# Management's Discussion and Analysis

Be Informed. Protect your savings.

# Part 1

# CDIC's Operating Environment

The health of the Canadian economy and the financial sector, changes in legislative and regulatory environments, as well as international events, can affect CDIC's operations and the performance of its membership. All of these factors have a critical impact on the Corporation's ability to fulfill its mandate and are discussed below.

## Economic Environment

Canada's economy continued to expand at a solid pace during the 2010/2011 period supported by low interest rates and government stimulus spending as well as by the global economic recovery. Most major components of aggregate demand contributed to overall growth. Business fixed investment, which experienced an unusually sharp decline during the recession, rose particularly rapidly in the past year. Real estate prices remained robust; however, demand for housing stayed relatively stable, following a sharp rise during 2009 and early 2010, due in part to measures adopted by the Government to tighten mortgage lending standards. The manufacturing sector continued to face headwinds from the persistent strength of the Canadian dollar.

Significant downside risks going forward include the following: the high level of consumer indebtedness (particularly in the mortgage market) and the vulnerability this represents for households and member institutions; the continued strength of the Canadian dollar; and the potential for further international financial market instability stemming from sovereign debt problems and political turmoil in the Middle East and North Africa. Global uncertainty is also being affected by the evolving situation in Japan in the aftermath of the Tohoku earthquake.

## Member Environment

Overall, the risk profile of CDIC's membership improved throughout 2010 as most members recorded better profits, higher earnings measures (such as return on average assets and return on equity), asset quality and improved capital. CDIC members benefited from a low interest rate environment, growth in Canadian retail lending and more stable capital markets.

The largest risk to CDIC's membership remains the possibility of a significant and prolonged decline in Canadian real estate prices. Higher interest rates and mortgage servicing costs for borrowers could also translate into credit quality issues in CDIC's membership.

The shift to International Financial Reporting Standards (IFRS) may affect some members in particular. IFRS are to take effect in 2011, with the first set of financial statements to be released in March 2011 for members with a December 31st year end (mostly smaller members) and in January 2012 for those with an October 31st year end (mostly large banks). Due to the consolidation of off-balance sheet items, IFRS will likely result in an increase of some financial institutions' on-balance sheet assets and liabilities, therefore having a negative impact on their regulatory assets/capital ratio.



In September 2010, the Basel Committee on Banking Supervision (BCBS) announced a substantial strengthening of both capital and liquidity requirements for banks, known as Basel III. Basel III includes an increase in the minimum common equity requirement and a requirement to hold a capital conservation buffer to withstand future periods of stress. The minimum Tier 1 and total capital required was also raised and two new liquidity measurements, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), were introduced. These new requirements will be phased in from January 2013 through to January 2019.

It is expected that our members will be able to meet the new minimum capital ratios given their existing tangible common equity ratios, their expectation of internal capital generation, and the lengthy implementation period.

## Consumer Environment

Growth in personal and insured deposits has significantly tempered since last year, which could suggest that Canadians as a whole are increasingly confident about the future and are expecting a continued improvement in the economy over the next year. However, global risks and uncertainty remain elevated, which suggests that confidence is still fragile and highlights the importance of CDIC continuing to inform Canadians about the safety of their deposits.

## Legislative and Regulatory Developments

Federal Budget 2010 introduced a number of legislative proposals to enhance CDIC's resolution tools. These included providing CDIC with the authority to impose data and system requirements on members, to facilitate prompt payment of insured deposits or a bridge institution resolution in the event of a failure. It is in this context that CDIC's *Data and System Requirements By-law* was drafted and brought into force on January 1, 2011.

We also made amendments this year to CDIC's *Joint and Trust Account Disclosure By-law* to ensure that member institutions' records contain sufficient information to make timely deposit insurance determinations of joint and trust deposits.

In September 2010, the Department of Finance launched its review of legislation governing federally regulated financial institutions. Such a review is conducted every five years and includes statutes such as the *Bank Act* and the *Canada Deposit Insurance Corporation Act* (*CDIC Act*). CDIC management has been working with the Department of Finance and the other safety net agencies on legislative proposals in the context of this review.

# 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, financial, operational and reputation. Based on a self-assessment exercise, management has concluded that CDIC's overall risk remains acceptable, although insurance powers, intervention, people and process risks are assessed as cautionary. Management has developed initiatives to closely monitor and mitigate these risks.

Management's Enterprise Risk Management (ERM) representation for 2010/2011 is included within this report. A more detailed assessment of the 13 risks identified by management relating to the conduct of CDIC's affairs and its current environment is presented in the pages that follow.

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

The following definitions apply to management's assessment of CDIC's significant risks:

**Residual Risk Ratings:**

- ***Acceptable***—meaning that the residual risk is acceptable and appropriate risk management practices are in place.
- ***Cautionary***—meaning that the residual risk warrants close monitoring and/or that previously identified initiatives to enhance the management of the risk are not fully implemented, albeit appropriate and timely action is being taken to do so.
- ***Serious Concern***—meaning that the residual risk is unacceptable, including that significant gaps may exist in risk management practices and controls.

**Residual Risk Trends:**

– ***Stable:*** CDIC's residual risk is not expected to change over the next fiscal year.

▼ ***Decreasing:*** CDIC's residual risk is expected to decline over the next fiscal year.

