



Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada



CDIC Annual Report 1997/1998

Canada



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Insurance Corporation

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du Canada

Grant L. Reuber

Chairperson of the Board Président du conseil d'administration

June 30, 1998

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, 1998.

Yours sincerely,

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17th Floor
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GENERAL OBSERVATIONS

During the past year, CDIC successfully achieved three major goals:

- It reduced its debt to \$402 million and its deficit to \$539 million. The debt will be fully paid off and the accumulated deficit for all practical purposes will be eliminated in 1998. In addition, when this occurs, CDIC will have a provision for insurance losses of \$400 million to cover its insurance risks.
- It developed a system for levying differential premium rates upon its members, which will be applied in 1999.
- It implemented for the first time a comprehensive and readily accessible system for providing accurate information about deposit insurance coverage to depositors.

In addition to these achievements, continued progress was made in advancing CDIC's other priorities.

These developments within CDIC occurred against a background of rapidly accelerating changes in financial markets in recent years and the prospect of even more rapid changes to come in future. This dynamic situation has had and continues to have a major impact on private and public institutions as well as on policies, practices and regulatory arrangements in both the private and public sectors. Reflecting this situation, the Government of Canada in 1996 established the Task Force on the Future of the Canadian Financial Services Sector chaired by Mr. Harold MacKay. The Task Force is expected to make its recommendations to the Government of Canada later in 1998.

MAJOR ACHIEVEMENTS

Debt and Deficit Reduction

CDIC's debt to the Consolidated Revenue Fund will be fully paid off and the accumulated deficit will be virtually eliminated in 1998. Thereafter, CDIC will have a provision of \$400 million to cover potential losses arising from the risks it insures, and there will be scope for substantial reductions in premiums.

This may be compared with 1992, when CDIC's borrowing from the Consolidated Revenue Fund totalled \$3.7 billion and its accumulated deficit was \$1.6 billion. The turnaround after 1992 was due to two general factors: improvements in the economy and changes in the policies of CDIC and the Office of the Superintendent of Financial Institutions (OSFI).

During 1992, five members with \$13.2 billion in insured deposits failed or were placed in liquidation at an estimated loss to CDIC of \$1.0 billion. This followed a decade

*The debt will be
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the accumulated deficit
will be virtually
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during which 27 members with over \$8.3 billion in insured deposits failed or were placed in liquidation at an estimated loss to CDIC of \$1.7 billion. Four of these 27 members were chartered banks, the first bank failures in half a century.

In sharp contrast, since the beginning of 1993, only eight trust companies with \$4.8 billion in insured deposits failed or were placed in liquidation at an estimated loss of \$217 million to CDIC. There are now only five members on CDIC's watch list, one sixth of the number in 1992, and the value of insured deposits held by watch-list members today accounts for only 0.2 percent of all insured deposits, compared with 10.4 percent in 1992.

As is evident from the data provided in the membership profile section of this report, the financial health of every segment of CDIC's membership has improved enormously since 1993: profitability has increased substantially, impaired loans have decreased sharply, provisions covering potential loan losses have increased greatly, and the capital base of members has been strengthened. In addition, as weaker member institutions have been weeded out and others have consolidated and become stronger, the number of members has decreased from 142 in 1992 to 112 at March 31, 1998. In short, the balance sheets and profitability of members are much stronger today than they were five years ago, and this is in large part because of a much more prosperous economy and thriving financial markets.

A second general influence accounting for the improvement in CDIC's circumstances after 1992 has been the changes in the policies and practices followed by CDIC and OSFI. In general, these have taken the form of closer co-ordination between the activities of the two organizations, better monitoring of risks, earlier intervention as the financial difficulties of members increased, the implementation of a series of by-laws that enhanced CDIC's ability to deal with problem member institutions and that required members to meet standards of sound business and financial practices, and a number of legislative changes that facilitated the ability of OSFI and CDIC to deal more quickly with problem member institutions.

In addition, in 1993 and 1994, CDIC raised deposit insurance premium rates in two steps to one-sixth of one percent, where they remain today. This, combined with the overall growth in insured deposits, increased premium revenue over the past five years by 36 percent. In 1993, CDIC's Board of Directors also decided to cease paying interest on insurance claims from the date

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FIGURE 1
Premium Revenue

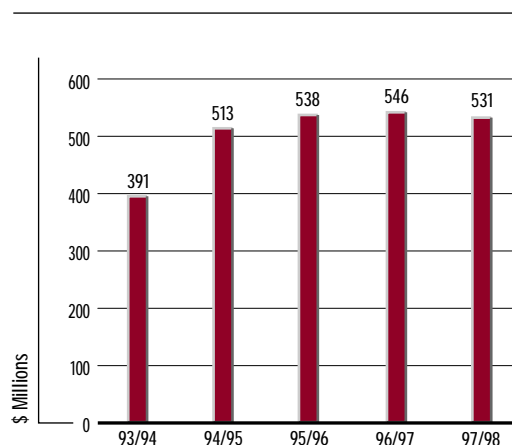


FIGURE 2

Recoveries of Claims and Loans

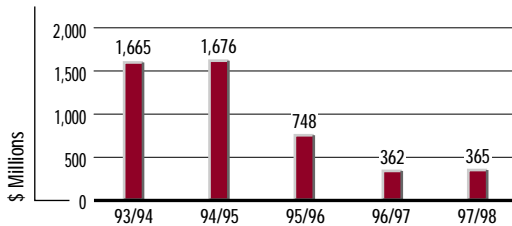
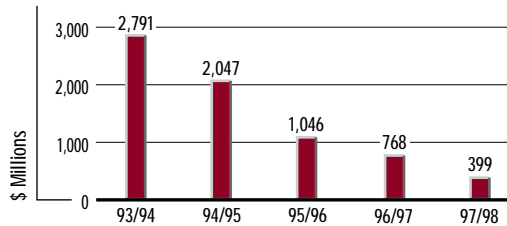


FIGURE 3

Claims Outstanding



of the winding-up order of a member institution to the date of payment. Over the past five years this decision has resulted in CDIC not paying an estimated \$12 million in interest.

Another factor has been the continuation of CDIC's policy of initiating lawsuits against directors, officers, auditors, and other relevant parties when there is a reasonable case of negligence or willful misconduct or wrongdoing.

Furthermore, beginning in 1993, CDIC began to pursue claims and recoveries much more aggressively. In addition, it reduced the cost of these activities. Since 1993, cash flow from this source accelerated, and the claims outstanding were greatly reduced, as shown in Figure 3. In future, these activities will be enhanced by consolidating the small residual claims remaining in a number of estates into a separate entity where they can be managed and liquidated on a consolidated basis.

CDIC's costs have also been reduced since 1993. CDIC's operating costs have remained between \$13 and \$15 million per year, approximately 10 percent less than in 1992. Its intervention costs have averaged 60 percent less, largely reflecting the lesser number of member institutions in difficulty, and its capital costs have averaged 55 percent less.

As a consequence of these various developments, CDIC will pay off all its debt to the Consolidated Revenue Fund in July 1998. Under legislation passed in 1996, CDIC's future borrowing will be done

in the private market rather than from the Consolidated Revenue Fund, though CDIC will continue to have access to the Consolidated Revenue Fund on a short-term basis. In addition, to compensate for the cost advantage it has in borrowing as a Crown corporation, CDIC will be required to pay a credit enhancement fee on all new borrowing, whether from the private market or the Consolidated Revenue Fund.

Since 1993, CDIC has pursued claims and recoveries much more aggressively and has reduced costs.

Until recently, the elimination of CDIC's deficit was projected to occur this fiscal year but is now expected to occur



FIGURE 4

Loans from the Consolidated Revenue Fund (including accrued interest)

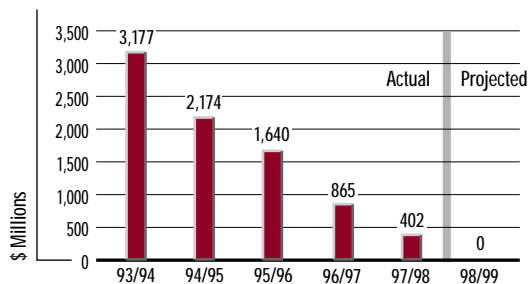
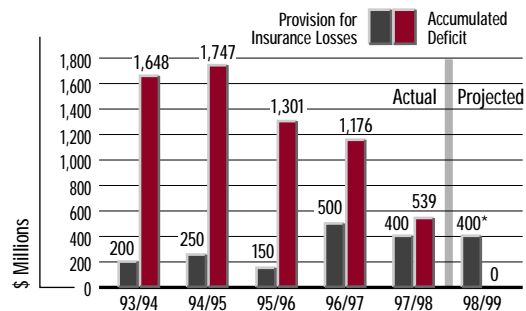


FIGURE 5

Accumulated Deficit and Provision for Losses



* Assumed to remain unchanged from 1997/98

in 1998/99. This change reflects CDIC's decision to take provisions for losses not only against risks associated with members on its watch list but also against risks associated with members *not* on its watch list. As a consequence, and as explained in last year's *Annual Report*, when CDIC has paid off its deficit, it will have a substantial reserve to deal with potential losses in future years.

*CDIC's total
provision for insurance
losses is \$400 million.*

The value of insured deposits accounted for by member institutions on CDIC's watch list decreased from \$15 billion in 1993/94 to \$695 million in 1997/98, as shown in Figure 6. Accordingly, the provision for losses against members on the watch list decreased from \$200 million in 1993/94 to \$20 million at March 31, 1998. In 1996/97, CDIC introduced a provision for losses against its total membership, which amounted to \$380 million at March 31, 1998. Therefore, in total, CDIC has provided \$400 million to cover losses.

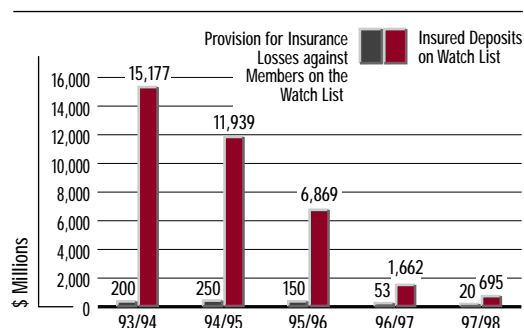
What does all this mean for the future of premium rates? As indicated earlier, rates remain at one-sixth of one percent and in 1997 cost member institutions \$531 million or about 3.8 percent of their pre-tax net income, a sizeable percentage. In addition, as a result of legislation passed in 1996, CDIC is introducing differential premium rates, which will become effective in April 1999.

Differential Premium Rates

Legislative changes in 1996 allow CDIC to levy different premium rates on member institutions based on the rating of each institution. In January 1998 the Board of Directors approved such a system, which has been under development for over a year. This system is now being transformed into a legally binding by-law, and, subject to the approval of the Minister of Finance, the system will be implemented in April 1999. This system will be in addition to the surcharge that CDIC can levy in situations where a member is engaging in practices set out in CDIC's *Premium Surcharge By-law*.

FIGURE 6

Provision for Losses against Watch List Members



future premium rate recommendations will be based: 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.” Under this policy, and assuming reasonable assumptions, premium rates for the most highly rated institutions can be expected to fall substantially next year. This reduction will reflect both the improvement in CDIC’s financial situation and the Board’s policy.

In developing this premium rate system CDIC consulted widely with OSFI, the Bank of Canada, the Department of Finance, individual members of CDIC, industry representatives, officials in the US and the UK, investment analysts, and accountants. The result reflects CDIC’s best judgement, after carefully reviewing all the suggestions and comments emanating from this lengthy and lively consultation process.

Under present policies, the premium rates assessed on individual member institutions will not be made public. The data upon which premiums are levied will be submitted to CDIC annually by member institutions in the spring of each year.

The differential premium rates resulting from this system are not actuarially based measures of the risk posed to CDIC by an individual member. Rather, they are intended as an early warning signal—with financial consequences—to the management and board of directors of member institutions about the status of their institution.

Under the new system, member institutions will be classified into one of four categories based upon certain criteria, which are set out in detail in the proposed Premium By-law and explained in greater detail in the Insurance and Risk Assessment section of this report. The premium rate for institutions falling into the bottom category will be the maximum allowed under the law: one-third of one percent of insured deposits. Other rates will be progressively lower.

In 1997 the Board of Directors passed a resolution defining the basis on which

*CDIC’s premium
rates for the most
highly rated institutions
can be expected to fall
substantially next year.*





Deposit Insurance Information

As fully described in last year's *Annual Report*, during 1997/98 CDIC implemented its new *Deposit Insurance Information By-law*. The by-law represents a major improvement in the availability, accuracy and adequacy of deposit insurance information provided to consumers since they can now ask their member institution for information about deposit insurance or find out whether a certain product is insured by CDIC. The new system was fully implemented on March 1, 1998, and was supported by a public awareness campaign, consisting primarily of television advertising. More detailed information about the by-law is provided in the Insurance and Risk Assessment section of this report and on CDIC's Web site.

PURSUIT OF OTHER PRIORITIES

Five years ago the Board of Directors approved a set of priorities that, with minor variations and updates, have guided CDIC's operations. Although pursuit of these objectives is discussed in the sections that follow and in the *Summary of the Corporate Plan*, published separately, a few highlights warrant mention here.

CDIC's Standards of Sound Business and Financial Practices

and the Standards Assessment and Reporting Program have reduced unsound practices and the number and cost of failures of deposit-taking institutions. In 1997/98, CDIC began working on a standard relating to the estate, trust and agency business of member institutions to improve the management of risks arising from these activities.

In the last five years, CDIC has developed a number of by-laws that have been beneficial to the system of deposit insurance. The *Premium Surcharge By-law* has reinforced the system of incentives for member institutions to follow CDIC's Standards and comply with applicable laws and regulations. The Policy of Deposit Insurance, the Application for Deposit Insurance, and the Trust and Joint Account Disclosure by-laws have clarified and improved the risk management capacity of CDIC. The proposed Premium By-law will also play an important role. By-laws relating to index-linked deposits and opting out of CDIC membership by member institutions owned by foreign banks are also being developed.

From 1992 to 1998, CDIC's total operating and intervention costs per member decreased by 14 percent. Operating costs alone, however, rose by 19 percent per member over the same period. Although CDIC's operating costs represent only a small fraction of the costs of deposit insurance, the importance of keeping

PRIORITIES

ELIMINATE DEFICIT AND
CRF BORROWING

STRENGTHEN CAPACITY FOR RISK
ASSESSMENT AND MAXIMIZE
NET RECOVERIES

REDUCE RISK OF LOSSES

DEVELOP BY-LAWS

IMPROVE PRODUCTIVITY AND
COST EFFECTIVENESS

MAINTAIN FAIR AND EFFECTIVE
HUMAN RESOURCE AND
SALARY POLICIES

IMPROVE ACCOUNTING,
INFORMATION AND REPORTING
SYSTEMS

PROPOSE AND ASSESS
PUBLIC POLICIES

MAINTAIN CLOSE LIAISON WITH
GOVERNMENT, REGULATORS,
AND INDUSTRY

CDIC will have to continue to demonstrate improving productivity, a clear sense of priorities and cost effectiveness.

these costs under continuous scrutiny is reinforced by the reduction in the size of CDIC's membership. If CDIC's membership decreases further during the next five years, strong upward pressure on operating costs per member will continue. In these circumstances, CDIC will have to continue to demonstrate improving productivity, a clear sense of priorities and cost effectiveness.

