Number of insolvencies	–	–	1	–	2
EMPLOYEES					
Number of permanent employees [1]	83	80	77	86	87
OTHER					
Average cost of funds	7.0%	7.0%	6.5%	6.5%	6.5%
Growth rate of insured deposits	(2.8%)	(3.4%)	1.5%	5.1%	1.7%
Insured deposits as a percentage of total deposit liabilities	35.9%	39.9%	45.7%	47.2%	47.6%

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

Management Responsibility for Financial Statements

May 18, 1999

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

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

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

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

Jean Pierre Sabourin
President and Chief Executive Officer

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

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 1999 and the statements of income and surplus (deficit) 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 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, 1999 and the results of its operations and its cash flows for the year then ended in accordance with 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 3, 1999

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

ASSETS	Note	1999	1998
Cash and short-term investments	3	$730,391	$501,507
Premiums and other accounts receivable		8,179	7,789
Capital assets		898	971
		739,468	510,267
Loans and claims receivable	4, 6	268,141	372,845
		$1,007,609	$883,112
LIABILITIES			
Accounts payable		$5,694	$5,922
Provision for guarantees	5, 6	575,000	614,227
Provision for insurance losses	6	400,000	400,000
Loans from the Consolidated Revenue Fund		-	401,890
		980,694	1,422,039
SURPLUS (DEFICIT)		**26,915**	**(538,927)**
		$1,007,609	$883,112

Approved by the Board:

Director

Director

See accompanying notes.

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

(in thousands of dollars)

REVENUE	Note	1999	1998
Premiums		$515,040	$531,069
Interest on cash and short-term investments		27,639	15,507
Other revenue		35,825	5,917
		578,504	552,493
EXPENSES			
Interest on loans from the Consolidated Revenue Fund		8,271	45,863
Recovery of amounts previously written off		(1,322)	(5,677)
Operating expenses		14,716	15,647
Intervention expenses		1,698	3,812
		23,363	59,645
Income before adjustment to allowance and provisions for loss		555,141	492,848
Adjustment to allowance and provisions for loss	6	10,701	144,405
Net income		565,842	637,253
Deficit, beginning of year		(538,927)	(1,176,180)
Surplus (deficit), end of year		$26,915	$(538,927)

See accompanying notes.

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

OPERATING ACTIVITIES	1999	1998
Net income	$565,842	$637,253
Non-cash items included in net income		
Accrued post-liquidation interest	(26,000)	–
Adjustment to allowance and provisions for loss	(10,701)	(144,405)
Other	336	970
Net purchase of capital assets	(264)	(371)
Payment of guarantees	(28,526)	(31,714)
Loans recovered	72,950	208,450
Claims paid	(130)	(170)
Claims recovered	57,882	156,403
Decrease in working capital	(7,505)	(13,625)
Cash flows from operating activities	623,884	812,791
FINANCING ACTIVITIES		
Loans from the Consolidated Revenue Fund		
Repayments	(395,000)	(460,000)
Cash flows from financing activities	(395,000)	(460,000)
CASH AND SHORT-TERM INVESTMENTS		
Increase during the year	228,884	352,791
Balance, beginning of year	501,507	148,716
Balance, end of year	$730,391	$501,507

See accompanying notes.

Notes to Financial Statements

March 31, 1999

1. Authority and Objective

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

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

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

2. Significant Accounting Policies

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

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

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

- The ability of the Corporation to recover its loans and claims receivable based on prevailing economic trends and expectations as to future developments.

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

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

Short-Term Investments. The Corporation maintains sufficient liquidity in its investment portfolio to meet general operating requirements as well as its guarantee obligations. These investments, consisting of marketable securities and term deposits, are carried at cost as they are intended to be held to maturity.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Revenue. The Corporation charges interest on loans made to member institutions and others. Interest continues to accrue on loans but is not recorded in the accounts when, in the Corporation's opinion, there is reasonable doubt as to collectability of the interest. In such cases, interest 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.

3. Cash and Short-Term Investments *(in thousands of dollars)*

	March 31, 1999	March 31, 1998
Bankers' Acceptances	$431,363	$303,094
Bearer Deposit Notes	149,943	111,025
Term Deposits	–	6,900
Commercial Paper	144,233	80,244
Promissory Notes	4,788	–
	730,327	501,263
Cash	64	244
Total	$730,391	$501,507

A significant portion of the cash and short-term investments will be used to meet future cash payments required to honour guarantees as they become due.