▲ ***Increasing:*** CDIC's residual risk is expected to increase over the next fiscal year.

| | 2010/2011 | | 2009/2010 | |
|---|---|---|---|---|
| **Insurance Risks** | **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. | Cautionary | – | Acceptable | – |
| **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 | – |
| **Operational Risks** | | | | |
| **People Risk:** The risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel. | Cautionary | – | Cautionary | – |
| **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. | Acceptable | ▲ | Acceptable | – |
| **Technology Risk:** The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs. | Acceptable | – | Acceptable | – |
| **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. | Cautionary | – | Acceptable | ▲ |

## Summary of Management's Assessment of CDIC's Significant Risks (cont'd)

| | 2010/2011 | | 2009/2010 | |
|---|---|---|---|---|
| **Operational Risks** | Rating | Trend | Rating | Trend |
| **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 Risks** | | | | |
| **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** | | | | |
| **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:** – Stable ▼ Decreasing ▲ Increasing

### Insurance Risks[1]

A member institution failure would have a major impact on CDIC's priorities and a resolution to handle such a failure would require substantial resources. Based on its most recent assessment, management has categorized both **insurance powers risk** and **intervention risk** as cautionary. Until members fully implement CDIC's data and system requirements (expected to be in 2013/2014), CDIC may not be in an optimal position to implement a bridge institution or conduct a payment of insured deposits for a sudden large member failure with the speed and sophistication it hopes to achieve in coming years. In addition, new international leading practices and standards for deposit insurance and resolution authorities may bring into question whether CDIC currently has sufficient powers. Initiatives are ongoing at CDIC to address these risks where possible.

[1] Additional information regarding CDIC insurance risk is provided within Part 4, *Membership Profile and Performance*.

## Operational Risks

CDIC's overall operational risks are assessed as acceptable; however, as in prior years, 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. Additionally, there are a number of impending retirements over the next few years which will also impact CDIC's human resource requirements. Efforts continue to be made to minimize these risks to the extent possible.

**Process risk** was also assessed as cautionary as a number of new internal processes are being developed in support of the faster reimbursement of insured deposits in the event of a failure, new quarterly financial reporting requirements for Crown corporations, and the implementation of IFRS. Management has established initiatives for each of these processes and is closely monitoring project plans to ensure their successful implementation.

This year the trend for **information risk** is considered to be increasing due to a greater need for resolution-related information, as well as the redesign and replacement of the Tri-Agency Data System (TDS) which houses shared information on members institutions between CDIC, the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI).

## Financial Risks

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 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 a source of funds in the event of an intervention. CDIC also has a borrowing capacity of $17 billion, with such amount adjusted annually to reflect the growth of insured deposits. The Corporation also has the statutory ability to request an appropriation from Parliament for amounts in excess of this authorized limit should the need arise, and is currently considering the adequacy and composition of its available funding sources.

## Reputation Risk

**Reputation risk** was assessed as acceptable, but with an increasing trend as international resolution practices and standards become more sophisticated resulting in heightened expectations for the organization. This overall risk, however, continues to be mitigated by: a robust deposit insurance system; a public awareness campaign to inform Canadians about deposit insurance; a focus on intervention readiness; good coordination among safety net agencies; well-managed internal processes to mitigate operational risks; and appropriate communications processes to manage any unexpected reputation events.



# Performance Against Plan

## CDIC's Three Corporate Strategies

For its year ended March 31, 2011, the Corporation focused on the following three strategies:

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

These strategies support the Corporation's mandate (see inside front cover) and contribute to the 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 in the section that follows. Our success in meeting performance targets is reflected in the following Corporate Scorecard.

# Corporate Scorecard—Results Against Key Indicators, as at March 31, 2011

CDIC's Corporate Scorecard sets out the progress made for the year ended March 31, 2011, against the Corporation's key performance indicators established in CDIC's Corporate Plan. The Scorecard shows that CDIC's progress against the majority of its key performance indicators proceeded as planned, with the exception of the completion of the bridge institution implementation project, funding analysis, and the maximum total funding adequacy determination and documentation of all funding options.

## CDIC CORPORATE SCORECARD—2010/2011 to 2014/2015

**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 | Status |
|---|---|---|---|
| **Strengthening Core Expertise and Readiness**<br><br>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. | Review *Strategic Alliance Agreement* with OSFI. | Updated *CDIC/OSFI Strategic Alliance Agreement* (including bridge institution considerations) in place by March 31, 2012. | ▲ |
| | Assess the risk posed by all member institutions at least annually. | An annual review of each member institution is conducted and appropriately documented. | ▲ |
| | Continue to increase CDIC's payout capacity to address the failure of a member institution with a large number of depositors. | Achieved and tested payout for 750,000 depositors completed by March 31, 2011, and for one million depositors by March 31, 2012. | ▲ |
| | Operationalize CDIC's new bridge institution powers. | Completion of the bridge institution implementation project by March 31, 2011.<br><br>**Status as at March 31, 2011:**<br><br>***The original scope and complexity of this project has evolved with the introduction of large bank resolution issues. The revised estimated completion date is March 2012.*** | ▼ |
| | Examine CDIC's financial position, funding adequacy and funding options for a resolution—including under a bridge institution. | Funding analysis completed by March 31, 2011.<br><br>**Status as at March 31, 2011:**<br><br>***This initiative was not started until later in 2010/2011 in order for it to be performed in conjunction with a review of pro-cyclicality issues related to deposit insurance. It is anticipated that a report and recommendations will be provided at the September 2011 meeting of the Board of Directors.*** | ▼ |
| | | Provisioning methodology review completed by March 31, 2011. | ▲ |
| | | Maximum total funding adequacy determination and documentation of all funding options completed by March 31, 2011.<br><br>**Status as at March 31, 2011:**<br><br>***This initiative was not started until later in 2010/2011 in order for it to be performed in conjunction with a review of pro-cyclicality issues related to deposit insurance. It is anticipated that a report and recommendations will be provided at the September 2011 meeting of the Board of Directors.*** | ▼ |