CDIC has had good working relationships with a number of agencies over the last five years. For example, the *Guide to Intervention* published by CDIC and OSFI in 1994 made the intervention process clearer and more transparent to all concerned. CDIC, OSFI and the Canadian

Payments Association (CPA) together published a brochure describing the process for incorporating a federally regulated deposit-taking institution and for becoming members of CDIC and the CPA. A new financial institutions data bank is being developed in conjunction with the Bank of Canada and OSFI. Furthermore, CDIC, the Bank of Canada, the Department of Finance and OSFI have been working together on several new initiatives.

CDIC continued its participation in the international deposit insurance community in 1997/98. During the year, members of CDIC's staff advised Jamaica, Japan, Lithuania, the Philippines and Taiwan, among others, on deposit insurance matters. CDIC also provided information to Hungary, Korea, and Norway at their request and participated in international conferences such as those hosted by the South East Asian Central Banks in Malaysia.

TASK FORCE ON THE FUTURE OF THE CANADIAN FINANCIAL SERVICES SECTOR

The terms of reference of the Task Force are very broad and cover a wide range of issues arising from the rapid and dynamic changes occurring in financial markets at home and abroad. In its initial discussion paper, issued in mid-1997, the Task Force identified a lengthy list of questions that it intended to pursue. Included among these were questions about deposit insurance and other "compensation" arrangements.

This comes five years after a comprehensive review of deposit insurance by another committee chaired by the Deputy Minister of Finance and made up of representatives of the financial sector and the community, experts and officials. This review was followed in turn by reviews by committees of both the House of Commons and the Senate.

These earlier reviews were heavily influenced, first, by problems faced by deposit-taking institutions and the cost of deposit insurance, second, by concerns about the system of market incentives embedded in existing arrangements and, third, by reservations about the effectiveness and accountability of the regulatory/deposit insurance systems.





As financial markets and institutions have strengthened, as competition among financial products has increased, as the regulatory/insurance systems have been reinforced and as CDIC's financial situation has improved, the focus of reviews of deposit insurance has shifted since 1992. Although the safety and soundness of the system remain paramount, the current Task Force review is focussing on the influence of the regulatory/compensation arrangements on competition among financial institutions and products and on the appropriate organizational arrangements for compensation schemes such as deposit insurance.

The priorities that CDIC has been emphasizing since 1992 remain important for the future. At the same time it is apparent that the economy and financial markets are changing rapidly and that CDIC's circumstances today are materially different from 1992. Reflecting these developments and the impetus provided by the work of the Task Force, CDIC set up a joint Board-Management ad hoc committee to develop a plan for CDIC for the next five years. This plan will be submitted to the Board for approval and recommended for approval to the Government. In developing this plan, the committee will consider a variety of options. The outcome of this work will be provided, as required by law, in the *Corporate Plan* submitted to the Government in January 1999.

For planning purposes, it will be assumed that insurance continues to be provided to depositors of member institutions in the same amount and on the same terms and conditions as at present.

How deposit insurance can most usefully be provided depends in large part upon the Government's policies regarding deposit insurance. Among the important policy issues raised are the following: Will deposit insurance continue to be guaranteed by the Government, to be part of the financial safety net in this country and to be separate from the regulatory system—i.e., OSFI—that deals with a wide range of financial institutions and products? Should a clear formula be established with explicit decision rules that would require early intervention and largely eliminate the discretion left to regulators and insurers about the timing of closing institutions? Should depositors have preferred status relative to other unsecured creditors when an insured deposit-taking institution is liquidated, as is now the case in the US, in Australia and in Canada for holders of insurance policies? What risks arise for deposit insurance if deposit-taking institutions are permitted to adopt holding-company

structures, and how best can these risks be avoided or mitigated? What are the implications for deposit insurance of domestic bank mergers, increased foreign bank activities, and increased non-bank—foreign and domestic—activities in Canada's financial markets?

*CDIC set up a joint
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five years.*

At present Canada's financial system, and particularly its deposit-taking sector, is generally seen as strong and thriving. Its regulatory and insurance arrangements are functioning well. This might suggest leaving well enough alone or making only minor modifications rather than revolutionary ones. Moreover, discussions with senior

executives of deposit-taking institutions and public officials as well as a review of the submissions to the Task Force do not suggest a strong consensus in favour of major changes in Canada's deposit insurance system. This said, precisely because the system is now in reasonably good shape, it is a good time to ask what changes, if any, might usefully be made to refocus CDIC to deal with the rapid changes in financial markets and institutions and any recommendations that might be forthcoming from the Task Force on the Future of the Canadian Financial Services Sector.

* * *

In December, the term of the Chairperson of CDIC was extended for a year and a half to mid-1999, and the terms of two directors—Mr. G. Emerson and Mr. C. MacDonald—were renewed for a further three years. Reflecting changes in the organization of the Office of the Superintendent of Financial Institutions in September 1997, Mr. Nick Le Pan, Deputy Superintendent, Operations, replaced Mr. John Thompson, who became Deputy Superintendent, Policy, as an *ex officio* member of the Board.

As in the past, the Board of Directors on March 18, 1998, passed a resolution expressing its appreciation to the management and staff for the excellent and conscientious work during the past year.

During the fiscal year 1997/98 the Board met six times. One meeting was held in Calgary, one was held in Toronto and the remainder were held in Ottawa or were specially convened meetings conducted by telephone. In addition to its normal business agenda, the Board met informally with Mr. Harold MacKay and his senior officials on the Task Force on the Future of the Canadian Financial Services Sector; Mr. Charles Freedman, Co-chair of the Payments System Advisory Committee; Mr. H. Rodgin Cohen, a leading bank attorney with the firm of Sullivan & Cromwell in New York; Mr. Paul Jenkins, Deputy Governor of the Bank of Canada; Mr. Ron Rogers, Vice-Chairman, Personal and Commercial Financial Services, Bank of Montreal; and Mr. Gordon Feeney, Vice-Chairman, Royal Bank of Canada.



Grant L. Reuber

Chairperson of the Board



Jean Pierre Sabourin

President and Chief Executive Officer





INSURANCE AND RISK ASSESSMENT

CDIC's MEMBERSHIP IN 1997/98

Strong Profits in 1997

In the aggregate, 1997 profits of CDIC's member institutions were up by more than 20 percent over last year, totalling \$8.6 billion. Only 10 of the 112 member institutions reported a loss for this fiscal year. As a result, return on equity for each peer group—Canadian banks and their subsidiaries, Canadian trust and loan companies, and foreign bank subsidiaries—was at its highest level since 1990.

A favourable economic environment and buoyant capital markets in 1997 supported strong loan growth, an improvement in asset quality and an increase in revenue from trading and investment activities, especially at large member institutions.

Equity markets in Canada and in North America remained strong despite international financial disturbances. The TSE 300 index and the

S&P 500 index returned 15 percent and 33 percent respectively during 1997. Financial institutions' fee-based businesses, such as mutual funds, investment banking and trading activities, benefited from these healthy capital markets.

Commissions on securities and underwriting fees represented 24 percent of the \$20 billion of non-interest income of CDIC's members in fiscal 1997. Moreover, member institutions' gains from the sale of securities and investments for trading and non-trading purposes amounted to more than \$3 billion in 1997.

As a whole, non-interest income almost equalled net interest income. Some member institutions relied more heavily on non-interest income for income growth, given relatively tight interest margins and the difficulties of generating additional significant productivity gains.

Interest margins have declined in recent years, mainly as a result of the increasingly competitive deposit-taking and lending businesses. In

FIGURE 7
Net Income of CDIC Members

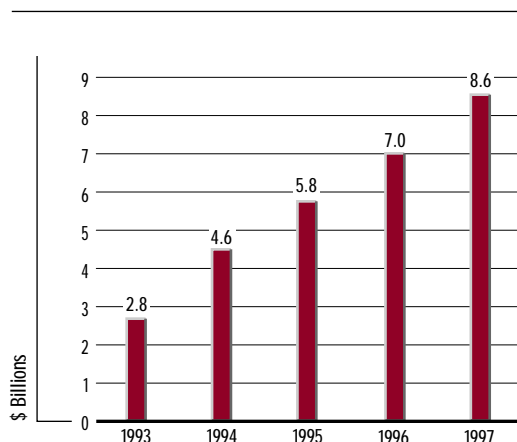
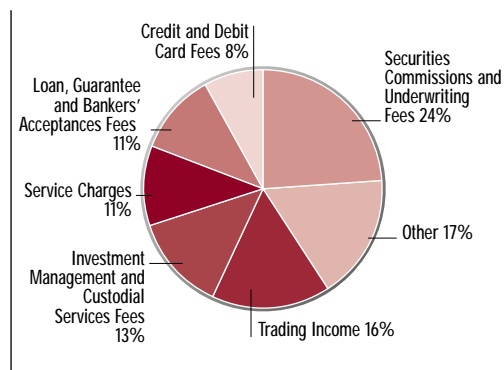


FIGURE 8
Components of Other Income (1997)



addition, the sharp drop in margins in 1997 reflects recent accounting changes. For the first time, gains and losses on the sale of securities were classified as other income rather than interest income. After adjusting for these changes, margins for fiscal 1997 were still below those of 1996.

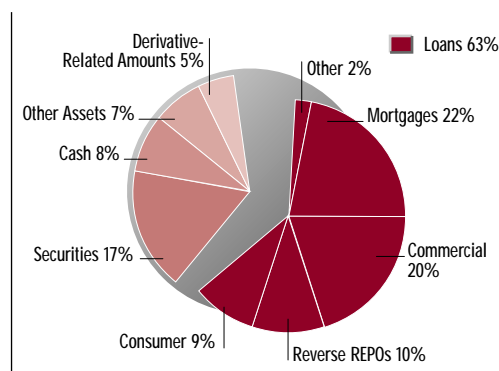
Continued Asset Growth

Total assets of member institutions surged by 18 percent in fiscal 1997, the third consecutive year of double-digit growth. A healthy economy, low interest rates, and the introduction of numerous new financial products and services were the main drivers of this growth.

At the end of fiscal 1997, total loans outstanding amounted to close to \$800 billion, a 12 percent gain over the previous year. This increase is particularly impressive given the securitization of various loan portfolios, including credit card receivables and conventional mortgages. These securitizations have reduced the growth in total risk-weighted assets and contributed to an increase in institutions' risk-based capital ratios.

Other loans and asset types, such as reverse repurchase agreements (reverse repos)¹ and derivative-related amounts, typically found at large member institutions, grew more rapidly than loans during 1997. This is partly attributable to an accounting change: unrealized gains and losses on derivative instruments are now recorded on the balance sheet on a gross basis rather than on a net basis. In the aggregate, reverse repos and derivative-related amounts

FIGURE 9
Asset Mix (1997)



represented approximately 15 percent of total assets of all member institutions at the end of fiscal 1997.

These relatively new products and activities are allowing institutions to diversify their balance sheets while managing their liquidity and capital more effectively and are allowing them to transfer, in the case of derivatives and securitizations, risks to other institutions and individuals.

Improving Asset Quality

An improvement in credit quality during 1997 was visible across all loan types. Impaired loans continued to decline, and by the end of fiscal 1997, they represented only 1.2 percent of all outstanding loans.

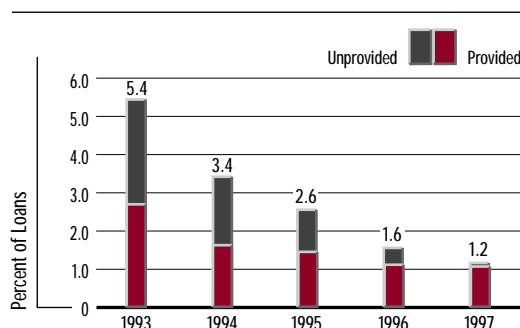
Impaired mortgages as a percentage of all mortgages outstanding at CDIC's member institutions dropped to 0.7 percent at the end of this fiscal

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.





FIGURE 10
Impaired Loans to Total Loans

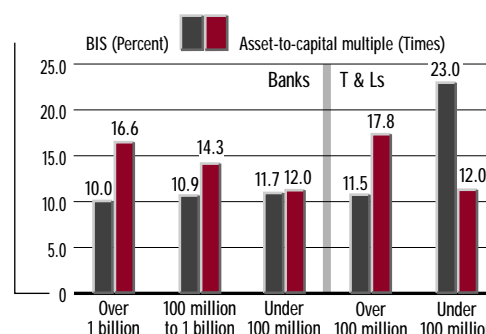


period, which is lower than the percentage of impaired non-mortgage loans (1.4 percent of total non-mortgage loans).

Allowances for loan losses, including general allowances, covered more than 95 percent of impaired loans at the end of fiscal 1997. Members' general allowances reached almost \$4 billion at fiscal year-end, a 39 percent increase over the previous year. This increase is partly due to OSFI's new guideline that permits a portion of the general allowances of some federally incorporated member institutions to be treated as tier 2 capital (to a maximum of 0.625 percent of risk-weighted assets). This measure has motivated these institutions to build up allowances for loss while profitability is at record levels.

*Despite this consolidation,
total assets at CDIC member
institutions grew rapidly
during this period.*

FIGURE 11
Comparative Capitalization



Capitalization, as measured by the BIS risk-based capital ratio, improved for every peer group during 1997, reflecting strong retained earnings, new capital issues, and, for some institutions, the impact of OSFI's new guideline regarding general allowances.

Capitalization measures for trust and loan member institutions were higher than those for other groups (higher BIS risk-based capital ratio and lower asset-to-capital multiple) as a result of their relatively large concentration of lower risk-weighted residential mortgages.

RECENT TRENDS IN MEMBERSHIP

Industry Consolidation

The Canadian deposit-taking sector has followed a rapid process of consolidation. From 1993 to 1997, CDIC's membership diminished from 131 to 112 members. Despite this consolidation, total assets at CDIC member institutions grew rapidly during this period.

Legislative changes in 1992 permitting regulated institutions to enter each other's businesses through subsidiaries have encouraged banks to

enter the trust and securities businesses and insurance companies to enter the trust and banking businesses. These regulatory changes formalized and accelerated the process of consolidation that had begun some years earlier. This explains partially the decrease in the trust and loan peer group's share of total assets since 1993, as shown in Figure 13.

The trend toward consolidation is likely to continue as institutions move into new lines of business and strive to offer a wider range of services to their customers. In part, increased financial services competition is being driven by the emergence of global financial conglomerates or corporate groups at the international level. These companies provide a wide range of services, such as deposit-taking, insurance, and securities. Specialized financial institutions are also competing with deposit-taking institutions by offering products to niche markets.

Conglomeration may offer opportunities for financial institutions by allowing them to enter new markets and by giving them the ability to provide a wide range of products to their customers, many of which are operating on a global basis. However, conglomeration will also present new risks and issues. The challenge for regulators will be to develop new ways of assessing risk across various businesses, jurisdictions and countries.