The short-term investments have a weighted-average effective yield of 5.06% (1998: 4.81%) and have a weighted-average term to maturity of 84 days (1998: 44 days).

4. Loans and Claims Receivable *(in thousands of dollars)*

	March 31, 1999	March 31, 1998
Loans receivable	$152,483	$225,433
Allowance for loss	(9,200)	(9,200)
Net loans receivable	143,283	216,233
Claims receivable	141,658	173,412
Allowance for loss	(16,800)	(16,800)
Net claims receivable	124,858	156,612
Total	$268,141	$372,845

The loans receivable are repayable on demand and bear interest at floating rates varying with either prime rate or the 90-day Treasury Bill rate. No interest revenue was recognized on existing loans receivable as the criteria for interest revenue recognition on the loans were not met (1998: nil). No new loans were made during the year.

During the year, the Corporation recorded $35.6 million (1998: $3.85 million) of post-liquidation interest.

5. Provision for Guarantees

In the course of business, the Corporation may provide various guarantees to member institutions and others.

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

The Corporation also provided collateralized guarantees to the investors of distress preferred shares issued by Adelaide Capital Corporation, an entity mandated to dispose of assets of former member institutions. These shares are to be redeemed in equal amounts of $250 million in September and November 1999, at which time it is expected the Corporation will be called upon to honour its guarantees.

The nominal amount of outstanding guarantees provided by the Corporation is $1.3 billion as at March 31, 1999 (1998: $1.8 billion) and the provision for guarantees as at March 31, 1999 is $575 million (1998: $614.2 million). The nominal amount represents the maximum exposure of the Corporation with respect to the guarantees provided. The nominal amount is not necessarily representative of the amount the Corporation expects to pay to third parties to meet its obligations under these guarantees.

6. Allowance and Provisions for Loss *(in thousands of dollars)*

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, 1999 with corresponding totals as at March 31, 1998.

	March 31 1999					*March 31 1998*
	Loans Receivable	*Claims Receivable*	*Guarantees*	*Insurance Losses*	*Total*	*Total*
Beginning of period	$9,200	$16,800	$614,227	$400,000	$1,040,227	$1,220,441
Payments			(28,526)		(28,526)	(31,714)
Write-offs						(4,095)
Adjustment to allowance and provisions for loss			(10,701)		(10,701)	(144,405)
End of period	$9,200	$16,800	$575,000	$400,000	$1,001,000	$1,040,227

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

7. Financial Instruments

Credit Risk. The Corporation is subject to credit risk from its holdings of short-term 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. The Corporation is also exposed to market risk as the value of a significant portion of the remaining assets in these estates is dependent on the market for real estate.

Fair Value. Other than cash and short-term 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, 1999 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, premiums and other accounts receivable, and accounts payable approximate fair value because of their short term to maturity.

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

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

8. 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. No future tax benefit has been recorded in the financial statements with respect to these losses since it is unlikely any significant future income tax benefit will be realized.

Such losses total $718 million and expire as follows:

Year	*Amount* (*in millions of dollars*)
2000	$164
2001	96
2002	202
2003	126
2004	90
2005	40
	$718

9. 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, 1999 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

10. Insured Deposits

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, 1998 and 1997, were as follows:

	1998	*1997*
	(in billions of dollars)	
Federal institutions	$306	$306
Provincial institutions	2	11
	$308	$317

The premium rate was set at one-sixth of one percent of insured deposits for all institutions as at April 30, 1998 (one-sixth of one percent as at April 30, 1997). The Corporation's premium revenue will change significantly in 1999/00 due to the introduction of a differential premium system and the improvement in the Corporation's financial position.

11. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. The Corporation has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 issue on the Corporation. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of member institutions, suppliers, or other third parties, will be fully resolved.