**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—2010/2011 to 2014/2015

**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 | Status |
|---|---|---|---|
| **Promoting Depositor Awareness**<br>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. | Implementation of Long-Term Public Awareness Strategy and Plan developed in 2009/2010. | For the general population: exceed 54% total awareness of CDIC and 26% of unaided awareness of the $100,000 coverage limit. | ▲ |
| | | For the 50+ age group: reach 65% awareness of CDIC and maintain a 31% unaided awareness of the $100,000 coverage limit. | ▲ |
| | | Conduct public opinion poll research on a quarterly basis during the planned period to ascertain results. | ▲ |
| **Sustaining Efficient Governance and Operational Capacity**<br>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. | Conduct annual assessments of CDIC's significant corporate risks, review and update CDIC's Board and management risk policies as necessary, and provide regular reports to stakeholders about the management of CDIC's significant corporate risks. | Significant risks are assessed at least annually. Appropriate risk management initiatives are undertaken on a timely basis to ensure exposure is within acceptable levels. | ▲ |
| | | Annual Enterprise Risk Management (ERM) attestation is included in the Annual Report. | ▲ |
| | Manage transition to International Financial Reporting Standards (IFRS). | Transition to IFRS is completed and financial statements are audited for the fiscal year ended March 31, 2012. | ▲ |
| | Monitor employee satisfaction to ensure that there are no impediments to a productive and motivated work force. | Over the planning period, achieve employee satisfaction rates above 75% as measured by bi-annual employee surveys. | ▲ |
| | Maintain CDIC's Business Continuity Management Program in a fully current and ready state. | Business Continuity Plan (BCP) and Pandemic Preparedness Plan (PPP) test exercises are conducted at least annually with results and any follow-up actions reported to the Audit Committee on an annual basis. | ▲ |
| | | An appropriate emergency back-up site is ready and available at all times. | ▲ |

**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—2010/2011 to 2014/2015

**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 | Status |
|---|---|---|---|
| **Sustaining Efficient Governance and Operational Capacity**<br>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. | Conduct annual assessments under CDIC's Internal Control Over Financial Reporting Review program, incorporating coordination with CDIC's ERM program and the work of CDIC's Audit and Consulting Services Department. Provide (through the Management's Discussion and Analysis (MD&A) section of CDIC's Annual Report) regular reports to stakeholders about the state of CDIC's internal controls over financial reporting. | Internal controls are regularly reviewed in accordance with CDIC's Internal Control Over Financial Reporting Review program (consistent with Treasury Board Secretariat (TBS) Guidelines) and the results of this work are reported each year in CDIC's Annual Report. | ▲ |
| | | No significant internal control deficiencies are reported. | ▲ |
| | Implement appropriate procedures to support a quarterly reporting regime (subject to government approval). | Quarterly reporting requirements are fully met for CDIC's 2011/2012 fiscal year. | ▲ |

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

## Strengthening Core Expertise and Readiness

In addition to ongoing member risk monitoring activities (ensuring that the risk of each member is reviewed at least annually), enhancements to intervention preparedness continued to focus this year on: a faster payment of insured deposits in the event of a failure; resolution of medium and large size members; and the implementation of a bridge institution as a resolution tool.

Considerable efforts were spent on internal matters related to CDIC's capability to implement a bridge institution should the need arise. The Corporation drafted a policy to delineate the various roles and responsibilities of the Board of Directors, the bridge institution board, as well as CDIC management in such a scenario. In addition, work is being done to review the *CDIC/OSFI Strategic Alliance Agreement* to include bridge institution considerations. The Corporation worked on the development of resource plans, determining how external resources could be utilized to supplement existing staffing levels.

CDIC also began a review of its funding options, which is scheduled to continue into 2011/2012. Work continued with OSFI to advance efforts related to "institution-specific" resolution plans and a review was undertaken of funding available to CDIC for intervention activities. The Corporation successfully conducted a payout simulation for over 750,000 depositors and 1.8 million accounts in under 15 days. All of this is in the context of ensuring that CDIC is sufficiently equipped to respond to the failure of any size member.

CDIC's new *Data and System Requirements By-law* was also brought into force this year. This by-law, which sets out certain data and system requirements for members, represents an important element of a fast insurance determination, to ensure that depositors of failed institutions receive or have access to their insured deposits in a timely manner following a failure. The Corporation continues to work with member institutions to provide them assistance in understanding and implementing the by-law's technical requirements. This is a crucial initiative for CDIC, with work continuing into 2013. A more comprehensive review of the *Differential Premiums By-law* is also planned for 2011/2012, to be concluded for the 2013 premium year.

The Corporation also performed a comprehensive review of its provisioning methodology which was applied to its March 31, 2011, year end.

## CDIC's Global Initiatives

The Corporation actively contributed to the development of international best practices in deposit insurance in support of Canada's G20 commitments:

- CDIC is a member of the International Association of Deposit Insurers' (IADI) Executive Council, chairs the IADI Guidance Group and is actively involved in a number of IADI's initiatives.
- In January 2011, at the request of Martin Gruenberg, Chairman of IADI, CDIC joined the Financial Stability Board (FSB) Resolution Steering Group as IADI's representative.
- CDIC joined, with OSFI, the FSB Cross-Border Crisis Management (CBCM) working group and assisted in the development of resolvability criteria to enhance the effectiveness of financial institution resolutions.
- CDIC provided assistance to deposit insurance systems in Australia, El Salvador, Hong Kong, Malaysia and Vietnam.

## Promoting Depositor Awareness

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

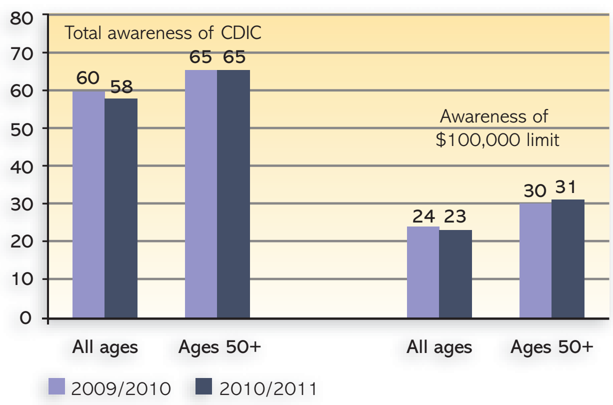
The recent financial crisis has highlighted the relevance of undertaking communication that inspires confidence in CDIC and in the Canadian financial system, a goal that is consistent with our mandate. To this end, in 2010/2011, we undertook the second year of our three-year long-term strategy for depositor awareness. The strategy has two objectives: first, to increase and sustain awareness of CDIC and deposit insurance while inspiring a sense of confidence and trust in our organization and in Canada's financial system; and second, 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.