Although consolidation has become a dominant trend among CDIC members in recent years, CDIC continues to see the entry of new institutions into the marketplace. Many of these institutions have decided that opportunities still exist for them in servicing the Canadian financial markets. Nevertheless, it is likely that consolidation in the industry will have an impact on the level of insured deposits.

FIGURE 12

Member Institutions

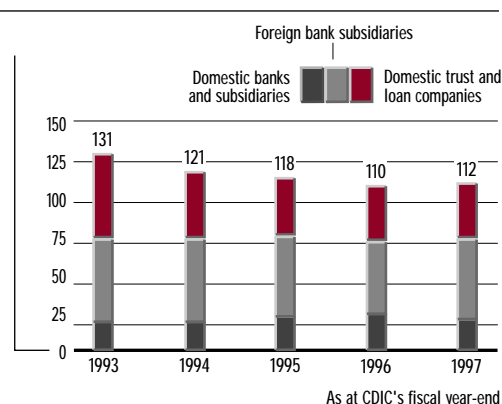
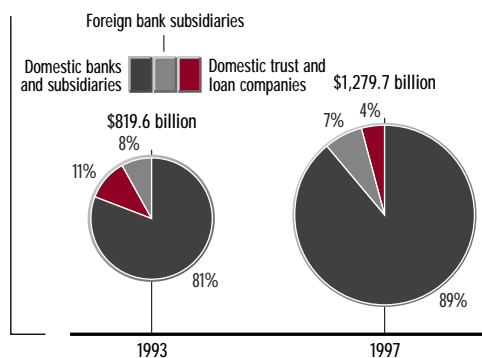


FIGURE 13

Distribution of CDIC Members' Assets by Peer Group



Note: The peer group classification for 1993 is based on CDIC's membership at that time.

In the future, CDIC's members will likely face increased competition from non-deposit-taking institutions and foreign financial institutions, on both the domestic and international scenes. Proposed entry options would allow foreign banks to open wholesale branches in Canada, bringing the full resources of the foreign bank to bear on the Canadian marketplace. The challenge for regulators will be to develop ways of protecting





THE ASIAN CRISIS

The economic and financial crisis that erupted in Southeast Asia in 1997 has had repercussions throughout the global financial markets. Plunging currencies and stock markets in Asia have resulted for certain Asian countries in an excessive foreign debt burden. Loan defaults, bankruptcies, retreat of foreign capital, and depletion of foreign reserves followed. As a result, some Southeast Asian countries have had to turn to the International Monetary Fund (IMF) for financial assistance and directly to international creditors, including Canadian financial institutions, for the rescheduling (roll-over) of short-term debt.

The financial performance of CDIC member institutions in fiscal 1997 was not significantly affected by the financial crisis in Southeast Asia because the crisis was the most severe in the latter part of 1997. Since that time, member institutions have voluntarily disclosed information regarding their credit exposure to the countries most affected by the crisis (Indonesia, Thailand, South Korea). Both collectively and individually, member institutions' net exposure to these countries appears at this time to be manageable in relation to the institutions' capital and strong earnings and therefore should have a limited effect on their financial performance in 1998.

Nevertheless, numerous reforms will be needed in Southeast Asia, many of which are expected to affect the economic performances of the region. Some economists expect certain Southeast Asian economies to move into recession in 1998 and at best to experience a significant slowdown in demand and economic output. In turn, this is expected to affect growth prospects for Asia's major trade partners, including Canada for which trade with the region represents eight percent of total exports. It is expected that economic growth could be reduced by as much as one-half of one percentage point from pre-Asian crisis economic forecasts.

creditors while overseeing an entity whose main operations are outside the regulator's jurisdiction.

In addition, Canadian deposit-taking institutions already face competition from non-regulated financial services companies that provide credit in certain specialized markets, such as equipment leasing or consumer products. Non-regulated entities also compete with CDIC's members in such areas as electronic payments processing and service delivery.

Changes in Deposit Base

Over the last few years, there has been a shift in consumer demand away from deposit products that are eligible for CDIC insurance toward ones that are not.

Between 1993 and 1997, insured deposits at CDIC member institutions grew by only 7 percent. Their share of all deposits and selected alternative products declined by 8 percent, as shown in Figure 14, largely to the benefit of non money market mutual funds. The shift in consumer demand is the result of several factors. For example, recent low interest rates have made deposits less attractive than other financial products such as mutual funds. Industry consolidation and the presence of a number of new financial participants offering retail investments have also contributed to the trend toward these alternative products.

This trend, however, may soon reverse itself as new deposit products are being introduced to compete against these non-deposit products. For example, index-linked GIC products are offering market-driven rates of return in an effort to appeal to consumer demands.

Rapid Technological Changes

Technological developments constitute perhaps the most important factor driving change in the financial sector. In 1997, it is estimated that CDIC member institutions spent approximately \$2 billion on technology. Technological advances, such as those in the processing and delivery of information, have led to a number of significant changes in the way financial institutions operate. For example, technological developments in clearing and settlement activities have led member institutions to merge their back room operations or to outsource them to specialist service providers capable of taking advantage of economies of scale.

The introduction of automated banking machines some 20 years ago has been followed by debit cards and electronic money and commerce. Canadians' wide use of debit cards and automated banking machines is growing exponentially, and technological developments have made it possible to introduce and distribute stored-value cards to the general public. "Network money," or "digital cash" is still in the early stages of development, but will allow electronic cash to be used to pay for purchases on the Internet. With the introduction of telephone banking, personal computer banking and Internet banking, financial products can be bought, sold and traded without the constraints imposed by geographical location. This has led to new entrants with new channels of distribution, such as "virtual banks" and member institutions with outlets in retail stores.

These technological advances raise a number of questions regarding security, consumer protection, and privacy. These questions and other related public policy issues are being looked at by the federal agencies, under the leadership of the Department of Finance.

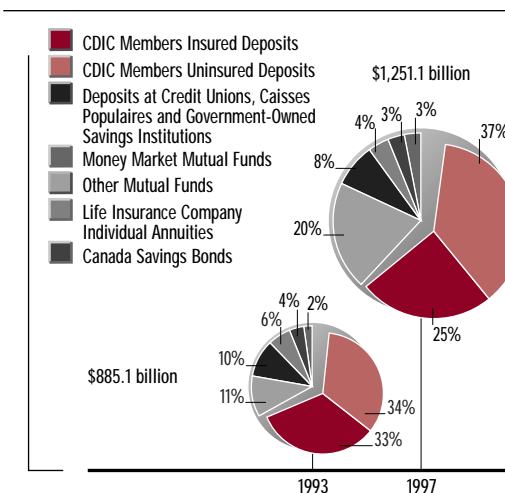
The Year 2000 Problem

The year 2000 problem, also dubbed "The Millennium Bug," results from the inability of some computer software to recognize the difference between the years 1900 and 2000. Financial institutions are potentially among the most vulnerable to this problem because key parts of their data processing depend on correctly identifying and computing dates.

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.

The Basle Committee on Banking Supervision recently issued a document that underlines the importance for financial institutions and all other participants in the financial markets to have specific strategies in place to convert any

FIGURE 14
Trends in Deposits and Selected Alternatives



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





necessary computer applications well in advance of the millennium. The document outlines the steps to be followed, the issues to be addressed, and the involvement of financial institutions' supervisors to ensure the year 2000 problem is resolved successfully. In 1997, all federally regulated financial institutions received a copy of the Basle Committee document and OSFI's Best Practices paper on the Year 2000 Project.

Over the past year, Canadian regulators have focussed on the millennium problem as part of the examination process. Supervision will continue through 1998 to ensure institutions have assessed and developed strategies to rectify the problems, are implementing the necessary modifications to their applications according to a set schedule, and have assessed the year 2000 preparedness of major clients. Most institutions are expected to be fully year 2000 compliant before the end of 1998. Over the course of the next year, CDIC will monitor closely the year 2000 readiness of its member institutions.

CDIC DEVELOPMENTS

The industry's favourable financial condition in 1997/98 resulted in fewer problem member institutions. The insured deposits of higher-risk members represented less than one-half of one percent of the total insured deposits as at April 30, 1997. Moreover, it was the first year since 1989 that CDIC was not required to make payment in respect of insured deposits.

During 1997/98, CDIC approved three new members: MBNA Canada Bank, Rabobank Canada, and Services Hypothécaires CIBC Inc. Only one member, Granville Savings and Mortgage Corporation, ceased taking deposits and therefore had its deposit insurance cancelled.

The absence of failure in 1997/98 enabled CDIC to allocate resources to the further enhancement of the risk assessment and risk management processes, the development of the Differential Premium, the Opting-Out and the Index-Linked by-laws, and the implementation of the *Deposit Insurance Information By-law*.

Furthermore, CDIC submitted to the MacKay Task Force various papers on questions related to deposit insurance and the structure of the Canadian financial sector. In addition, CDIC has been working with the Department of Finance and other federal agencies on the development of a foreign bank entry regime, electronic money and commerce, and other issues.

CDIC Premium By-law

CDIC continued to develop its differential premium system, which will be the basis of the proposed Premium By-law.

Following the review of a number of potential approaches, including that of the Federal Deposit Insurance Corporation in the United States, CDIC issued a discussion paper in July of 1997 to regulators, member institutions and their associations, and other interested parties outlining its proposed system. As a result of comments received, CDIC made a number of modifications to its proposal, and a revised system received the approval of the Board of Directors on January 21, 1998.

Under this system, member institutions will be scored against a number of criteria or factors grouped into three broad categories: capital adequacy, other quantitative criteria and qualitative criteria. Each criterion will have one or more measures associated with it. The following table summarizes the system.

TABLE 1 – SUMMARY OF CRITERIA OR FACTORS, MEASURES AND SCORES

<i>Criteria or Factors</i>	
Measures	Maximum Score
Capital Quantitative:	
• <i>Capital Adequacy</i>	20
Assets-to-Capital Multiple	
Tier 1 Risk-Based Capital Ratio	
Total Risk-Based Capital	
Other Quantitative:	
• <i>Profitability</i>	
Return on Risk-Weighted Assets	5
Mean-Adjusted Net Income Volatility	5
Volatility-Adjusted Net Income	5
• <i>Efficiency</i>	
Efficiency Ratio	5
• <i>Asset Quality</i>	
Net Impaired Assets Plus Net Unrealized Losses on Securities to Total Regulatory Capital Ratio	5
• <i>Asset Concentration</i>	
Single (Including Related Group) Counterparties Asset Concentration Ratio	5
Industrial Sector Asset Concentration Ratio	5
Mortgage and Real Estate Asset Concentrations	5
Sub-total: Quantitative Score	60
Qualitative:	
• <i>Regulatory or CAMEL Rating</i>	25
• <i>Standards Adherence</i>	10
• <i>Other Information</i>	5
Sub-total: Qualitative Score	40
Total Score	100





Depending on their total score, member institutions will be classified into one of four premium categories. Each premium category will have a different premium rate, with the worst-scoring category assigned the maximum rate permitted under the CDIC Act of one-third of one percent of insured deposits.

CDIC will tell member institutions their scores and their assigned premium category. Member scores will not be publicly disclosed. A review process will be available to institutions wishing to discuss their scores and premium categories.

CDIC is working with the Department of Justice, Regulations Division, to finalize the Premium By-law. The by-law will likely be approved by the Minister of Finance in the latter part of 1998 and come into effect in 1999.

Deposit Insurance Information By-law

The *Deposit Insurance Information By-law*, which came fully into effect March 31, 1998, concluded four years of development involving extensive consultation with member institutions, the financial services industry and regulatory agencies as well as a one-year transition period. The by-law requires member institutions to prominently display a register of all their deposit types that are eligible for deposit insurance. Members are also now allowed to respond to inquiries about CDIC and deposit insurance coverage, something they were prohibited from doing in the past.

To ensure that the information contained on the deposit register is correct, CDIC reviewed all deposit products of all member institutions before the registers were produced and confirmed the eligibility (or ineligibility) of each deposit product. As of March 31, 1998, CDIC had approved 1,991 deposit types for inclusion

CDIC approved 1,991 deposit types for inclusion on deposit registers.

on deposit registers. CDIC will confirm eligibility of new or amended deposit products prior to inclusion of the product on a member institution's deposit register.

To facilitate the smooth implementation of the by-law and to monitor and adjust the clearance system after March 1, 1998, an industry consultative committee was struck. Its members include representatives of CDIC, the Canadian Bankers Association, four banks and two trust companies.

CDIC conducted a public awareness campaign to make depositors aware that they can now ask their financial institution for information about deposit insurance. CDIC believes that the by-law will dramatically improve the availability, accuracy, and adequacy of deposit insurance information provided to consumers. As new and more complex products are sold, the uncertainty on the part of buyers, and sometimes the sellers, as to whether any specific product is eligible for deposit insurance will be alleviated through the adoption of the register system.

Opting-Out By-laws

On April 15, 1997, legislation permitting banks to accept deposits without being a member institution—typically referred to as “opting out” of CDIC membership—received royal assent. The legislation will be proclaimed in force when the CDIC by-laws have been made.

The opting-out provisions apply to existing banks that are CDIC members and to new institutions seeking to incorporate a 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.

CDIC has been working closely with the Department of Finance and the Department of Justice to develop the required by-laws. In January 1998, CDIC circulated the draft by-laws for review to regulators, member institutions and their associations, and other interested parties. Some members expressed concern about the practicality of the notice and acknowledgment requirements that are set out in the legislation. CDIC is presently discussing this issue with the Department of Finance. CDIC anticipates that a number of foreign bank member institutions will take advantage of the opting-out legislation.

Index-Linked By-law

In June 1997, amendments to the CDIC Act authorized CDIC to make a by-law prescribing a mechanism for the calculation of interest on index-linked deposits in the event of a payment of insured deposits.

*Banks opting out of CDIC
will be permitted to accept
only deposits in excess of
\$150,000.*

The mechanism is required because of difficulties in calculating the yield portion of an index-linked deposit prior to maturity. The proposed method of calculation should reflect as closely as possible the methodology of calculation adopted for purposes of premiums on the index-linked deposits. The Index-Linked By-law is anticipated to come into effect later in 1998.

STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES AND THE ASSESSMENT AND REPORTING PROGRAM

All member institutions are expected to follow CDIC's *Standards of Sound Business and Financial Practices* (Standards). To comply with the Standards, member institutions must have in place and use sound and prudent policies and effective procedures to manage their activities and control their risks.

One of the tools available to CDIC to determine whether a member institution is in compliance with the Standards is the self-assessment and reporting program known as SARP. SARP is designed to determine if each member has a well-defined program of policies and procedures in place with respect to each of the Standards, if the program is sound and prudent, and if the program is being adhered to. Members are asked to assess themselves and report to CDIC on a yearly basis. Regulators review the self-assessments of member institutions and report to CDIC on whether or not the institutions are following the Standards.

