CDIC
Canada Deposit
Insurance Corporation

ANNUAL REPORT 2010

Savings Protection Canadians Can Count On

Canada

$100,000 Deposit Insurance Coverage

What's covered?

CDIC insures eligible deposits held in each member institution up to a maximum of $100,000 (principal and interest combined) per depositor, for each of the following:

- savings held in one name
- savings held in trust for another person
- savings held in Registered Retirement Savings Plans (RRSPs)
- savings held in Registered Retirement Income Funds (RRIFs)
- savings held for paying realty taxes on mortgaged property
- savings held in more than one name (joint deposits)
- savings held in Tax-Free Savings Accounts (TFSAs)

Depositors are responsible for ensuring that the member institution's records include all information required for the separate protection of these deposits (see CDIC's website at **www.cdic.ca** for details).

What's an eligible deposit?

Eligible deposits include:

- savings accounts and chequing accounts
- Guaranteed Investment Certificates (GICs) and other term deposits with an original term to maturity of five years or less
- money orders, travellers' cheques and bank drafts issued by CDIC members and cheques certified by CDIC members
- debentures issued by loan companies that are CDIC members

Deposits must be payable in Canada, in Canadian currency.

What's not covered?

CDIC deposit insurance does not protect all accounts and financial products. For example, mutual funds, stocks and foreign currency deposits, including those in U.S. dollars, are not covered by CDIC.

CDIC Mission

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 where employees are treated fairly and given opportunities and encouragement to develop their full potential.

CDIC Values

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

CDIC is committed to promoting awareness about deposit insurance. Visit our website at www.cdic.ca. You can reach us by phone, e-mail, fax or letter:

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

Toronto Office
Canada Deposit Insurance Corporation
1200-79 Wellington Street West
P.O. Box 156
Toronto, Ontario M5K 1H1

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

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Five-Year Financial and Statistical Summary

For the Years Ending March 31[a]	2010	2009	2008	2007	2006
Selected Balance Sheet Items ($ millions)					
Cash and investments	1,954	1,771	1,660	1,554	1,447
Provision for insurance losses	1,100	800	650	600	600
Retained earnings	858	960	998	950	844
Selected Income Statement Items ($ millions)					
Premiums	198	92	68	75	65
Interest on cash and investments	31	54	65	56	43
Operating expenses	31	26	24	22	23
Adjustment to allowance and provisions for loss	300	149	50	(1)	42
Net income (loss)	(102)	(37)	48	105	52
***Ex ante* funding** ($ billions)	1.96	1.76	1.65	1.55	1.44
Member Institutions (Number)					
Domestic banks and subsidiaries	42	41	40	42	41
Domestic trust and loan companies and associations	20	20	21	19	20
Subsidiaries of foreign financial institutions	20	20	19	19	21
Total number of institutions	82	81	80	80	82
Total insured deposits[b] ($ billions)	590	512	477	455	438
Growth rate of insured deposits[c] (%)	15.2%	7.3%	4.8%	3.9%	16.5%
Employees (Number)					
Permanent employees[d]	96	97	83	79	79

[a] Financial figures are presented on a consolidated basis and include the results of CDIC and of Adelaide Capital Corporation (ACC), a variable interest entity. As described in Note 7 to the Financial Statements, effective April 2005, the Corporation adopted Accounting Guideline 15, *Consolidation of Variable Interest Entities*, issued by the Canadian Institute of Chartered Accountants. This guideline required that ACC be consolidated with CDIC.

[b] Insured deposits are calculated at April 30th each year. The amounts presented for the years ended March 31st are therefore reflective of the previous April 30th calculation.

[c] The 2009/2010 increase in insured deposits is attributable in part to depositors seeking the safety of deposit insurance for their savings, and is discussed in more detail throughout this Annual Report. The increase in deposit insurance coverage from $60,000 to $100,000 in 2005 contributed to the majority of the 16.5% increase in insured deposits during CDIC's 2005/2006 fiscal year.

[d] Represents the number of full-time, permanent employees at year end. CDIC provides call centre services to the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions on a cost-recovery basis—these employees are not included in this total.

Highlights of 2009/2010

- CDIC made significant progress with its multi-year Large Payout Capacity Enhancement Project, particularly with respect to identifying and addressing many of the technical requirements to support a large depositor payout.
- Under a new long-term public awareness strategy to increase Canadians' awareness of CDIC and the deposit insurance limit, tracked results for 2009/2010 show an increase over the previous year's awareness on both fronts: over one half (55%) of Canadians are aware of CDIC, while almost one third (30%) could state the $100,000 coverage limit.
- Results of the 2010 Special Examination of CDIC conducted by the Office of the Auditor General of Canada were very positive—confirming that the Corporation has the key elements of a good governance framework; has clearly defined its strategic direction; regularly assesses risks presented by member institutions; and has improved its readiness to intervene in the affairs of a troubled member.
- On the international front, CDIC continued its active participation in the development of international best practices in deposit insurance. CDIC is co-chairing the Basel Committee on Banking Supervision (BCBS) and International Association of Deposit Insurers (IADI) joint working group to develop an assessment methodology for the BCBS/IADI Core Principles for Effective Deposit Insurance Systems. CDIC also provided advice and assistance to a number of countries to establish or enhance their deposit insurance systems.
- CDIC welcomes its new President and CEO, Michèle Bourque. Previously Executive Vice-President, Insurance and Risk Assessment, Ms. Bourque has been involved in a number of key areas within CDIC, including the risk assessment, monitoring and resolution of member institutions, and brings almost 20 years of experience with CDIC to her new role.

CDIC and the *Budget Implementation Act, 2009*

New Powers and Authorities for CDIC

The *Budget Implementation Act, 2009* (BIA, 2009) provided CDIC with additional powers and authorities intended to enhance CDIC's ability to safeguard financial stability in Canada, including:

- the ability for CDIC to establish a bridge institution as an additional resolution tool
- the ability for CDIC to hold shares in its member institutions, subject to Ministerial approval
- power to the Minister to provide the CDIC Board of Directors with a broader range of options to respond to systemic risk concerns arising from the failure of a CDIC member institution, and the authority to allow CDIC to resolve a failure in ways that may not result in a lowest-cost solution to CDIC
- power to the Minister to direct CDIC to undertake resolution measures when necessary to prevent adverse effects on financial stability
- greater flexibility to CDIC in the timing of preparatory examinations of troubled member institutions
- an increase in the borrowing limit of CDIC to $15 billion (from $6 billion), which is adjusted annually to reflect the growth of insured deposits
- the designation of Tax-Free Savings Accounts (TFSAs) as a separate category of deposits insurable by CDIC

CDIC's Response to Date to BIA, 2009

CDIC has begun a number of initiatives to operationalize and implement its new powers. While many require concerted effort over a number of years, as well as collaboration with financial safety net partners, measurable progress has been made in some key areas in the past year, including:

- identifying and addressing a number of the many and varied operational, legal and other issues related to establishing a bridge institution
- developing action plans and a bridge institution manual to enhance CDIC's ability to intervene using this resolution tool quickly and efficiently
- completing a review of relevant statutes and regulations for the purpose of developing template orders pursuant to the *CDIC Act*, to ensure readiness to exempt a bridge institution from certain statutory and regulatory requirements in order to facilitate the timely creation and operation of a bridge institution
- updating information, CDIC systems and communication materials for the public and our members about TFSAs being insurable by CDIC

Looking ahead, we will continue to develop the tools, capacity and resources required to support implementation of CDIC's important new powers.

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CDIC's Mandate

The mandate of CDIC is to provide insurance against the loss of part or all deposits and to promote and otherwise contribute to the stability of the financial system in Canada—for the benefit of those with deposits in CDIC member institutions. Moreover, we must carry out this mandate in such a way as to minimize the Corporation's exposure to loss.

CDIC is funded by premiums that are assessed on the insured deposits of member institutions each year—we do not receive federal tax dollars to fund our operations. We conduct regular risk assessments of our members and monitor their performance and results using information from a variety of sources, including reports provided by the Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF). We also rely on OSFI and the AMF to conduct annual examinations of member institutions on our behalf. As one of five federal agencies that make up Canada's financial "safety net,"* our role is unique.

Further information about CDIC can be found on our website (**www.cdic.ca**).

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*The "safety net" consists of the Bank of Canada, CDIC, the Department of Finance, the Financial Consumer Agency of Canada (FCAC) and OSFI.

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MESSAGE FROM THE CHAIR

Canadians enjoy a strong and stable financial system in which they can place their confidence. While the financial turmoil of the past two years has had an effect on CDIC's member institutions, they have nevertheless performed solidly throughout this period. Canada's deposit-taking institutions have garnered considerable positive international attention and our financial regulatory system has also received accolades from around the world. A key element underpinning this praise is our well-designed deposit insurance system and the protection it provides to depositors. The confidence that Canadians place in CDIC contributes to the stability of our financial system.

In the course of 2009/2010, to support the strength of our deposit insurance system, the Government introduced a number of important new powers to CDIC's resolution toolkit through the passage of the *Budget Implementation Act, 2009*. These measures are described in this Annual Report.

For its part, the CDIC Board responded by increasing its focus on its own preparedness in the event of negative developments in the membership. The Board conducted a comprehensive desk-top simulation of a member failure. This, combined with quarterly reports from management on trends in the CDIC membership, supports the Board's preparedness for any eventuality that can arise among the members. Plans for a Board simulation utilizing the bridge institution powers are in place for this summer.

During the past year, the Office of the Auditor General (OAG) submitted to our Board its Special Examination findings of CDIC's systems and practices. The OAG concluded that, based on the criteria established for the examination, "We found that the Corporation has a corporate governance framework that performs well and meets best-practice expectations for Board stewardship, shareholder relations, and communications with stakeholders and the public." This positive report is a reflection of our Board's strong commitment to effective governance.

The impressive results of the Special Examination report are also a reflection of our executive leadership headed by Guy Saint-Pierre, CDIC's recently retired President and CEO. I wish to extend my warmest thanks to Guy on behalf of the Board for his 23 years of service to CDIC, the last five at its helm. I welcome Michèle Bourque as our new President and CEO. She has contributed much to CDIC over her years of service, bringing with her a wealth of expertise in the areas of risk assessment and monitoring of member institutions. I know Michèle will provide strong leadership as our new President and CEO. The Board and I look forward to working with her in the work that lies ahead.

I would also like to extend my thanks to Rob Wright, the former Deputy Minister, Finance, who retired from our Board in July 2009. We have welcomed back to our Board Michael Horgan, now Deputy Minister of Finance. Mr. Horgan previously served as the Alternate from the Department of Finance on our Board from 2001 to 2003.

Working together with our partners in Canada's financial regulatory system—the Bank of Canada, the Department of Finance, the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions—the Board and management of CDIC will continue to work hard to address the needs of Canadian depositors and the health of the Canadian financial system.

BPDavies

Bryan P. Davies

MESSAGE FROM THE PRESIDENT AND CEO

Over the past two years Canada's financial system has endured a sharp but short-lived recession. We have seen a significant increase in insured deposits at five times the historical average rate, a signal that depositors have been seeking the safety of deposit insurance for their savings. Deposits insured by CDIC at April 30, 2009, reached $590 billion.

Environment

CDIC members' financial performance improved in a tough economic environment. Most members took a conservative approach to their capital plan going into 2010 in anticipation of upcoming international regulatory changes. Although the premiums paid by member institutions are still at historically low levels, CDIC introduced the first year of a planned series of three annual rate increases to compensate for the significant growth in insured deposits and to allow CDIC to reach its *ex ante* funding target within a reasonable time frame (by 2015/2016). The *ex ante* fund stood at $2.0 billion at year end, which ensures that CDIC is on a sound financial footing.

The environment remains a difficult one and for this reason CDIC remains particularly vigilant in ensuring that it is prepared to deal with issues arising within its membership. To this end, our operating budget was increased in 2009/2010 although costs continued to be covered by the interest we earned on the investment portfolio. In addition, given the elevated risk to which CDIC is exposed, the Board of Directors approved an increase in the provision for insurance losses to $1.1 billion, which resulted in CDIC recording a net loss of $102 million for the year. Plans call for the operating budget to remain at the same level for 2010/2011.

Improved Readiness

During the year we pursued activities in relation to CDIC's three corporate strategies—but the main focus continued to be on the **readiness strategy**. In this regard we accelerated the development of systems to allow CDIC to better deliver on its mandate. This past year CDIC engaged third parties in arrangements that can be used to augment CDIC resources in the event of a member failure. CDIC also made advances in building its capacity to deliver a faster payment of funds to the depositors of a larger member. With the passage of the *Budget Implementation Act, 2009* CDIC has received new powers, in particular the ability to create a bridge institution as an added resolution tool—a bridge institution is a CDIC member institution designed to preserve critical functions and help maintain financial stability in the event that a CDIC member is no longer viable. With the addition of this new power, CDIC now meets all of the international Core Principles for Effective Deposit Insurance Systems. The legislation also increased CDIC's borrowing limit to $15 billion, to be adjusted annually according to the levels of insured deposits; with this adjustment our limit currently stands at $17 billion. As a result, we are now better equipped than ever to handle larger failures. CDIC will continue to collaborate with the other federal safety net agencies to make these new powers operational through a number of initiatives set out in our Corporate Plan.

Sustained Public Awareness

Informing the public of deposit insurance and its benefits and limits is a critical component of CDIC's **public awareness strategy**. We have just completed the first year of our long-term public awareness strategy designed to sustain the awareness of the general population with an emphasis on those aged 50+. At present, slightly more than 50% of Canadians are aware of CDIC deposit insurance; therefore, our strategy for 2010/2011 will build on the activities of our first year and will include two flights of television and Internet advertising as well as search engine marketing.

Effective Governance and Operations

Sustaining efficient governance and operational capacity underpins our two other strategies. During the year CDIC was subject to a Special Examination of its operations by the Office of the Auditor General of Canada (OAG). The positive results from the OAG's report underscore CDIC's focused attention on pursuing its mandate with efficient and effective operations, within a sound control environment. Management is gratified to have received such a strong report from the OAG. I would like to extend my sincere appreciation to CDIC employees whose efforts on a daily basis contributed to making this report such a positive one.

Strong Employee Survey Results

Retaining our dedicated work force is a key priority for CDIC. To assess the pulse of our employees we conduct biennial employee satisfaction surveys. Our 2010 survey results show employee satisfaction at a 78% positive rating. We are very pleased with these best-in-class results. CDIC continues to be well-positioned although the survey revealed some areas for improvement, which will be addressed in a new Human Resources Strategy to be developed in the coming year.

Contributing to International Practices

CDIC has developed an international reputation as a leading deposit insurance organization with its strong mandate, powers and flexible model. In the past year, CDIC provided advice and assistance to a number of countries looking to put in place deposit insurance systems, as well as to international organizations, thereby contributing to the development of sound deposit insurance principles and practices globally. We are proud to be currently co-chairing a joint International Association of Deposit Insurers-Basel Committee-International Monetary Fund Steering Committee, which led to the adoption of Core Principles for Effective Deposit Insurance Systems and which is now developing a methodology for the assessment of a country's compliance with the Core Principles.

Looking Ahead

During 2010, we will continue to meet CDIC's corporate and strategic objectives. As CDIC's new President and CEO I welcome the opportunity to work with our Chair and Board on these important and challenging goals. I am honoured to have been given this key role in the federal financial safety net and look forward to working in partnership with the other safety net players for the benefit of the public.

I would also like to extend my appreciation to Guy Saint-Pierre, our recently retired President and CEO for his service to CDIC and support to me over our 18-year working relationship. Finally, CDIC would not successfully accomplish its work without the professionalism of its employees, whose continued efforts will remain invaluable to me.

M Bourque

Michèle Bourque

MANAGEMENT'S DISCUSSION AND ANALYSIS 1

Savings Protection Canadians Can Count On

CDIC'S OPERATING ENVIRONMENT

CDIC's operating environment impacts the Corporation when fulfilling its mandate. It includes the Canadian economy, the financial sector, the applicable legislative and regulatory regimes, international events and other factors which can affect the Corporation and its member institutions.

Economic Environment

Global economic growth has been somewhat stronger than projected, with moderate recovery evident in most advanced economies, and the Bank of Canada projects that global growth will be slightly over 4% each year through 2012. There are, however, mounting concerns over fiscal sustainability, particularly in certain European countries, which demonstrate the persistent fragility of the global financial system.

The economic recovery in Canada is occurring more quickly than expected at the beginning of 2010, driven by the cumulative impact of government fiscal and monetary stimulus, improved financial conditions, the rebound in global economic growth, more favourable trade terms, and higher-than-anticipated business and household confidence.

Leading Canadian growth sectors included commodity exports, housing construction and a slowly recuperating labour market. Canada's relatively strong financial services sector has also been a key factor in the country's renewed economic growth. Business conditions in Canada are expected to continue to improve throughout the balance of the year.

Notwithstanding these signs of recovery, Canada's economic outlook is still best described as cautiously optimistic, as there remain numerous potential risks. Chief among these risks is the sustainability of the U.S. economic recovery (particularly in light of the fragile U.S. banking system), the high level of consumer debt in Canada and the vulnerability this represents for households and CDIC member institutions, strong headwinds for the manufacturing sector from a rising Canadian dollar, and the potential for further international financial market instability arising from sovereign debt problems in many countries.

The Bank of Canada predicts that in 2010 the private sector will take over from the public sector as the primary source of growth and projects GDP to grow by 3.7% in 2010, before slowing gradually to 3.1% in 2011 and 1.9% in 2012. At the same time, a number of drags on economic activity in Canada are expected—including the continued strength of the Canadian dollar and the country's poor relative productivity performance, as well as the low absolute level of U.S. demand. Looking ahead, the Bank expects the economy to return to full capacity by mid-2011.

Member Environment

Operating results for CDIC members, as a whole, demonstrate the resilience of our members throughout the economic downturn. At the same time, based on CDIC's experience in previous recessions, there remains a possibility of further decline before there is an across-the-board improvement in member conditions.