CDIC tracks and assesses the results of its annual public awareness campaign. During the past year, total awareness of CDIC stood at 58% for the general population and at 65% for the age 50 plus target group. Unaided awareness of the $100,000 coverage limit was also effectively unchanged for the two groups, at 23% and 31%, respectively. CDIC partnered again this year with the Autorité des marchés financiers (AMF) 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.

CDIC also held its fifth Annual Public Meeting in connection with the "Zoomer Show," an annual consumer show and lifestyle expo for those aged 45 and up, in Toronto on October 30, 2010. The meeting provided CDIC's Board of Directors and senior management with an opportunity to discuss deposit insurance directly with Canadians, and enabled the public to ask questions of CDIC.

*Awareness Tracking (%)*




## Sustaining Efficient Governance and Operational Capacity

### People

CDIC is a knowledge-based organization which requires competent, professional and motivated staff and, like many other government organizations, will have a number of employees reaching retirement eligibility within the next several years. Succession planning is a key priority for the organization, particularly as many roles require specialized knowledge difficult to find in today's competitive job market. With these and other factors in mind, a new Human Resources (HR) Strategy and Plan was developed in 2010/2011.

The new HR Strategy and Plan outlines specific steps the organization will take over the next five fiscal years to ensure that the right people and skills are in place, in the right positions, and at the appropriate time, to meet business needs. The strategy focuses on four key areas: talent acquisition, succession management, employee engagement and career development. Initiatives under these four key areas will include a review of recruitment practices, an emphasis on learning and development, and ongoing succession planning.

To measure the success of initiatives identified in the HR Strategy and Plan and to regularly measure employee engagement, CDIC will undertake another comprehensive employee survey in the fall of 2011. Action plans will be developed to respond to issues arising from the survey.

### Technology

CDIC's mandate is also supported by a comprehensive set of information technology (IT) services. In 2010/2011, these services were assessed and adapted to ensure operational efficiency in support of evolving business needs. The Corporation's focus on a faster payment of insured deposits in the event of a failure was the largest technology-related initiative in the current year.

IT focuses on two strategies. The first is to expand CDIC's IT resources in support of core services, including support to intervention readiness activities and software development (e.g., payment application—ROADMAP). The second strategy is to explore ways to optimize existing information system (IS) services through improved governance and a focus on service delivery and standards.

The Corporation's Business Continuity Management Program was enhanced in 2010/2011, with the construction of CDIC's new energy efficient data centre which includes built-in redundancies and full back-up power capabilities. Improvements were also made to our capacity to recover systems and information remotely.

### Control Environment

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 support to the Corporation's existing practices as summarized in the "Management Responsibility for Consolidated Financial Statements" in this Annual Report. CDIC has established a risk-based multi-year initiative to review and assess its ICFR. In 2010/2011 the review and assessment was completed and management did not identify any significant internal control deficiencies.

CDIC's independent internal audit function continued to add value to the organization in 2010/2011 by identifying opportunities for operational improvements, and by reducing risk exposure through both assurance work and advisory services. The internal audit plan, approved by the Audit Committee, focused on safeguarding CDIC assets, accurate recording of transactions, sensible resource management, and efficiency and effectiveness of operations in support of CDIC's mandate.

The Corporation also continued its work in ensuring a smooth implementation of International Financial Reporting Standards (IFRS) and new quarterly financial reporting requirements which take effect in 2011/2012. This ongoing work is discussed further in the sections that follow.

# 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, *Consolidation of Variable Interest Entities* (AcG-15), 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 of the consolidation of ACC on the Corporation's financial statements is an increase in assets of $1.0 million (2010: $1.2 million) and an increase in total expenses of $0.2 million (2010: $0.2 million). The increase in liabilities and total revenues was insignificant in both fiscal 2011 and fiscal 2010. The cumulative impact of consolidation on the Corporation's retained earnings is $1.0 million (2010: $1.0 million).

## 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 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 September 2009, the Public Sector Accounting Standards Board (PSAB) confirmed that Government Business Enterprises, as defined by PSAB, will be required to follow the same standards as those applicable to PAEs, namely, IFRS.

The Corporation is a Government Business Enterprise and will therefore 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 will also require the preparation of an opening statement of financial position at April 1, 2010. IFRS will be adopted in accordance with International Financial Reporting Standard 1 *First-Time Adoption of IFRS* (IFRS 1), which generally requires that IFRS be applied on a retrospective basis at April 1, 2010, for comparative purposes.

The following information is intended to provide users with a better understanding of the Corporation's changeover plan and to quantify the significant accounting policy differences where possible. It is, however, important to highlight that the information has not been audited and is subject to change as a result of changes in IFRS or changes in accounting policy decisions that are permitted until CDIC's March 31, 2012, consolidated financial statements are complete.

## Completion of IFRS Changeover Plan

CDIC's conversion to IFRS is now substantially complete and ongoing work is expected to be only operational in nature.

The changeover was segmented into five phases: diagnostic; detailed scoping; drafting policies and procedures; implementation and review; and full adoption of IFRS. A project team was established to develop and carry out a changeover plan to address changes in financial reporting, financial processes and information systems.

The diagnostic phase was completed in fiscal 2009, and the detailed scoping and drafting of policies and procedures were completed in fiscal 2010. Fiscal 2011 represented the Corporation's dual reporting year, wherein financial records were maintained in accordance with both IFRS and Canadian GAAP.