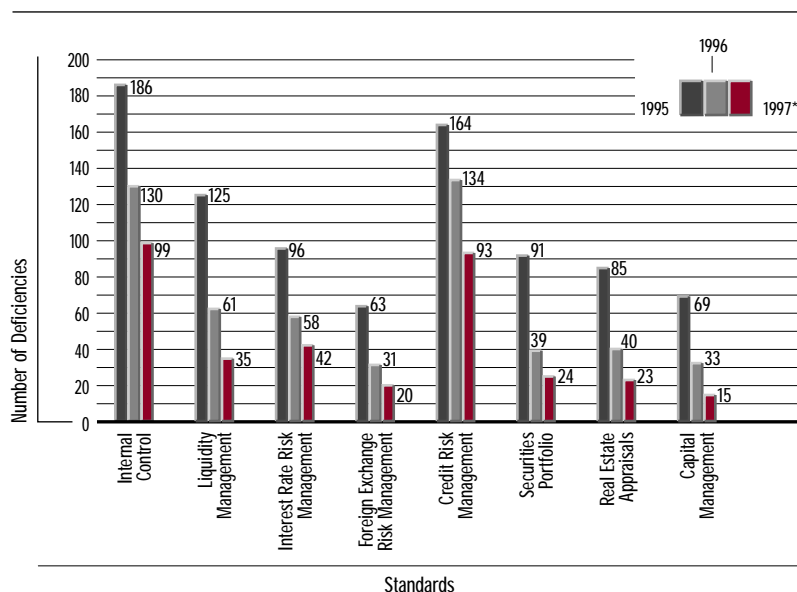
Results for 1997 indicated that member institutions' efforts in their 1995 and 1996 self-assessments are having positive results. From 1995 to 1996, there was a 40-percent reduction in the number of deficiencies (both reported





FIGURE 15

Number of Deficiencies by Standard



* Excludes 12 institutions for which examinations are currently under way.

and identified by examiners). We have noticed a further reduction from 1996 to 1997 of 33 percent, although the final results will not be known until the end of the 1997 examination cycle.

The Standard areas showing the most deficiencies in 1995, 1996 and 1997 were internal control and credit risk management. Capital management and foreign exchange risk management had the least number of deficiencies for each year. It is noteworthy that substantial progress was made over the last three years in rectifying deficiencies in almost all Standard areas. For the most part, the deficiencies identified by member institutions were readily correctable.

CDIC continues to monitor the self-assessments closely to ensure that members are addressing outstanding deficiencies. Member institutions failing to address Standards and

SARP-related deficiencies in a timely fashion are given deadlines. If a member institution fails to meet these deadlines, CDIC may take a number of actions, including the levying of premium surcharges and the termination of the policy of deposit insurance. In addition, compliance with the Standards will be a factor in determining the categorization of member institutions under the differential premium system.

Looking forward, CDIC is currently developing a ninth Standard related to the estate, trust and agency business of its member institutions. A discussion paper will be circulated for comment to member institutions, regulators and other stakeholders later in 1998.

CLAIMS AND RECOVERIES

Since its establishment in 1967, CDIC has provided protection for insured deposits of approximately \$26 billion in some 43 interventions, most of which occurred during the 1980s and early 1990s. Over the past five years, eight member institutions with combined insured deposits of \$4.8 billion have failed, with fiscal 1997/98 being the first year since 1989 in which there were no member failures (Figure 16).

When a member institution is failing, CDIC determines whether a formal liquidation or the assisted sale of the failing institution to a healthy institution is the least costly solution. Typically, CDIC does not own, manage, or liquidate the assets in an estate. Depending on the circumstances, CDIC can be either a creditor, secured lender, guarantor, owner of a claim in a liquidation, or even the liquidator. In all cases, CDIC's goal is to optimize recoveries on its claims from the assets in the estates and to minimize its exposure to loss as a result of providing financial assistance and guarantees.

The following are the principal methods of failure resolution currently employed by CDIC:

- Formal liquidations in which CDIC pays depositors the value of their insured deposits and assumes the depositors' claims against the failed institutions (the "estates"), whose assets are normally liquidated under the jurisdiction of a court-appointed liquidator.
- Purchase and assumption agreements involving the acquisition of the failing member institution by another member.
- The organization of workout companies to realize upon problem assets.
- Deficiency coverage agreements (DCAs) in which CDIC provides a third party, which is acquiring impaired assets of a member institution, with a guarantee on those assets up to a specified limit, to reduce the risk of loss on eligible assets.

CDIC's intervention strategies involve the use of a 'virtual organization' consisting of asset managers, lawyers, accountants and other professionals for asset recovery and estate administration. In most cases, CDIC nominates qualified professionals to perform liquidations as court-appointed liquidators and thereafter recommends adjustments to the size of the effort as the liquidation proceeds.

The number of full-time-equivalent staff involved in estate administration and recoveries has declined from 674 at year-end 1992 to 107 at present and is projected to be 25 by 2002. Included in this total is an "indirect" component comprised of professionals retained by liquidators, an "intervention" component of professionals retained by CDIC, and a "core" component of CDIC permanent staff.

FIGURE 16
Insured Deposits in CDIC Member
Institution Failures, 1993–1997

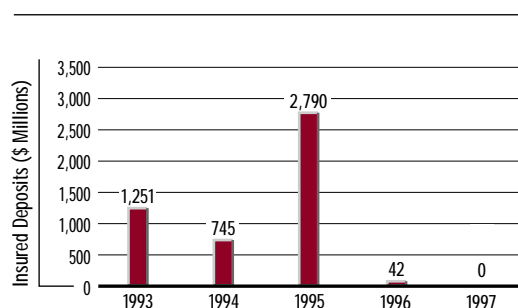
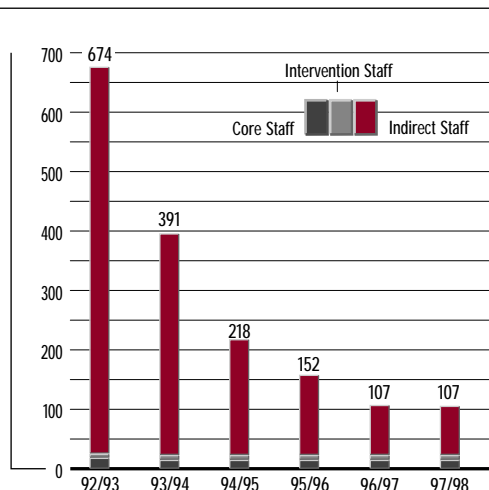


FIGURE 17

Staffing Trends in Claims and Recoveries, 1992-1998

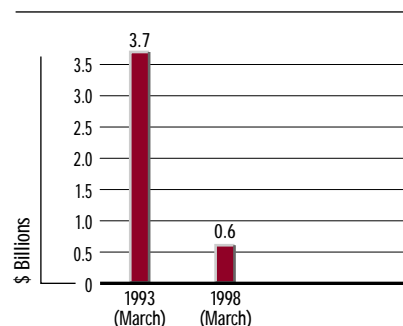
Current resource and staffing levels reflect CDIC's commitment to maintaining the core competencies and readiness essential for effective future interventions. CDIC's PC-based system contributes to this important function by reducing CDIC's reliance on external suppliers in the event of a payout of the insured deposits of small and medium-sized institutions. More generally, the current resource and staffing levels in post-liquidation activities are indicative of characteristic difficulties encountered toward the end of liquidations and DCAs. Typically, the effort to optimize net recoveries and minimize exposure to loss increases, as a percentage of the remaining assets, as attention is concentrated on the outstanding and usually more difficult assets and issues associated with the end of each liquidation estate and DCA.

ASSETS UNDER ADMINISTRATION IN ESTATES AND WORKOUT COMPANIES

Between March 1993 and March 1998 the net book value of assets under administration in workout companies and court-appointed liquidations declined from approximately \$3.7 billion to \$600 million, and CDIC projects that less than \$25 million will remain in 2002. This decrease in the balance of assets under administration between 1993 and 1998 includes an additional inflow of \$2.4 billion in assets arising from the failure and winding-up of six institutions during that period.

Of the assets under administration at December 31, 1997, the largest proportion (39 percent) was 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. CDIC provided \$1,588 million of funding to ACC. The mandate of ACC is to realize on all assets by December 31, 2002, in order to repay the funding provided by CDIC. As at December 31, 1997, ACC had generated gross cash receipts from its portfolio totalling \$1,322 million, or approximately 80 percent of the total expected realizations. To that date, and after the payment of overhead expenses and financing charges, CDIC had received

FIGURE 18

Net Book Value of Assets Under Administration in Estates and Workout Companies

\$1,198 million from asset realizations and a further \$500 million as a result of a refinancing transaction that matures in 1999.

Asset Characteristics

As the number or value of assets under administration declines, the proportion of good-quality assets in individual estates typically declines fastest, since these assets are most readily and easily realized. By contrast, the preparation and realization of sub-performing and non-performing assets takes much longer and generally requires more effort. Figure 19 illustrates the change in composition of assets by type and quality between December 1993 and December 1997. As at December 31, 1997, the majority of good-quality performing loans and liquid investments in each estate at the time of liquidation as well as a substantial proportion of sub- and non-performing assets had been realized.

Figures 20 and 21 show the geographic distribution and size of non-cash assets under administration at December 31, 1997. These assets are distributed across Canada and cover a range of sizes. More than a third of total assets are cash and liquid investments “blocked” in estates. This is due to issues that would affect the amount and the allocation of distributions to creditors. CDIC cannot obtain an advance or distribution on its claim since it is, effectively, one of the competing claimants.

Recoveries on Claims and Loans

In most estates, total recoveries do not cover the original claim amounts, resulting in a loss for CDIC and other unsecured creditors. As illustrated in Table 2 on page 26, nominal and net present value (NPV) recoveries vary widely from one estate to another. These differences in

FIGURE 19

Asset Type and Quality, 1993 and 1997

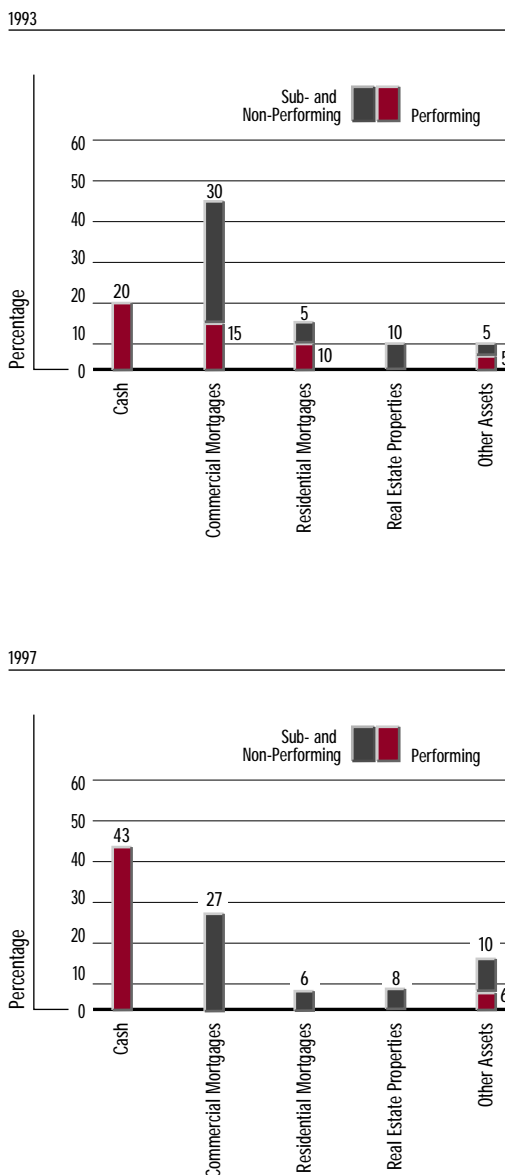
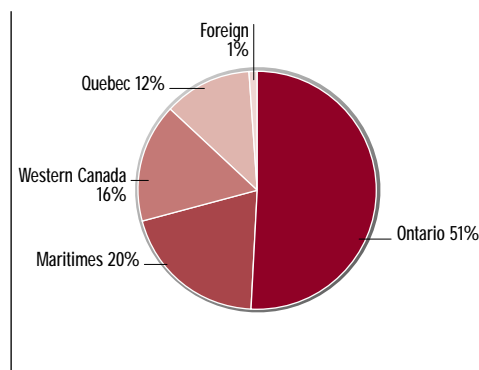




FIGURE 20

Geographic Distribution of Non-Cash Assets



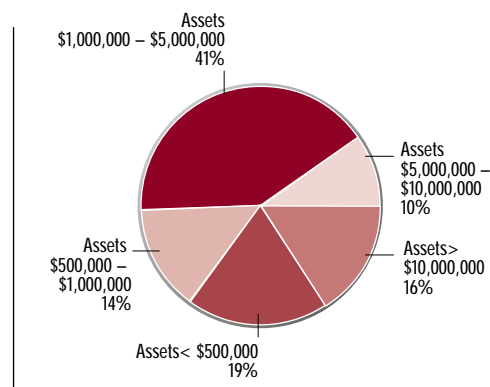
outcomes are a function of variables such as asset quality and liquidity, the presence or absence of prior claims, litigation, and the duration of the liquidation.

Creditor ranking can have a significant effect on CDIC's recoveries. For example, trust companies have two funds, the Guaranteed Fund and the Company Fund. Depositors are normally the only creditors of the Guaranteed Fund, which generally has substantial assets. Any shortfall in the Guaranteed Fund becomes a claim in the Company Fund, ranking with ordinary unsecured creditors. By contrast, in bank failures depositors and CDIC rank behind any secured creditors and equally with trade and other creditors.

In addition, disputed claims affect the estate's ability to dispose of the assets and manage costs. This directly influences CDIC's recoveries and costs and those of other creditors since the liquidator or manager of the estate cannot make the final distribution to creditors and conclude the estate's affairs until all claims and other legal issues are resolved.

FIGURE 21

Distribution of Non-Cash Assets by Size

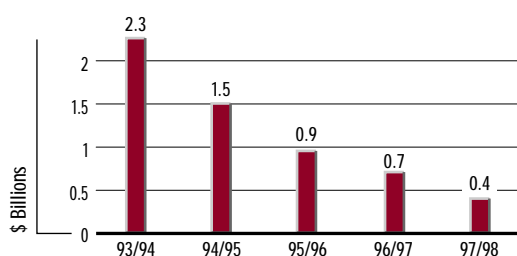


As at March 31, 1998, CDIC has outstanding claims and loans (net of write-offs and provisions) of \$373 million. During the past year CDIC has recovered \$365 million on its claims and loans, bringing the total recovered since the beginning of fiscal 1993/94 to \$4.8 billion. CDIC projects further recoveries of approximately \$470 million, mainly over the next three years. The projected cash flows to CDIC exclude any recoveries from third parties arising from litigation and from inter-creditor disputes.

However, a wide range of possible recovery outcomes arises from the greater volatility of sub- and non-performing asset realizations. For example, a one percent variance in the \$395 million of non-cash assets under administration at December 31, 1997, could change realizations by \$3.95 million; a 10 percent variance could change realizations by \$39.5 million. It is necessary, therefore, to apply the appropriate resources to realize on these assets and for CDIC to monitor asset realization performance on an ongoing basis.