Generally, member profitability in 2009 increased slightly, due to a strong second half of the year, despite some members experiencing deteriorating credit quality and higher provisions for loan losses, as consumer debt and bankruptcy rates have been on the rise. Measures of earnings (such as return on average assets) and asset quality for some members are expected to continue to decline until mid to late 2010. Both large and small member institutions face threats of rising loan defaults in Canada, as asset impairment does not typically peak until one to two years after the height of a recession. Although the Canadian real estate correction has, to date, been mild and short in duration relative to that experienced by the U.S., a significant and prolonged decline in Canadian real estate prices would represent a significant threat to CDIC members.

The shift to International Financial Reporting Standards (IFRS) will particularly affect some members. IFRS require that many off-balance sheet securitized assets be incorporated into, and reported on, financial institutions' balance sheets. This change in reporting may impact the asset/capital ratio of these members.

Consumer Environment

There are clear indications that, despite the economic turmoil of the past years, Canadians remain relatively confident about the future, with most expecting the economy to improve throughout 2010. At the same time, consumer savings levels still reflect the "wait and see" behaviour of 2008/2009. Indications are that Canadians will continue to put their money into savings accounts and other less risky investment vehicles, highlighting the role that CDIC deposit insurance plays in consumers' financial planning.

The recent economic turmoil has also driven consumers to learn more about financial matters, especially strategies for protecting their money. With more than half of Canadians searching for government-related information online (a proportion that is expected to increase), Internet presence is more important than ever for CDIC. Nonetheless, consumers still want to talk directly with financial advisors, even if only to clarify or confirm information they have found online. Accordingly, the importance of CDIC's outreach efforts with financial advisors and other stakeholders has not diminished.

Overall, despite an encouraging economic outlook, consumers continue to show prudent management of their savings and are thus likely to show sustained interest in messages about deposit insurance. CDIC will continue to gear its public awareness messages to the general public, with an emphasis on those aged 50 years and older—the group holding most deposits and likely to be most adversely affected by the failure of a financial institution as they are considered to have less opportunity to recover from any losses.

Legislative and Regulatory Developments

During the past year, the key legislative and regulatory developments affecting the Corporation have centered on the clarification of certain new resolution powers granted in 2009 under Bill C-10 (the *Budget Implementation Act, 2009*)—see inside front cover for details—in particular:

- ***Enhancing the effectiveness of CDIC's resolution tools***—CDIC management has been working with the Department of Finance on proposed technical amendments to the *CDIC Act,* to clarify the specific time at which deposit insurance determinations will be made in a bridge institution.

- ***Federal credit unions***—As part of an inter-agency working group, CDIC management contributed to the development of the framework that is expected to introduce federally regulated credit unions as members of CDIC. The framework includes transitioning from provincial deposit insurance coverage to CDIC coverage as well as a number of other depositor-focused measures.

Corporate Environment

A number of issues related to CDIC's internal operations shaped activities in the past year, and will continue to do so over the coming years. Among key influences is the considerable work required to increase and maintain readiness for a depositor payout in the event of the failure of a larger institution or the concurrent failures of two or more institutions.

Other implications for CDIC of a variety of changes in its operating environment include:

- ***The transition to IFRS***—This will have a significant impact on CDIC. We are required to prepare IFRS-compliant financial statements for the year ending March 31, 2012.
- ***CDIC's additional powers under Bill C-10***—Working through the implications of these powers and making them operational will continue to require sizeable effort across the Corporation (see inside front cover for more details).

CDIC's Borrowing Limit

The *Budget Implementation Act, 2009* increased CDIC's borrowing limit to $15 billion from $6 billion, with such amount adjusted annually to reflect the growth of insured deposits. As at January 1, 2010, CDIC's adjusted borrowing limit was therefore $17 billion.

RISK GOVERNANCE AND MANAGEMENT

CDIC's Significant Risks

CDIC is exposed to four categories of risks stemming from its statutory objects and the conduct of its affairs: insurance risk, financial risk, operational risk and reputation risk. Management has concluded that CDIC's overall risk remains acceptable, although CDIC's intervention risk and people risk are rated as cautionary. Management's assessment of these significant risks is summarized in the table below. Management's Enterprise Risk Management (ERM) representation for 2009/2010 is included on page 34 of this report.

Summary of Management's Assessment of CDIC's Significant Risks

	2009/2010		2008/2009	
Insurance Risk	**Rating**	**Trend**	**Rating**	**Trend**
Insurance Powers Risk: The risk that CDIC does not have the necessary powers to support the management of its insurance risk in accordance with CDIC's statutory objects.	Acceptable	–	Cautionary	–
Assessment Risk: The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.	Acceptable	–	Acceptable	–
Intervention Risk: The risk that CDIC cannot or does not take timely and effective action with respect to an unacceptable level of insurance risk posed by a member institution, or with respect to failed member institutions.	Cautionary	–	Cautionary	▲

LEGEND

Risk Rating: ■ Acceptable ■ Cautionary ■ Serious Concern

Risk Trend: ▼ Decreasing – Stable ▲ Increasing

Summary of Management's Assessment of CDIC's Significant Risks

	2009/2010		2008/2009	
Operational Risk	Rating	Trend	Rating	Trend
People Risk: The risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel.		–		–
Information Risk: The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.		–		▲
Technology Risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.		–		▲
Process Risk: The risk resulting from the incorrect execution of, a breakdown in, or a gap in, a policy, practice or control respecting CDIC's processes.		▲		–
Legal/Compliance Risk: The risk that CDIC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.		–		–
Business Continuity Risk: The risk that a disruption impacting CDIC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct its affairs.		–		–
Financial Risk	Rating	Trend	Rating	Trend
Liquidity Risk: The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off-balance sheet) as they arise.		–		–
Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.		–		–
Credit Risk: The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off-balance sheet, to CDIC.		–		–
Reputation Risk	Rating	Trend	Rating	Trend
Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.		–		▲

LEGEND

Risk Rating: Acceptable Cautionary Serious Concern

Risk Trend: ▼ Decreasing – Stable ▲ Increasing

Insurance Risk

In relative terms, insurance risk is CDIC's most significant risk. The failure of a member institution, which is the worst-case scenario from an insurance risk perspective, has the potential for a major impact on CDIC given the high costs of resolution and substantial resources required to handle a failure.

Since last year, CDIC has made improvements in its overall capability and capacity to conduct both payout and non-payout resolutions, as planned. However, work remains to be done in making the new powers fully operational, completing the final two phases of CDIC's initiative to increase its capacity to make payouts to depositors of larger members by 2011/2012, and conducting intervention simulation training to test these intervention enhancements. CDIC has allocated appropriate staff and resources to pursue these objectives over the next year.

Operational Risk

CDIC's overall operational risks are assessed as acceptable; however, CDIC's **people risk** remains cautionary. CDIC's business model of operating with only a core level of employees with in-depth knowledge and expertise in deposit insurance inherently exposes the Corporation to risk in that losing a few key individuals could have a significant impact on operations, particularly in the context of an intervention. However, efforts continue to be made to ensure that CDIC has adequate and ready human resources capacity to meet its mandate. New personnel have been added, stand-by agreements with third parties have been put in place and employees receive ongoing training through simulation exercises.

CDIC's **process risk** remains acceptable, but is showing an increasing trend. Management is of the view that CDIC has appropriate and effective procedures and controls in place to manage its key processes. These procedures and controls are subjected to regular review, audit and testing. To date, no significant breakdowns or gaps have been identified. Key change management challenges (e.g., conversion to IFRS, quarterly financial reporting) that could impact CDIC's key processes have been identified and are being addressed. However, management is aware that the sheer number of these changes may increase process risk in the future.

Financial Risk

CDIC's financial risks (liquidity, market and credit risk) are conservatively managed and, collectively, continue to be acceptable and stable. This reflects that the management of these risks is governed by conservative Board financial risk policies, which ensure that funds are available quickly and without material compromise to their value. CDIC maintains an investment portfolio which provides the first source for operating liquidity, and also provides a source of funds in the event of an intervention. CDIC has access to its recently increased borrowing capacity and also has the statutory ability to request an appropriation from Parliament for amounts in excess of the authorized limit, should the need arise.

Reputation Risk

CDIC's reputation risk is assessed as acceptable and stable. The risk of an adverse reputation event continues to be mitigated by: a credible federal deposit insurance system in Canada; CDIC's public awareness campaign to inform Canadians about deposit insurance coverage; CDIC's focus on intervention readiness; and maintaining good coordination among safety net players. Significant efforts are also directed at ensuring that CDIC is managed well—thereby reducing the risk of adverse reputation events stemming from the failure to manage CDIC's operations and significant risks.

PERFORMANCE AGAINST PLAN

Three Corporate Strategies

For its year ended March 31, 2010, CDIC focused on three strategies to direct its work:

- ***Strengthening Core Expertise and Readiness***
- ***Promoting Depositor Awareness***
- ***Sustaining Efficient Governance and Operational Capacity***

These strategies support the Corporation's mandate (see the page preceding the Table of Contents) while, at the same time, contribute to the proactive management of CDIC's significant risks. The activities that CDIC carried out over the past year in each of these three strategic areas are described below. Our success in meeting performance targets is reflected in our Corporate Scorecard (see pages 20–22).

CDIC must stay alert to developments that affect the Corporation and its membership. The Corporation must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. CDIC will focus on solidifying expertise in our core operation areas of risk monitoring, intervention and resolutions, and insurance.

Strengthening Core Expertise and Readiness

CDIC continually monitors the financial and operating performance of its member institutions, as well as the environment in which they operate. To facilitate this, and to build our institutional knowledge base, we have carried out research, and provided internal training related to the introduction of new accounting standards and capital rules. These efforts also assisted us in our evaluation of the impact of the introduction of IFRS and the new capital rules on members' financial position and performance. In conjunction with the Office of the Superintendent of Financial Institutions (OSFI), we are also working to update the *Strategic Alliance Agreement*, an agreement that supports coordinated effort and information sharing between the two organizations. These updates will reflect various environmental and regulatory changes that have taken place in recent years.

Over the past year, CDIC strengthened its capacity to carry out depositor payouts through various initiatives. Payout speed and capacity and our ability to effectively communicate with depositors have been enhanced and tested during the year. Work included collaborating with our members to develop a plan that will allow CDIC to more quickly collect, review and validate depositor data in the event of a failure. We also conducted the largest payout simulation CDIC has ever performed. As part of this simulation, we tested a new Depositor Self-Serve System and a third-party telephone service provider, engaged to handle large volumes of calls from depositors. The Depositor Self-Serve System allows depositors to confirm their eligibility for coverage by CDIC and is also an additional channel for direct communication with depositors, augmenting the CDIC call centre services and website already in place. We also tested our capability to make payouts in a matter of days on a portion of insured accounts.

CDIC has also progressed with its multi-year Large Payout Capacity Enhancement Project by identifying and addressing many of the technical requirements for a large payout. Other readiness accomplishments included enhancing the capacity of CDIC's call centre to be able to handle the failure of a medium sized institution, and increasing website capacity.

CDIC also has the capacity for resolving the failure of a member institution using methods that do not involve depositor payout. During 2009/2010, CDIC continued to strengthen its capabilities with respect to non-payout resolutions.

Over the past year, CDIC also took substantial steps towards making its new bridge institution powers operational. Work has included the establishment of both an internal working group (consisting of various organizational areas within CDIC) and an external working group (consisting of CDIC's financial sector safety net partners) to identify, examine and analyze the issues and opportunities that this new resolution tool presents. External experts have provided guidance on operational, receivership, asset valuation, communication, human resource and payout systems issues. CDIC will continue to strengthen its expertise in this area through additional analysis and simulation, as we work to develop an operational model that is readily applied and adapted to circumstances in which a bridge institution may be required.

CDIC further updated and provided additional training on the valuation model used to analyze the viability of members and to assess various resolution options. A user manual was also updated; as well, CDIC's Audit and Consulting Services group performed a review of the model. It was then tested through a simulation. Further training covering various non-payout strategies will be undertaken in the next year.

Analysis that we undertook relative to the introduction of the new International Financial Reporting Standards (IFRS) accounting standards and capital rules has helped us in our evaluation of the impact of the implementation of Basel II and fair value accounting against the factors used under the CDIC *Differential Premiums By-law*. This work resulted in minor amendments to the by-law. Other work related to insurance programs included obtaining more data regarding the premium assessment base of members in each of our insurance categories. CDIC also completed a comprehensive review of its *Joint and Trust Account Disclosure By-law* and is proposing amendments to increase its effectiveness with respect to depositor disclosure of key information to members while taking into account potential burden on member institutions.

CDIC continues to work to increase public awareness of deposit insurance and of its benefits and limits. Through our targeted, long-term strategy, we will carry out public awareness initiatives that build on past years' initiatives.

Promoting Depositor Awareness

CDIC is mandated to play a key role in supporting the stability of the financial system in Canada. Informing Canadians about CDIC deposit insurance is one of the principal methods we use to make this contribution, as awareness assists Canadians in making sound decisions about the protection of their savings.

The volatile economic environment of the past two years highlights the relevance of undertaking communication that inspires confidence in CDIC and in the Canadian financial system, a goal that is consistent with our mandate. To this end, in 2009/2010, we undertook the first year of a three-year long-term strategy for depositor awareness. The strategy has two objectives: to increase and sustain awareness of CDIC and deposit insurance while inspiring a sense of confidence and trust in CDIC and Canada's financial system; and to encourage Canadians to consult with member institutions or our website and call centre to learn more about what is covered and what is not covered by CDIC deposit insurance.

Our target audience under this strategy is the general public, with a focus on Canadians 50 years of age and older. During the year, activities focused on a national advertising campaign which included television, print and online advertisements, as well as participation in consumer shows. We also continued to operate our 1-800 phone line and website. As the success of a deposit insurance system hinges largely on consumers knowing about it, CDIC tracks the results of its annual public awareness campaign. During the past year, total awareness of CDIC was at 55%, while 30% of Canadians could state the $100,000 coverage limit. CDIC partnered again this year with the Autorité des marchés financiers in its advertising efforts in Québec. Other partners in our public awareness activities included the Registered Deposit Brokers Association and a number of financial and consumer associations. Consultations with member institutions led to the development and launch of a course for member institution employees on CDIC deposit insurance. The *CDIC Deposit Insurance Basics E-Learning Module* is an online tool designed to equip their employees with information on CDIC deposit insurance that may be readily passed on to depositors.

We also conducted a "mystery shopper" exercise in which over 1,500 branches of member institutions across the country were visited. The objective of this exercise was to assess members' compliance with certain requirements under the *Deposit Insurance Information By-law* and to assist CDIC in its ongoing initiatives to promote depositor awareness. Results were very positive and represented a marked improvement over the results of the last exercise conducted in 2002. Next steps will include CDIC communicating with members individually about their results.

CDIC held its fourth Annual Public Meeting in Halifax on October 6, 2009. With close to 300 attendees, the meeting provided CDIC's Board of Directors and senior management with an opportunity to discuss deposit insurance directly with Canadians, and to enable the public to ask questions of CDIC.

To maintain the public's confidence, CDIC must fulfill its mandate in an efficient and effective manner. To achieve this objective, CDIC continuously reviews and revises its initiatives to manage its significant risks and maintain sound governance, and works closely with its key stakeholders. Such stakeholders include member institutions, the depositing public, employees, financial "safety net" members, regulators, parliamentarians, and other deposit insurers in Canada and around the world.

Sustaining Efficient Governance and Operational Capacity

Crucial to sustaining efficient governance is an ever-evolving understanding of the legislative and regulatory environment in which CDIC operates. During the past year, we continued to monitor changes to relevant legislation, regulations and other requirements, with a view to maintaining an up-to-date list of compliance requirements to which CDIC is subject or may choose to follow in spirit. In accordance with the formalized Compliance Management Process, management provided its second annual report to the Audit Committee/Governance Committee and the Board on its assessment of compliance with these requirements for 2009/2010.

Operational capacity is dependent upon CDIC's employees and leadership. CDIC is committed to ensuring that its employees are motivated, committed to the Corporation's mandate and operations, and focused on the tasks at hand. To that end, CDIC regularly surveys its work force to gauge the level of employee satisfaction and engagement. Our 2009/2010 employee survey results affirm CDIC's excellence as an employer—one that attracts and retains highly skilled, motivated and competent employees to fulfill its mandate. Moreover, our 2009/2010 results were above best-in-class levels, with overall employee satisfaction at 78%. CDIC's human resources initiatives assure the future of the organization by creating a sustainable and adaptable work force, and maintain CDIC's excellence as a workplace.

CDIC encourages its employees in supporting Canada's social and environmental well-being by selectively matching employee contributions to charitable organizations and encourages their participation in volunteering for charitable causes.

CDIC employees operate in an environment that requires the highest of ethical standards. In order to maintain these standards and to keep them top-of-mind, this past year employees attended a mandatory, half-day ethics training session which provided them with an in-depth review of CDIC's ethics policies and codes, as well as hands-on learning opportunities.

Management Review of Internal Controls over Financial Reporting

CDIC management is responsible for establishing and maintaining effective internal controls over financial reporting (ICFR).

Consistent with evolving best practices in financial statement disclosure and governance, management has determined that a program of review of CDIC's ICFR will add additional support to the Corporation's existing practices as summarized in the "Management Responsibility for Consolidated Financial Statements" in this Annual Report.

CDIC has a risk-based multi-year initiative to review and assess its ICFR. In 2009/2010 the initial review and assessment was completed and management did not identify any significant internal control deficiencies based on work performed to date. A number of potential areas of improvement were noted and management has plans in place for addressing these opportunities.

Management's ICFR work is coordinated with the internal audit work of CDIC's Audit and Consulting Services Department, as well as with CDIC's ongoing ERM process. CDIC's Board of Directors, through its Audit Committee, receives regular reports on management's work with respect to internal controls over financial reporting, and also monitors progress on any action items arising from such work.

CDIC will continue to review and assess its ICFR on a cyclical basis according to the risks associated with individual processes, with the results reported in Management's Discussion and Analysis.

Information technology (IT) continues to play a key role in maintaining CDIC's operational capacity to fulfill its mandate. In 2009/2010, CDIC embarked on a new relationship with a global IT service provider covering both a stand-by arrangement and professional services. This partnership is helping CDIC to be ready should there be a need to intervene in the affairs of member institutions. Our portal project has also proved significant in supporting intervention readiness by providing a consistent and coherent manner to manage information. Finally, IT staff capabilities have remained current through training on the latest information technologies and methods practised through simulations.