The work surrounding post-implementation and review will mostly involve finalizing modifications to CDIC's internal controls over financial reporting as a result of IFRS implementation, and continued monitoring of the International Accounting Standards Board (IASB) for proposed or newly issued standards. Amendments to existing standards are expected to continue until the year of adoption as a result of IASB convergence projects with the U.S. accounting standard setters, and projects arising in response to the financial crisis. Of particular significance to CDIC are the proposed amendments to, and ongoing deliberations surrounding, International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). IAS 37 was determined to be the standard applicable to CDIC's provision for insurance losses during the diagnostic and detailed scoping phases. The expected impact of the IASB deliberations is discussed below. In fiscal 2012 and beyond, CDIC will continue to assess the impact of any new standards on business processes, systems and financial statements.

## Impact on Financial Process and Information Systems

CDIC's financial systems and financial processes did not require significant modifications to accommodate the dual reporting year, particularly since there were minimal adjustments required to reconcile the Canadian GAAP records to IFRS. The existing Enterprise Resource Planning (ERP) system has all the necessary functionality to process and report financial information under IFRS, and only minor changes in processes were introduced to ensure all necessary information for presentation and disclosure is captured.

A number of process changes were, however, introduced during the year in anticipation of Treasury Board's quarterly reporting requirements for Crown corporations. Since the effective date for quarterly reporting coincides with CDIC's IFRS changeover year, a number of these changes had an impact on the IFRS conversion and required some modification to CDIC's existing internal controls over financial reporting, disclosure controls and procedures.

## Significant Accounting Policies

Certain IFRS accounting policies resulted in a significant change for the Corporation, whereas in other areas no policy change was required.

The following is a preliminary summary of the expected impact of IFRS adoption on CDIC's statement of financial position as of April 1, 2010, and March 31, 2011.

These statements are preliminary and are subject to change as they are based on estimates and have not been audited. Furthermore, CDIC can continue to make transition and policy choices until March 31, 2012. Finally, IAS 37, the most significant standard affecting CDIC, is subject to significant ongoing deliberations by the IASB as discussed below.

The accounting policies that are expected to have the most significant impact, and IFRS 1 application, are discussed in the pages that follow.

## Reconciliation of Consolidated Statement of Financial Position as of April 1, 2010

| Canadian GAAP Accounts | Canadian GAAP | IFRS Adjustments | Notes | IFRS | IFRS Accounts |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash | $ 530 | – | | $ 530 | Cash and cash equivalents |
| Investments | 1,953,823 | 725 | *1* | 1,954,548 | Investments |
| Accounts and other receivables | 2,841 | – | | 2,841 | Premiums receivable |
| | | – | | – | Other current assets |
| | 1,957,194 | 725 | | 1,957,919 | |
| Capital assets | 3,709 | (762) | *2* | 2,947 | Capital assets (net) |
| | | 762 | *2* | 762 | Intangible assets (net) |
| Income taxes receivable | 3,361 | – | | 3,361 | Income taxes receivable |
| Future income tax asset | 776 | (208) | *1* | 568 | Deferred tax asset |
| | 7,846 | (208) | | 7,638 | |
| | $1,965,040 | 517 | | $1,965,557 | |
| **LIABILITIES** | | | | | |
| Accounts payable and accrued liabilities | 7,470 | (2,526) | *3* | 4,944 | Accounts payable and accrued liabilities |
| | 7,470 | (2,526) | | 4,944 | |
| | | 928 | *4* | 928 | Deferred lease inducement |
| | | 1,612 | *3* | 1,612 | Post-employment benefit obligation |
| Provision for insurance losses | 1,100,000 | – | *5* | 1,100,000 | Provision for insurance losses |
| | 1,107,470 | 14 | | 1,107,484 | |
| **EQUITY** | | | | | |
| Retained earnings | 858,087 | (39) | *6* | 858,048 | Retained earnings |
| Accumulated other comprehensive income (loss) | (517) | 542 | *1,3* | 25 | Accumulated other comprehensive income (loss) |
| | 857,570 | 503 | | 858,073 | |
| | $1,965,040 | 517 | | $1,965,557 | |

**Notes:**

1 Adjustment to reflect early adoption of proposed financial instrument standard to restate available-for-sale investments to amortized cost and record the corresponding tax effect.
2 Adjustment to present internally generated intangible assets arising from software development as a separate line item to conform with classification adopted at March 31, 2011. This adjustment was made under Canadian GAAP and, as a result, is not related to the transition to IFRS.
3 Adjustment to reclassify and adjust actuarially determined defined benefit obligations in accordance with IFRS, and reclassify long-term portion of deferred lease inducement.
4 Reclassify long-term portion of deferred lease inducement to long-term liabilities.
5 The application of IAS 37 did not result in a change in the recorded provision. See page 24.
6 Cumulative effect of opening statement of financial position adjustments at the date of transition. This amount is subject to change.

## Reconciliation of Consolidated Statement of Financial Position as of March 31, 2011

| Canadian GAAP Accounts | Canadian GAAP | IFRS Adjustments | Notes | IFRS | IFRS Accounts |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash | $ 739 | – | | $ 739 | Cash and cash equivalents |
| Investments | 2,207,085 | 902 | *1* | 2,207,987 | Investments |
| Accounts and other receivables | 3,335 | – | | 3,335 | Premiums receivable |
| | | – | | – | Other current assets |
| | 2,211,159 | 902 | | 2,212,061 | |
| Capital assets | 5,936 | – | | 5,936 | Capital assets (net) |
| Intangible assets | 1,383 | – | | 1,383 | Intangible assets (net) |
| Future income tax asset | 676 | (249) | *1* | 427 | Deferred tax asset |
| | 7,995 | (249) | | 7,746 | |
| | $ 2,219,154 | 653 | | $ 2,219,807 | |
| **LIABILITIES** | | | | | |
| Accounts payable and accrued liabilities | 5,689 | (3,030) | *2* | 2,659 | Accounts payable and accrued liabilities |
| Income taxes payable | 600 | – | | 600 | Income taxes payable |
| | 6,289 | (3,030) | | 3,259 | |
| | | 1,403 | *3* | 1,403 | Deferred lease inducement |
| | | 1,666 | *2* | 1,666 | Post-employment benefit obligation |
| Provision for insurance losses | 1,100,000 | – | | 1,100,000 | Provision for insurance losses |
| | 1,106,289 | 39 | | 1,106,328 | |
| **EQUITY** | | | | | |
| Retained earnings | 1,113,518 | (39) | *4* | 1,113,479 | Retained earnings |
| Accumulated other comprehensive income (loss) | (653) | 653 | *1,2* | – | Accumulated other comprehensive income (loss) |
| | 1,112,865 | 614 | | 1,113,479 | |
| | $2,219,154 | 653 | | $ 2,219,807 | |