FIGURE 22

Claims and Loans Receivable



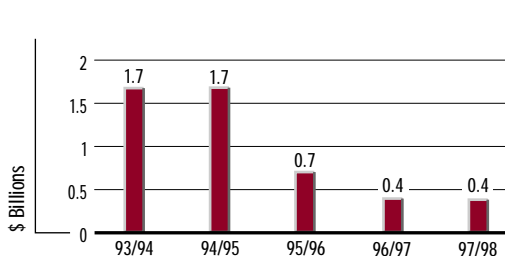
CDIC estimates that approximately 50 percent of the recoveries from assets under administration at March 31, 1998, will flow from ACC. The realization strategy employed by ACC differs from those in estates with a better mix of assets. To date, the liquidation of assets by ACC has involved a managed workout strategy in which the opportunity to work with the borrower has been explored first, in the belief that the borrower represents the best opportunity to preserve and/or improve value for ACC.

In order to manage its risks and to further align its interests with ACC, CDIC has negotiated an incentive plan with ACC's management. The reasons for adopting an incentive plan include recognition that the remaining realizations are expected to be more difficult to achieve, that there is an increasing probability of attrition of existing management, and that without tangible encouragement for superior performance, the duration of the liquidation might be extended, reducing the NPV of recoveries.

The ACC incentive plan is the third incentive agreement arranged by CDIC: the first was arranged with the liquidator of Prenor Trust in 1995, and the second, with the liquidator of Income Trust in 1996. These plans increase the probability that CDIC will benefit from net realizations in the upper range of projections,

FIGURE 23

Claims and Loans Recovered



measured on an NPV basis, and that the management or liquidator will focus on the need to minimize costs as well as to achieve the highest gross realizations from assets. In general, incentive plans achieve these objectives by

- sharing, in some degree, the risks and the rewards of below- or above-recovery targets;
- aligning the interests of the liquidator or manager with those of CDIC through an investment made by the liquidator or management;
- encouraging retention of the existing asset management expertise through monetary incentives; and
- fixing the date by which the liquidation of assets must be completed in order for the liquidator or manager to benefit.

Cost of Recovery

Whether the assets are low-quality loans or "blocked" cash, a substantial effort is required to turn these assets into distributions to creditors. On average, performing loans across all estates cost 2 percent of realized value to recover; sub-performing loans cost 8 percent; and non-performing loans, 20 percent. By way of contrast, each dollar recovered from non-performing loans costs ten times as much to realize as it does for performing loans.





TABLE 2 - CDIC'S CLAIMS, RECOVERIES, AND LOSSES ON FAILED MEMBER INSTITUTIONS

<i>NON-CASH ASSETS LIQUIDATED AS A PERCENTAGE OF TOTAL NON-CASH ASSETS – YEAR OF FAILURE</i>	<i>TOTAL CLAIMS AND LOANS</i>	<i>RECOVERIES TO MARCH 31, 1998</i>	<i>CDIC'S PROJECTED LOSS</i>		
	<i>(\$ millions)</i>	<i>(\$ millions)</i>	<i>as % of Total Expected</i>	<i>as % of Claims and Loans</i>	<i>as % of Claims and Loans – NPV¹ basis</i>
More than 99% of Non-Cash Assets Liquidated					
Bank of Credit and Commerce Canada-1991	22	20	99%	10%	25%
Crown Trust Co.-1983	930	935	99%	-1%	2%
Dominion Trust Co.-1993	431	353	98%	16%	20%
Fidelity Trust Company-1983	792	437	99%	45%	51%
Greymac Mtge. Corp./Greymac Trust Co.-1983	414	208	99%	50%	63%
Northland Bank-1985	321	203	94%	31%	66%
Pioneer Trust Co.-1985	201	172	98%	12%	31%
Saskatchewan Trust Co.-1991	64	56	97%	9%	19%
Seaway Trust Co./Mortgage Corp.-1983	420	366	99%	13%	47%
Between 95%-99% of Non-Cash Assets Liquidated					
CCB Mortgage Investment Corp.-1985	123	109	95%	6%	26%
Confederation Trust Co.-1994	680	634	91%	-4%	-2%
Income Trust Co.-1995	193	170	97%	10%	20%
Monarch Trust Co.-1994	65	60	97%	5%	13%
Principal Savings and Trust Co.-1987	116	99	66%	-29%	19%
Settlers Savings & Mortgage Corp.-1990	84	62	94%	21%	27%
Shoppers Trust Co.-1992	492	454	96%	4%	16%
Standard Loan Co./Standard Trust Co.-1991	1321	1085	96%	15%	31%
Between 80%-95% of Non-Cash Assets Liquidated					
Adelaide Capital Corp. (CGT/TD)-1992	1758	1253	88%	7%	13%
Less than 80% of Non-Cash Assets Liquidated					
Security Home Mortgage Corp.-1996	42	20	51%	8%	23%
Total	\$8,469	\$6,696	94%	13%	25%

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

Asset Consolidation

As illustrated in Table 2, the realization of non-cash assets in most estates is substantially complete, and, consequently, attention is increasingly focussed on addressing the impediments to completion of the estates. To achieve economies of scale and to permit liquidators to concentrate on litigation and issues leading to liquidator discharge, CDIC is promoting the consolidation of residual assets of old estates. Through a secured loan to a consolidation entity, CDIC expects to facilitate the sale of residual assets. As a result, liquidators of at least three estates should be discharged in 1998/99, and, in a number of other estates, the liquidators will be able to narrow the focus of their activities with an expected reduction of costs.

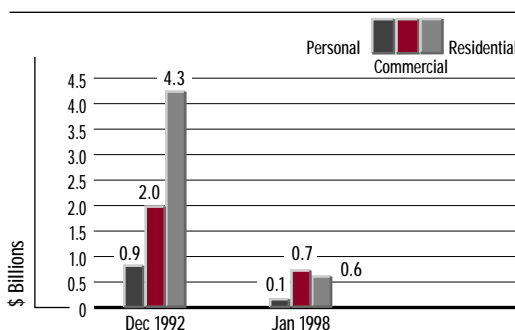
ASSETS SUBJECT TO DEFICIENCY COVERAGE AGREEMENTS (DCA)

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 deposits and liquidating assets in a depressed real estate market. To facilitate the transaction, CDIC entered into deficiency coverage agreements with TD to provide certain income and capital loss guarantees. Coverage under the DCAs for these losses was restricted to \$2.49 billion, and TD will not call on the full amount available. The DCAs expire on December 31, 2002.

At the commencement 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 \$5.76 billion through normal paydown, TD's renewal of loans at their own risk, the acquisition of loans by

FIGURE 24

Assets Under TD Deficiency Coverage Agreements



other financial institutions, or TD's disposal of the underlying assets. The greatest reduction has been in the personal and residential portfolios. The remaining \$1.34 billion retain eligibility for coverage as they do not meet TD's normal underwriting criteria.

Since 1992, CDIC has paid \$98 million in capital and income claims to TD, including \$28 million in 1997/98. These claims represent 1.4 percent of the assets originally covered under the DCA, and they fall well within CDIC's provision for losses. All claims made under the DCAs are subject to audit by an independent public accounting firm. Close monitoring of the DCA administration will continue in order to manage CDIC's exposure.

CLAIMS AND LITIGATION ISSUES

Most estates are engaged in claims resolution activities, often involving litigation. In 70 percent of the liquidation estates currently under administration, litigation or competing claims have required liquidators to set aside substantial cash reserves and have caused delays in resolution of these estates.





Claims and litigation issues are generally more complex than other types of estate activities and, as a result, require more resources per dollar recovered. In some cases, moreover, recovery is far from certain. Although it is impossible to accurately estimate the potential recovery by estate, appropriate management of claims and litigation by liquidators and by CDIC is expected to increase recoveries and minimize settlements to third parties.

CDIC is occasionally the plaintiff or the defendant in lawsuits related to liquidation and failure resolution activities. To ensure that CDIC maximizes its recoveries in claims and litigation, the Corporation reviews legal costs incurred in liquidations and is developing benchmarks by which the performance and value contributed by liquidators' legal counsel may be assessed and documented.

It is CDIC's policy to investigate the cause of each member failure and to ensure 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 information that raises a reasonable case of negligence or willful misconduct or wrongdoing.

In September 1997, following mediation, CDIC and the liquidators of Standard Trust Company (STC) announced the settlement of all of their claims against certain former officers and directors of STC and Standard Trustco Limited (STL), certain former shareholders of STL, including Roman Corporation Limited, KPMG, the former auditors of STC and STL, and Royal LePage Real Estate Services Ltd. The

claims were connected to the liquidation of STC and the bankruptcy of STL. The settlement, which was approved by the Court, does not involve any admission as to the presence or absence of liability or fault on the part of any of the parties involved. The settlement amount and the contributions of the various parties to the settlement are confidential, in accordance with the settlement agreement.

ESTATES CONCLUDED

During the year, CDIC concluded its involvement in two estates. The AMIC Mortgage Investment Corporation estate was completed as a result of CDIC's purchase of AMIC's claim in a bankruptcy. The AMIC liquidator obtained discharge in March 1998, following a final distribution to CDIC. As a result of CDIC's sale of its claim in the Prenor estate in November 1997, the Prenor liquidator was able to make a final distribution to CDIC and other creditors sooner than expected.

RESEARCH ACTIVITIES

As the liquidation of estates is completed, CDIC is undertaking an analysis of the Corporation's experience in such areas as deposit payouts, litigation, forensic investigations, claims management, and asset management and disposition. The results of these studies will provide benchmarks and best practices to address issues that CDIC may face in the future.

CORPORATE MANAGEMENT

PLANNING AND ACCOUNTABILITY

CDIC continues to adhere to a planning and accountability framework, shown in Figure 25, 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.

Corporate planning involves developing CDIC's strategic and operational plans as well as the annual operating and capital budgets. CDIC's overall strategic direction is established by the Board of Directors.

Accountability is an essential element of the corporate management process. As a Crown corporation, CDIC is held accountable to Canada's Parliament through the Minister of Finance. Accountability for achieving the objects and priorities is communicated by two major corporate documents: the *Annual Report* and the *Corporate Plan*. In addition, an internal document, the corporate Performance Assessment Report, which summarizes CDIC's financial performance as well as the impact of departmental activities on the achievement of the corporate priorities, is presented quarterly to the Board of Directors. To get a true picture of CDIC's performance and direction, the *Annual Report* and the *Summary of the Corporate Plan* should be read as a related set of documents.

Performance measures are a tool used to measure success against the overall business strategy. Over the past few years, CDIC has developed and refined a number of measures that attempt to reflect CDIC's key business areas. CDIC is

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.

now identifying new performance indicators for future use based on the Balanced Scorecard approach to performance measurement and management.

Business Model

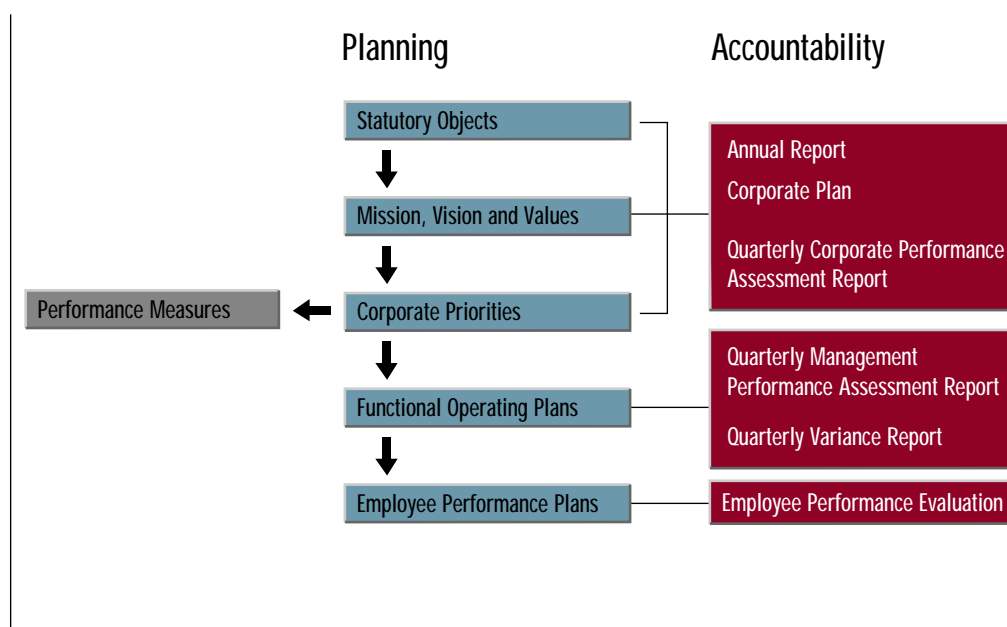
Figure 26 presents CDIC's Business Model. This model is not an organizational chart but a cross-departmental illustration of CDIC's business processes undertaken to achieve the priorities.





FIGURE 25
Planning and Accountability Framework

Governance



The corporate management, primary and secondary functions represent the activities across all divisions.

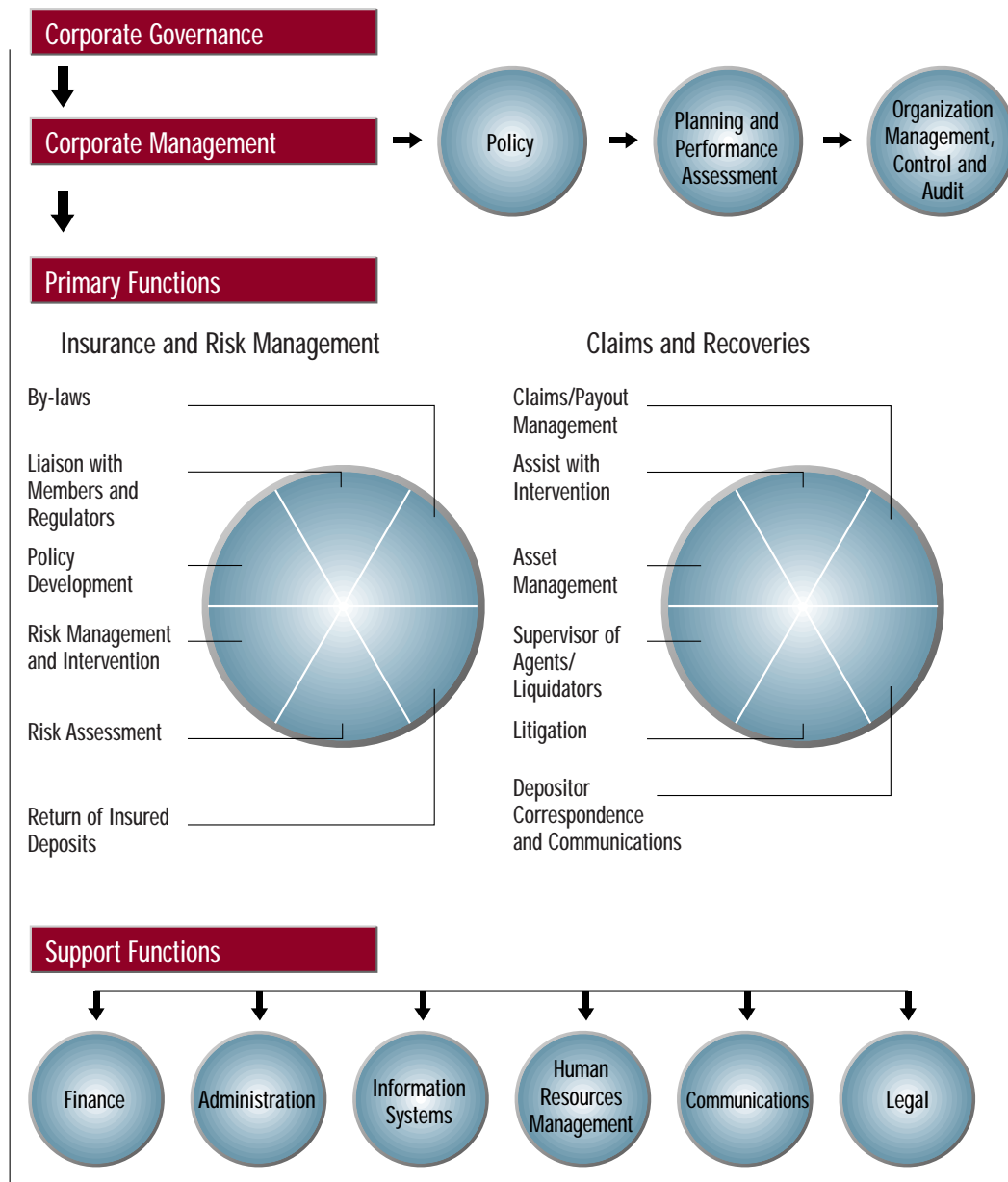
FINANCE

The Finance area is responsible for the accounting, corporate planning (in conjunction with the Executive Office), financial planning and treasury activities of the Corporation. It is also responsible for the annual financial statements and CDIC's financial plans and budgets, which are included annually in the five-year *Corporate Plan*.