CDIC's Business Continuity Management Program successfully completed in 2009/2010 its testing of our Secure Remote Access (SRA) system to allow employees to work remotely. As well, we worked closely with our sister agencies and local and national health organizations to monitor the impact of the H1N1 virus and to develop appropriate action and contingency plans, and also ensured that our Pandemic Preparedness Plan (PPP) was ready to implement. A full test of the PPP was conducted through a corporate-wide, full-day simulation, with observers present from OSFI, the Financial Consumer Agency of Canada (FCAC) and the Bank of Canada.

On another front, CDIC negotiated a 10-year lease for its office facilities in Ottawa, which will include a new "green" data centre. The centre will be energy efficient, will include many recyclable materials in its construction, and will use eco-friendly fire suppression and cooling systems. With the Toronto office lease expiring in 2011, work is already underway to consider CDIC's future requirements.

Collaboration and partnership with deposit insurers in Canada and around the world (see box below) continues to be an important aspect of CDIC's work. In June 2009, CDIC participated in the joint Credit Union/Caisse Populaire Stabilization Fund of Canada and Credit Union Regulatory conference in Halifax. In November 2009, CDIC participated in the annual conference of the Canadian Financial Services Insolvency Protection Forum in Toronto. The forum brought together organizations responsible for the protection of Canadian consumers of financial services, including CDIC, Assuris, Canadian Investors Protection Fund, Property and Casualty Insurance Compensation Corporation, Deposit Insurance Corporation of Ontario, the Autorité des marchés financiers, Financial Institutions Commission of British Columbia, and Mutual Fund Dealers Association of Canada, as well as representatives from the Credit Union Deposit Guarantee Corporations of Alberta and Saskatchewan. We also continued to collaborate with the Canadian Financial Services Insolvency Protection Forum.

CDIC's Global Initiatives

CDIC has been involved in a wide range of international activities this past year. In determining where to focus its international efforts, CDIC selects those projects that contribute the most to international financial system stability and that enhance the Corporation's expertise and readiness, while taking into account resource constraints.

Highlights of 2009/2010 initiatives include:

- CDIC is actively participating in the development of international best practices in deposit insurance in support of Canada's G20 commitments. CDIC co-chaired the Basel Committee on Banking Supervision and International Association of Deposit Insurers (IADI) joint working group, developing Core Principles for Effective Deposit Insurance Systems. The Core Principles were adopted by the Financial Stability Board (FSB) in its compendium of international standards in July 2009. The Corporation is presently co-chairing a joint IADI-Basel Committee-International Monetary Fund Steering Committee developing an assessment methodology for the Core Principles. The methodology will be used in country self-assessments, peer reviews and assessments undertaken by the International Monetary Fund (IMF), World Bank and FSB.

- CDIC continued to be represented on the Executive Council of IADI and also chairs the IADI Guidance Group, as well as the IADI Sub-Committee responsible for updating the guidance for differential ("risk-based") premium systems.

- CDIC provided advice and assistance to countries wishing to establish or enhance deposit insurance systems, working with Kenya, Mexico, Uganda and the British Virgin Islands, among other countries.

- CDIC staff worked with the IMF to provide technical assistance to Armenia and with the World Bank on research projects focused on exit strategies from blanket guarantees. We also worked with the South-East Asian Centre for Research and Training and IADI on training for resolutions and recoveries, as well as providing assistance to the Financial Stability Institute in the development of online training modules.

CORPORATE SCORECARD—RESULTS AGAINST KEY INDICATORS, AS AT MARCH 31, 2010

CDIC's Corporate Scorecard, presented on the following pages, sets out the progress made for the year ended March 31, 2010, against the Corporation's key performance indicators established in CDIC's Corporate Plan. The Scorecard shows that CDIC's progress against the majority of key performance indicators proceeded as planned.

The two indicators not proceeding as planned were:

- The implementation of a plan to obtain information on deposit systems and data from all members by March 31, 2010—this significant initiative is intended to be a multi-phase plan that will continue to evolve over the next few years, pending CDIC Board approval of changes that would be required by member institutions.
- Although power and climate problems have been temporarily addressed in the existing Ottawa data centre, construction of the new long-term data centre was delayed from the end of 2009 until the spring of 2010.

CDIC CORPORATE SCORECARD—2009/2010 to 2013/2014

CDIC Objects: Provide deposit insurance and contribute to the stability of the financial system, for the benefit of depositors, and while minimizing the Corporation's exposure to loss.

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Strengthening Core Expertise and Readiness CDIC must stay alert to developments that affect the Corporation and its membership. The Corporation must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. CDIC will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolution.	**Membership Risk Monitoring**	
	• Review *Strategic Alliance Agreement* with OSFI.	• Updated *CDIC/OSFI Strategic Alliance Agreement* in place by the end of the planning period. ▲
	• Ensure employee training in support of changes reported by member institutions respecting Basel II and International Financial Reporting Standards (IFRS).	• Training programs ongoing throughout the planning period. ▲
	Readiness for Payout	
	• Continue to increase CDIC's payout capacity to address the failure of a member institution with a large number of depositors.	• Achievement of annual Large Capacity Enhancement Project milestones for each year as evidenced by CDIC's ability to conduct a large payout simulation—through March 2012. ▲
	• Undertake work to facilitate the collection, review and validation of member institution deposit data and system information to support a quicker insurance determination in the event of failure.	• Implementation of a plan to obtain information on deposit systems and data from all members—by March 2010. ▼

Legend:
▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion, and/or budget variances
● Cancelled or deferred

CDIC CORPORATE SCORECARD—2009/2010 to 2013/2014

CDIC Objects: Provide deposit insurance and contribute to the stability of the financial system, for the benefit of depositors, and while minimizing the Corporation's exposure to loss.

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Strengthening Core Expertise and Readiness CDIC must stay alert to developments that affect the Corporation and its membership. The Corporation must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. CDIC will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolution.	**Readiness for Non-Payout Resolutions**	
	• Review and update the valuation model.	• Valuation model reviewed and updated as necessary during the planning period. ▲
	• Ensure all employees are trained on non-payout resolutions and key intervention tools.	• Risk managers involved in intervention up-to-date on the use of current non-payout strategies, special examination methodologies and the valuation model via ongoing training program. ▲
	Communications	
	• Update and maintain a cloaked website for depositors that would be activated upon the failure of a member institution.	• Cloaked website upgrades completed by the end of the planning period. ▲
	Insurance Program and Powers	
	• Amendments if needed to CDIC differential premiums system to reflect Basel II data and IFRS transition.	• Consultation with members completed and appropriate amendments made to the differential premiums system for the 2012 premium year. ▲
Promoting Depositor Awareness CDIC must work to increase public awareness of deposit insurance and of its benefits and limits. Through our targeted, long-term strategy, CDIC will carry out public awareness initiatives that build on past years' initiatives.	• Implementation of an expanded long-term public awareness strategy and plan.	• 55% awareness of CDIC and 30% awareness of the $100,000 deposit insurance coverage limit in 2009/2010. ▲
	• Increase outreach to other government and private partners as appropriate to enhance awareness of CDIC deposit insurance.	• Increased outreach initiatives undertaken with partners. ▲
	• Monitor the public awareness strategy and plan to determine its effectiveness and make adjustments if necessary.	• Conduct public opinion poll research as required during the planning period. ▲
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. To achieve this objective, CDIC will take steps to manage its significant risks, maintain sound governance and work actively with all its key stakeholders. Such stakeholders include member institutions, the depositing public, employees, financial "safety net" members, regulators, parliamentarians, other deposit insurers in Canada and around the world, and relevant international organizations with an interest in deposit insurance issues.	**Governance**	
	• Continue to conduct annual assessments of CDIC's significant corporate risks, review and update CDIC's Board and management risk policies as necessary, and provide (through the Management's Discussion and Analysis (MD&A) section of CDIC's Annual Report) regular reports to stakeholders about the management of CDIC's significant corporate risks.	• Significant risks are assessed at least annually. Risk management initiatives are undertaken on a timely basis to ensure exposure is within acceptable levels. Annual Enterprise Risk Management (ERM) attestation included in the Annual Report. ▲
	• Negotiate new lease for the Toronto CDIC office (existing lease expires in 2011).	• New lease for Toronto office in place by 2011. Premises satisfy CDIC's human resource and operational requirements. ▲
	• Complete enhancements to the Ottawa office data centre.	• Ottawa office data centre enhancements addressing all space, power and climate control issues completed by the end of 2009. ▼

CDIC CORPORATE SCORECARD—2009/2010 to 2013/2014

CDIC Objects: Provide deposit insurance and contribute to the stability of the financial system, for the benefit of depositors, and while minimizing the Corporation's exposure to loss.

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. To achieve this objective, CDIC will take steps to manage its significant risks, maintain sound governance and work actively with all its key stakeholders. Such stakeholders include member institutions, the depositing public, employees, financial "safety net" members, regulators, parliamentarians, other deposit insurers in Canada and around the world, and relevant international organizations with an interest in deposit insurance issues.	**Governance**	
	• Manage transition to IFRS.	• Transition to IFRS completed and audited by the end of the planning period. ▲
	• Continue to implement Information Systems Strategic Plan (ISSP).	• Initiatives specified in the ISSP implemented in accordance with timelines set out in that Plan. ▲
	• Develop a new Human Resources Strategy and Plan (HRSP).	• A new HRSP is designed and implemented by the end of the planning period. ▲
	• Monitor employee satisfaction to ensure that there are no impediments to a productive and motivated work force.	• An employee survey to be undertaken and the survey results analyzed and addressed during the planning period. ▲
	• Maintain CDIC's Business Continuity Management Program in a fully current and ready state.	• All 2008/2009 Business Impact Analysis (BIA) issues addressed during the planning period. ▲ • Successful all-employee Secure Remote Access (SRA) testing completed by March 31, 2010. ▲ • Pandemic Preparedness Plan (PPP) completed by March 31, 2010. ▲
	Regulatory, Legislative and Other Requirements	
	• Complete implementation of CDIC's Internal Control Review program, incorporating coordination with CDIC's ERM process and the work of CDIC's Audit and Consulting Services Department.	• Internal Control Review annual reporting regime in place consistent with Treasury Board Secretariat (TBS) guidelines. ▲
	Stakeholder Initiatives	
	• Annual reporting of CDIC plans and progress to parliamentarians and all interested stakeholders through publications such as the Annual Report and Summary of the Corporate Plan.	• CDIC Annual Report and Summary of the Corporate Plan tabled in both houses of Parliament and available on CDIC's website each year. ▲

Legend:
▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion, and/or budget variances
● Cancelled or deferred

FINANCIAL OVERVIEW

About the Consolidated Financial Statements

CDIC's consolidated financial statements include the Corporation's results and those of Adelaide Capital Corporation (ACC), a variable interest entity (VIE). This is due to the fact that, effective April 1, 2005, the Corporation adopted Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, issued by the Canadian Institute of Chartered Accountants (CICA). The guideline requires the consolidation of VIEs that are subject to control on a basis other than through ownership of a majority of voting interest.

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of $1.2 million (2009: $1.3 million), an increase in liabilities of $19 thousand (2009: $nil), as well as an increase in total revenue of $6 thousand (2009: $48 thousand) and an increase in total expenses of $170 thousand (2009: $265 thousand). As a result, the impact on the Corporation's retained earnings is $1.0 million (2009: $1.3 million).

During the 2009/2010 fiscal year, the Corporation refined its method for calculating severance obligations. An actuary was engaged to calculate the Corporation's severance obligations in accordance with *CICA Handbook* Section 3461 *Employee Future Benefits*. This change in estimate has been applied prospectively in accordance with Section 1506 *Accounting Changes*. As a result, employee future benefits as at March 31, 2010, were increased by $879 thousand.

Also, in fiscal 2009/2010, CDIC adopted the amendments to Section 3862 *Financial Instruments—Disclosures* to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1—inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2—inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3—inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendment resulted in additional financial instrument disclosures which are included in Note 3.

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) for all Publicly Accountable Enterprises (PAEs). In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be for fiscal years starting on or after January 1, 2011.

In 2009 the Public Sector Accounting Board confirmed that Government Business Enterprises such as CDIC are considered PAEs for the purposes of adopting IFRS. As a result, the Corporation will be required to report under IFRS for the year ended March 31, 2012, with IFRS-compliant comparatives for the year ended March 31, 2011. The IFRS changeover also requires the preparation of an opening statement of financial position at April 1, 2010.

In the 2008/2009 fiscal year, the Corporation conducted a diagnostic assessment which identified at a high level the main differences between CDIC's accounting policies and IFRS and the systems and processes that will need to be updated to issue IFRS-compliant financial statements. A project team was established, and a changeover plan addressing changes in financial reporting, financial process and information systems was developed.

In the 2009/2010 fiscal year, the Corporation began implementation of its changeover plan and substantially completed the review of its accounting policies to determine whether or not a change is required or permitted under IFRS for each policy identified in the diagnostic. Certain accounting policies will result in a significant change for the Corporation, whereas in other areas no policy change is expected. There are unavoidably some areas where the extent of the policy change has not yet been finalized pending completion of the related International Accounting Standards Board (IASB) project. Amendments to existing standards are expected to continue until the year of adoption. The Corporation's project team actively monitors the IASB's schedule of projects as part of its IFRS conversion strategy, giving consideration to the impact of proposed changes on current plans and decisions taken. CDIC continues to invest in training and resources to successfully complete the transition.

Significant Accounting Policies

The impact of the transition on financial reporting cannot be reasonably estimated at this time due to expected changes to standards and guidance by the IASB. Those items that are expected to have the most significant impact, however, are discussed below.

Provision for Insurance Losses

The Corporation will account for its provision for insurance losses in accordance with International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). Application of the current IAS 37 could result in significant changes in the recognition, measurement and disclosure of CDIC's provision for insurance losses. The IASB, however, has a project underway that will replace the current IAS 37 and would likely harmonize the accounting treatment of the provision under IFRS with existing practice under Canadian GAAP. Changes in measurement of the provision are expected under the new proposed standard. The proposed standard is expected to be released in 2010, although the effective application date is not yet known. CDIC plans to adopt the new standard retrospectively so that a consistent methodology is used for the first year of IFRS adoption (year ended March 31, 2012) and the comparative year (year ended March 31, 2011). Until the new standard is released, CDIC cannot reasonably estimate the financial impact on the provision upon conversion.

Financial Instruments

CDIC classifies its investments as "available for sale" under Canadian GAAP, and as such records these investments at fair value with changes in fair value charged to other comprehensive income. Under IFRS, specifically International Accounting Standard 39 *Financial Instruments* (IAS 39), CDIC would continue to classify its investments as "available for sale" and therefore continue to mark the investments to market at the end of each reporting period, with no financial impact arising upon conversion.

In November 2009, however, a new standard, International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9), was issued that partially replaces IAS 39 and eliminates the available-for-sale category. Under the new standard, CDIC's investments would be measured at amortized cost instead of fair value. The new standard is effective for years beginning on or after January 1, 2013, with early adoption permitted. The impact of early adoption of IFRS 9 at the date of transition would be an increase in investments and equity of $725 thousand.

First-Time Adoption of IFRS

International Financial Reporting Standard 1 *First-Time Adoption of International Financial Reporting Standards* (IFRS 1) provides certain exemptions and elections for Canadian GAAP reporters converting to IFRS. The Corporation reviewed the key exemptions and elections in conjunction with each related standard. Adopting the relevant standards under IFRS 1 did not have a significant impact on the Corporation as the exemptions and elections were either not applicable or will not be applied.

Impact on Financial Process and Information Systems

The Corporation has identified and established the necessary processes to enable dual reporting in 2010/2011. The financial systems did not require significant modifications and will be able to process and report financial information on both a Canadian GAAP and an IFRS basis beginning April 1, 2010.

Consolidated Balance Sheet Highlights

As at March 31, 2010, CDIC's total assets amounted to $1,965.0 million representing growth of approximately 10% compared to total assets of $1,779.4 million as at March 31, 2009. Total assets are comprised primarily of investments (99% of total assets). CDIC's investment portfolio is made up of Government of Canada or provincial treasury bills (4.5%) and bonds issued or guaranteed by the Government of Canada or a province (94.5%). Other investments held for cash management purposes are not significant (1.0%). CDIC's investments as at March 31, 2010, carry a weighted average yield to maturity of 1.5% (2009: 2.3%) with a modified duration of 1.1 years. This suggests that CDIC's investments have a low exposure to interest rate risk and thus a low volatility in value given the short-term nature of the portfolio.

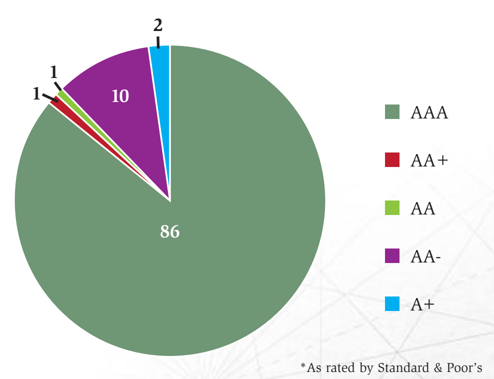
Investments

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

- limiting credit and market risk to preserve capital
- using the investment portfolio as the primary initial funding source for intervention activity

These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance. CDIC's Board Financial Risk Policies require that investments be limited to only those that meet or exceed the credit quality criteria mandated by the Guidelines. The Board Financial Risk Policies further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument. The Corporation is restricted under these policies to investments issued or guaranteed by the Government of Canada or a province. Counterparties for investments of less than three years must have a minimum credit rating of "A." The Corporation's investments of more than three years are restricted to Government of Canada securities.

Investment Portfolio
Distribution of Credit Ratings* (%)
March 31, 2010



*As rated by Standard & Poor's

Future Recoveries

CDIC estimates possible future recoveries from failed member institutions of approximately $16 million. These potential additional recoveries relate primarily to recoveries of amounts that were previously written-off by CDIC and are not reflected on CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. There is also considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to this uncertainty include creditor disputes, lawsuits against the estates and competing claims in respect of specific assets.