Corporate Governance

The Canada Deposit Insurance Corporation was established in 1967 under the *Canada Deposit Insurance Corporation Act*. The Act sets out CDIC's constitution, objects, powers and duties, the general terms of deposit insurance, and other governing parameters. CDIC functions within the legal framework established by the CDIC Act, the *Financial Administration Act*, and section 18 of the *Office of the Superintendent of Financial Institutions Act*, including the amendments made to these Acts over the years. The Corporation is ultimately accountable, through the Minister of Finance, to Parliament for the conduct of its affairs.

Board of Directors

The CDIC Act states that the Board of Directors "shall administer the affairs of the Corporation in all things...." The Board is made up of the Chairperson, appointed by the Governor in Council during good behaviour for a five-year term, four *ex officio* directors—the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions, and a Deputy Superintendent of Financial Institutions—and four private-sector members, also appointed by the Governor in Council during pleasure for a term not exceeding three years. On March 31, 1999, the composition of the Board was as follows:

Grant L. Reuber
Chairperson of the Board
Canada Deposit Insurance Corporation
(1993)*[1]

Viateur Bergeron
Partner
Bergeron, Gaudreau
Hull
(1996)*

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

H. Garfield Emerson
President and Chief Executive Officer
N M Rothschild & Sons Canada Limited
Toronto
(1997)*

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

Colin P. MacDonald
Partner
Howard, Mackie
Calgary
(1997)*

Shawn A. Murphy
Partner
Stewart McKelvey Stirling Scales
Charlottetown
(1999)*

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

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

* *Date of Governor-in-Council appointment.*

1 *Subsequently extended to July 8, 1999, by Governor-in-Council appointment on December 9, 1997.*

Board Committees

The ***Executive Committee*** deals mainly with emergencies, highly sensitive matters, or other matters delegated to it by the Board of Directors. The Chairperson of CDIC chairs the committee. The other members are H. Garfield Emerson and John R. V. Palmer.

The ***Audit Committee*** has primary responsibility for overseeing internal controls, the reliability of financial information, the annual audit, and the special examination conducted every five years by the Auditor General of Canada. The committee is also responsible for recommendations to the Board of Directors regarding approval of the annual financial statements. The chairman of the committee is H. Garfield Emerson. The other members are Viateur Bergeron, Shawn A. Murphy, and John R. V. Palmer.

The ***Employee Relations Committee*** reviews and makes recommendations to the Board regarding personnel policies, training, succession planning, compensation, compliance with employee-related legal requirements, complaints and the general state of employee relations. The chairman of the committee is Colin P. MacDonald. The other members are Nicholas Le Pan and Grant L. Reuber.

Officers and Operations

The officers include the Chairperson, the President and Chief Executive Officer, who are both appointed by the Governor in Council, during good behaviour and during pleasure respectively, for a five-year term, and officers appointed by the Board of Directors under the Corporate By-law, made under the Act.

All officers are members of the ***Executive Management Committee***, which is chaired by the President and Chief Executive Officer. This committee also includes the directors of Corporate Affairs, Audit and Consulting Services, and Human Resources. Except for the Chairperson, the Corporate Secretary and the Director, Human Resources, all members of the committee report directly to the President and CEO, who reports to the Board through the Chairperson.

The officers individually and collectively through the committee are responsible for the management and day-to-day operations of the Corporation. On March 31, 1999, the officers of the Corporation were as follows:

Grant L. Reuber
Chairperson of the Board
(1993)*[1]

Jean Pierre Sabourin
President and Chief Executive Officer
(1996)*

Wayne Acton
Senior Vice-President
Field Operations

M. Claudia Morrow
Corporate Secretary

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

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

Gillian Strong
General Counsel

* *Date of Governor-in-Council appointment.*

1 *Subsequently extended to July 8, 1999, by Governor-in-Council appointment on December 9, 1997.*

Inter-Agency Committees

The Chairperson of CDIC is a statutory member of the ***Financial Institutions Supervisory Committee*** (FISC) and a member of the ***Senior Advisory Committee*** (SAC) of the Department of Finance. The other members of these committees are the Governor of the Bank of Canada, the Deputy Minister of Finance, who is the Chairman of SAC, and the Superintendent of Financial Institutions, who chairs FISC.

The purpose of FISC is to facilitate consultations and the exchange of information among its members on all matters relating directly to the supervision of financial institutions. The role of SAC is to provide a forum for the review of policies related to financial markets and the financial services sector.