Finance ensures controls are in place to protect the Corporation and its assets and reports regularly to the Board of Directors on the progress CDIC makes in pursuing its goals. The treasury area is responsible for investing surplus funds according to CDIC's treasury policies and managing the financial risk to which the Corporation is exposed.

Pursuant to the Risk Management Guidelines issued by the Minister of Finance, CDIC developed a Risk Management Unit (RMU), which acts as a subcommittee of the Asset/Liability Management Committee (ALCO). Chaired by the Comptroller, the RMU comprises represen-

FIGURE 26
CDIC Business Model





tatives from each major functional area of the Corporation and has the mandate of identifying, measuring, monitoring and reporting on financial risk exposures consistent with the Board-approved treasury policies.

A work plan, outlining the activities to be undertaken by the RMU throughout 1998, was approved early in the year by the ALCO. The work plan is designed to examine CDIC's financial exposures across both treasury and non-treasury boundaries to ensure that CDIC's risk management processes meet the requirements set out in the Risk Management Guidelines. The results of the RMU's work will be reported to the ALCO and will form the basis for any new or updated policies that will be brought to the Board of Directors for approval.

In 1997, CDIC purchased a treasury management software system to manage its debt and investment portfolios. The system was installed prior to year-end and continues to undergo testing to ensure it meets the performance specifications. Upon successful completion of the testing, the system will be adopted early in the new fiscal year.

CDIC has no immediate or planned requirement to raise funds. However, in conjunction with the change in its legislation in 1996 and the requirement to adhere to the Risk Management Guidelines, an infrastructure has been established to access funding from the capital markets if necessary.

ADMINISTRATION

The administration function is fulfilled by the Corporate Services Division. In addition to the functions of information systems, human

resources management and communications, outlined below, the division is responsible for all aspects of CDIC's sites and internal operations.

INFORMATION SYSTEMS

A major overhaul of the network infrastructure began in the past year, the first of this magnitude since the network was established in 1987. A detailed strategy was completed last summer. The actual migration began in the fall and will take approximately two years to complete. The new environment offers better security and enhanced performance.

In addition to overhauling the network, CDIC has made a good deal of progress in ensuring that its systems are year 2000 compliant. The Corporation has developed and is implementing a year 2000 plan. There are no mission critical systems. The Corporation is in the process of replacing the hardware and software that is not year 2000 compliant. CDIC expects to complete the implementation and testing phases by mid-1999, which will include a full year 2000 simulation test.

In 1997/98, a new human resources management system and a treasury management system were acquired and installed. CDIC also developed a strategy for managing electronic documents, which outlines the steps required to fully implement a system to control all corporate records, both hard copy and electronic.

As a result of an earlier study, CDIC, OSFI and the Bank of Canada have entered into a cost-sharing agreement and are developing a new system to handle the collection, verification and processing of financial data. The tri-agency database system is expected to be implemented in the fall of 1998. The system will be fully year

2000 compliant and will streamline the current processes dealing with the collection and verification of financial information.

HUMAN RESOURCES MANAGEMENT

In 1997, following the end of the federal government wage freeze, CDIC developed compensation guidelines for establishing salaries and for moving employees through their salary ranges. On April 1, 1997, CDIC implemented the Board-approved increase to the salary policy line, which was based on the findings of a market comparison study. CDIC also continued its re-earnable bonus plan to reward employees whose performance exceeded expectations.

The Corporation hired William M. Mercer Limited to analyse CDIC's benefits package to ensure that it continues to respond to employee needs.

As part of the Employee Recognition Program, 10 employees received awards for their exceptional effort during the year.

As a Crown corporation, CDIC continues to meet statutory requirements with respect to employment equity, official languages, multiculturalism, and health and safety. CDIC reports on its compliance with these requirements to the respective overseeing bodies. The Human Resources Department ensures that CDIC's policies and procedures fully comply with these statutory requirements.

To ensure that the Corporation is not vulnerable to the loss of key personnel, CDIC established a succession planning process that identified employee competencies and position requirements for key management positions.

In 1997, CDIC implemented a new human resources information system to improve its ability to respond to employee and management inquiries on a timely basis and to provide a more comprehensive database for human resources planning.

This year, several courses were offered to employees on site in both the Toronto and Ottawa offices as a result of a training needs analysis conducted as part of the corporate training program. In addition to job-specific training, employees received training in management skills, office automation, official languages and first aid. CDIC also continued its very successful Infolunch series again this year.

COMMUNICATIONS

CDIC conducted a national telephone survey in June and July 1997 to research Canadians' awareness of and attitudes toward deposit insurance. The results show that almost 90 percent of Canadians believe protecting their savings against loss is very important. However, the survey also found relatively low levels of awareness of CDIC and considerable misunderstanding about what financial products are eligible for deposit insurance. These results are not surprising, given that the last major awareness campaign undertaken by the Corporation was in 1992. Through the survey, the Corporation also confirmed public support for making information on deposit insurance more readily available to consumers, as provided for in the *Deposit Insurance Information By-law*.

Research results provided a solid basis for the development of a communications plan to support the full implementation of the by-law. The plan included a one-month national television advertising campaign in both official languages,





media relations resulting in some 20 interviews, Internet advertising, information bulletins to member institutions, Web site updates, and the redesign of CDIC's information brochure "Protecting Your Deposits."

Demand for CDIC's public information services was high throughout the year and increased as the end of the year approached. The 1-800 lines responded to 24,558 calls, almost double the previous fiscal year's total. In addition, 168 E-mail inquiries were received, with a growing trend toward this medium strongly evident by year's end. The CDIC Web site (<http://www.cdic.ca>) received more than 33,000 visits during its first full year of operation, and new publications and information updates were placed on the site throughout the year. In addition, some 1,850,000 copies of "Protecting Your Deposits" and over 1,780,000 copies of CDIC's membership brochure were distributed to member institutions, deposit brokers, members of the public and other audiences. Taking into account the strong demand for information in all of the above formats, CDIC will continue to use these vehicles to communicate with depositors.

Informal customer service surveys continue to show very high levels of satisfaction with all aspects of CDIC's services to the public. However, some respondents have indicated they would appreciate more detailed information than is available in the "Protecting Your Deposits" brochures. In response to this suggestion, CDIC is developing a series of information sheets on some of the most commonly asked questions about deposit insurance. The first of these, focussing on coverage of joint deposits, is now available and can be obtained by calling CDIC. Other information sheets will be developed in 1998.

Following a recommendation at an all-employee workshop in March 1997, a working group with representation from several areas of the Corporation developed a recommendation for an internal electronic communications system pilot project based on Intranet technology. The project is expected to be implemented in 1998 and will further enhance internal communications.

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 counsel, corporate secretary, and access to information and privacy co-ordinator of the Corporation. As legal counsel, members of the division provide advice and assistance to the Corporation in conjunction with other divisions, particularly in the areas of insurance and risk management, claims and recoveries, and operations.

The Corporate Secretary serves as a primary resource and support for the Chairperson and the Board of Directors.

In the past year, the Legal Division worked with the Department of Justice and the Department of Finance in developing amendments to the CDIC Act and by-laws of the Corporation, including the Opting-Out By-laws, the Index-Linked By-law, and the proposed Premium By-law. The Division completed significant revisions to the *Corporate By-law* and published a consolidated edition of the CDIC Act. The Division also provided advice and support with respect to problem institutions, litigation and forensic work.

AUDIT

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.

In order to fulfil its responsibilities, the Audit and Consulting Services 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 a review of CDIC's Field Operations Division. The department 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 performed by the Office of the Auditor General. During 1997/98 Audit and Consulting Services also played a lead role in the development of a performance measurement system for the Corporation.





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 Ontario Ministry of Finance 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, 1998, 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. These peer groups reflect different characteristics established by governing legislation and regulatory frameworks.

The information compiled is presented as follows:

- 1.0 Members and their regional location
- 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 re-states 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, 1998.

1.0 MEMBERS AND THEIR REGIONAL LOCATION

1.1 CDIC Members as at March 31, 1998¹

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 Bank Savings and Mortgage Corporation
 Laurentian Trust of Canada Inc.
 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
 London Trust & Savings Corporation
 M.R.S. Trust Company
 MTC Mortgage Investment Corporation
 Mutual Trust Company (The)
 Pacific & Western Trust Corporation
 Peace Hills Trust Company
 Peoples 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: 28

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
Banco Central Hispano-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
Crédit Lyonnais Canada
Credit Suisse First Boston Canada
Dai-Ichi Kangyo Bank (Canada)
Deutsche Bank Canada
Dresdner Bank Canada
First Chicago NBD Bank, Canada
Fuji Bank Canada
Hanil 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)
National Westminster Bank of 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)
Swiss Bank Corporation (Canada)
Swiss Bank Corporation Trust
Tokai Bank Canada
Union Bank of Switzerland (Canada)
United Overseas Bank (Canada)

Total: 49

TOTAL: 112 members

1.2 Membership Changes: April 1, 1993 - March 31, 1998

New Members

- August 11, 1993:* U.S. Bank (Canada)
- January 26, 1994:* Northern Trust Company, Canada (The)
- 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.

Other Membership Changes

- April 6, 1993:* General Trust Corporation of Canada ceased to accept deposits — policy cancelled.
- April 30, 1993:* ANZ Bank Canada amalgamated with Hongkong Bank of Canada — continuing as Hongkong Bank of Canada.
- June 30, 1993:* FirstLine Trust Company was continued as a federal trust company.
- September 24, 1993:* Seel Mortgage Investment Corporation ceased to accept deposits — policy cancelled.
- October 26, 1993:* Mackenzie Trust Company changed its name to M.R.S. Trust Company.
- November 1, 1993:* Landmark Savings and Loan Association ceased to accept deposits — policy cancelled.
- November 10, 1993:* The Dominion Trust Company was placed in liquidation — policy cancelled.
- December 3, 1993:* Prenor Trust Company of Canada was placed in liquidation — policy cancelled.
- December 6, 1993:* Bank Leumi Le-Israel (Canada) amalgamated with Republic National Bank of New York (Canada) — continuing as Republic National Bank of New York (Canada).
- December 31, 1993:* Morguard Mortgage Investment Company of Canada amalgamated with Metropolitan Trust Company of Canada — continuing as Metropolitan Trust Company of Canada.
- January 20, 1994:* First Interstate Bank of Canada ceased to accept deposits — policy cancelled.
- February 8, 1994:* Monarch Trust Company was placed in liquidation — policy cancelled.
- March 18, 1994:* The Royal Trust Company was continued as a federal trust company.





- 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:* FirstLine 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:* The 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.



1.3 Regional Location of CDIC Members*

MARCH 31, 1998	WESTERN	ONTARIO	QUEBEC	EASTERN	TOTAL
Domestic banks and subsidiaries	5	20	10	—	35
Foreign bank subsidiaries	4	40	5	—	49
Domestic trust and loan companies	5	18	2	3	28
Total	14	78	17	3	112

*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	1997 \$ %		1996 \$ %		1995 \$ %		1994 \$ %		1993 \$ %	
Assets										
Cash resources	102.9	8	89.0	8	88.4	9	67.7	8	51.3	7
Securities	222.3	18	204.4	19	181.6	19	157.6	18	139.9	17
Loans	796.4	62	709.5	65	626.3	64	590.3	67	549.4	68
Other assets	158.1	12	83.2	8	73.2	8	63.5	7	62.7	8
Total assets	1,279.7	100	1,086.1	100	969.5	100	879.1	100	803.3	100
Liabilities										
Deposits	871.2	68	783.2	72	742.3	77	686.4	78	639.3	80
Other liabilities	351.2	28	252.1	23	178.9	18	147.7	17	121.5	15
Total liabilities	1,222.4	96	1,035.3	95	921.2	95	834.1	95	760.8	95
Shareholders' equity	57.3	4	50.8	5	48.3	5	45.0	5	42.5	5
Total liabilities and shareholders' equity	1,279.7	100	1,086.1	100	969.5	100	879.1	100	803.3	100

2.2 Income Statement (\$ millions)

AS AT MEMBERS' FISCAL YEAR-END	1997	1996	1995	1994	1993
Interest income	68,222	68,521	66,489	52,957	51,208
Interest expense	43,883	44,408	44,319	31,545	31,210
Net interest income	24,339	24,113	22,170	21,412	19,998
Provision for impairment	2,259	2,361	2,980	4,105	5,811
Net interest income after provision for impairment	22,080	21,752	19,190	17,307	14,187
Other income	20,388	14,176	11,874	11,572	9,943
Net interest income and other income	42,468	35,928	31,064	28,879	24,130
Non-interest expenses	28,689	24,542	21,937	21,276	19,549
Net income before provision for income taxes	13,779	11,386	9,127	7,603	4,581
Provision for income taxes	5,039	4,295	3,297	2,919	1,658
Net income before non-controlling interest	8,740	7,091	5,830	4,684	2,923
Non-controlling interest in net income of subsidiaries	179	125	78	115	75
Net income	8,561	6,966	5,752	4,569	2,848