Name of Institution (Method of Failure Resolution—Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2010	CDIC's Possible Future Recoveries	CDIC's Projected Loss as a % of:	
	($ millions)	($ millions)	($ millions)	Claims and Loans—Nominal Basis	Claims and Loans—NPV[a] Basis
Standard Trust Co. (Formal Liquidation—1991)	1,164	967	14	16%	33%
Adelaide Capital Corp. (Loan and Management Agreement—1992)	1,588	1,484	2	6%	15%

[a]All cash flows are discounted on an annual basis to the year of failure to arrive at the net present value (NPV).

Income Taxes

CDIC is subject to federal income tax. The Corporation's primary source of taxable income is its interest on investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. For the year ended March 31, 2010, CDIC's income tax expense was $0.4 million and its income taxes receivable (after taking into account installments made during the year) was $3.4 million.

CDIC recognizes future income tax assets and liabilities based on temporary differences between the carrying amount of balance sheet items, including fair value changes on available-for-sale financial assets, and their corresponding tax basis.

The future benefits or costs of income taxes are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such income taxes will be realized. In accordance with CICA recommendations, the related asset or liability is re-valued each year. As at March 31, 2010, the Corporation recorded a future income tax asset of $0.8 million, compared to a future income tax liability of $3.9 million as at March 31, 2009.

Provision for Insurance Losses

The risks to CDIC's membership were elevated at the end of the 2010 fiscal year relative to last year. The Canadian economy began shifting into recovery mode in 2010, driven by the cumulative impact of government fiscal stimulus, low interest rates and an emerging economic recovery in the United States. Notwithstanding these signs of recovery, Canada's economic outlook is still best described as cautiously optimistic, as there remain numerous potential risks.

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. As at March 31, 2010, the provision was $1,100.0 million, an increase of $300.0 million from March 31, 2009. This increase primarily reflects the elevated level of two key inputs to CDIC's provisioning methodology: Moody's KMV expected default statistics and insured deposits.

CDIC's provision is estimated based on a number of inputs including: the level of insured deposits, the expectation of default derived from probability statistics, CDIC's specific knowledge of its members, and an expected loss given default.

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

The loss given default estimate is the cumulative un-weighted average loss sustained by CDIC in member failures since 1987. In 1987, CDIC's legislation was changed to require that it pursue its objects in a manner so as to minimize its exposure to loss. Accordingly, the losses associated with failures since that time are significantly lower than those incurred by CDIC prior to 1987 and are more indicative of the losses the Corporation can expect to incur in the future.

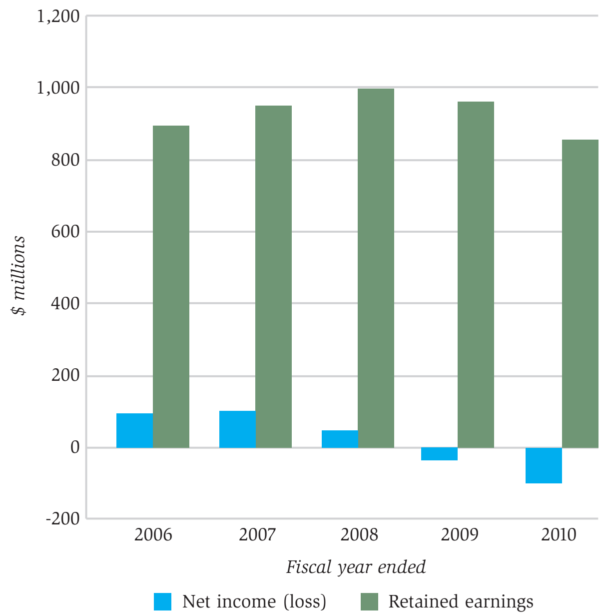
Ex Ante Funding

CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was further determined that this amount of *ex ante* funding would be represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits—which translates into a range of approximately $2.4 billion to $3.0 billion based on insured deposits as at April 30, 2009. The reported amount as at March 31, 2010, was $2.0 billion, representing 33 basis points of insured deposits.

Under current forecasts, as set out in CDIC's 2010/2011 to 2014/2015 Corporate Plan, the bottom of the range will be achieved in the Corporation's 2015/2016 fiscal year. This is one year later than what was forecast in CDIC's 2009/2010 to 2013/2014 Corporate Plan and is a result of significant increases in insured deposits and lower-than-expected yields on investments. The progression of the *ex ante* fund toward the bottom of the target range is sensitive to the level of insured deposits, premium levels and market interest rates. Changes in one or all of these criteria can materially impact the time it will take the *ex ante* fund to reach 40 basis points of insured deposits.

Consolidated Statement of Income and Retained Earnings—Highlights

Net Income (Loss) and Retained Earnings



CDIC ended 2009/2010 with **retained earnings** of $858.1 million, a decrease of approximately 10.6% compared to last year. The decrease was primarily attributable to an increase in the provision for insurance losses of $300.0 million, which was partially offset by an increase in premium revenues.

For the year ended March 31, 2010, CDIC's **revenues** totalled $228.8 million, offset by net operating expenses of $30.5 million and income taxes of $0.4 million. This, combined with the increases in provisions for loss of $300.0 million, resulted in a **net loss** for the year of $102.1 million.

Premiums for the fiscal year were $197.8 million, compared to $92.3 million for 2008/2009.

Premiums are based on the total amount of insured deposits held by members as of April 30th each year, calculated in accordance with the *CDIC Act* and its *Differential Premiums By-law*, which classifies member institutions into one of four premium categories.

Classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2009 premium year were as follows:

- Category 1—1/54th of 1% of insured deposits
- Category 2—1/27th of 1% of insured deposits
- Category 3—2/27th of 1% of insured deposits
- Category 4—4/27th of 1% of insured deposits

The table below illustrates the distribution of members among premium categories in the 2009 premium year as well as the preceding four premium years.

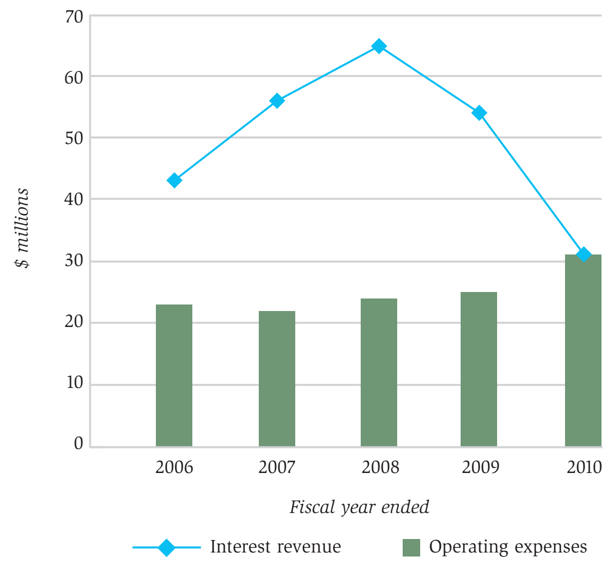
Premium Category	Premium Year				
	2005 %	2006 %	2007[a] %	2008 %	2009 %
1	81	84	93	75	68
2	18	14	6	20	21
3	0	2	1	5	10
4	1	0	0	0	1

[a] Restated

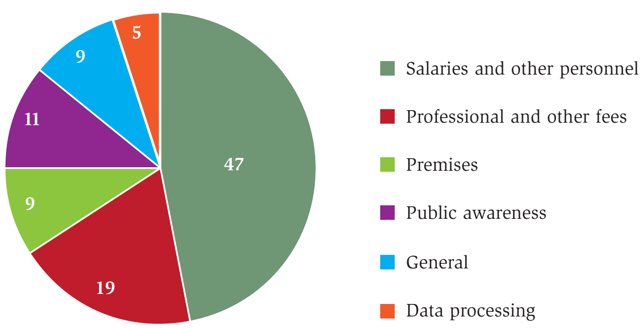
CDIC generates sufficient interest revenue on its investments to cover its operating expenses. **Interest revenue from investments** was $31.0 million in 2009/2010, a decrease of approximately 42.5% from the previous fiscal year due primarily to the continuation of a significantly lower interest rate environment.

Net operating expenses for the year ended March 31, 2010, totalled $30.5 million ($25.6 million in 2008/2009).

Interest Revenue vs. Operating Expenses



Profile of Operating Expenses (%)
March 31, 2010



CDIC's expense profile reflects reliance on a core group of skilled employees. As a result, the most significant expense category is salaries and other personnel costs that comprised 47.2% of total net operating expenses in 2009/2010 (2008/2009: 47.4%).

CDIC's operating expenses are net of cost recoveries received from other organizations. CDIC provides call centre services to FCAC and OSFI (related parties) on a cost-recovery basis. The Autorité des marchés financiers in Québec contributes to CDIC's public awareness campaign. The total recoveries recorded in 2009/2010 were $0.8 million (2008/2009: $0.9 million).

Comparison with 2009/2010 Corporate Plan

Balance Sheet

Total assets as at March 31, 2010, were $1,965.0 million, compared to the planned amount of $1,881.0 million. Total revenue for 2010 was significantly higher than planned resulting in a higher-than-expected level of investments. The growth in investments was the primary driver of increases in total assets.

Statement of Income and Retained Earnings

Total revenue during the year was $228.8 million, or $90.9 million higher than budgeted. Insured deposit growth was significantly higher than anticipated and this growth, combined with changes in member institutions' Differential Premiums classification, was the primary contributor to revenue growth. Interest on investments was less than planned, partially offsetting higher-than-expected premium revenue. Market interest rates stabilized at historically low levels during the 2010 fiscal year resulting in lower-than-expected levels of interest income.

Net loss for the year ended March 31, 2010, was $102.1 million compared to planned net income of $118.0 million, a variance of $220.1 million. This variance is primarily the result of a $300.0 million increase in CDIC's provision for insurance losses to reflect increasing risks to CDIC's members, offset by a significantly higher-than-expected deposit base and related premium revenue. Net operating expenses of $30.5 million were under planned expenses of $32.1 million due primarily to lower-than-anticipated growth in personnel costs.

The year-end **retained earnings** of $858.1 million was $369.9 million lower than planned primarily as a result of unplanned increases in CDIC's provision for insurance losses. The unplanned increases were $150.0 million in 2009 and a further $300.0 million in 2010.

2010/2011 to 2014/2015 Corporate Plan

Budget 2010 Cost Containment Initiatives

The Federal Government's 2010 Budget outlined measures to reduce the overall rate of growth in government operating expenditures. These measures apply to all appropriations-dependent entities, and the Government also expects other federal organizations, for which expenses are not appropriated by Parliament (e.g., self-financing Crown corporations), will follow suit and freeze their operating expenses. CDIC is a self-financing Crown corporation and is committed to following the spirit of these initiatives.

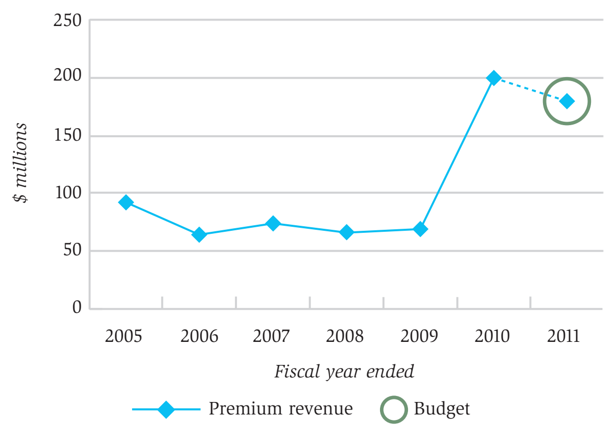
Management has reviewed spending in all areas of the Corporation to ensure a focus on core activities. It has found opportunities for operational savings to allow CDIC to address the additional priorities that the Government identified in the most recent budget while staying within the current approved budget for 2010/2011. In addition, consistent with the Government's request, CDIC has restricted spending in the areas of travel, hospitality and conferences to 2008/2009 levels. Key to the effective implementation of these initiatives is the absence of interventions in member institutions. The Corporation has not forecast any member interventions during the planning period. As a result, the impact on operations of such interventions is not incorporated into future operating budgets. The cost of interventions, if required, would likely have a material impact on operating expenses.

2010/2011 Fiscal Year

Net income is forecast at $192.5 million for the 2010/2011 fiscal year.

Total revenues are planned to be $211.1 million in the 2010/2011 fiscal year, including $180.5 million of premium revenue and $30.6 million of interest revenue. This is based on premium rates increasing by one third over 2008/2009 rates. The Corporation has forecast that insured deposit growth rates will drop to 7% in the 2010/2011 fiscal year from 15% in the 2009/2010 fiscal year. These assumptions, combined with an assumed distribution of member institutions over Differential Premiums categories, result in a decrease in premium revenue of $17.3 million. In addition, interest rates are assumed to begin to normalize during the 2010/2011 fiscal year.

Premium Revenue



Net operating expenses are planned to be $32.9 million in 2010/2011 compared to $30.5 million in 2009/2010. CDIC plans to continue its focus on strengthening core expertise and readiness including monitoring the risk in our membership, expanding payout capacity and building on our capabilities with regard to new non-payout resolutions such as recently enabled bridge institution powers. In addition, the Corporation plans to continue promoting depositor awareness.

Cash and investments are projected to be $2,149.0 million at the end of the 2010/2011 fiscal year.

Retained earnings and the **provision for insurance losses** were originally forecast to amount to $1,352.0 million and $800.0 million respectively at the end of 2010/2011. However, subsequent to the approval of the 2010/2011 to 2014/2015 Corporate Plan, the provision for insurance losses was increased by $300.0 million. This would increase the projected provision for insurance losses to $1,100.0 million and reduce projected retained earnings to $1,052.0 million as at March 31, 2011.

The level of ***ex ante* funding** is forecast to be $2,152.0 million representing 34 basis points of forecast insured deposits at the end of the 2011 fiscal year. The increased level of provisioning did not affect this forecast.

2010/2011 to 2014/2015

The Corporation's 2010/2011 Corporate Plan was developed and approved prior to the Federal Government's Budget 2010 cost containment initiatives.

Budgeted net operating expenses are impacted by Budget 2010. Operating expenses of $168.0 million were originally planned during the five-year planning horizon; however, it is expected that these forecasts may be reduced to accommodate cost containment initiatives. As part of its corporate planning process, CDIC will thoroughly assess opportunities to contain spending beyond 2010/2011, and operating expense estimates will be refined in CDIC's 2011/2012 to 2015/2016 Corporate Plan.

Cost containment initiatives do not impact revenue forecasts. Over CDIC's current five-year planning period, premium revenue is expected to total $1.1 billion and interest income on investments is forecast to total $193.0 million.

Anticipated reductions in forecast operating expense envelopes are expected to have an impact on forecast cash and investments and retained earnings. The 2010/2011 to 2014/2015 Corporate Plan had originally forecast cash and investments of $3,037.0 million and retained earnings of $2,238.0 million at the end of the planning period (March 31, 2015). Cash and investments forecasts will be refined in the 2011/2012 to 2015/2016 Corporate Plan.

The projections included in CDIC's 2010/2011 to 2014/2015 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan. Key financial assumptions include the following:

- Premium revenue is projected assuming premium rates are increased by one third over 2008/2009 rates in 2010/2011 and 2011/2012, effectively doubling the 2008/2009 rates when combined with the premium rate increase in the 2009/2010 year.
- Interest revenue on investments is based on an assumed average yield of 1.57%.
- There will be no member institution failures during the planning period.
- The adequacy of the provision for insurance losses is assessed on an annual basis and, if necessary, adjustments are recorded. For the purposes of the 2010/2011 to 2014/2015 Corporate Plan, the provision for insurance losses was forecast to remain at $800 million (see sidebar).

CDIC's Corporate Plan for the fiscal period commencing April 1 is based on information as at December 31 of the preceding year. As such the financial information and commentary in this section reflect the original Corporate Plan information but do not reflect the impact of changes in the provision for insurance losses. The provision for insurance losses is recalculated each fiscal year end based on a combination of quantitative criteria and on CDIC's assessment of the environment at that time.

	2010/2011 Corporate Plan[a]	**2009/2010 Actual Results**	2009/2010 Corporate Plan[a]
	(in millions of dollars)		
Consolidated Balance Sheet (as at March 31)			
Assets			
Cash and investments	2,149	1,954	1,873
Accounts receivable	–	3	1
	2,149	1,957	1,874
Capital assets	5	4	2
	2,154	1,961	1,876
Income taxes receivable	–	3	4
Future income tax asset	–	1	1
Total assets	**2,154**	**1,965**	**1,881**
Liabilities			
Accounts payable	2	8	3
Income taxes payable	–	–	–
Future income tax liability	–	–	–
Provision for insurance losses	800	1,100	650
	802	1,108	653
Equity			
Retained earnings	1,352	858	1,228
Accumulated other comprehensive income (loss)[b]	–	(1)	–
	1,352	857	1,228
Total liabilities and equity	**2,154**	**1,965**	**1,881**
Consolidated Statement of Income and Retained Earnings (for the year ended March 31)			
Revenue			
Premiums	180	198	102
Interest on investments	31	31	36
Other revenue	–	–	–
	211	229	138
Expenses			
Net operating expenses	33	30	32
Adjustment to allowance and provision for loss	–	300	–
Recovery of amounts previously written-off	(14)	–	(14)
	19	330	18
Net income (loss) before income tax	192	(101)	120
Income tax (recovery) expense	(1)	1	2
Net income (loss)	193	(102)	118
Retained earnings, beginning of year	1,159	960	1,110
Retained earnings, end of year	**1,352**	**858**	**1,228**
Consolidated Statement of Comprehensive Income (for the year ended March 31)			
Net income (loss)	193	(102)	118
Change in unrealized gains (losses) on available-for-sale financial assets[b]	–	(17)	–
Income tax recovery	–	5	–
Other comprehensive income (loss)	–	(12)	–
Comprehensive income (loss)	**193**	**(114)**	**118**

[a] The Corporate Plans 2009/2010 to 2013/2014 and 2010/2011 to 2014/2015 were developed based on information at December 31, 2008 and 2009, respectively. As a result, the impact of the increases in the provision for insurance losses of $150 million at March 31, 2009, and $300 million at March 31, 2010, are not reflected in those respective columns.