The ***OSFI/CDIC Liaison Committee*** is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. This committee's purpose is to co-ordinate closely the activities of OSFI and CDIC, to avoid unwarranted duplication and cost, and generally to foster close and effective working relationships between the two agencies. On March 31, 1999, the members were as follows:

Co-Chair

John R. V. Palmer
Superintendent of Financial Institutions
OSFI

Co-Chair

Grant L. Reuber
Chairperson of the Board
CDIC

Members

Jean Pierre Sabourin
President and Chief Executive Officer
CDIC

Nicholas Le Pan
Deputy Superintendent, Supervision
OSFI

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

Carol Shevlin
Senior Director, Financial Institutions Group
OSFI

Ken Mylrea
Director General, Insurance
CDIC

The ***CBA/CDIC/OSFI Liaison Task Force*** was established in 1999 to review and resolve, as fully as possible, supervisory, regulatory, and insurance issues raised by the industry and to foster co-operation and constructive relationships between the industry, represented by the Canadian Bankers Association, and the two agencies. On March 31, 1999, the members of the task force were as follows:

Chair

Raymond Protti
President and CEO
Canadian Bankers Association

Secretary

Mark Weseluck
Vice-President, Banking Operations
Canadian Bankers Association

Members

Robert Chisholm
Vice-Chairman
Bank of Nova Scotia

Gennaro Stammati
President and CEO
Banca Commerciale Italiana of Canada

Nicholas Le Pan
Deputy Superintendent, Supervision
OSFI

Jean Pierre Sabourin
President and CEO
CDIC

The ***Joint OSFI/CDIC Information Systems Steering Committee*** is responsible for reviewing and developing opportunities for shared systems initiatives. The members of the committee on March 31, 1999, were as follows:

Chair

Cynthia Louch
Director, Information Systems
CDIC

Members

Al Gillich
Director, Information and Business Services
OSFI

Ken Mylrea
Director General, Insurance
CDIC

Kim Norris
Director, Foreign Bank Branch Division
OSFI

The ***FISC Data Processing Project Steering Committee*** is responsible for overseeing the development of the Tri-Agency Database System. This system is being developed concertedly by the Bank of Canada, OSFI and CDIC. On March 31, 1999, the committee was made up of the following members:

Chair

Kim Norris
Director, Foreign Bank Branch
Division
OSFI

Members

J. P. Aubry
Deputy Chief
Department of Monetary and
Financial Analysis
Bank of Canada

Cynthia Louch
Director, Information Systems
CDIC

CDIC Committees

Internal Management Committees

In addition to the Executive Management Committee described earlier in this section, CDIC uses a number of internal advisory committees in its day-to-day operations. These committees include the Asset/Liability Management Committee, the Credit Committee, the Health and Safety Committee, the Human Resources Committee, the Information Systems Executive Steering Committee, the Job Evaluation Committee, the Policy Committee, the Security Committee, the Senior Management Committee, and the Year 2000 Readiness Working Group.

Advisory Committees

Advisory committees are established on an ad hoc basis to assist the Corporation in developing and executing policies, to provide expert advice on specific subjects, and to facilitate effective communication between members and CDIC. During the year, CDIC had two such committees.

The ***Deposit Insurance Information By-law Industry Consultative Committee*** initially reviewed and contributed to the refinement of the pre-clearance system for member institutions' deposit products. This committee will continue to meet in an advisory capacity to review with CDIC the administrative aspects of the pre-clearance system as it is implemented and to advise on any future issues.

Chair

Jean Pierre Sabourin
President and CEO
CDIC

Vice-Chair

Sandra Chisholm
Director of Standards and Insurance
CDIC

Members

Nora Brooks
Senior Counsel, Electronic Banking
CIBC

Karen Byrne
Senior Product Manager
Retail Deposits and Services
National Trust Company

Antonello Dessanti
Accounting Manager
Banca Commerciale Italiana of Canada

Moira Gill
Government Relations Advisor
The Canada Trust Company

Larry Hyett
Associate Vice-President, Deposits and Guaranteed Investments
Retail Banking Division
The Toronto-Dominion Bank

Von Palmer
Advisor, Policy
Canadian Bankers Association

Lynn Perry
Director, P&C Bank Compliance
CIBC

Peter Stone
Senior Manager, Deposit Services
Deposits-Personal Financial Services
Royal Bank of Canada

The ***Real Estate Advisory Panel*** reviews, evaluates and makes recommendations on proposals brought forward by management with respect to the realization of major real estate assets in which the Corporation has an interest.

