Financial Statements

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Part 2

Management Responsibility for Consolidated Financial Statements

June 2, 2011

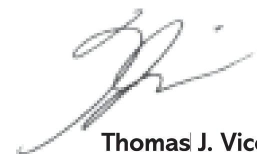
The accompanying consolidated financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this *Annual Report* are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally 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 his report is included herein.

Michèle Bourque
President and Chief Executive Officer



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

Auditor's Report

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Canada Deposit Insurance Corporation, which comprise the consolidated balance sheet as at 31 March 2011, and the consolidated statement of income and retained earnings, consolidated statement of comprehensive income and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Deposit Insurance Corporation as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act,* I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Canada Deposit Insurance 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, *Canada Deposit Insurance Corporation Act* and the by-laws of the Canada Deposit Insurance Corporation.

Clyde M. MacLellan, CA
Assistant Auditor General
for the Interim Auditor General

2 June 2011
Ottawa, Canada

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Financial Statements and Notes

CANADA DEPOSIT INSURANCE CORPORATION

Consolidated Balance Sheet
as at March 31

(in thousands of dollars)

	Notes	2011	2010
ASSETS			
Cash		$ 739	$ 530
Investments	*4*	2,207,085	1,953,823
Accounts and other receivables		3,335	2,841
		2,211,159	1,957,194
Capital assets	*5*	5,936	2,947
Intangible assets	*6*	1,383	762
Income taxes receivable	*11*	–	3,361
Future income tax asset	*11*	676	776
		7,995	7,846
		$ 2,219,154	**$ 1,965,040**
LIABILITIES			
Accounts payable and accrued liabilities		$ 5,689	$ 7,470
Income taxes payable		600	–
Provision for insurance losses	*7*	1,100,000	1,100,000
		1,106,289	1,107,470
EQUITY			
Retained earnings	*9*	1,113,518	858,087
Accumulated other comprehensive income (loss)	*12*	(653)	(517)
		1,112,865	857,570
		$ 2,219,154	**$ 1,965,040**
Contingent liabilities and commitments	*16, 17*		

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	2011	2010
REVENUE			
Premium	*13*	$ 253,264	$ 197,799
Interest on investments		33,492	31,004
Other		39	12
		286,795	228,815
EXPENSES			
Operating	*14*	30,702	30,555
Recovery of loans previously written off		(64)	–
Increase (decrease) to provision for guarantees and insurance losses	*7*	(15)	299,957
		30,623	330,512
Net income (loss) before taxes		256,172	(101,697)
INCOME TAXES			
Current	*11*	600	39
Future	*11*	141	388
		741	427
Net income (loss)		255,431	(102,124)
Retained earnings, beginning of year		858,087	960,211
Retained earnings, end of year		**$ 1,113,518**	**$ 858,087**

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)

	2011	2010
Net income (loss)	$ 255,431	$ (102,124)
Other comprehensive income (loss)		
Change in unrealized gains (loss) on available-for-sale financial assets	(178)	(16,718)
Income tax (expense) recovery on unrealized gains (loss) on available-for-sale financial assets	42	4,907
Other comprehensive loss	(136)	(11,811)
Comprehensive income (loss)	**$255,295**	**$(113,935)**

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)

	2011	2010
OPERATING ACTIVITIES		
Premium revenue received	$ 252,900	$ 197,799
Interest revenue received	34,304	36,088
Other amounts paid	(129)	(829)
Income taxes received (paid)	3,361	1,690
Recoveries of amounts previously written off	79	43
Payments to suppliers and employees	(31,882)	(27,330)
Cash flows from operating activities	258,633	207,461
INVESTING ACTIVITIES		
Acquisition of capital and intangible assets	(4,173)	(1,972)
Purchase of securities and term deposits	(3,774,453)	(5,646,499)
Maturities of securities and term deposits	3,520,202	5,441,090
Cash flows used in investing activities	(258,424)	(207,381)
CASH		
Increase during the year	209	80
Balance, beginning of year	530	450
Balance, end of year	**$ 739**	**$ 530**

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

CANADA DEPOSIT INSURANCE CORPORATION

Notes to Consolidated Financial Statements March 31, 2011

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, establish a bridge institution 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 (GAAP). 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, *Consolidation of Variable Interest Entities* (AcG-15) (see Note 8), 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.