[b] It was assumed in the 2009/2010 to 2013/2014 and 2010/2011 to 2014/2015 Corporate Plans that the market value of the Corporation's available-for-sale financial assets were equal to book value; therefore, there were no unrealized gains or losses.

CDIC MANAGEMENT ERM REPRESENTATION TO THE CDIC BOARD OF DIRECTORS

April 30, 2010

This representation is provided to support the Board of Directors in fulfilling its responsibilities under Principle 16 of the Board Charter.

During CDIC's fiscal year 2009/2010, management has, using an Enterprise Risk Management process:

- Identified and assessed the significant risks to which CDIC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports designed to enable them to understand these risks;
- Reviewed CDIC's policies governing each significant risk to ensure that they continue to be appropriate and prudent; and
- Identified initiatives to enhance the management of each significant risk and monitored the progress in completing each initiative.

Based on the work undertaken by management during CDIC's 2009/2010 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2010, we represent that:

- CDIC has appropriate and prudent risk management policies governing the management of its risks, and these policies are being adhered to; and
- CDIC has an effective Enterprise Risk Management process.

Based on this work, management has concluded that CDIC's overall risk remains acceptable, although CDIC's intervention risk and people risk are cautionary given the current environment.

In arriving at our conclusion, management has exercised prudent judgment, caused a reasonable amount of review to take place and applied the concept of significance in the manner contemplated under Principle 16 of the Board Charter. In addition, the Enterprise Risk Management process is subject to validation by CDIC's Audit and Consulting Services on an ongoing basis.

M Bourque

Michèle Bourque
President and Chief Executive Officer

Thomas J. Vice
Vice-President, Finance and Administration, and Chief Financial Officer
Chairperson, Enterprise Risk Management Committee

FINANCIAL STATEMENTS 2

Savings Protection Canadians Can Count On

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2010

The accompanying consolidated 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts, the most significant one being the provision for insurance losses, that are necessarily based on management's best estimates and judgment.

The consolidated 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 consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated 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 consolidated financial statements to the Board of Directors.

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

Michèle Bourque
President and Chief Executive Officer

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

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Canada Deposit Insurance Corporation as at 31 March 2010 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the consolidated 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.

Clyde M. MacLellan, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
30 April 2010

FINANCIAL STATEMENTS AND NOTES

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Balance Sheet
as at March 31
(in thousands of dollars)

	Notes	2010	2009
Assets			
Cash		$ 530	$ 450
Investments	4	1,953,823	1,770,216
Accounts and other receivables		2,841	2,001
		1,957,194	1,772,667
Capital assets	5	3,709	1,641
Income taxes receivable	10	3,361	5,089
Future income tax asset	10	776	–
		7,846	6,730
		$1,965,040	**$1,779,397**
Liabilities			
Accounts payable and accrued liabilities		$ 7,470	$ 4,007
Future income tax liability	10	–	3,885
Provision for insurance losses	6	1,100,000	800,000
		1,107,470	807,892
Equity			
Retained earnings	8	858,087	960,211
Accumulated other comprehensive income	11	(517)	11,294
		857,570	971,505
		$1,965,040	**$1,779,397**
Contingent liabilities and commitments	15, 16		

The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board: ______________________ Director

______________________ Director

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Income and Retained Earnings
for the year ended March 31
(in thousands of dollars)

	Notes	2010	2009
Revenue			
Premium	12	$ 197,799	$ 92,338
Interest on investments		31,004	53,906
Other		12	115
		228,815	146,359
Expenses			
Operating	13	30,555	25,616
Increase to provisions for loss	6	299,957	149,497
		330,512	175,113
Net loss before income taxes		(101,697)	(28,754)
Income Taxes			
Current	10	39	7,993
Future	10	388	560
		427	8,553
Net loss after income taxes		(102,124)	(37,307)
Retained earnings, beginning of year		960,211	997,518
Retained earnings, end of year		**$858,087**	**$960,211**

The accompanying notes form an integral part of these consolidated financial statements.

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Comprehensive Income
for the year ended March 31
(in thousands of dollars)

	2010	2009
Net Loss	$(102,124)	$(37,307)
Other Comprehensive Income (Loss)		
Change in unrealized gains (losses) on available-for-sale financial assets	(16,718)	4,260
Income tax recovery (expense) on unrealized gains (losses) on available-for-sale financial assets	4,907	(971)
Other comprehensive income (loss)	(11,811)	3,289
Comprehensive Loss	**$(113,935)**	**$(34,018)**

The accompanying notes form an integral part of these consolidated financial statements.

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Cash Flows
for the year ended March 31
(in thousands of dollars)

	2010	2009
Operating Activities		
Premium revenue received	$ 197,799	$ 92,338
Interest revenue received	36,088	56,361
Other amounts paid	(829)	(237)
Income taxes received (paid)	1,690	(15,183)
Recoveries under guarantee agreements	43	503
Payments to suppliers and employees	(29,302)	(25,139)
Cash flows from operating activities	205,489	108,643
Investing Activities		
Purchase of securities and term deposits	(5,646,499)	(6,392,388)
Maturities of securities and term deposits	5,441,090	6,283,770
Cash flows used in investing activities	(205,409)	(108,618)
Cash		
Increase during the year	80	25
Balance, beginning of year	450	425
Balance, end of year	**$ 530**	**$ 450**

The accompanying notes form an integral part of these consolidated financial statements.

CANADA DEPOSIT INSURANCE CORPORATION
Notes to Consolidated Financial Statements
March 31, 2010

1 – Authority and Objective

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

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

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

The Corporation is for all purposes an agent of Her Majesty in right of Canada. As a result, all obligations under debt instruments issued by the Corporation are obligations of Canada.

2 – Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Basis of Consolidation. These consolidated financial statements include the financial statements of the Corporation and, as required by Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities* (see Note 7), the financial statements of Adelaide Capital Corporation (ACC), a variable interest entity (VIE) for which the Corporation is considered to be the primary beneficiary. Inter-company balances and transactions have been eliminated.

Use of Estimates. Financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are financial instruments measured at fair value and the provision for insurance losses.

The Corporation reviews its estimates annually. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from the estimates depending upon certain events and uncertainties including the timing and extent of losses the Corporation incurs as a result of future failures of member institutions.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium charged to member institutions be increased or decreased, depending on the situation.

Adoption of New Accounting Standards. In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Section 3862 *Financial Instruments—Disclosures* to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1— inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2— inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3— inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Investments. Investments, consisting of marketable securities and term deposits, are purchased with the intention of being held to maturity but may be sold in response to changes in liquidity requirements, to fund intervention solutions respecting member institutions or to bring financial risk exposures within the parameters of the exposure limits permitted under CDIC's financial risk policies. As a result, the Corporation has classified its investments as available for sale. Any unrealized gains or losses due to the change in value of available-for-sale investments are recorded in other comprehensive income. As unrealized gains and losses are realized as a result of sale or other than temporary reduction in value, they are transferred from accumulated other comprehensive income into interest on investments. Interest income is calculated using the effective interest rate method and is included in interest on investments. Investments are recorded on a settlement date basis.

Transaction costs for financial assets designated as available for sale are immediately expensed to net income.

Accounts and Other Receivables. Accounts and other receivables are classified as loans and receivables. They are recorded at fair value upon initial recognition and are subsequently measured at amortized cost using the effective interest method. The book value of accounts and other receivables approximate fair value due to their short term to maturity.

Capital Assets. Capital assets are carried at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the relevant lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture is ten years, equipment is five years and for computer hardware is three years. Leasehold improvements are depreciated over the term of the respective lease. Software is amortized over its estimated useful life and is assessed on an individual basis.

The gain or loss arising on the disposal or retirement of an item of capital assets is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized under general expenses.

Accounts Payable and Accrued Liabilities. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest method. The book value of accounts payable and accrued liabilities approximate fair value due to their short term to maturity.

Provisions for Guarantees and Insurance Losses. In its financial statements, the Corporation records the following provisions for guarantees and insurance losses:

> *Provision for Guarantees*—In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.
>
> *Provision for Insurance Losses*—The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions.
>
> The provision for insurance losses is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and (iii) an expected loss given default. The Corporation calculates its losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage and reflects the cumulative un-weighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

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

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

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

Pension Plan. All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Employee Future Benefits. Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of the benefits earned by employees is actuarially determined using the projected benefit method prorated on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by this plan is 12 years.

Income Taxes. The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items, including fair value changes in available-for-sale financial assets, and their corresponding tax basis. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date.

International Financial Reporting Standards (IFRS). In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles with IFRS for all Publicly Accountable Enterprises. In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be for fiscal years starting on or after January 1, 2011.

In September 2009, the Public Sector Accounting Board confirmed that, for the purposes of their financial reporting, Government Business Enterprises (GBE) should adhere to the standards applicable to Publicly Accountable Enterprises in the *CICA Handbook—Accounting*, namely, IFRS. The Corporation is classified as a GBE and, as a result, will be required to report under IFRS for the year ended March 31, 2012, with IFRS-compliant comparatives for the year ended March 31, 2011, and an opening statement of financial position as at April 1, 2010.

3 – Fair Value

Investments are valued at quoted market prices and consequently fall under hierarchy level 1 for fair value disclosure purposes. Other than investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgments regarding current and future economic conditions and events, the risk characteristics of the instruments and other factors.

4 – Investments

All investments are highly liquid fixed rate contracts.

	March 31, 2010			March 31, 2009		
	Remaining term to maturity (in thousands of dollars)					
	Under 1 year	1 to 3 years	Total	Under 1 year	1 to 3 years	Total
Treasury bills	$ 86,582	$ –	$ 86,582	$305,478	$ –	$ 305,478
Weighted average effective yield (%)	0.48	–	0.48	2.40	–	2.40
Bonds	732,365	1,114,375	1,846,740	580,407	883,531	1,463,938
Weighted average effective yield (%)	1.85	1.44	1.61	3.05	1.80	2.29
Other	20,501	–	20,501	800	–	800
Weighted average effective yield (%)	0.20	–	0.20	0.45	–	0.45
Total investments	**$839,448**	**$1,114,375**	**$1,953,823**	**$886,685**	**$883,531**	**$1,770,216**
Weighted average effective yield (%)	**1.67**	**1.44**	**1.54**	**2.82**	**1.80**	**2.31**

	March 31, 2010				March 31, 2009
	(in thousands of dollars)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value
Treasury bills	$ 86,564	$ 18	$ –	$ 86,582	$ 305,478
Bonds	1,847,483	–	(743)	1,846,740	1,463,938
Other	20,501	–	–	20,501	800
Total investments	**$1,954,548**	**$ 18**	**$ (743)**	**$1,953,823**	**$1,770,216**

5 – Capital Assets

During the year, changes in capital assets were as follows:

	2010 (in thousands of dollars)				2009 (in thousand of dollars)			
	Computer Hardware	Furniture, Equipment and Other	Leasehold Improvements	Total	Computer Hardware	Furniture, Equipment and Other	Leasehold Improvements	Total
Cost								
Beginning of year	$3,626	$ 943	$1,069	$5,638	$3,476	$655	$1,058	$5,189
Additions	608	1,063	1,397	3,068	670	296	11	977
Retirements	(344)	–	–	(344)	(520)	(8)	–	(528)
Balance at end of year	$3,890	$2,006	$2,466	$8,362	$3,626	$943	$1,069	$5,638
Accumulated Depreciation								
Beginning of year	$2,587	$ 572	$ 838	$3,997	$2,631	$512	$ 698	$3,841
Depreciation expense	564	296	140	1,000	476	68	140	684
Retirements	(344)	–	–	(344)	(520)	(8)	–	(528)
Balance at end of year	$2,807	$ 868	$ 978	$4,653	$2,587	$572	$ 838	$3,997
Carrying amount	**$1,083**	**$1,138**	**$1,488**	**$3,709**	**$1,039**	**$371**	**$ 231**	**$1,641**

The Corporation is renovating its premises and, as a result, at March 31, 2010, construction costs of $1,397 thousand have been incurred for leasehold improvements that are not yet in use. These costs have not been amortized.

6 – Provisions for Guarantees and Insurance Losses

The following table is a continuity schedule of the provision for guarantees and the provision for insurance losses as at March 31, 2010, with corresponding totals as at March 31, 2009.

	March 31, 2010			March 31, 2009
	(in thousands of dollars)			
	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	$ –	$ 800,000	$ 800,000	$650,000
Receipts	43	–	43	503
Write-offs	–	–	–	–
Adjustment to provisions for guarantees and insurance losses	(43)	300,000	299,957	149,497
End of period	**$ –**	**$1,100,000**	**$1,100,000**	**$800,000**

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

7 – Variable Interest Entities

Effective April 1, 2005, the Corporation adopted AcG-15 issued by the CICA, which required the consolidation of certain VIEs that are subject to control on a basis other than through ownership of a majority of voting interest.

AcG-15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. ACC is such a VIE. AcG-15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it is exposed to the majority of the expected losses or will receive the majority of the expected residual returns, or both. CDIC is considered the primary beneficiary of ACC. Therefore, for accounting purposes, ACC is consolidated with the financial statements of CDIC.

The Corporation's interest in ACC is associated with the failure of Central Guaranty Trust Company (CGT) and Central Guaranty Mortgage Corporation (now ACC). On December 31, 1992, CDIC supported the transfer of assets valued at $9.8 billion from these institutions to The Toronto-Dominion Bank with a package of income and capital recovery guarantees. The resolution of the failure was also facilitated through a loan of $1.6 billion made by CDIC to ACC whereby ACC purchased the majority of the remaining assets from CGT. The purpose of ACC is to manage and dispose of its assets in an orderly and expeditious manner, to maximize the repayment of the loan from CDIC.

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of $1.2 million (2009: $1.3 million), an increase in liabilities of $19 thousand (2009: $nil), as well as an increase in total revenue of $6 thousand (2009: $48 thousand) and an increase in total expenses of $170 thousand (2009: $265 thousand). As a result, the impact on the Corporation's retained earnings is $1.0 million (2009: $1.3 million).

8 – Capital Management

The Corporation's capital is comprised of retained earnings. CDIC is not subject to externally imposed capital requirements. There has been no change in what the Corporation considers as capital and management of capital was performed on a basis consistent with that of the preceding year.

The Corporation has determined that it is prudent to maintain an amount of advance or *ex ante* funding to absorb losses. The amount of such funding is represented by the aggregate of the Corporation's capital and its provision for insurance losses. The target range for the *ex ante* fund is between 40 and 50 basis points of insured deposits.

The Corporation is exposed to two types of losses related to its insurance obligations; those losses that it is likely to incur and residual exposure to losses that cannot be reasonably estimated due to insufficient data. On an annual basis the Corporation estimates the losses that it is likely to incur and records such estimate as a provision for insurance losses (see Note 6).

The target range for the level of capital that should be available to absorb losses that cannot be reasonably estimated is the residual target range for the *ex ante* fund after deducting the provision for insurance losses.

The Corporation has not yet achieved the bottom of the target range for capital as determined by the *ex ante* funding process. The key mechanism used to manage the level of capital is premium rates (see Note 12). CDIC will determine the disposition of any capital above the target range once such level has been attained.

Ex Ante Fund

	Actual March 31, 2010	Actual March 31, 2009	Target Range* March 31, 2010	
	(in thousands of dollars)			
			Low	High
Retained earnings	$ 858,087	$ 960,211	$1,260,050	$1,850,063
Basis points of insured deposits	14*	18**	21	31
Provision for insurance losses	1,100,000	800,000	1,100,000	1,100,000
Basis points of insured deposits	19*	16**	19	19
Total	**$1,958,087**	**$1,760,211**	**$2,360,050**	**$2,950,063**
Total basis points of insured deposits	**33***	**34****	**40**	**50**

* Based on level of insured deposits as at April 30, 2009
** Based on level of insured deposits as at April 30, 2008

9 – Financial Risk Management

The Corporation's assets consist primarily of its investment portfolio. CDIC's investment strategy is based on two key principles, that is, limiting credit and market risk to preserve principal and the use of the investment portfolio as the initial funding source for intervention activity. CDIC has a comprehensive risk management framework to evaluate, monitor and manage its risks. All risks, financial and other, are managed in accordance with an Enterprise Risk Management (ERM) framework which sets out the Board's responsibilities. The ERM process and results are subject to validation by the Corporation's internal audit function. Formal policies are in place for all significant financial risks to which CDIC is exposed. The policies are reviewed regularly, at least annually, in order to ensure that they continue to be appropriate and prudent. Significant financial risks that arise from transacting and holding financial instruments include credit, liquidity and market risks.

Credit Risk. Credit risk is defined as the risk of loss attributable to counterparties failing to honour their obligation, whether on- or off-balance sheet, to CDIC. CDIC's maximum exposure to credit risk is the carrying amount of investment assets and accounts and other receivables held on the Consolidated Balance Sheet. None of the accounts and other receivables are past due.

The credit risk policy sets out, among other things, that the Board of Directors shall approve investment dealers, securities vendors, agents acting on behalf of CDIC and others with whom CDIC is authorized to deal respecting financial transactions. Investments are to be held with approved creditworthy counterparties that must have a minimum credit rating from an external credit rating agency (Standard & Poor's or Moody's). CDIC cannot exceed Board approved limits for transactions, by transactor, either individually or on a combined basis.

The Corporation's financial risk policies limit investments to Government of Canada or provincially guaranteed securities as well as debt issued by municipal financing authorities. Risk is further limited by setting a maximum amount and term for each investment. Counterparties for investments of less than three years must have a minimum credit rating of A at the time of acquisition. The Corporation's investments of more than three years are restricted to Government of Canada securities having a minimum credit rating of AA-.

Further, CDIC adheres to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations* in order to minimize its credit risk.

