PART ONE

Management's Discussion and Analysis

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CDIC's Operating Environment

Within Canada . . .

Global headwinds, such as the weak U.S. economy and the recession in Europe, continue to constrain economic growth in Canada, including Canadian exports. Within Canada, although the household debt burden continues to rise, there are signs of slowing in household spending. Recent changes introduced by the federal government regarding insured mortgages—as well as guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) to address residential mortgage lending—have been driving forces in the cooling of real estate markets, thus dampening growth in mortgage markets.

Internationally . . .

The 2008 financial crisis demonstrated that the failure of large financial institutions can have serious negative effects, not only domestically, but also internationally, given the global activities undertaken by these institutions. In response, a number of measures and regulatory reforms were initiated in an effort to strengthen financial institutions globally and minimize the potential impact of failures on financial stability and on taxpayers. These reforms included the introduction of Basel III requirements, aimed at improving the quantity and quality of capital, and bank liquidity. Countries around the world are also in the process of implementing the Financial Stability Board's (FSB's) *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes*), issued in 2011, designed to ensure that financial institution failures can be resolved in a manner that maintains continuity of their vital economic functions and avoids taxpayer exposure to loss.

At CDIC . . .

Although effective regulation and supervision can reduce the impact and likelihood of potential failures and increase the stability of the financial system, they cannot eliminate all elements of risk. As the resolution authority for its member institutions within Canada, the Canada Deposit Insurance Corporation (CDIC) is putting in place a robust large bank resolution framework. In addition, CDIC is assisting in the development of the FSB assessment methodology for the *Key Attributes*. While CDIC's work is progressing well, significant effort is still required to enhance the capabilities to effectively resolve a large complex bank.

Risk Governance and Management at CDIC

CDIC has in place an Enterprise Risk Management (ERM) program to identify and manage key risks that could prevent the Corporation from achieving its objectives. The program includes a detailed annual assessment of its most significant risks, as well as quarterly updates to identify and assess any significant changes related to these risks.

As at March 31, 2013, ten significant risks have been identified across four categories: Insurance, Operational, Financial, and Reputation. A summary of the assessment of the Corporation's key risks is presented in the table below.

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

as at March 31, 2013

	Rating	Trend
Insurance Risks		
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.		–
Assessment Risk: The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.		–
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.		▼
Operational Risks		
People Risk: The risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel.		▼
Information Risk: The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.		▲
Technology Risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.		–
Process Risk: The risk resulting from the incorrect execution of, a breakdown in, or a gap in, a policy, practice or control respecting CDIC's processes.		–
Legal/Compliance Risk: The risk that CDIC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.		–
Financial Risk		
Financial Risk: The risk associated with managing CDIC's assets and liabilities, both on- and off-balance sheet.		–
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

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 yet fully implemented.

Serious Concern—meaning that significant gaps may exist in risk management practices and controls and immediate action is required from Management.

Residual Risk Trends:

– Stable risk rating ▼ Decreasing risk rating ▲ Increasing risk rating

Based on its most recent self-assessment exercise, Management has concluded that although the Corporation's overall risk remains acceptable, certain risks are assessed as cautionary as at March 31, 2013, and warrant additional attention and monitoring by CDIC. These are: intervention, people, and process risks. Moreover, information risk and reputation risk, while assessed as acceptable, are showing an increasing trend. These risks are discussed in greater detail below.

Intervention risk is assessed as cautionary mainly due to CDIC's large bank resolution initiatives, which are still in the early stages of implementation. Further, all members are required to fully implement CDIC's *Data and System Requirements By-law* by June 30, 2013. Until then, CDIC may not be in an optimal position to implement a bridge bank or conduct a payment/transfer of insured deposits for the failure of a member institution of any size with the speed and sophistication it plans to achieve. The Corporation has made good progress in this regard; to date 44 members (of 83) have been found to be compliant. The decreasing trend in intervention risk reflects that initiatives are underway to continue to build our large bank resolution capabilities, as well as progress related to member compliance with our *Data and System Requirements By-law*.

People risk remains cautionary, reflecting challenges CDIC is facing with respect to staffing its new Division with the required expertise. The decreasing trend shows that CDIC has put in place enhanced recruitment programs to attract the required candidates.