**Notes:**

1 Adjustment to reflect early adoption of proposed financial instrument standard to restate available-for-sale investments to amortized cost and record the corresponding tax effect.
2 Adjustment to reclassify and adjust actuarially determined defined benefit obligations in accordance with IFRS, and reclassify long-term portion of deferred lease inducement.
3 Reclassify long-term portion of deferred lease inducement to long-term liabilities.
4 Cumulative effect of opening statement of financial position adjustments at the date of transition. This amount is subject to change.



### Provision for Insurance Losses

The Corporation will account for its provision for insurance losses in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under IAS 37, a provision for insurance loss would continue to be recorded but would require certain adjustments to be made for measurement purposes, including an adjustment to capture measurement uncertainty and an adjustment to reflect time value of money, if material. The application of IAS 37 did not require any adjustments to the Canadian GAAP provision at the date of transition or at March 31, 2011.

The measurement and recognition guidance under IAS 37 continues to be deliberated by the IASB. The IASB is expected to re-issue an entirely new draft standard in the second half of 2011 with a final standard expected no earlier than 2012. The effective application date is not yet known and retrospective treatment may be allowed. Until the final standard and transition rules are released, CDIC cannot conclusively determine the IFRS conversion impact on the provision.

### 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 IAS 39 *Financial Instruments*, 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, a new standard, IFRS 9 *Financial Instruments*, 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 would be an increase in investments and equity of $0.7 million as at April 1, 2010, and $0.9 million as at March 31, 2011. CDIC elected to adopt IFRS 9 in advance of its effective date to minimize adjustments post-transition.

### First-Time Adoption of IFRS

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* 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 is not expected to have a significant impact on the Corporation as the exemptions and elections were either not applicable or will not be applied.

## Fiscal 2011 Consolidated Balance Sheet Highlights

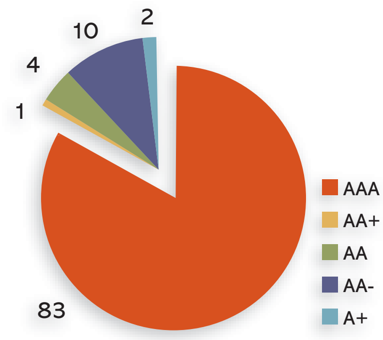
As at March 31, 2011, CDIC's total assets amounted to $2,219.2 million; representing growth of approximately 13% compared to total assets of $1,965.0 million as at March 31, 2010. Assets are comprised primarily of investments (99% of total assets). CDIC's investment portfolio is largely made up of bonds issued, or guaranteed, by the Government of Canada or a province (99.5%). CDIC's investments as at March 31, 2011, carry a weighted average yield to maturity of 1.7% (2010: 1.5%) with a modified duration of 1.3 years. As a result of the investment portfolio's short-term duration, CDIC's exposure to interest rate risk and volatility is low.

## Investments

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

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

*Investment Portfolio*
*Distribution of Credit Ratings* (%)*
*March 31, 2011*




*As rated by Standard & Poor's

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, or debt issued by municipal financing authorities. Counterparties must have a minimum credit rating of A at the time of acquisition and investments cannot exceed a term to maturity of five years.

## 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. 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, 2011 | 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) | 1,589 | 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, 2011, CDIC's income tax expense was $0.7 million and its income taxes payable (after taking into account installments made during the year) was $0.6 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. The related asset or liability is re-valued at the end of each year. As at March 31, 2011, the Corporation recorded a future income tax asset of $0.7 million (March 31, 2010: $0.8 million).

## Provision for Insurance Losses

Although the global financial system continues to recover gradually from the unprecedented dislocations experienced in recent years, and the Canadian financial system remains relatively strong, significant downside risks remain. Canada's economic outlook is still best described as cautiously optimistic.

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, 2011, the provision remained unchanged at $1,100.0 million compared to March 31, 2010, reflecting stable conditions and a continued view of caution.

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.

In fiscal 2011, CDIC completed a review of its provision calculation methodology to ensure that its input assumptions and variables remain relevant. The review resulted in some enhancements to the existing input variables. The enhancements represent a change in accounting estimate in the current year. Prior periods have not been restated. The enhancements resulted in a reduction of $100 million to the provision amount that would have been recorded at March 31, 2011, in the absence of this review.

### *Ex Ante* Funding

CDIC must have 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 fiscal 2004, 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 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 between $2,410.0 million to $3,012.5 million based on insured deposits as at April 30, 2010. The reported amount as at March 31, 2011, was $2,213.5 million, representing 37 basis points of insured deposits (March 31, 2010: $1,958.1 million representing 33 basis points of insured deposits at April 30, 2009).