The following table summarizes the credit quality of CDIC's investment portfolio by credit rating:

Credit Rating*	2010	2009
	(in thousands of dollars)	
AAA	$1,683,567	$1,475,588
AA+	22,560	68,858
AA	10,828	123,495
AA-	200,802	70,358
A+	36,066	31,917
Total	$1,953,823	$1,770,216

*As rated by Standard & Poor's

CDIC may at times intervene in one capacity or another, in providing financial assistance to a troubled financial institution, either in the form of a loan, by guarantee or otherwise. The Corporation could also have to make payouts to insured depositors in the event of a member institution failure. The latter action results in claims receivable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed member institutions, thus exposing CDIC to additional credit risk. The Corporation is closely involved in the asset realization process of these failed institutions in order to mitigate credit risk and minimize any potential loss to CDIC. The Corporation does not currently have such claims.

Liquidity Risk. Liquidity risk is defined as the risk that funds will not be available to CDIC to honour its cash obligations, whether on- or off-balance sheet, as they arise.

Exposure to liquidity risk relates firstly to funding ongoing day-to-day operations. Potential cash requirements could also arise to fund payouts of insured deposits in the case of a member institution failure or to provide financial assistance to a troubled institution. The predictability of these events is difficult. The Corporation's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. The Board receives reports on risk exposures (semi-annually) and performance against approved limits (quarterly). The Asset/Liability Committee (ALCO) provides senior management oversight of liquidity risks through their regularly scheduled meetings.

The liquidity risk policy sets out, among other things, management's responsibilities in managing the Corporation's investment portfolio while respecting, firstly, the parameters established under all the financial policies and, secondly, CDIC's mandate and statutory objects. The maturity profile of the portfolio is to be matched against maturing debt, if any, or any other cash outflow requirements and is also to comply with Board approved term to maturity portfolio allocations.

The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC can borrow up to $15 billion (adjusted annually by the rate of insured deposit growth) or such greater amount as may be authorized by Parliament under an appropriation act.

Market Risk. Market risk is defined as the risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market prices (due to changes in interest rates, foreign exchange rates and other price risks).

Principal exposures to market risk relate to the Corporation holding financial assets or liabilities where values are influenced by market conditions, such as its investment portfolio. CDIC's main exposure to market risk is through interest rate risk. The Corporation's exposure to foreign exchange risks and other price risks is insignificant.

Interest Rate Risk

The Corporation accounts for its investments at fair market value, and, by doing so, it obtains a clear picture of the impact of changes in interest rates on the value of its investments. The difference between the amortized cost of its investments and their fair market value is found in Accumulated Other Comprehensive Income, on an after-tax basis, in the Equity section of the Consolidated Balance Sheet. From a Consolidated Balance Sheet perspective, the impact of interest rate movements on the value of CDIC's investments is not significant relative to the size of the Corporation's conservatively structured investment portfolio, due to the portfolio's high quality and its short term to maturity. From a Consolidated Statement of Income perspective, however, movement in interest rates can have a significant impact on the Corporation's investment income due to the size of its investment portfolio and the relative importance of the revenue it generates. CDIC actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances while diligently respecting approved policies. Interest rate shock analyses are performed on a regular basis on the Corporation's investments to evaluate the impact of possible interest rate fluctuations on interest income. Other financial assets exposed to interest rate risk include cash which is held at short-term interest rates.

Based on the Corporation's investment portfolio as at March 31, 2010 (March 31, 2009, for comparative period), the following table shows how after-tax net income and other comprehensive income would have been affected by a 100 basis point increase or by a 25 basis point decrease in interest rates.

	Net Income		Other Comprehensive Income (Loss)	
	2010	2009	2010	2009
	(in thousands of dollars)			
100 basis point increase	$10,147	$ 8,220	$ (12,346)	$ (11,087)
25 basis point decrease	$ (2,537)	$ (2,055)	$ 6,720	$ 3,056

Currency Risk and Other Price Risk

The market risk policy sets out, among other things, management's responsibility to not expose the Corporation to any material equity, foreign exchange or commodity related positions. CDIC cannot engage in trading financial instruments other than to meet its liquidity requirements, which are funding day-to-day operations and funding intervention solutions respecting member institutions.

10 – Income Taxes

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest on investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act* the Corporation's premium revenue is not taxable. A reconciliation of the Corporation's income tax expense, related to the Corporation's net income, is as follows:

	March 31, 2010	March 31, 2009
	(in thousands of dollars)	
Statutory tax rate	29%	29%
Income tax expense at the federal statutory rate	$(29,207)	$ (8,448)
Increase (decrease) resulting from:		
Non-taxable premium revenue	(56,867)	(27,129)
Recovery of amounts previously written-off	(12)	–
Increase (decrease) to allowance and provision for loss	86,250	43,922
Other	(125)	(352)
Income tax expense	**$ 39**	**$ 7,993**

Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. As at March 31, 2010, $0.9 million of undepreciated capital cost (2009: $2.8 million), $1.1 million in accrued severance costs and $0.7 million relating to unrealized gain (loss) on available-for-sale assets (2009: $16.0 million) has been applied, in calculating the future income tax asset of $0.8 million (2009: $3.9 million future income tax liability).

11 – Accumulated Other Comprehensive Income

	March 31, 2010	March 31, 2009
	(in thousands of dollars)	
Opening balance	$ 11,294	$ 8,005
Other comprehensive income (loss)	(11,811)	3,289
Accumulated other comprehensive income (loss)	**$ (517)**	**$11,294**

12 – Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2009, were $590 billion (2008: $512 billion).

Under CDIC's *Differential Premiums By-law*, members are classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for 2010 are 1/54th of 1% of insured deposits for members in Category 1 (2009: 1/72nd of 1%), 1/27th of 1% for Category 2 (2009: 1/36th of 1%), 2/27th of 1% for Category 3 (2009: 1/18th of 1%) and 4/27th of 1% for members in Category 4 (2009: 1/9th of 1%). Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of the membership and the actual and projected size of the Corporation's *ex ante* fund relative to the target range.

13 – Operating Expenses

	March 31, 2010	March 31, 2009
	(in thousands of dollars)	
Salaries and other personnel costs	$14,804	$12,573
Professional and other fees	5,976	3,381
General expenses	2,809	3,622
Premises	2,703	2,546
Public awareness	3,482	2,757
Data processing	1,567	1,677
	31,341	26,556
Expense recoveries		
Related parties	511	665
Other	275	275
Operating Expenses	**$30,555**	**$25,616**

The Corporation provides call centre services to two related parties, the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions on a cost-recovery basis. In addition, the Autorité des marchés financiers in Québec contributes to the Corporation's public awareness campaign based on agreement between the parties and such contributions are reflected above under other expense recoveries. The associated costs are included in the relevant expense categories.

14 – Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation has transacted with related parties through both the provision and receipt of various services. Such transactions were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

There are no material related party transactions and balances that are not already disclosed in the notes.

15 – Contingent Liabilities

ACC, the consolidated VIE, is involved in a judicial action that has arisen in the normal course of operations. In the opinion of ACC this action will not likely result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to the legal proceeding pending at March 31, 2010, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

16 – Commitments

The lease agreement for the Corporation's Ottawa office expires September 30, 2010. In fiscal 2009/2010, the Corporation entered into a new lease agreement with its existing landlord, expanding leased space, for an additional 10 years. The lease agreement contains two renewal options, each for an additional five-year period. The lease agreement included lease incentives in the form of rent-free periods and a leasehold improvement allowance of $1.5 million. The deferred lease inducements are included in accounts payable and other accrued liabilities, and will be allocated against rent expense over the term of the lease.

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2010, are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2011	$ 1,389
2012	1,365
2013	1,114
2014	1,114
2015	1,118
2016–2021	6,577
Total	**$12,677**

17 – Employee Future Benefits

a) Pension Benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. As required under present legislation the contributions made by the Corporation to the Plan are 1.94 times (2009: 1.91 times) the employees' contribution on amounts of salaries below $139.5 thousand (2009: $136.7 thousand) and 8.9 times (2009: 7.5 times) the employees' contribution on amounts of salaries in excess of $139.5 thousand (2009: $136.7 thousand). The contributions during the year were as follows:

	March 31, 2010	March 31, 2009
	(in thousands of dollars)	
Employer	$1,825	$1,565
Employee	$ 731	$ 611

b) Severance Benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. The benefit plan is unfunded, requires no contributions from employees and thus has no assets. The benefit plan has a plan deficit equal to the accrued benefit liability. Benefits will be paid from the Corporation's operations. The balance as at March 31, 2009, was $758 thousand.

The accrued benefit liability was actuarially determined for the first time at March 31, 2010. As a result of the March 31, 2010, valuation, an adjustment of $879 thousand was recorded to increase the liability to $1,637 thousand. The current year's expense for the benefits is $154 thousand, the interest cost is $66 thousand and the amortization of the actuarial loss is $26 thousand. The remaining unamortized net actuarial loss as at March 31, 2010, is $133 thousand. The actuarial assumptions adopted in measuring the Corporation's accrued benefits obligation and benefit costs were based on a 4.0% liability discount rate and rates of compensation increases of 1.5%.

The next annual valuation will be performed as at March 31, 2011.

CORPORATE GOVERNANCE 3

Savings Protection Canadians Can Count On

This section provides a description of CDIC's corporate governance activities over the past year.

GOOD GOVERNANCE

CDIC remains committed to maintaining a strong governance framework—one that meets Canadians' expectations and sustains confidence in the Corporation. Sound governance has been a priority for CDIC for many years and remained one of CDIC's corporate strategies this past year.

This section contains information about CDIC's Board of Directors' mandate and composition, the mandate and composition of each of the Board Committees (the Audit Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee, the Executive Committee, and the Search Committee). The section also contains information regarding Directors' attendance at Board and Committee meetings, public service expectations and CDIC's officers.

OAG 2010 Special Examination Report

In 2009, CDIC underwent a Special Examination of its systems and practices as required by the *Financial Administration Act*. The Office of the Auditor General (OAG) must conduct a Special Examination of CDIC at least once every 10 years. The Auditor General's report was presented to the CDIC Board of Directors by Ms. Sheila Fraser, the Auditor General of Canada, and Mr. Clyde MacLellan, the Assistant Auditor General, at the Board's meeting of March 3, 2010.

In order to proceed with the Special Examination, a plan for the examination, including a statement of the criteria to be applied, was prepared by the OAG and submitted to the CDIC Audit Committee for its approval. In its report, the OAG found that CDIC has the key elements of a good governance framework and its governance practices are consistent with best-practice expectations for stewardship by boards of directors. In addition, its systems and practices for human resources management provide CDIC with the core competencies and skills it needs to meet its objectives. The OAG found that CDIC identifies and monitors risk and reports on its risk assessment to the Board's Audit Committee each year. It also carries out ongoing risk assessment of its member institutions, which enables it to keep track of developments affecting them and the financial services sector in general. Since the previous Special Examination in 2004, CDIC has improved its readiness to intervene in the affairs of a troubled member. In addition, the OAG found that CDIC has a sound strategic planning process. The OAG recommended that CDIC improve its reporting on performance by including in its Corporate Scorecard not only the planned key initiatives and key performance indicators currently presented but also an indication of its progress toward meeting its stated intended outcomes. (The report and the examination criteria may be found on CDIC's website at **www.cdic.ca**.)

On the basis of an examination of CDIC's systems and practices, the OAG determined that "during the period covered by the examination, based on the criteria established for the examination, the Canada Deposit Insurance Corporation has maintained systems and practices that provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively."

CDIC's management response is set out in the report and indicates that it recognizes the importance of a sound performance management system, a key component of which is the public reporting of progress towards achieving corporate initiatives in support of corporate strategies. Management will reconsider its performance measurement and reporting practices with a view to improving the current approach wherever practical and in line with best practices. Management will also consider how it may be able to present a stronger relationship between financial and non-financial information.

Any changes must, however, continue to take into account the confidentiality of member information as well as the need to preserve the stability of the financial system. Such changes will be incorporated into the 2011/2012 to 2015/2016 Corporate Plan and be reported publicly in the 2012 Annual Report.

BOARD COMPOSITION IN 2009/2010

Board of Directors Mandate and Composition

Chairperson

Bryan P. Davies
Chair of the Board
Canada Deposit Insurance Corporation
Joined Board: June 2006

CDIC's affairs are administered by its Board, made up of a Chairperson, five other private sector Directors and five *ex officio* Directors (the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions (SOFI), a Deputy Superintendent of Financial Institutions or another officer of the Office of the Superintendent of Financial Institutions (OSFI) appointed by the Minister, and the Commissioner of the Financial Consumer Agency of Canada (FCAC)). Biographical information about each Director is also available on CDIC's website (**www.cdic.ca**).

The Board of Directors provides strategic guidance to management and oversees the activities of the Corporation. The Board's commitment to effective stewardship of the Corporation and its overall mandate are outlined in the Board Charter, also available on CDIC's website.

Private Sector Directors

Les Cannam, FCA
Chartered Accountant
Saskatoon, Saskatchewan
Joined Board: January 2009
Appointed for a three-year term

Nancy Lockhart
Business Executive
Toronto, Ontario
Joined Board: December 2007
Appointed for a three-year term

John S. McFarlane
Lawyer
Halifax, Nova Scotia
Joined Board: September 2008
Appointed for a three-year term

Éric Pronovost
Chartered Accountant
Trois-Rivières, Québec
Joined Board: September 2008
Appointed for a three-year term

Shelley M. Tratch
Lawyer
Vancouver, British Columbia
Joined Board: December 2006
Re-appointed December 2009 for a three-year term

Ex Officio Directors

Mark Carney
Governor
Bank of Canada
Joined Board: February 2008
Appointed for a seven-year term

Julie Dickson
Superintendent of Financial Institutions
Office of the Superintendent of Financial Institutions
Joined Board: October 2006
Appointed for a seven-year term

Michael Horgan
Deputy Minister
Department of Finance
Joined Board: September 2009
Appointed to hold office during pleasure

Ursula Menke
Commissioner
Financial Consumer Agency of Canada
Joined Board: December 2007
Appointed for a five-year term

Ted Price
Assistant Superintendent
Supervision Sector
Office of the Superintendent of Financial Institutions
Joined Board: January 2007
Appointed pursuant to s. 5(1)(b.1) of the CDIC Act

Robert Wright
Former Deputy Minister
Department of Finance
Board member from June 2006 to July 2009
Appointed to hold office during pleasure

Names in bold denote current Board members.

Board of Directors Mandate and Composition

Alternates (for *Ex Officio* Directors)

Pierre Duguay
Deputy Governor
Bank of Canada
Appointed Alternate: September 2005

Jeremy Rudin
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance
Appointed Alternate: October 2008

At each regular Board meeting, the Directors set aside a period of time to meet without any representatives from CDIC management present.

Education and Training

A Board training session was devoted to reviewing CDIC intervention activities and the Board's role therein. Continuing education opportunities for all Directors were made available throughout the year.

BOARD COMMITTEES

CDIC's Board had four standing committees in 2009/2010—the Audit Committee, the Human Resources and Compensation Committee (HRCC), the Governance and Nominating Committee (GNC), and the Executive Committee. The mandate of each Committee is set out in the Committee Charters, available at **www.cdic.ca** under "CDIC Board Committee Responsibilities." In addition, in October 2009 the Board established a Search Committee. The Search Committee is a special committee of the Board charged with overseeing the process for the search and selection of a new President and CEO.

Audit Committee Mandate and Composition

Audit Committee—oversees internal and external audits, advises the Board on financial issues (including the review of the Management's Discussion and Analysis (MD&A), which includes the consolidated financial statements and the Office of the Auditor General's attest audit) and oversees risk management

É. Pronovost (Chair)
Member since September 2008 and Chair since June 2009

B.P. Davies
Chair from January 2009 to June 2009

L. Cannam
Member since January 2009

N. Lockhart
Member since February 2008

J. McFarlane
Member since September 2008

T. Price
Member since January 2007

Names in bold denote current Committee members.

Human Resources and Compensation Committee Mandate and Composition

Human Resources and Compensation Committee—reviews and advises the Board on human resource issues (policies, succession planning, compliance with legal requirements, compensation, and any complaints concerning the President and CEO that may reach the Board)

S. Tratch (Chair)
Member since January 2007 and Chair since February 2008

B.P. Davies
Chair from September 2006 to February 2008 and Member since February 2008

J. Dickson
Member since February 2008

J. McFarlane
Member since September 2008

Governance and Nominating Committee Mandate and Composition

Governance and Nominating Committee—ensures appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities and succession planning for the private sector Directors

N. Lockhart (Chair)
Member since February 2008 and Chair since June 2009

B.P. Davies
Chair from September 2006 to June 2009 and Member since June 2006

U. Menke
Member since February 2008

S. Tratch
Member since January 2007

Executive Committee Mandate and Composition

Executive Committee—to meet, when required, at the request of the Board, the Chairperson or the President and CEO, to review any matter referred to it by the Board, the Chairperson or the President and CEO that would not be considered within the mandate of any other Committee of the Board; and to carry out such other functions as are assigned or delegated to it by the Board

B.P. Davies (Chair)
Member and Chair since June 2006

M. Carney
Member since February 2008

S. Tratch
Member since January 2009

Search Committee Mandate and Composition

Search Committee—is a special committee of the Board charged with overseeing the search and selection process of a new President and CEO

B.P. Davies (Chair)
Member and Chair since October 2009

J. Dickson
Member since October 2009

J. McFarlane
Member since October 2009

N. Lockhart
Member since October 2009

S. Tratch
Member since October 2009

Names in bold denote current Committee members.

Board members' attendance at the Board meetings and the Board Committee meetings in respect of which they are members is summarized on the following page.

Board and Committee Meetings and Attendance[a]
(April 1, 2009, to March 31, 2010)

		BOARD COMMITTEES				
	Board of Directors[b]	**Executive Committee**	**Human Resources and Compensation Committee**	**Audit Committee**	**Governance and Nominating Committee**	**Search Committee**
Number of Meetings	5	0	4	4	4	3
Attendance:						
Current Directors						
B.P. Davies—Chair	5		4	4	4	3
L. Cannam	5			4		
N. Lockhart	5			4	4	3
J. McFarlane	5		4	4		3
É. Pronovost	5			4		
S. Tratch	4		4		4	3
***Ex Officio* Members (Alternates)[c]**						
Bank of Canada[d]	3 (5)					
SOFI[e]	5		4			2
OSFI—Second Director[f]	4			2		
Department of Finance[g]	0 (4)					
FCAC[h]	5				4	

[a] Also includes meetings attended by telephone.