Process risk is also assessed as cautionary as a result of the development of many new processes within the Corporation. Moreover, new employees, new roles and new responsibilities all have an impact on process risk, highlighting the need for CDIC to have adequate controls in place, and to appropriately communicate and monitor them.

Information risk is assessed as acceptable with an increasing trend. The trend reflects our complex resolution work; specifically that it requires the Corporation to collect and analyze large volumes of information from the large member institutions. This work is still in the early stages. We are developing the framework for identifying the types of resolution-critical data that are needed from our members to support our ongoing work in this area.

Reputation risk is assessed as acceptable with an increasing trend. As standards in deposit insurance continue to evolve, expectations for the organization are raised, and may result in additional requirements for our members. This risk continues to be mitigated, however, by our focus on intervention readiness and ongoing communication with member institutions.

CDIC Management ERM Representation to the CDIC Board of Directors

June 12, 2013

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 2012/2013, 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 2012/2013 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2013, 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 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 its Board Charter.

Michèle Bourque
President and Chief Executive Officer

Dean A. Cosman
Vice-President, Finance and Administration, and Chief Financial Officer
Chairperson, Enterprise Risk Management Committee

CDIC Membership

As at March 31, 2013, CDIC had 83 member institutions, a decrease of one from the previous year. During the year, one institution became a new CDIC member (Concentra Trust), one ceased to be a member (BofA Canada Bank) and two subsidiaries of Laurentian Bank of Canada amalgamated (M.R.S. Trust Company and B2B Trust, subsequently becoming B2B Bank).

The year 2012 was characterized by several acquisitions and amalgamations of CDIC members. Recent industry consolidation was partly related to the very competitive operating environment as well as some foreign banks divesting of their Canadian subsidiaries.

Overall, CDIC's membership recorded strong financial performances in their 2012 fiscal year and registered record net profits, improved asset quality and maintained solid capital ratios.

CDIC Member Peer Groups

Member institutions consolidate to 52 distinct groups on the basis of affiliation with a parent. For the purpose of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, geographic reach of its operations and/or its primary business activities.

International—business activities extend across all business lines, includes some international exposure (largest banks)

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

Residential—main business line is residential mortgages

Commercial—main business lines are business loans or commercial mortgages

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

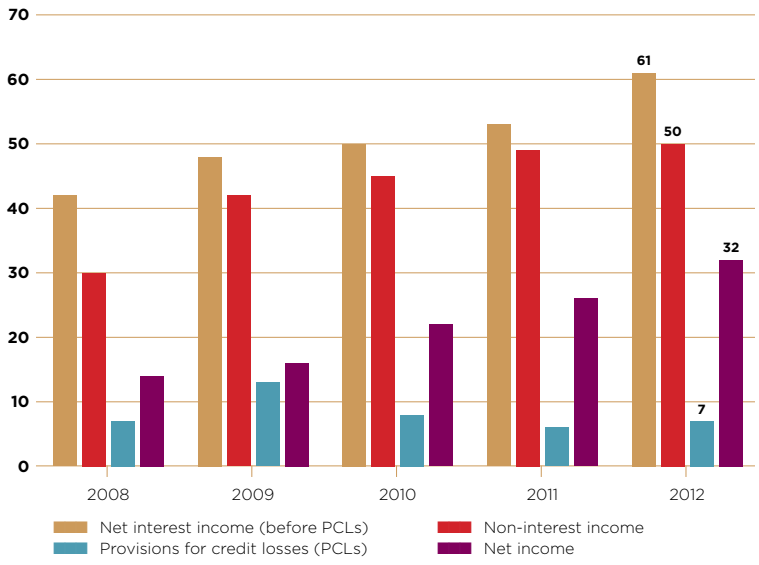
Fee Income—revenues largely derived from services and related fees, although these members do not necessarily operate in similar business lines

Financial Performance

Profit and Return on Average Shareholders' Equity

CDIC members earned a combined total net income of $31.7 billion in fiscal 2012, up from $25.6 billion in the prior year (a 24% increase). Stronger profitability was mainly driven by loan growth and higher trading revenue, which more than offset a 21% increase in provisions for credit losses (PCLs). At $7.4 billion, PCLs nonetheless remained well below their peak level of 2009. While 2012 represented a record year in terms of absolute profits, return on average shareholders' equity (ROAE) remained well below the pre-crisis peak of 2006, as institutions improved capital levels in preparation for the introduction of the Basel III capital regime.