Under current forecasts, as set out in CDIC's 2011/2012 to 2015/2016 Corporate Plan, the bottom of the range will be achieved in the Corporation's 2013/2014 fiscal year. This is one year earlier than was forecast in CDIC's 2010/2011 to 2014/2015 Corporate Plan and is a result of increased premium rates, as well as changes in the distribution of members across differential premium categories partially offset by a reduced growth in insured deposits. 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

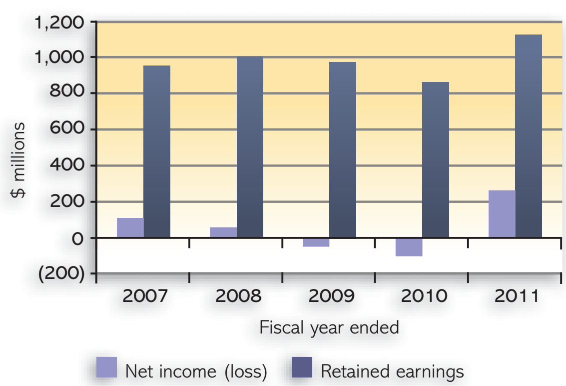
CDIC ended fiscal 2011 with **retained earnings** of $1,113.5 million, an increase of approximately 29.8% compared to last year. The increase was primarily attributable to increased premium revenues and a stable provision for insurance losses. In fiscal 2010, an increase to the provision of $300.0 million resulted in a net loss for the year. There were no changes to the provision in fiscal 2011.

For the year ended March 31, 2011, CDIC's **revenues** totalled $286.8 million, offset by net operating expenses of $30.7 million and income taxes of $0.7 million. The result was **net income** for the year of $255.4 million.

**Premiums** for the fiscal year were $253.3 million, compared to $197.8 million for fiscal 2010.

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.

***Net Income (Loss) and Retained Earnings***






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

*Category 1*—2.3 basis points of insured deposits

*Category 2*—4.6 basis points of insured deposits

*Category 3*—9.3 basis points of insured deposits

*Category 4*—18.5 basis points of insured deposits

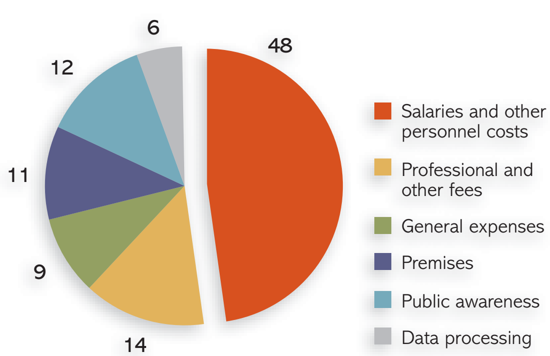
The table below illustrates the distribution of members among premium categories in the 2010 premium year as well as the preceding four premium years.

| Premium Category | Distribution of Member Institution by Premium Category and Premium Year (Percentage) | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| 1 | 84 | 93 | 75 | 68 | 62 |
| 2 | 14 | 6 | 20 | 21 | 26 |
| 3 | 2 | 1 | 5 | 10 | 10 |
| 4 | 0 | 0 | 0 | 1 | 2 |

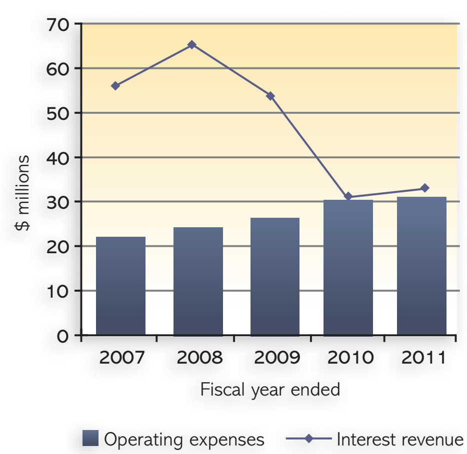
CDIC generates sufficient interest revenue on its investments to cover its operating expenses. **Interest revenue from investments** was $33.5 million in fiscal 2011, an increase of approximately 8.0% from the previous fiscal year.

**Net operating expenses** for the year ended March 31, 2011, totalled $30.7 million ($30.6 million in fiscal 2010). As outlined below, salaries and other personnel costs dominate the expense profile, followed by professional and other fees. 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 fiscal 2011 were $0.7 million (fiscal 2010: $0.8 million).

*Profile of Operating Expenses (% of total)*
*For the year ended March 31, 2011*




*Interest Revenue vs. Operating Expenses*



# Comparison with 2010/2011 Corporate Plan

## Balance Sheet

**Total assets** as at March 31, 2011, were $2,219.2 million, compared to the planned amount of $2,154.0 million. Total revenue for fiscal 2011 was significantly higher than planned resulting in a higher-than-expected investment balance. 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 $286.8 million, or $75.8 million higher than budgeted. Increases in premium rates combined with changes in member institutions' Differential Premiums classification were the primary contributors to revenue growth. Interest on investments was slightly higher than planned.

**Net income** for the year ended March 31, 2011, was $255.4 million compared to planned net income of $193.0 million, a variance of $62.4 million. This variance is almost entirely attributable to higher premium revenues caused by higher premium rates, a movement of members between premium categories and increased interest revenue. Net operating expenses of $30.7 million were below planned expenses of $33.0 million. The primary causes of the positive variance were lower-than-planned spending on consulting, combined with the capitalization of software development projects which was not contemplated in the 2010/2011 Corporate Plan.

The year-end **retained earnings** of $1,113.5 million was $238.5 million lower than planned, primarily as a result of an unanticipated increase in the March 31, 2010, provision for insurance losses. The provision for insurance losses is recalculated at the end of each fiscal year based on a combination of quantitative criteria and on CDIC's assessment of the environment at that time. The 2010/2011 Corporate Plan was approved prior to CDIC's March 31, 2010, year end.

# 2011/2012 to 2015/2016 Corporate Plan

## 2011/2012 Fiscal Year

**Net income** is forecast at $213.0 million for fiscal 2012.

**Total revenues** are planned to be $248.0 million in fiscal 2012, including $213.0 million of premium revenue and $35.0 million of interest revenue. Planned premium revenue is based on the third of three planned rate increases over 2008/2009 premium rates. This increase, combined with similar increases in 2009/2010 and 2010/2011, will result in a doubling of differential premium rates for the 2011 premium assessment year over those of 2008/2009. The Corporation has forecast that insured deposits will grow by 4% in 2011/2012, compared to a growth of 2% from fiscal 2010 to fiscal 2011. These assumptions, combined with assumed changes in the distribution of member institutions across Differential Premiums categories, resulted in a decrease in planned premium revenue of $40.0 million compared to premium revenues in fiscal 2011. In addition, interest income is assumed to continue to improve in fiscal 2012.