[b] Includes a training exercise of the Board.

[c] The names of the *ex officio* Directors who served on the Board during the year are listed below.

[d] **Bank of Canada**
Mark Carney
Pierre Duguay attended two meetings as Alternate for the Governor and three as an observer.

[e] **Superintendent of Financial Institutions**
Julie Dickson

[f] **Office of the Superintendent of Financial Institutions—Second Director**
Ted Price

[g] **Department of Finance**
Michael Horgan was appointed Deputy Minister effective September 8, 2009. He replaced Robert Wright, Deputy Minister, who retired on July 8, 2009.
Jeremy Rudin attended four meetings as Alternate for the Deputy Minister of Finance.

[h] **Financial Consumer Agency of Canada**
Ursula Menke

In 2009/2010, private sector Directors' fees for the performance of their services in respect of their office totalled $133,000. These Directors also incurred expenses of $106,000. In 2008/2009, private sector Directors' fees for the performance of their services in respect of their office totalled $213,000 and incurred expenses of $105,000. CDIC's internal audit function reviewed the foregoing and concluded that they were duly authorized, supported with documentation, complied with applicable corporate policies and appeared reasonable.

ADDRESSING PUBLIC SERVICE EXPECTATIONS

CDIC is mindful of and committed to meeting Canadians' public service expectations in areas such as codes of conduct, whistleblowing, compliance with legislation and policies, ethical behaviour and proactive disclosure. Key activities in 2009/2010 included:

- CDIC's *Code of Business Conduct and Ethical Behaviour for Directors*, its *Code of Business Conduct and Ethical Behaviour for Employees* and *Conflicts of Interest Code* reflect the commitment of CDIC and its Directors, officers and employees to continue to live up to CDIC's reputation as an organization with high ethical standards. Directors and employees annually confirm their intention to continue to adhere to these codes. The Board of Directors monitors compliance with the codes and other corporate practices related to business and employee conduct through the receipt of annual reports to its Audit Committee and Human Resources and Compensation Committee. These documents along with other governance-related materials are available at **www.cdic.ca**. CDIC conducted mandatory ethics training of its employees in January 2010. The sessions reviewed all relevant CDIC policies and codes related to business conduct and ethical behaviour and provided employees with an opportunity to build their knowledge through group work and scenario reviews.

- In order to maintain the highest standards of good corporate governance, CDIC conducted its Compliance Management Process (CMP) for the second consecutive year. CMP is a process whereby CDIC identifies all legislative and other requirements to which CDIC is subject or has chosen to follow, and assesses and reports on its status of compliance with those requirements. The Board received its second annual CMP report on the status of CDIC compliance during 2009/2010. CDIC was in compliance with all its key statutory responsibilities.

- CDIC knows from its research, and from practices carried out by deposit insurers around the world, that the success of a deposit insurance system hinges on consumers knowing the facts about its deposit insurance program. CDIC continued its ongoing efforts to increase public awareness of deposit insurance, and completed the first full year of its long-term public awareness program which consisted of television, Internet and print advertising, as well as search engine marketing. In order to support member institutions in providing information on deposit insurance to customers, CDIC developed and launched a training toolkit, the *CDIC Deposit Insurance Basics E-Learning Module*.

- The CDIC Board of Directors conducted Board of Directors and individual Director self-assessments.

- CDIC's Board held its fourth Annual Public Meeting (APM) in Halifax, Nova Scotia, on October 6, 2009. The APM is part of CDIC's commitment to be transparent. The meeting was well-attended by CDIC's principal target audience of Canadians aged 50 years and over, providing CDIC with an opportunity to inform them about the Corporation's mandate, and to answer their questions. The next APM is planned for the fall in Toronto, Ontario.

- The Office of the Auditor General (OAG) conducted a Special Examination of CDIC in 2009/2010, as required by the *Financial Administration Act*. (See box at the outset of this section, on page 57.)

CDIC'S OFFICERS

CDIC's officers, as of March 31, 2010, are set out below. Biographical information about each officer is available on the CDIC website (**www.cdic.ca**).

Guy L. Saint-Pierre
President and Chief Executive Officer
Appointed May 2005 (five-year term)

Michèle Bourque
Executive Vice-President, Insurance and Risk Assessment
Appointed December 2008
(Appointed President and Chief Executive Officer effective May 9, 2010)

M. Claudia Morrow
Vice-President, Corporate Affairs, General Counsel and Corporate Secretary
Appointed March 2003

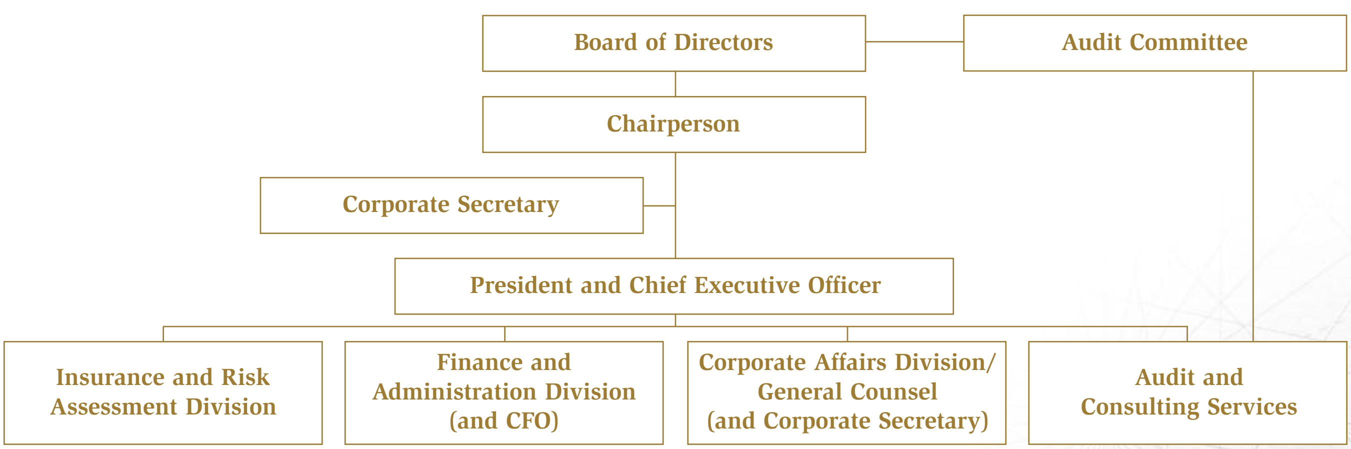
Thomas J. Vice
Vice-President, Finance and Administration, and Chief Financial Officer
Appointed March 2003

Salary ranges for CDIC's officers, as of March 31, 2009, are:

- for the position of President and Chief Executive Officer—$224,500–$264,100
- for the position of Executive Vice-President, Insurance and Risk Assessment—$190,125–$253,496
- for the position of Vice-President—$173,788–$231,704

CDIC discloses officers' travel and hospitality expenses on its website.

Organization Chart



A description of each division's function is available on CDIC's website (**www.cdic.ca**).

MEMBERSHIP PROFILE AND PERFORMANCE 4

Savings Protection Canadians Can Count On

This section of CDIC's Annual Report provides an overview of our member institutions and highlights their collective financial performance in 2009.

MEMBERSHIP PROFILE

As at March 31, 2010, the Corporation had 82 member institutions, an increase of one from the previous year. HomEquity Bank and Valiant Trust Company (a subsidiary of Canadian Western Bank) became new CDIC members while The Bank of Nova Scotia Trust Company ceased to take deposits and had its policy cancelled. A listing of CDIC members is presented on page 69 and is also posted on the CDIC website (**www.cdic.ca**).

CDIC has 56 distinct groups of member institutions based on affiliation with a parent institution. For the purposes of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, geographic reach of its operations and/or its primary business activities (see sidebar).

CDIC Member Peer Groups

International—largest banks; business activities extend across all business lines; includes some international exposure

Regional—business activities extend across most business lines but are geographically focused with some exposure to other regions of Canada

Residential—main business line is residential mortgages

Commercial—main business lines are smaller business loans or commercial mortgages

Consumer—main business lines are retail and investment loans to individuals

Fee Income—revenues largely derived from services and related fees, although these members do not necessarily operate in similar business lines

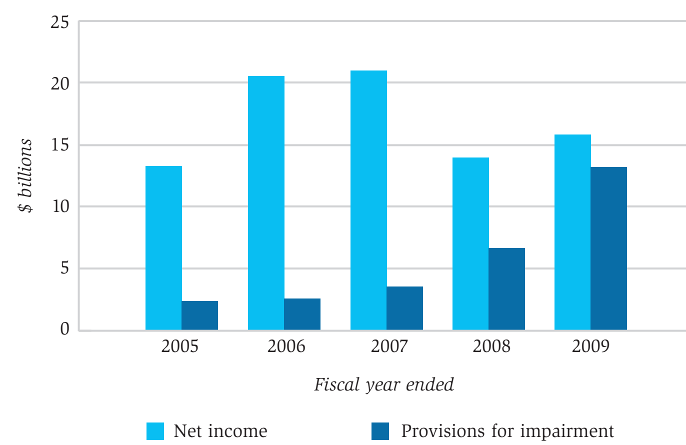
FINANCIAL PERFORMANCE

CDIC membership financial performance improved slightly in 2009, with aggregate after-tax profits of $15.9 billion compared to $14.0 billion in the prior year, but was still well below the record years in 2007 and 2006. Profitability for the membership, excluding the six largest members (and their subsidiaries), decreased by 11% during the year and certain asset quality measures, such as the amount of impaired loans, deteriorated.

Historically high household debt and concerns about the consumers' ability to service their borrowings have led to greater risk for members with less diversified and lower quality retail loan portfolios. Furthermore, large member banks continue to be challenged by their loan exposures to the U.S. However, large banks' financial performance improved in 2009 and capital and liquidity levels remained solid.

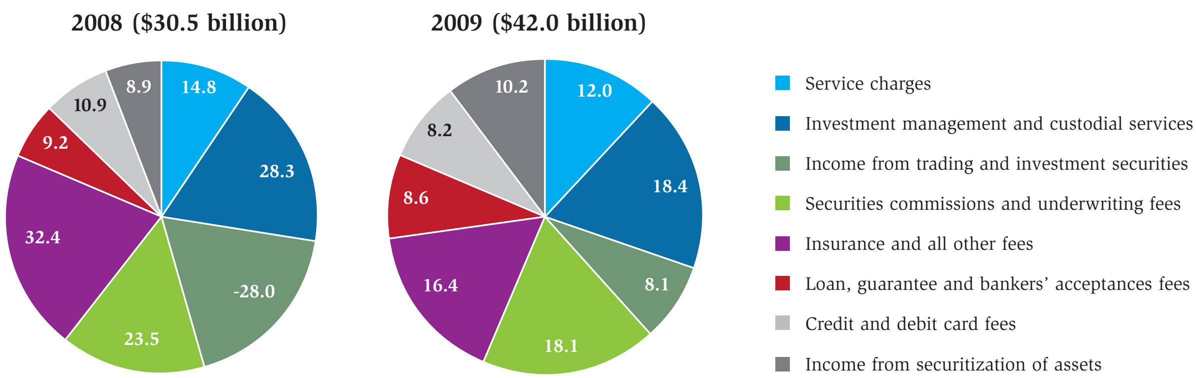
Non-interest income was 38% higher in 2009 due mainly to increases in trading and residential mortgage securitization revenues. This rebound follows a 30% drop in the prior year due largely to reduced capital markets activities. Net interest income increased 16% driven primarily by increases in residential mortgages and personal loans and a slight increase in interest rate spreads. This was partially off-set by higher provisions for credit losses.

Net Income and Provisions of CDIC Members*



*For members' fiscal year end

Components of Non-Interest Income* (%)



*For members fiscal year end

Increased activity in the financial markets contributes to rebound in non-interest income

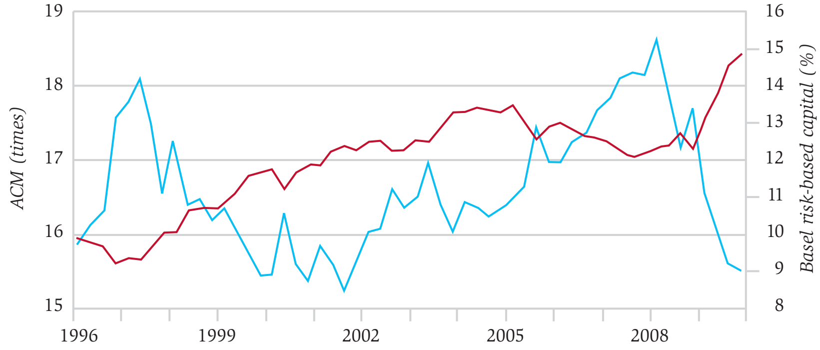
Income from trading and investment securities experienced a $12 billion positive swing in 2009, compared to the prior year, due to the absence of large write-downs of structured credit instruments. The large banks accounted for almost all of the increase in trading revenues. Securitization revenues, mainly those relating to insured residential mortgages, increased by 56% due to strong Canadian real estate activity as the total amount of securitized residential mortgages outstanding increased by about one third to over $200 billion in 2009.

Capital has improved

The average Basel total capital ratio for the membership increased significantly to 14.8% from 12.3%, and remained well above OSFI's capital requirements of 10%. Canadian banks remain adequately capitalized when compared to other banks in the world.

The assets-to-capital multiple (ACM) also improved from almost 18 times in 2008 to 16 times in 2009.

CDIC Membership Capitalization



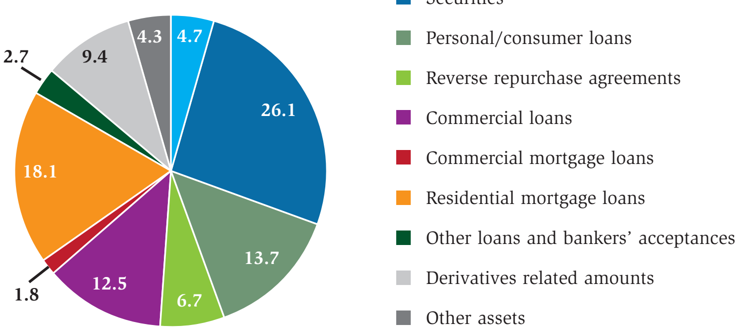
Insured deposits

Member institutions reported insured deposits of $590 billion as at April 30, 2009, an increase of 15% from the previous year. Total deposits increased by 3.5% to $1.6 trillion. In 2009, the percentage of insured deposits increased to 37% of total deposits compared to 33% in 2008, attributable in part to increased risk aversion by individuals as global equity markets declined in the early part of the year.

Low interest rates have resulted in a shift towards demand deposits relative to term deposits, with the former representing 55% of total deposits at December 31, 2009, compared to 47% in the prior year.

CDIC membership assets declined in 2009

Asset Mix* (%)
2009 ($2.80 trillion)



*As at members' fiscal year end

Assets declined 4% for the CDIC membership in 2009 due mainly to the decline in derivatives related balances as foreign exchange and interest rate markets were generally less volatile relative to the prior year. Commercial loans decreased 14% as the economic downturn reduced industry needs while other forms of corporate borrowing evidenced more stability. Strong real estate activity across Canada in the second half of the year combined with increased consumer loans resulted in a 4% increase in retail loans. The increase in retail lending was twice as large if securitized (off-balance sheet) residential mortgages are included. Growth continues to be more pronounced at smaller members involved in residential mortgage lending, several of which had annual growth exceeding 25%. Loans represented just over 55% of total assets. Retail loans increased to $891 billion while corporate and commercial loans declined to $662 billion in fiscal 2009.

Overall credit quality continued to deteriorate

Credit quality deteriorated across the CDIC membership with increased impaired loans and higher loans and securities losses. Provision for credit losses jumped 94% in 2009 to $13.2 billion, compared to $6.8 billion in 2008, and surpassed the prior high level of $9.3 billion experienced in 2002. Gross impaired loans continue to increase; however, allowances for credit losses have not kept pace, resulting in the deterioration of the coverage ratio of impaired loans. For some smaller members, measures such as the level of impaired loans, loan arrears and loan losses are approaching levels observed in past recessions.

CDIC insurance risk is acceptable but caution is still needed in the coming year

While the Canadian economic recovery is well underway, it remains fragile in 2010. High unemployment and bankruptcy rates could continue for several more quarters possibly leading to a further deterioration in credit quality. Both large and small CDIC members face threats of rising loan defaults in Canada as asset impairment does not typically peak until at least one to two years after the start of a recession. A significant and prolonged decline in Canadian real estate prices would represent a significant threat to CDIC members.

CDIC continues to be concerned with trends at some institutions, particularly those with rapid asset growth and members holding elevated and rising levels of high-risk loans. CDIC addresses these concerns by maintaining its focus on Strenghtening Core Expertise and Readiness as one of CDIC's three corporate strategies. (See the Management's Discussion and Analysis section for more details.)

COMPARATIVE MEMBERSHIP INFORMATION

The following profile, which provides comparative information about CDIC's membership, is not intended to comment on risk to CDIC. It has been prepared from financial information supplied by the members through the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI), and from financial information received directly by CDIC. The financial information is presented as aggregates and averages; for this reason, financial information for individual members can vary significantly from these amounts.

The membership information includes:

- member institutions
- membership changes
- summary financial information—total CDIC membership
- deposit liabilities in Canada
- profitability measures
- capitalization measures
- asset quality measures

It should be noted that, in its five-year tables, CDIC restates the peer group results of prior years to reflect the current year's membership. Accordingly, the following tables exclude the financial information of institutions that were no longer members as of March 31, 2010.