Premium Revenue. Premium revenue is calculated on the amount of insured deposits held by member institutions as at April 30 of each year and is recognized rateably throughout the fiscal year. Premium revenue had previously been recognized upon receipt of the Return of Insured Deposits submitted by member institutions, which is due July 15 of each year. This change in accounting policy facilitates new reporting requirements outlined in the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board Secretariat and does not impact the total amount of premiums recognized during the fiscal year. Premiums are payable in two equal installments on July 15 and December 15.

Use of Estimates. Financial statements prepared in accordance with Canadian GAAP 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.

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 interventions 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 directly attributable to financial assets designated as available for sale are included in the initial cost of the asset and amortized to net income using the effective interest method. Transaction costs during the current and previous year were not material.

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, for equipment is five years and for computer hardware is three years. Leasehold improvements are depreciated over the term of the respective lease.

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.

Intangible Assets. Intangible assets represent internally developed software and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets. The useful life used in the calculation of amortization for internally developed software and computer software ranges from three to ten years.

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.

In fiscal 2011, CDIC completed a review of its provision calculation methodology to ensure that the input assumptions and variables within the calculation methodology remain relevant. The review resulted in some enhancements made 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.

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. Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

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 13 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 GAAP 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 (GBEs) 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.

Certain accounting policies will result in changes for the Corporation. The net impact of these differences will be recorded in opening retained earnings at April 1, 2010. Based on the analysis performed to date, the changes will not result in a significant impact on CDIC's financial statements. 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. CDIC intends to be an early adopter of IFRS 9 *Financial Instruments*, which will result in investments being measured at amortized cost instead of fair value.

3 – Fair Value

Effective March 31, 2010, the Corporation adopted the amended Section 3862 *Financial Instruments—Disclosures* issued by the Canadian Institute of Chartered Accountants (CICA). Section 3862 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 are valued at quoted market prices and consequently fall under Level 1 of the hierarchy 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. There were no transfers between levels during the current or previous years.

4 – Investments

All investments are highly liquid fixed rate contracts.

	March 31, 2011			March 31, 2010		
	Remaining term to maturity (in thousands of dollars)					
	Under 1 year	1 to 5 years	Total	Under 1 year	1 to 5 years	Total
Treasury bills	$ –	$ –	$ –	$ 86,582	$ –	$ 86,582
Weighted average effective yield (%)	–	–	–	0.48	–	0.48
Bonds	886,247	1,310,539	2,196,786	732,365	1,114,375	1,846,740
Weighted average effective yield (%)	1.38	1.98	1.74	1.85	1.44	1.61
Other	10,299	–	10,299	20,501	–	20,501
Weighted average effective yield (%)	1.00	–	1.00	0.20	–	0.20
Total investments	**$896,546**	**$1,310,539**	**$2,207,085**	**$839,448**	**$1,114,375**	**$1,953,823**
Weighted average effective yield (%)	**1.37**	**1.98**	**1.74**	**1.67**	**1.44**	**1.54**

	March 31, 2011				March 31, 2010
	(in thousands of dollars)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value
Treasury bills	$ –	$ –	$ –	$ –	$ 86,582
Bonds	2,197,688	811	(1,713)	2,196,786	1,846,740
Other	10,299	–	–	10,299	20,501
Total investments	**$2,207,987**	**$811**	**$(1,713)**	**$2,207,085**	**$1,953,823**

5 – Capital Assets

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

	2011				2010			
	(in thousands of dollars)							
	Computer Hardware	Furniture, Equipment and Other	Leasehold Improvements	Total	Computer Hardware	Furniture, Equipment and Other	Leasehold Improvements	Total
Cost								
Beginning of year	$3,890	$1,027	$2,466	$ 7,383	$3,626	$ 943	$1,069	$ 5,638
Additions	600	764	2,503	3,867	608	1,063	1,397	3,068
Reclassification	–	–	–	–	–	(979)	–	(979)
Retirements	(55)	(27)	–	(82)	(344)	–	–	(344)
Balance at end of year	$4,435	$1,764	$4,969	$11,168	$3,890	$1,027	$2,466	$7,383
Accumulated Depreciation								
Beginning of year	$2,807	$ 651	$ 978	$ 4,436	$2,587	$ 572	$ 838	$3,997
Depreciation expense	593	118	167	878	564	296	140	1,000
Reclassification	–	–	–	–	–	(217)	–	(217)
Retirements	(55)	(27)	–	(82)	(344)	–	–	(344)
Balance at end of year	$3,345	$ 742	$1,145	$ 5,232	$2,807	$ 651	$ 978	$ 4,436
Carrying amount	**$1,090**	**$1,022**	**$3,824**	**$ 5,936**	**$1,083**	**$ 376**	**$1,488**	**$2,947**