3.0 ASSET SIZE AND QUALITY MEASURES — MEMBER PEER GROUPS

3.1 Total Assets (\$ billions and percentage)

	1997		1996		1995		1994		1993	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	1,132.4	88.5	953.0	87.8	850.7	87.7	768.6	87.4	696.4	86.7
Foreign bank subsidiaries	92.5	7.2	77.3	7.1	65.8	6.8	58.5	6.7	55.8	6.9
Domestic trust and loan companies	54.8	4.3	55.8	5.1	53.0	5.5	52.0	5.9	51.1	6.4
Total	1,279.7	100.0	1,086.1	100.0	969.5	100.0	879.1	100.0	803.3	100.0





3.2 Impaired Loans to Total Assets (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	0.7	1.0	1.6	2.2	3.7
Foreign bank subsidiaries	1.0	1.8	2.7	4.4	5.3
Domestic trust and loan companies	0.6	0.9	0.9	1.2	1.5

Impaired loans (gross) / total assets (gross)

3.3 Impaired Loans to Total Loans (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	1.1	1.6	2.5	3.3	5.3
Foreign bank subsidiaries	1.8	3.1	4.4	7.2	8.8
Domestic trust and loan companies	0.8	1.1	1.2	1.5	2.0

Impaired loans (gross) / total loans (gross)

3.4 Impaired Loans Unprovided For (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	5.5	25.6	42.8	48.0	49.6
Foreign bank subsidiaries	7.0	31.6	36.5	44.8	52.4
Domestic trust and loan companies	-20.3	17.8	30.2	36.7	50.5

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

3.5 Impaired Loans to Total Shareholders' Equity (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	0.9	5.8	14.9	21.9	37.0
Foreign bank subsidiaries	1.5	11.3	18.5	35.6	50.5
Domestic trust and loan companies	-2.4	3.2	5.2	7.8	3.8

Impaired loans (net) / average shareholders' equity

4.0 DEPOSIT LIABILITIES

4.1 Total Deposits (\$ billions and percentage)

AS AT APRIL 30	1997		1996		1995		1994		1993	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	689.8	86.8	614.7	86.0	580.1	85.9	545.1	85.9	515.8	85.5
Foreign bank subsidiaries	56.5	7.1	53.4	7.4	48.2	7.1	45.1	7.1	41.7	6.9
Domestic trust and loan companies	48.1	6.1	47.0	6.6	47.2	7.0	44.6	7.0	45.8	7.6
Total	794.4	100.0	715.1	100.0	675.5	100.0	634.8	100.0	603.3	100.0

4.2 Insured Deposits (\$ billions and percentage of total deposits)

AS AT APRIL 30	1997		1996		1995		1994		1993	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	271.8	39.4	279.3	45.4	271.6	46.8	255.4	46.9	249.5	48.4
Foreign bank subsidiaries	7.3	13.0	7.8	14.6	7.6	15.9	7.0	15.4	6.8	16.4
Domestic trust and loan companies	37.6	78.0	39.4	83.8	40.0	84.7	37.7	84.4	38.6	84.3
Total	316.7	39.9	326.5	45.7	319.2	47.3	300.1	47.3	294.9	48.9

5.0 CAPITALIZATION MEASURES

5.1 Capitalization (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	4.5	4.8	5.0	5.1	5.2
Foreign bank subsidiaries	5.4	5.5	5.8	5.8	5.8
Domestic trust and loan companies	4.7	4.9	5.3	5.6	5.7

Average shareholders' equity / average assets





5.2 BIS Risk-Based Capital (percentage)*

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	10.0	9.1	9.8	9.8	9.8
Foreign bank subsidiaries	10.6	10.5	10.2	10.5	10.3
Federal trust and loan companies	12.2	11.9	12.3	11.6	10.9

* BIS (Bank for International Settlements):

The minimum requirement is 8.00%. 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)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	7,551	6,410	5,264	4,340	2,940
Foreign bank subsidiaries	409	302	243	114	-148
Domestic trust and loan companies	601	254	245	115	56
Total	8,561	6,966	5,752	4,569	2,848

6.2 Interest Spread (percentage)

	1997	1996	1995	1994	1993
Domestic banks and subsidiaries	2.1	2.4	2.5	2.6	2.7
Foreign bank subsidiaries	1.5	1.9	1.9	1.6	1.4
Domestic trust and loan companies	2.3	2.3	2.1	2.1	2.0

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

6.3 Other Income (percentage)

	1997*	1996	1995	1994	1993
Domestic banks and subsidiaries	1.7	1.4	1.3	1.4	1.3
Foreign bank subsidiaries	1.5	1.3	1.2	1.6	1.5
Domestic trust and loan companies	1.7	1.3	1.1	0.8	0.8

Other income: other income / average assets

*1997 percentage calculations exclude some non-recurring income

6.4 Non-Interest Expenses (percentage)

	1997*	1996	1995	1994	1993
Domestic banks and subsidiaries	3.1	3.1	3.1	3.5	3.6
Foreign bank subsidiaries	2.5	2.7	2.7	3.0	3.2
Domestic trust and loan companies	3.4	3.1	2.8	2.7	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)

	1997*	1996	1995	1994	1993
Domestic banks and subsidiaries	0.7	0.7	0.7	0.6	0.4
Foreign bank subsidiaries	0.5	0.4	0.4	0.2	-0.3
Domestic trust and loan companies	0.6	0.5	0.5	0.2	0.1

ROAA: net income / average assets

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

6.6 Return on Average Equity (percentage)

	1997*	1996	1995	1994	1993
Domestic banks and subsidiaries	16.1	14.9	13.1	11.6	8.4
Foreign bank subsidiaries	8.9	7.7	6.8	3.4	-4.7
Domestic trust and loan companies	13.6	9.4	8.8	4.0	1.9

ROAE: net income / average shareholders' equity

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

6.7 Productivity (percentage)

	1997*	1996	1995	1994	1993
Domestic banks and subsidiaries	64.1	63.6	63.8	63.8	64.2
Foreign bank subsidiaries	70.9	68.9	69.3	67.0	74.2
Domestic trust and loan companies	68.6	68.5	71.4	77.0	78.3

Productivity: non-interest expenses / (net interest income + other income)

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





7.0 CDIC PREMIUMS (\$ MILLIONS AND PERCENTAGE)*

<i>AS AT APRIL 30</i>	<i>1997</i>		<i>1996</i>		<i>1995</i>		<i>1994</i>		<i>1993</i>	
	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
Domestic banks and subsidiaries	434.6	82.3	445.6	81.5	432.4	80.2	405.6	79.5	297.7	78.4
Foreign bank subsidiaries	12.2	2.3	13.1	2.4	12.9	2.4	12.1	2.4	8.9	2.4
Domestic trust and loan companies	81.2	15.4	88.2	16.1	93.5	17.4	92.5	18.1	73.0	19.2
Total	528.0	100.0	546.9	100.0	538.8	100.0	510.2	100.0	379.6	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

HIGHLIGHTS

During 1997/98 the Corporation's deficit decreased by \$637.3 million to \$538.9 million. Loans from the Consolidated Revenue Fund (CRF) decreased by \$463.1 million, from \$865.0 million to \$401.9 million. As at March 31, 1998, the loans from the CRF were as planned, whereas the deficit was \$147 million lower than forecast in the 1998/99-2002/03 *Corporate Plan*. The lower deficit is primarily a result of an adjustment to the allowance and provisions for loss of \$144.4 million.

The net recoveries of loans and claims receivable in 1997/98 totalled \$364.7 million. No new loans were made or new claims asserted during the year.

The provision for guarantees decreased by \$31.7 million to \$614.2 million at March 31, 1998, as a result of payments made during the year. No adjustments were made to the provision for guarantees this year.

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 \$531.1 million in premium revenue.

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 is up \$352.8 million since March 31, 1997. The sources and uses of cash are described fully in the audited Statement of Changes in Financial

Position. The Corporation has accumulated sufficient funds to repay the outstanding loans to the Consolidated Revenue Fund due in July 1998. Payment of the loans prior to July 1998 would result in the Corporation paying a penalty for early redemption.

Loans and Claims Receivable

The balance of loans and claims receivable decreased \$320.3 million since March 31, 1997. During the year, the Corporation recovered \$364.7 million from insolvent member institutions. In addition, the Corporation reversed \$44.4 million of the allowance for loss on loans and claims receivable as a result of the increase in fair value of the assets administered and reported on by the liquidators of insolvent member institutions.

Provision for Guarantees

The provision for guarantees as at March 31, 1998, is \$614.2 million, down \$31.7 million from \$645.9 million as at March 31, 1997. 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

The provision for insurance losses as at March 31, 1998, is \$400 million, down \$100 million from \$500 million as at March 31, 1997. The decrease reflects the reduced risk of loss to the Corporation as evidenced by the following:

- i) fewer member institutions on the Corporation's watch list;





- ii) a decline in insured deposits from \$328 billion to \$317 billion and movement of insured deposits to lower-risk member institutions; and
- iii) a generally improved economy as reflected in the lower risk of loss related to insured deposits (derived by using a market-based composite risk-weighting system).

The methodology used in determining the provision for insurance losses is unchanged from last year and has been applied consistently.

Interest Costs

Interest costs for the year amounted to \$45.9 million (1996/97: \$84.8 million). The substantial reduction in interest costs reflects the decreasing amount of outstanding loans from the CRF. As at March 31, 1998, CDIC's weighted-average cost of funds was 6.6 percent.

Operating and Intervention Expenses

The operating expenses for 1997/98 amounted to \$15.6 million, up \$1.7 million from the 1996/97 operating expenses of \$13.9 million. The increase results primarily from a Board-approved expenditure of \$1.8 million for a public awareness campaign conducted during the latter part of the year to introduce the new *Deposit Insurance Information By-law*.

Intervention expenses for 1997/98 were \$3.8 million, up \$0.4 million from the 1996/97 expenses of \$3.4 million. The increase results primarily from legal costs associated with litigation issues and an out-of-court settlement with the directors, officers and auditors of Standard Trust and Standard Loan Companies.

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

(\$ millions unless otherwise indicated)

	12 MONTHS ENDED MARCH 31, 1998	12 MONTHS ENDED MARCH 31, 1997	12 MONTHS ENDED MARCH 31, 1996	12 MONTHS ENDED MARCH 31, 1995	15 MONTHS ENDED MARCH 31, 1994
Insurance Program					
Deficit	(539)	(1,176)	(1,301)	(1,747)	(1,648)
Total insured deposits (\$ billions)	317	328	323	308	303
Premiums	531	546	538	513	391
Assets and Liabilities					
Claims paid	–	42	–	873	1,351
Claims recovered	156	181	644	1,025	1,048
Loans disbursed	–	73	49	2	157
Loans recovered	208	181	104	651	618
Repayments of loans from the CRF	460	772	533	991	499
Payment of guarantees	32	67	342	104	65
Operations					
Operating expenses	16	14	14	14	17 ⁽¹⁾
Intervention expenses	4	3	4	5	9 ⁽¹⁾
Interest on loans from the CRF	46	85	122	182	270 ⁽¹⁾
Adjustment to allowance and provisions for loss	(144)	334	(30)	430	108 ⁽²⁾
Member Institutions					
Number of federal institutions-banks	55	52	55	59	61
Number of federal institutions- trust and loan companies	45	44	43	42	47
Number of provincial institutions	12	14	20	20	23
Total number of institutions	112	110	118	121	131
Number of insolvencies	–	1	–	2	3
Employees					
Number of permanent employees ⁽³⁾	80	77	86	87	90
Other					
Average cost of funds	7.0%	6.5%	6.5%	6.5%	6.3%
Growth rate of insured deposits	(3.4%)	1.5%	5.1%	1.7%	0.2%
Insured deposits as a percentage of total deposit liabilities	39.9%	45.7%	47.2%	47.6%	49.1%

⁽¹⁾ The figures provided in the schedule are for a 15-month period.

Comparative numbers for the 12 months ending March 31, 1994, are as follows:

Operating expenses	\$14
Intervention expenses	\$7
Interest expense on loans from the CRF	\$209

⁽²⁾ In addition to this provision of \$108 million, the Corporation that year took a one-time retroactive provision of \$200 million in respect of the change in accounting policy for the provision for insurance losses.

⁽³⁾ Represents the number of full-time, permanent employees at period end. Vacant approved positions have not been included.



MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS


May 1, 1998

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, Corporate Services, Acting Vice-President, Finance and
Chief Financial Officer



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 1998 and the statements of income and deficit and changes in financial position 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, 1998 and the results of its operations and the changes in its financial position 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.

A handwritten signature in dark ink, appearing to read 'John Wiersema', written over a horizontal line.

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

Ottawa, Canada
May 1, 1998




BALANCE SHEET AS AT MARCH 31

(in thousands of dollars)

	NOTE	1998	1997
ASSETS			
Cash and short-term investments	3	\$501,507	\$148,716
Premiums and other accounts receivable		7,789	3,996
Capital assets		971	1,569
		510,267	154,281
Loans and claims receivable	4,7	372,845	693,123
		\$883,112	\$847,404
LIABILITIES			
Accounts payable		\$5,922	\$12,596
Provision for guarantees	5,7	614,227	645,941
Provision for insurance losses	6,7	400,000	500,000
Loans from the Consolidated Revenue Fund	3,8	401,890	865,047
		1,422,039	2,023,584
DEFICIT			
		(538,927)	(1,176,180)
		\$883,112	\$847,404

Approved by the Board:


Director


Director

See accompanying notes.

STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED MARCH 31

(in thousands of dollars)

	NOTE	1998	1997
REVENUE			
Premiums		\$531,069	\$546,293
Interest on cash and short-term investments		15,507	10,433
Other revenue		5,927	4,192
		552,503	560,918
EXPENSES			
Interest on loans from the Consolidated Revenue Fund		45,863	84,835
Recovery of amounts previously written off		(5,677)	–
Operating expenses		15,647	13,881
Intervention expenses		3,812	3,402
Other interest		10	294
		59,655	102,412
Income before adjustment to allowance and provisions for loss		492,848	458,506
Adjustment to allowance and provisions for loss	7	144,405	(333,713)
Net income		637,253	124,793
Deficit, beginning of year		(1,176,180)	(1,300,973)
Deficit, end of year		\$ (538,927)	\$ (1,176,180)

See accompanying notes.





STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

(in thousands of dollars)

	1998	1997
OPERATING ACTIVITIES		
Net income	\$637,253	\$124,793
Non-cash items included in net income		
Adjustment to allowance and provisions for loss	(144,405)	333,713
Other	970	590
Net purchase of capital assets	(371)	(504)
Payment of guarantees	(31,714)	(66,680)
Loans disbursed	–	(73,238)
Loans recovered	208,450	180,946
Claims paid	(170)	(42,133)
Claims recovered	156,403	181,462
Decrease in working capital	(13,625)	(11,218)
Cash provided by operating activities	812,791	627,731
FINANCING ACTIVITIES		
Loans from the Consolidated Revenue Fund		
Advances	–	100,000
Repayments	(460,000)	(872,000)
Cash used in financing activities	(460,000)	(772,000)
CASH AND SHORT-TERM INVESTMENTS		
Increase (decrease) during the year	352,791	(144,269)
Balance, beginning of year	148,716	292,985
Balance, end of year	\$501,507	\$148,716

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998

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*.