**Net operating expenses** are planned to be $34.0 million in fiscal 2012 compared to $30.7 million actual operating expenses in fiscal 2011, and will continue to be covered by investment revenue.

**Cash and investments** are projected to be $2,417.0 million at the end of the 2012 fiscal year.

**Retained earnings** and the **provision for insurance losses** are forecasted to be $1,323.0 million and $1,100.0 million, respectively, at the end of fiscal 2012.

The level of ***ex ante* funding** is forecast to be $2,423.0 million representing 39 basis points of forecast insured deposits at the end of the 2012 fiscal year.



## 2011/2012 to 2015/2016

In its 2011/2012 to 2015/2016 Corporate Plan, the Corporation forecast that it will reach the *ex ante* funding target range within the five-year planning horizon. Investments are planned to increase to $3.3 billion by March 31, 2016, from $2.2 billion at March 31, 2011.

Premium revenue is forecast to total $945 million over the five-year period. As was previously mentioned, member institutions will be offered a financial incentive in order to encourage earlier adoption of the data and system requirements through the amendment to the *Differential Premiums By-law*. The incentive could reduce the financial impact on member institutions of making the required changes by June 30, 2012, and represents, for CDIC, a long-term investment in the Corporation's ongoing intervention readiness. A drop in forecast premium revenue in 2012/2013 of approximately $100 million reflects the estimated foregone premium revenues should every member institution qualify for the early adoption incentive. Interest income on investments is forecast to total $300 million, and net operating expenses are budgeted at $175 million over the same period.

The projections included in CDIC's 2011/2012 to 2015/2016 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 rates are expected to remain at 2011 levels for the remainder of the planning period.
- Interest revenue on investments is based on an assumed average yield of 2.2%.
- No member institution failure is assumed during the planning period.[2]
- 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 2011/2012 to 2015/2016 Corporate Plan, the provision for insurance losses was forecast to remain at $1,100 million.

[2] Key to the effective implementation of CDIC's priorities within its operating budget is the absence of interventions in member institutions. The Corporation does not forecast any member interventions during the planning period. As a result, the impact on operations of any interventions is not incorporated into future operating budgets. The cost of interventions, if required, would likely have a material impact on operating expenses.

| | 2011/2012 Corporate Plan[a] | 2010/2011 Actual Results | 2010/2011 Corporate Plan[a] |
|---|---|---|---|
| | | (in millions of dollars) | |
| **Consolidated Balance Sheet (as at March 31)** | | | |
| **Assets** | | | |
| Cash and investments | 2,416 | 2,208 | 2,149 |
| Accounts receivable | 1 | 3 | – |
| | 2,417 | 2,211 | 2,149 |
| Capital and intangible assets | 11 | 7 | 5 |
| | 2,428 | 2,218 | 2,154 |
| Future income tax asset | – | 1 | – |
| **Total assets** | **2,428** | **2,219** | **2,154** |
| **Liabilities** | | | |
| Accounts payable and other liabilities | 4 | 6 | 2 |
| Income taxes payable | – | 1 | – |
| Future income tax liability | 1 | – | – |
| Provision for insurance losses | 1,100 | 1,100 | 800 |
| | 1,105 | 1,107 | 802 |
| **Equity** | | | |
| Retained earnings | 1,323 | 1,113 | 1,352 |
| Accumulated other comprehensive income (loss)[b] | – | (1) | – |
| | 1,323 | 1,112 | 1,352 |
| **Total liabilities and equity** | **2,428** | **2,219** | **2,154** |
| **Consolidated Statement of Income and Retained Earnings (for the year ended March 31)** | | | |
| **Revenue** | | | |
| Premiums | 213 | 253 | 180 |
| Interest on investments | 35 | 33 | 31 |
| Other revenue | – | 1 | – |
| | 248 | 287 | 211 |
| **Expenses** | | | |
| Net operating expenses | 34 | 31 | 33 |
| Adjustment to allowance and provision for loss | – | – | – |
| Recovery of amounts previously written off | – | – | (14) |
| | 34 | 31 | 19 |
| Net income before income tax | 214 | 256 | 192 |
| Income tax (recovery) expense | 1 | 1 | (1) |
| **Net income** | **213** | **255** | **193** |
| Retained earnings, beginning of year | 1,110 | 858 | 1,159 |
| **Retained earnings, end of year** | **1,323** | **1,113** | **1,352** |
| **Consolidated Statement of Comprehensive Income (for the year ended March 31)** | | | |
| Net income | 213 | 255 | 193 |
| Change in unrealized gains on available-for-sale financial assets[b] | – | – | – |
| Income tax recovery | – | – | – |
| Other comprehensive income | – | – | – |
| **Comprehensive income** | **213** | **255** | **193** |

[a] The Corporate Plans 2010/2011 to 2014/2015 and 2011/2012 to 2015/2016 were developed based on information at December 31, 2009 and 2010, respectively.

[b] It was assumed in the 2010/2011 to 2014/2015 and 2011/2012 to 2015/2016 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. Post-IFRS conversion, CDIC will no longer carry its investments at market value and so unrealized gains and losses will no longer be recorded.

# CDIC Management ERM Representation to the CDIC Board of Directors

June 2, 2011

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 2010/2011, 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 2010/2011 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2011, 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 overall, CDIC's risks remain acceptable, although insurance powers, intervention, people and process risks are assessed as cautionary, meaning that the residual risk in those areas warrants close monitoring. Management has developed initiatives to closely monitor and further mitigate these risks.

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