The Corporation reclassified its software development costs during the year. As a result, software development costs, with a net book value totalling $762 thousand at March 31, 2010, were transferred from capital assets to intangible assets.

The Corporation completed the renovations of its Ottawa office during the year ended March 31, 2011. At March 31, 2011, $153 thousand of purchased computer hardware had been capitalized but was not yet in use.

6 – Intangible Assets

Intangible assets include the following movements in internally developed computer software.

	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
Cost		
Beginning of year	$ 979	$ –
Additions—software development costs	949	979
Balance at end of year	$1,928	$979
Accumulated amortization		
Beginning of year	217	–
Amortization expense	328	217
Balance at end of year	$ 545	$217
Carrying amount	**$1,383**	**$762**

Prior to the current fiscal year, intangible assets were included in capital assets. In order to conform with the current year's presentation, a carrying value of $762 thousand was reclassified from capital assets and presented separately as intangible assets on the consolidated balance sheet.

At March 31, 2011, software development related expenditures totalling $949 thousand had been capitalized but had not yet gone into operation (2010: $979 thousand). There were no intangible assets acquired separately as at March 31, 2011.

7 – 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, 2011, with corresponding totals as at March 31, 2010.

	March 31, 2011			March 31, 2010
	(in thousands of dollars)			
	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	$ –	$ 1,100,000	$ 1,100,000	$ 800,000
Recovery of amounts previously written off	15	–	15	43
Write-offs	–	–	–	–
Adjustment to provisions for guarantees and insurance losses	(15)	–	(15)	299,957
End of period	**$ –**	**$1,100,000**	**$1,100,000**	**$1,100,000**

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

8 – 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 $918 thousand (2010: $1,136 thousand), an increase in liabilities of $38 thousand (2010: $19 thousand), as well as an increase in total revenue of $8 thousand (2010: $6 thousand) and an increase in total expenses of $246 thousand (2010: $170 thousand). The cumulative impact on the Corporation's retained earnings is $880 thousand (2010: $972 thousand).

9 – 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 7).

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 13). CDIC will determine the disposition of any capital above the target range once such level has been attained.

Ex Ante Fund

	Actual March 31, 2011	Actual March 31, 2010	Target Range* March 31, 2011	
	(in thousands of dollars)			
			Low	High
Retained earnings	$ 1,113,518	$ 858,087		
Basis points of insured deposits	19*	14**		
Provision for insurance losses	1,100,000	1,100,000		
Basis points of insured deposits	18*	19**		
Total	**$ 2,213,518**	**$1,958,087**	**$2,409,980**	**$3,012,475**
Total basis points of insured deposits	**37***	**33****	**40**	**50**

* Based on level of insured deposits as at April 30, 2010.

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

10 – 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 a 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 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. CDIC may also invest up to $100 million in federally chartered financial institutions for liquidity purposes. Risk is further limited by setting a maximum amount and term for each investment. 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. 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*	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
AAA	$ 1,839,576	$ 1,683,567
AA+	30,045	22,560
AA	83,114	10,828
AA-	215,054	200,802
A+	39,296	36,066
Total	**$ 2,207,085**	**$ 1,953,823**

* 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 payment 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 first and foremost to funding ongoing day-to-day operations. Potential cash requirements could also arise to fund payment 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. The effective borrowing limit as at March 31, 2011, was $17 billion (2010: $17 billion).

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, 2011, 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)	
	(in thousands of dollars)			
	2011	2010	2011	2010
100 basis point increase	$12,695	$10,147	$(5,739)	$(12,346)
25 basis point decrease	$ (3,174)	$ (2,537)	$ 643	$ 6,720

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.