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. 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

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and 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 outcomes. These 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 do vary from the current estimates, the Corporation could 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 Board of Directors and 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 borrowing 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 of these loans provide for repayment of principal and, as recovery of the cost of providing loans, the Corporation charges 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. The Corporation does not accrue and/or record any interest revenue on its claims receivable.

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 expectations of realization. When the Corporation recovers amounts previously written off, these are recorded as a recovery of amounts previously written off.

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 it will incur as a result of 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 loss experience, discounted to present value basis, to past member institution failures during the preceding eight 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

Premiums are based on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on a Return of Insured Deposits from 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 recognized in the accounts when, in the Corporation's opinion, there is reasonable doubt as to collectibility 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 some cases, amounts recovered from the estates of member institutions (claims receivable) exceed the amount claimed. These amounts are also recorded as other revenue on a cash basis.





3. *Cash and Short-Term Investments*

(in thousands of dollars)

	MARCH 31, 1998	MARCH 31, 1997
Bankers' Acceptances	\$337,542	\$102,201
Bearer Deposit Notes	111,025	22,197
Term Deposits	6,900	11,118
Commercial Paper	45,796	12,668
	501,263	148,184
Cash	244	532
Total	\$501,507	\$148,716

A significant portion of the cash and short-term investments will be used to repay the Consolidated Revenue Fund loans maturing in July 1998. Prepayment of these loans before July 1998 would incur significant penalty costs. The short-term investments have a weighted average effective yield of 4.81% (1997: 3.11%) and have a weighted average term to maturity of 44 days (1997: 25 days).

4. *Loans and Claims Receivable*

(in thousands of dollars)

	MARCH 31, 1998	MARCH 31, 1997
Loans receivable	\$225,433	\$433,883
Allowance for loss	(9,200)	(18,100)
Net loans receivable	216,233	415,783
Claims receivable	173,412	333,740
Allowance for loss	(16,800)	(56,400)
Net claims receivable	156,612	277,340
Total	\$372,845	\$693,123

Loans

The loans receivable are repayable on demand and bear interest at floating rates determined in accordance with formulas based either on prime rate or the rate for 90-day Treasury Bills. No interest revenue was recorded on existing loans receivable as the criteria for interest revenue recognition on the loans were not met. No new loans were made during the year.

Claims

No new claims were asserted during the year.

5. *Provision for Guarantees*

In the course of business, the Corporation provides 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, a former member institution. These shares are to be redeemed on or before December 1999, at which time the Corporation may be called upon to honour its guarantees.

The nominal amount of outstanding guarantees provided by the Corporation is \$1.8 billion as at March 31, 1998 (1997: \$2.4 billion) and the provision for guarantees as at March 31, 1998 is \$614.2 million (1997: \$645.9 million). The nominal amount represents the maximum exposure of the Corporation with respect to the guarantees provided. The nominal amount is not representative of the amount the Corporation expects to pay to third parties to meet its obligations under these guarantees.

6. *Provision for Insurance Losses*

During the 1996/97 fiscal year, the Corporation enhanced its methodology for estimating the amount of the provision for insurance losses. This enhancement is part of the continuing process of estimating and accounting for insurance losses that the Corporation will incur.

The provision for insurance losses is \$400 million as at March 31, 1998 (1997: \$500 million).

Pursuant to the 1996 amendments to the CDIC Act, the Corporation is developing a Premium By-law which will establish a system for differential premiums. Member institutions will be rated by category and each category will have a different premium rate. As a result of developing the differential premium system, the Corporation will have better information and analytical tools with which to assess its overall risk of loss resulting from insuring deposits in member institutions. Further enhancements to the methodology for estimating insurance losses will be made once the system for differential premiums is implemented.

7. *Allowance and Provisions for Loss*

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 1998 with corresponding totals as at March 31, 1997.





	March 31 1998					March 31 1997
	<i>LOANS RECEIVABLE</i>	<i>CLAIMS RECEIVABLE</i>	<i>GUARANTEES</i>	<i>INSURANCE LOSSES</i>	<i>TOTAL</i>	<i>TOTAL</i>
	<i>(in thousands of dollars)</i>					
Beginning of period	\$18,100	\$56,400	\$645,941	\$500,000	\$1,220,441	\$984,771
Payments			(31,714)		(31,714)	(66,680)
Write-offs		(4,095)			(4,095)	(31,363)
Adjustment to allowance and provisions for loss	(8,900)	(35,505)		(100,000)	(144,405)	(116,287)
Change in accounting estimate						450,000
End of period	\$9,200	\$16,800	\$614,227	\$400,000	\$1,040,227	\$1,220,441

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

8. *Loans from the Consolidated Revenue Fund*

As at March 31, 1998, the Corporation has \$402 million in outstanding loans from the Consolidated Revenue Fund including accrued interest of \$7 million (March 31, 1997: \$865 million, including accrued interest of \$10 million).

The Corporation's risk management policy requires that a minimum of 80% of the debt portfolio be matched to future cash flows as to timing and amount. At March 31, 1998, the portfolio is fully matched. The loans bear interest at various fixed rates ranging from 6.16% to 7.33% (1997 – 5.87% to 7.33%) and the principal is repayable in July 1998.

9. *Financial Instruments*

Credit Risk

The Corporation is subject to credit risk from its holdings of short-term investments. Credit risk is minimized by investing in high credit-quality financial institutions or in short-term, high quality debt securities, and by limiting the amount invested in any one counterparty.

All of the loans and claims receivable relate to troubled or failed member institutions. The Corporation's credit risk exposure relating to loans receivable is directly impacted by these entities' ability to generate cash flows sufficient to meet their obligations to the Corporation as they become due. Realizations of claims receivable is largely dependent on the credit quality or value of assets held by the failed member institutions. The value of a significant portion of the remaining assets is dependent on real estate markets. As such, the Corporation is exposed to significant concentrations of credit risk arising from the real estate industry.

Fair Value

No active or liquid market exists in which the Corporation's most significant 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, 1998 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 their fair value because of their short term to maturity.

The book value of loans and claims receivable approximates their 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's estimates are based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The fair value of the provision for guarantees is not readily determinable due to the uncertain timing of future payments, but in any case, fair value would be less than book value, which has been determined without reference to discounting for the time value of money.

The book value of the provision for insurance losses approximates its fair value as it represents the Corporation's best estimate of the future claims to be paid to insured depositors and related expenses.

The fair value of the loans from the Consolidated Revenue Fund (Note 8) is \$405 million (1997: \$890 million). The fair value is estimated based on the present value of contractual cash flows discounted at the rate currently available to Crown corporations for debt with similar remaining terms to maturity. No provision has been made for early repayment penalties as the Corporation intends to settle the loans in accordance with their original terms.

10. Income Taxes

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





Such losses total \$1,042.9 million and expire as follows:

<i>YEAR</i>	<i>AMOUNT</i> <i>(in millions of dollars)</i>
1999	\$224.1
2000	224.6
2001	96.4
2002	202.4
2003	125.5
2004	90.4
2005	79.5
	<u>\$1,042.9</u>

11. Contingent Liabilities

The Corporation is involved in a number of judicial actions arising in the normal course of operations. Although the final outcome with respect to claims and legal proceedings pending at March 31, 1998 cannot be predicted with certainty, in the opinion of the Corporation, none of these, individually or in the aggregate, would result in liability that would have a significant adverse effect on the financial position of the Corporation. Any impact of such matters will be reflected in the period in which the matter becomes determinable.

12. 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, 1997 and 1996, were as follows:

	<i>1997</i>	<i>1996</i>
	<i>(in billions of dollars)</i>	
Federal institutions	\$306	\$314
Provincial institutions	11	14
	<u>\$317</u>	<u>\$328</u>

In accordance with paragraph 21(1)(b) of the CDIC Act, the premium rate for the premium year 1998 was set at one-sixth of one percent of insured deposits, the same rate as in 1997.

13. Comparative Figures

Certain of the 1997 figures have been reclassified to conform with the presentation adopted for 1998.

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.

As reported in last year's *Annual Report*, in 1996/97 the Board of Directors undertook a careful review of the governance of CDIC and recommended changes that were adopted. During its review, the Board compared its practices with the guidelines provided in the Department of Finance/Treasury Board report entitled *Corporate Governance in Crown Corporations and Other Public Enterprises*. The tabulated results of this comparison, published in last year's *Annual Report*, indicate that CDIC has addressed the governance factors identified in the Finance/Treasury Board report. Only one significant issue remains outstanding at present; it will be resolved by the Board by mid-1998. In accordance with CDIC's policy, the next major review of corporate governance will be undertaken in the autumn of 1999.

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, 1998, the composition of the Board was as follows:

Grant L. Reuber ⁽¹⁾⁽³⁾
Chairperson of the Board
Canada Deposit Insurance
Corporation
(1993*)

Viateur Bergeron ⁽²⁾
Partner
Bergeron, Gaudreau
Hull
(1996*)

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

H. Garfield Emerson ⁽²⁾
President and Chief
Executive Officer
Rothschild Canada Ltd.
Toronto
(1997*)

Bernard I. Ghert ⁽¹⁾
President
The B. I. Ghert Family
Foundation
Toronto
(1993*)

Nicholas Le Pan ⁽³⁾
Deputy Superintendent,
Operations
Office of the Superintendent
of Financial Institutions
(*ex officio*)



**Colin P. MacDonald** ⁽³⁾

Partner
Howard, Mackie
Calgary
(1997*)

John R. V. Palmer ⁽¹⁾⁽²⁾

Superintendent of Financial
Institutions
(*ex officio*)

Gordon G. Thiessen

Governor of the Bank of
Canada
(*ex officio*)

⁽¹⁾ Member of the Executive Committee

⁽²⁾ Member of the Audit Committee

⁽³⁾ Member of the Employee Relations Committee

*Date of Governor-in-Council appointment.

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 By-law No. 2, 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 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 Corporate Secretary has a dual reporting relationship: to the Chairperson as Corporate Secretary and to the President and CEO as Director, Legal Services.

The officers individually and collectively through the committee are responsible for the management and day-to-day operations of the Corporation. On March 31, 1998, the officers of the Corporation were as follows:

Grant L. Reuber

Chairperson of the Board
(1993*)

Jean Pierre Sabourin

President and Chief
Executive Officer
(1996*)

Wayne Acton

Senior Vice-President
Field Operations

Guy L. Saint-Pierre

Senior Vice-President
Insurance and Risk Assessment

Bert C. Scheepers

Vice-President
Corporate Services;
Acting Vice-President, Finance
and Acting Chief Financial
Officer

M. Claudia Morrow

Director, Legal Services,
Corporate Secretary

Gillian Strong

Director, Legal Services,
General Counsel

* Date of Governor-in-Council appointment.

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, 1998, 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

Jack W. Heyes

Director General, Deposit-Taking Institutions
OSFI

Ken Mylrea

Director General, Insurance
CDIC

Kim Norris

Director, Foreign Bank Branch Division
OSFI

Jean Pierre Sabourin

President and Chief Executive Officer
CDIC

Guy L. Saint-Pierre

Senior Vice-President, Insurance and Risk
Assessment
CDIC

Nicholas Le Pan

Deputy Superintendent,
Operations
OSFI





The ***Joint OSFI/CDIC Information Systems Steering Committee*** is responsible for reviewing and developing opportunities for shared systems initiatives. The members of the committee, as at March 31, 1998, 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, 1998, 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

Standing Committees of the Board of Directors

The standing committees of the Board of Directors are made up of Board members.

Executive Committee

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.

Audit Committee

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. G. Emerson.

Employee Relations Committee

The Employee Relations Committee's mandate is to review and make recommendations to the Board regarding personnel policies, training, succession planning, compensation, compliance with employee-related legal requirements, grievances and the general state of employee relations. The chairman of the committee is Colin P. MacDonald.

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 Information Systems Executive Steering Committee, the Security Committee, the Senior Management Committee, the Health and Safety Committee, the Human Resources Committee, and the Job Evaluation Committee.

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

Antonello Dessanti
Accounting Manager
Banca Commerciale
Italiana of Canada

Perry Eisenschmid
Vice-President, Savings and
Investments
Asset Management
CIBC

Moira Gill
Government Relations Advisor
The Canada Trust Company

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

Timothy Storus
Vice-President and General
Counsel
Corporate Secretary's Department
National Trust Company

Catherine Taylor
Associate Vice-President,
Personal Deposits Group
Retail Branch Banking
The Toronto-Dominion

Lorne Zeilor
Analyst, Policy Division
CBA

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
ScotiaMcLeod Inc.

Board of Directors Liaison

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

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

William H. Levine
Chairman
Western Corporate
Enterprises Inc.

Alvin G. Poettcker
President and CEO
UBC Properties Inc.

Kenneth Rotenberg
Chairman
Rostland Corporation Ltd.





MEETINGS AND ATTENDANCE¹ (APRIL 1, 1997, TO MARCH 31, 1998)

BOARD COMMITTEES				
	BOARD OF DIRECTORS	EXECUTIVE COMMITTEE	AUDIT COMMITTEE	EMPLOYEE RELATIONS COMMITTEE
Number of Meetings	6	1	3	2
Attendance:				
G. L. Reuber — Chairperson	6	1	3	2
V. Bergeron	6		3	
H. G. Emerson	5		3	
B. I. Ghert	5	1		
C. P. MacDonald	6			2
<i>Ex officio</i> members (alternates)				
G. G. Thiessen (S. Vachon)	6			
J. R. V. Palmer (J. Heyes)	6	1	3	
D. A. Dodge ^a (B. Hamilton) ^b	2			
C. S. Clark ^c (I. Bennett) ^d	3			
J. Thompson ^e	1			1
N. Le Pan ^f	3			1

^a D. Dodge retired July 13, 1997

^b B. Hamilton retired October 20, 1997

^c S. Clark appointed July 14, 1997

^d I. Bennett appointed October 20, 1997

^e J. Thompson retired September 1, 1997

^f N. Le Pan appointed September 1, 1997

¹ Includes meetings conducted by telephone and attendance at other meetings by telephone rather than in person.

PUBLIC INFORMATION

CDIC's services and publications to provide information about deposit insurance include the following:

PUBLIC AWARENESS ACTIVITIES

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

CDIC PUBLICATIONS

Corporate

Annual Report
Summary of the Corporate Plan

By-laws

Canada Deposit Insurance Corporation General By-law
Deposit Insurance Information By-law
Joint and Trust Account Disclosure By-law
Premium Surcharge By-law

Information Bulletins

CDIC Membership Signs
Deposit Insurance Information By-law: Implementation—Phase 1
Deposit Insurance Information By-law: Implementation—Phase 2
Deposit Insurance Information By-law: Implementation—Final Phase
Impact of Bill C-15: An Act to Amend, Enact, and Repeal Certain Laws
Relating to Financial Institutions
Joint and Trust Account Disclosure By-law: Information Disclosure
Joint and Trust Account Disclosure Circular
Return of Insured Deposits





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

Application and Policy of Deposit Insurance
Assessment and Reporting Program for CDIC's Standards of Sound Business and Financial Practices
Incorporation (produced with OSFI and the Canadian Payments Association)
Premium By-law: Description of Revised Premium System and Review of Comments Received

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