Chair

Daniel F. Sullivan
Deputy Chairman, Corporate Finance
ScotiaMcLeod Inc.

Secretary

Christopher J. Porter
Director, Claims and Recoveries
CDIC

Members

J. Lorne Braithwaite
President and Chief Executive Officer
Cambridge Shopping Centres Ltd.

Marcel J. Casavant
Chairman
J. J. Barnicke Ltd.

H. Roger Garland
Vice-Chairman
Four Seasons Hotels and Resorts

Randy M. Grimes
Director
IBI Group

Stephen E. Johnson
President
The Dorchester Corporation

E. John Latimer
President
Monarch Development Corporation

Alvin G. Poettcker
President and CEO
UBC Properties Inc.

Kenneth Rotenberg
Chairman
Rostland Corporation Ltd.

MEETINGS AND ATTENDANCE [1] *(April 1, 1998, to March 31, 1999)*

		BOARD COMMITTEES		
	BOARD OF DIRECTORS	EXECUTIVE COMMITTEE	AUDIT COMMITTEE	EMPLOYEE RELATIONS COMMITTEE
NUMBER OF MEETINGS	**7**	**1**	**5**	**2**
Attendance:				
G. L. Reuber — Chairperson	7	1	5	2
V. Bergeron	7		5	
H. G. Emerson	6		5	
B. I. Ghert [a]	5	1		
C. P. MacDonald	7			2
S. A. Murphy [b]	1			
Ex officio members (alternates)				
G. G. Thiessen (S. Vachon)	6			
J. R. V. Palmer (J. Heyes) [c]	7	1	5	
C. S. Clark (I. Bennett)	3			
N. Le Pan	5			2

a B. I. Ghert retired February 8, 1999.
b S. A. Murphy was appointed February 9, 1999.
c J. Heyes retired March 31, 1999.

1 Includes meetings attended by telephone rather than in person.

Consumer Information

Information about deposit insurance can be obtained from the following sources:

- Toll-free telephone service: **1-800-461-CDIC** (1-800-461-2342)
- World Wide Web site: **www.cdic.ca**
- E-mail address: **info@cdic.ca**
- CDIC Information brochure entitled *Protecting Your Deposits*
- CDIC Membership brochure
- Fact Sheets: CDIC Coverage for Deposits in Trust
  CDIC Coverage for Joint Deposits
  CDIC Coverage of Deposits when Member Institutions Amalgamate

CDIC Publications

Corporate

Annual Report
Summary of the Corporate Plan

By-laws

Application for Deposit Insurance By-law
Canada Deposit Insurance Corporation General By-law
Deposit Insurance Information By-law
Deposit Insurance Policy By-law
Differential Premiums By-law
Joint and Trust Account Disclosure By-law
Premium Surcharge By-law

Information Bulletins

Deposit Insurance Information By-law: Implementation, Phase 1 (February 1997)
Deposit Insurance Information By-law: Implementation, Phase 2 (October 1997)
Deposit Insurance Information By-law: Implementation, Final Phase (February 1998)
Deposit Insurance Information By-law: Post-Implementation Issues (May 1998)
Joint and Trust Account Disclosure By-law: Clarification (November 1998)
Joint and Trust Account Disclosure By-law: Information Disclosure (January 1997)
Joint and Trust Account Disclosure By-law: Information Circular (April 1996)
Return of Insured Deposits (April 1999)

Standards of Sound Business and Financial Practices

Capital Management
Credit Risk Management
Foreign Exchange Risk Management
Interest Rate Risk Management
Internal Control
Liquidity Management
Real Estate Appraisals
Securities Portfolio Management

Other

Assessment and Reporting Program for CDIC's Standards of Sound Business and Financial Practices
Information brochure on Incorporation, Deposit Insurance and Canadian Payments Association Membership (produced with OSFI and the Canadian Payments Association)

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Fax: (613) 996-6095

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