11 – 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 CDIC's net income, is as follows:

	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
Statutory tax rate	28%	29%
Income tax expense at the federal statutory rate	$70,768	$(29,207)
Increase (decrease) resulting from:		
Non-taxable premium revenue	(69,964)	(56,867)
Recovery of amounts previously written off	(22)	(12)
Increase (decrease) to allowance and provision for loss	–	86,250
Other	(41)	263
Income tax expense	**$ 741**	**$ 427**

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, 2011, $1.0 million of undepreciated capital cost (2010: $0.9 million), $1.1 million in accrued severance costs (2010: $1.1 million), and $0.9 million relating to unrealized gain (loss) on available-for-sale assets (2010: $0.7 million) has been applied, in calculating the future income tax asset of $0.7 million (2010: $0.8 million). Included in the March 31, 2011, future income tax asset is $0.4 million representing the temporary difference between the leasehold inducement liability and its corresponding tax treatment.

12 – Accumulated Other Comprehensive Income

	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
Opening balance	$(517)	$11,294
Other comprehensive income (loss)	(136)	(11,811)
Accumulated other comprehensive income (loss)	**$(653)**	**$ (517)**

13 – Insured Deposits and Premiums

Deposits insured by the Corporation as at April 30, 2010, the date at which insurance premiums are determined, were $604 billion (April 30, 2009: $590 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 2011 are:

Category 1—5/216th of 1% of insured deposits (2010: 1/54th of 1%)

Category 2—5/108th of 1% of insured deposits (2010: 1/27th of 1%)

Category 3—5/54th of 1% of insured deposits (2010: 2/27th of 1%)

Category 4—5/27th of 1% of insured deposits (2010: 4/27th 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.

14 – Operating Expenses

	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
Salaries and other personnel costs	$14,669	$14,804
Professional and other fees	4,328	5,976
General expenses	3,471	2,809
Premises	3,330	2,703
Public awareness	3,847	3,482
Data processing	1,720	1,567
	31,365	31,341
Expense recoveries		
Related parties	513	511
Other	150	275
Operating expenses	**$30,702**	**$30,555**

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 du Québec contributes to the Corporation's public awareness campaign based on an agreement between the parties and such contributions are reflected above under other expense recoveries. The associated costs are included in the relevant expense categories.

15 – 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.

16 – 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 the 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, 2011, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

17 – Commitments

In fiscal 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, 2011, are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2012	$ 1,365
2013	1,114
2014	1,114
2015	1,118
2016	1,165
2017–2021	5,412
Total	**$11,288**

18 – Employee Future Benefits

a) Pension Benefits

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. As required under present legislation the contributions made by the Corporation to the Plan are 1.86 times (2010: 1.94 times) the employees' contribution on amounts of salaries below $142.8 thousand (2010: $139.5 thousand), and 9.50 times (2010: 8.9 times) the employees' contribution on amounts of salaries in excess of $142.8 thousand (2010: $139.5 thousand). The contributions during the year were as follows:

	March 31, 2011	March 31, 2010
	(in thousands of dollars)	
Employer	$1,962	$1,825
Employee	$ 803	$ 731

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 obligation. Benefits will be paid from the Corporation's operations.

The accrued benefit liability was actuarially determined as at March 31, 2011. The following table presents information about the plan at March 31, 2011, and March 31, 2010:

	2011	2010
	(in thousands of dollars)	
Accrued benefit obligation at beginning of the year	$ 1,770	$ 1,576
Current service cost	170	154
Interest cost	70	66
Benefit payments	(212)	–
Actuarial loss (gain)	(122)	(26)
Accrued benefit obligation at end of the year	$ 1,676	$ 1,770
Unamortized net actuarial gain (loss)	(10)	(133)
Accrued benefit liability	**$ 1,666**	**$ 1,637**
Significant actuarial assumptions used to determine the benefit cost:		
Discount rate	4.9%	4.0%
Rate of compensation increase	1.5%	1.5%
Significant actuarial assumptions used to determine the benefit cost:		
Discount rate	4.0%	4.0%
Rate of compensation increase	1.5%	1.5%

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Components of the plan's benefit cost, including current service cost and interest, are included in salaries and other personnel costs. The accrued benefit liability is included in accounts payable and accrued liabilities. The next annual valuation will be performed in accordance with IFRS as at March 31, 2012.

19 – Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation. In particular, software development costs of $762 thousand were reclassified from capital assets and presented separately as intangible assets at March 31, 2010.