Membership Information

CDIC Members as at March 31, 2010[1]

Domestic Banks and Subsidiaries

Member Institutions	Peer Group
Bank of Montreal Bank of Montreal Mortgage Corporation BMO Trust Company	International
Bank of Nova Scotia (The) Dundee Bank of Canada Maple Trust Company Montreal Trust Company of Canada National Trust Company Scotia Mortgage Corporation	International
Bank West	Consumer
Bridgewater Bank	Residential
Canadian Imperial Bank of Commerce CIBC Mortgages Inc. CIBC Trust Corporation	International
Canadian Tire Bank	Consumer
Canadian Western Bank Canadian Western Trust Company Valiant Trust Company	Regional
Citizens Bank of Canada	Residential
CS Alterna Bank	Residential
DirectCash Bank	Fee Income
First Nations Bank of Canada	Commercial
General Bank of Canada	Consumer
HomEquity Bank	Residential
Jameson Bank	Fee Income
Laurentian Bank of Canada B2B Trust Laurentian Trust of Canada Inc. LBC Trust	Regional
Manulife Bank of Canada	Residential
National Bank of Canada Natcan Trust Company National Bank Trust Inc.	Regional
Pacific & Western Bank of Canada	Commercial
Royal Bank of Canada Royal Bank Mortgage Corporation Royal Trust Company (The) Royal Trust Corporation of Canada	International
Toronto-Dominion Bank (The) Canada Trust Company (The) TD Mortgage Corporation TD Pacific Mortgage Corporation	International
Total: 42	

Domestic Trust and Loan Companies and Associations

Member Institutions	Peer Group
AGF Trust Company	Consumer
Caledon Trust Company	Fee Income
CIBC Mellon Trust Company	Fee Income
Community Trust Company	Commercial
Concentra Financial Services Association Concentra Trust	Residential
Desjardins Trust Inc.	Fee Income
Effort Trust Company (The)	Residential
Equitable Trust Company (The)	Residential
Home Trust Company	Residential
Industrial Alliance Trust Inc.	Fee Income
League Savings and Mortgage Company	Residential
MCAN Mortgage Corporation	Residential
M.R.S. Trust Company Investors Group Trust Co. Ltd.	Consumer Residential
Peace Hills Trust Company	Commercial
Peoples Trust Company	Residential
RBC Dexia Investor Services Trust	Fee Income
ResMor Trust Company	Residential
Sun Life Financial Trust Inc.	Residential
Total: 20	

Subsidiaries of Foreign Institutions

Member Institutions	Peer Group
Amex Bank of Canada	Consumer
Bank of China (Canada)	Commercial
Citibank Canada	Fee Income
Computershare Trust Company of Canada	Fee Income
CTC Bank of Canada	Commercial
First Data Loan Company, Canada	Fee Income
Habib Canadian Bank	Commercial
HSBC Bank Canada Household Trust Company HSBC Mortgage Corporation (Canada) HSBC Trust Company (Canada)	Regional
ICICI Bank Canada	Commercial
Industrial and Commercial Bank of China (Canada)	Commercial
ING Bank of Canada	Residential
Korea Exchange Bank of Canada	Consumer
MBNA Canada Bank	Consumer
Mega International Commercial Bank (Canada)	Commercial
Shinhan Bank Canada	Consumer
State Bank of India (Canada)	Commercial
UBS Bank (Canada)	Fee Income
Total: 20	

Total: 82 members

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

Membership Changes
April 1, 2009–March 31, 2010

New Members

October 13, 2009: HomEquity Bank
October 15, 2009: Valiant Trust Company

Other Membership Changes

January 15, 2010: The Bank of Nova Scotia Trust Company ceased to accept deposits—policy cancelled

Summary Financial Information—Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2009		2008		2007		2006		2005	
	$	%	$	%	$	%	$	%	$	%
Assets										
Cash resources	131.5	4.7	146.0	5.0	129.7	5.3	112.8	5.1	102.8	5.2
Securities	732.5	26.2	663.6	22.6	642.4	26.1	626.5	28.1	527.1	26.6
Loans and acceptances	1,552.9	55.4	1,587.8	54.2	1,384.7	56.3	1,255.4	56.4	1,113.7	56.3
Other assets	384.1	13.7	531.8	18.2	301.4	12.3	232.6	10.4	236.0	11.9
Total assets	**2,801.0**	**100.0**	**2,929.2**	**100.0**	**2,458.2**	**100.0**	**2,227.3**	**100.0**	**1,979.6**	**100.0**
Liabilities										
Deposits	1,854.7	66.2	1,903.4	65.0	1,618.5	65.8	1,479.9	66.5	1,329.4	67.2
Other liabilities	786.9	28.1	888.4	30.3	728.4	29.6	644.2	28.9	559.4	28.3
Total liabilities	**2,641.6**	**94.3**	**2,791.8**	**95.3**	**2,346.9**	**95.4**	**2,124.1**	**95.4**	**1,888.8**	**95.5**
Shareholders' equity	159.4	5.7	137.4	4.7	111.3	4.6	103.2	4.6	90.8	4.5
Total liabilities and shareholders' equity	**2,801.0**	**100.0**	**2,929.2**	**100.0**	**2,458.2**	**100.0**	**2,227.3**	**100.0**	**1,979.6**	**100.0**

Income Statement ($ millions)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
Interest income	90,296	111,171	111,630	93,727	74,097
Interest expense	41,167	68,749	75,558	60,179	41,277
Net interest income	**49,129**	**42,422**	**36,072**	**33,548**	**32,820**
Provision for impairment	13,194	6,809	3,479	2,413	1,982
Net interest income after provision for impairment	**35,935**	**35,613**	**32,593**	**31,135**	**30,838**
Non-interest income	41,986	30,523	43,409	42,689	37,367
Net interest income and non-interest income	**77,921**	**66,136**	**76,002**	**73,824**	**68,205**
Non-interest expenses	57,399	51,013	49,831	47,181	49,065
Net income before provision for income taxes	**20,522**	**15,123**	**26,171**	**26,643**	**19,140**
Provision for income taxes	4,447	1,240	4,896	5,618	5,388
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**16,075**	**13,883**	**21,275**	**21,025**	**13,752**
Non-controlling interest in net income of subsidiaries and extraordinary items	184	-75	245	373	506
Net income	**15,891**	**13,958**	**21,030**	**20,652**	**13,246**

Deposit Liabilities in Canada—By Member Peer Group

Total Deposits ($ billions and percentage)

As at April 30	2009		2008		2007		2006		2005	
	$	%	$	%	$	%	$	%	$	%
International	1,330.7	83.6	1,305.5	84.9	1,204.7	84.6	1,074.1	85.0	1,003.2	85.9
Regional	157.7	9.9	146.6	9.5	143.8	10.1	128.0	10.1	112.3	9.6
Residential	56.4	3.6	49.1	3.2	41.0	2.9	35.5	2.8	29.5	2.5
Commercial	9.6	0.6	7.2	0.5	5.2	0.4	3.9	0.3	3.0	0.3
Consumer	14.6	0.9	11.3	0.7	7.6	0.5	5.0	0.4	3.6	0.3
Fee Income	22.5	1.4	18.1	1.2	21.9	1.5	17.1	1.4	16.8	1.4
Membership	**1,591.5**	**100.0**	**1,537.8**	**100.0**	**1,424.2**	**100.0**	**1,263.6**	**100.0**	**1,168.4**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits)

As at April 30	2009		2008		2007		2006		2005	
	$	%	$	%	$	%	$	%	$	%
International	460.1	34.6	402.5	30.8	382.1	31.7	371.1	34.5	358.5	35.7
Regional	68.5	43.4	60.0	40.9	54.4	37.8	50.5	39.5	46.5	41.4
Residential	43.2	76.6	36.5	74.3	31.0	75.6	26.6	74.9	22.3	75.6
Commercial	7.3	76.0	5.3	73.6	3.8	73.1	2.5	64.1	1.7	56.7
Consumer	8.3	56.8	6.4	56.6	4.4	57.9	3.1	62.0	2.4	66.7
Fee Income	2.5	11.1	1.6	8.8	1.3	5.9	1.5	8.8	1.3	8.1
Membership	**589.9**	**37.1**	**512.3**	**33.3**	**477.0**	**33.5**	**455.3**	**36.0**	**432.7**	**37.1**

Profitability Measures—By Member Peer Group

Efficiency (percentage)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
International	63.9	71.6	62.3	62.0	71.0
Regional	59.2	64.0	67.3	62.8	63.6
Residential	49.6	54.0	57.6	56.0	58.2
Commercial	63.7	69.8	67.9	59.6	81.2
Consumer	48.3	54.1	58.9	59.3	61.9
Fee Income	79.8	75.4	72.4	60.5	58.5
Membership	**63.0**	**69.9**	**62.7**	**61.9**	**69.9**

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

Non-Interest Income (percentage)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
International	45.9	40.8	54.8	56.0	53.0
Regional	45.7	41.3	52.5	53.9	51.2
Residential	29.0	25.5	14.3	23.0	22.9
Commercial	48.9	28.9	17.0	30.5	27.1
Consumer	45.7	54.3	56.0	58.4	70.7
Fee Income	85.3	82.6	88.8	90.8	102.7
Membership	**46.1**	**41.8**	**54.6**	**56.0**	**53.2**

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

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
International	0.5	0.5	0.9	1.0	0.7
Regional	0.7	0.7	0.6	0.8	0.9
Residential	0.8	0.7	0.6	0.7	0.7
Commercial	0.1	0.1	0.4	0.8	0.4
Consumer	0.5	1.9	1.8	2.4	2.3
Fee Income	0.5	0.5	0.6	1.1	0.9
Membership	**0.5**	**0.5**	**0.9**	**1.0**	**0.7**

ROAA: Net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
International	10.8	10.9	21.1	22.3	14.9
Regional	12.9	15.0	13.7	17.2	17.8
Residential	15.0	13.1	11.7	11.9	10.9
Commercial	1.1	1.1	4.7	9.0	3.8
Consumer	3.8	13.2	11.1	13.0	13.3
Fee Income	5.9	7.3	8.5	18.4	13.6
Membership	**10.7**	**11.2**	**19.6**	**21.3**	**15.0**

ROAE: Net income/average shareholders' equity

Cost of Funds (percentage)

For the members' fiscal year ending in	2009	2008	2007	2006	2005
International	2.1	3.8	4.7	4.2	3.2
Regional	1.7	3.3	4.3	3.6	2.6
Residential	2.5	3.8	4.3	4.0	3.3
Commercial	3.5	4.2	4.2	3.9	3.3
Consumer	2.8	4.9	6.3	6.4	4.9
Fee Income	0.4	2.3	3.5	3.5	2.6
Membership	**2.1**	**3.8**	**4.6**	**4.2**	**3.1**

Cost of funds: Interest expense/average interest bearing liabilities

Capitalization Measures—By Member Peer Group

Leverage (times)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	20.5	22.2	23.1	22.6	22.5
Regional	19.8	21.3	23.1	21.1	20.9
Residential	18.7	19.7	19.7	17.9	16.5
Commercial	8.3	9.6	10.7	11.1	10.1
Consumer	7.2	7.1	6.1	5.5	5.7
Fee Income	12.1	13.3	14.6	16.3	15.6
Membership	**19.8**	**21.4**	**22.4**	**21.8**	**21.8**

Leverage: Average assets/average shareholders' equity

Basel Risk-Based Capital (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	14.4	11.9	11.9	12.4	12.8
Regional	14.5	12.9	12.0	12.3	11.6
Residential	21.9	16.7	16.2	16.1	19.5
Commercial	20.0	15.9	17.5	14.9	15.0
Consumer	16.6	15.5	16.8	19.6	20.1
Fee Income	35.0	21.5	22.7	25.3	20.3
Membership	**14.8**	**12.3**	**12.2**	**12.6**	**12.9**

Basel risk-based capital: Total regulatory capital/risk-weighted assets

Asset Quality Measures—By Member Peer Group

Asset Growth (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	-5.1	19.7	10.9	12.0	10.4
Regional	2.5	13.9	2.6	10.7	16.6
Residential	11.7	15.0	11.8	15.2	32.6
Commercial	-6.7	56.1	31.6	36.5	25.5
Consumer	-1.6	23.1	41.2	21.5	23.6
Fee Income	-19.8	13.9	14.6	64.5	3.6
Membership	**-4.4**	**19.2**	**10.4**	**12.5**	**11.3**

Asset growth: Year-over-year growth

Impaired Assets to Total Assets (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	0.7	0.4	0.2	0.2	0.3
Regional	0.7	0.6	0.3	0.3	0.3
Residential	0.3	0.4	0.3	0.2	0.1
Commercial	1.9	0.6	0.6	0.6	0.8
Consumer	0.3	0.3	0.2	0.8	1.2
Fee Income	0.0	0.8	0.3	0.0	0.0
Membership	**0.7**	**0.4**	**0.2**	**0.2**	**0.3**

Impaired assets (gross) / total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	1.3	0.8	0.4	0.4	0.5
Regional	1.3	1.1	0.5	0.5	0.5
Residential	0.4	0.3	0.2	0.2	0.2
Commercial	2.5	0.9	0.8	1.0	1.1
Consumer	0.3	0.4	0.2	1.0	1.4
Fee Income	0.0	0.0	0.0	0.1	0.4
Membership	**1.3**	**0.8**	**0.4**	**0.4**	**0.5**

Impaired loans (gross) / total loans (gross)

General Allowance to Risk-Weighted Assets (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	0.8	0.6	0.5	0.5	0.6
Regional	0.9	0.7	0.6	0.6	0.7
Residential	0.5	0.5	0.5	0.5	0.5
Commercial	0.7	0.5	0.6	0.6	0.7
Consumer	4.2	2.3	2.0	2.0	2.1
Fee Income	0.2	0.2	0.1	0.1	0.2
Membership	**0.9**	**0.6**	**0.5**	**0.5**	**0.6**

General allowance/risk-weighted assets

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2009	2008	2007	2006	2005
International	3.7	0.4	-2.9	-4.2	-4.4
Regional	1.8	1.5	-3.4	-4.5	-5.3
Residential	2.2	0.9	-1.3	-1.8	-1.9
Commercial	6.8	0.2	-0.8	-2.1	-2.2
Consumer	-24.7	-13.6	-10.7	-4.7	-3.3
Fee Income	-0.6	-0.7	-0.7	-1.0	-1.5
Membership	**2.9**	**0.2**	**-3.1**	**-4.1**	**-4.4**

Impaired loans (net) / average shareholders' equity

GLOSSARY 5

Savings Protection Canadians Can Count On

Additional Coverage: CDIC provides separate coverage (up to a maximum of $100,000, including principal and interest) for each of the following types of eligible deposits—those held: jointly, in the name of two or more persons, in trust, in Registered Retirement Savings Plans (RRSPs), in Registered Retirement Income Funds (RRIFs), Tax-Free Savings Accounts (TFSAs), and in mortgage tax accounts. *(Couverture additionnelle)*

Basel II Accord: The Basel II Accord was initially published in 2004 and is now in the process of being implemented by national bank supervisory authorities. It describes a more comprehensive measure and minimum standard for capital adequacy and seeks to improve on the previous 1988 Accord known as Basel I by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision which is better able to evolve with advances in markets and risk management practices. *(Bâle II)*

Basic Coverage: The maximum basic coverage for eligible deposits held in the name of a depositor at a single member institution is $100,000 (principal and interest combined). *(Couverture de base)*

Bridge Institution: CDIC member institution designed to preserve critical functions and help maintain financial stability in the event that a CDIC member is no longer viable. *(Institution-relais)*

Deposit: As defined in the *Canada Deposit Insurance Corporation Act*, a deposit is the unpaid balance of money received or held by a CDIC member institution from or on behalf of a person in the usual course of deposit-taking business for which the member:
(a) is obliged to give credit to that person's account or is required to issue an instrument for which the member is primarily liable; and
(b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person. *(Dépôt)*

Eligible Deposit: To be eligible for CDIC deposit insurance protection, deposits must be: in Canadian currency, payable in Canada; repayable no later than five years from the date of deposit; and held in a financial institution that is a CDIC member. Eligible deposits are: savings and chequing accounts; term deposits, such as Guaranteed Investment Certificates (GICs); money orders; drafts; certified drafts and cheques. Not all deposits are eligible. For example, foreign currency deposits and investments in mortgages, stocks and mutual funds are not covered by CDIC. *(Dépôt assurable)*

***Ex Ante* Funding:** The accumulation of a reserve or fund to cover deposit insurance claims in anticipation of the failure of a member institution which, in the case of CDIC, is the aggregate of the retained earnings and the provision for insurance losses. *(Financement* ex ante*)*

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

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

Guide to Intervention for Federally Regulated Deposit-Taking Institutions: This document, developed by OSFI and CDIC, outlines the intervention steps that may be taken when a federally regulated deposit-taking financial institution or CDIC member is experiencing problems. It describes the coordination mechanisms in place between OSFI and CDIC, summarizes the circumstances under which certain intervention measures may be taken, and defines a graduated and progressive set of responses, based on the institution's particular circumstances. Reference: http://www.cdic.ca/e/formemberinstitutions/intervention.html (*Guide en matière d'intervention à l'intention des institutions financières fédérales*)

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

Member Institution: A bank, trust company, loan company or an association governed by the *Cooperative Credit Associations Act* whose deposits are insured by CDIC. *(Institution membre)*

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

Premium Year: The period beginning on May 1 in one year and ending on April 30 in the next year. *(Exercice comptable des primes)*

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

Preparatory Examination: An examination by CDIC or by a person designated by CDIC, of the books, records and accounts of a member institution relating to its deposit liabilities, where CDIC believes that the making of a deposit insurance payment is imminent, and that it would be in the best interest of both the depositors and CDIC that preparations be made to make that payment as soon as possible. *(Examen préparatoire)*

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

Special Examination: An examination of the affairs of a member institution conducted by or on behalf of CDIC for a specified purpose at such times as CDIC may require. It is a detailed examination of the assets and deposit liabilities of a bank with a view to estimating CDIC's potential exposure to loss, and it enables CDIC to compare payout and non-payout intervention strategies to minimize its exposure to loss. *(Examen spécial)*

Tax-Free Savings Account: A Tax-Free Savings Account (TFSA) is a new way for residents of Canada to set money aside, tax-free throughout their lifetimes. The TFSA rules allow a variety of financial products and other types of investments to be held in a TFSA. In the 2009 Federal Budget, the Government amended the *CDIC Act* to provide separate coverage for TFSAs; however, only eligible deposits held in a TFSA are covered by CDIC. *(Compte d'épargne libre d'impôt)*