Revenue, Provisions and Profits of CDIC Members, 2008–2012 (C$ billions)

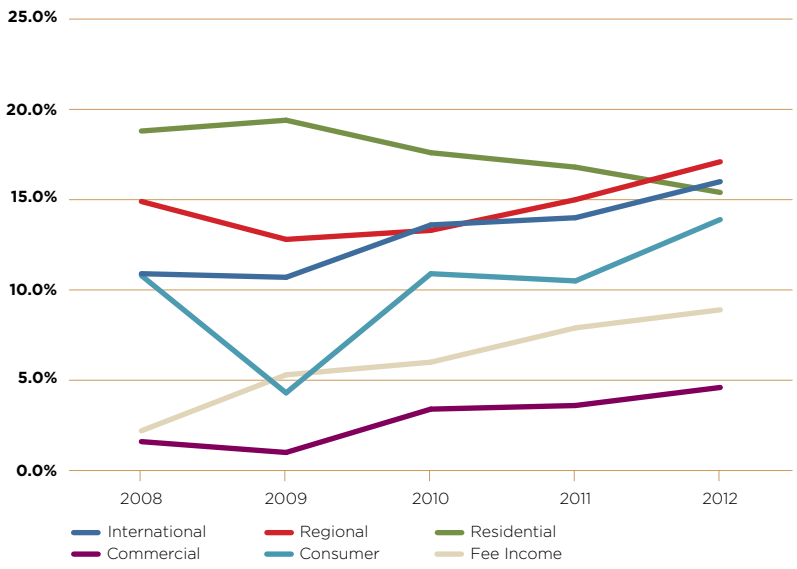


Net interest income (before PCLs) and non-interest income increased by 14% and 1%, respectively, while operating expenses rose by 5%. It is worth noting that a portion of the increase in both net income and net interest income was attributable to the start of reporting under International Financial Reporting

Standards (IFRS) by the International peer group (Canada's five largest banks).

ROAE increased to 15.9% in 2012. Almost all peer groups experienced an improvement in this measure in 2012. The ROAE varies considerably by peer group and individual member due to market conditions in their respective sectors of concentration, varying profitability levels, and degree of leverage utilized.

Return on Average Shareholders' Equity (ROAE) by Peer Group, 2008–2012



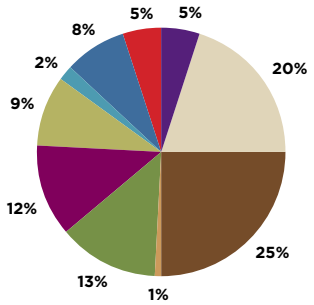
Asset Growth and Quality

Total assets grew by 11% (7% net of IFRS impacts) to $3.7 trillion. Residential mortgages were the largest contributor to growth. While the increase in residential mortgages was evenly split between insured and uninsured mortgages (excluding the effects of IFRS), the Residential, Commercial and Regional peer groups experienced fast growth in uninsured residential mortgages during the year.

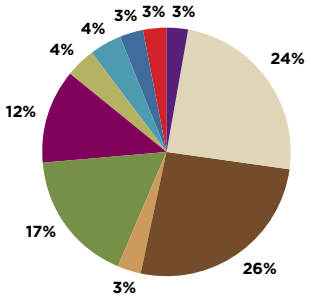
Residential mortgages held on the balance sheet of CDIC members totalled more than $900 billion, representing 25% of the membership's on-balance sheet assets. Other large asset classes included securities (21% of total assets, 31% of which were Canadian government securities), personal loans (13%), and commercial loans (12%).

The overall asset quality of the membership further improved in 2012. Impaired assets decreased both on a gross basis (0.4% of total assets, down 18 basis points year over year) and on a net of allowances basis (1.0% of shareholders' equity, down 60 basis points). However, a few members have significantly higher than average net impaired asset ratios, which places them in a relatively weaker position should conditions deteriorate.

Asset Mix— International Peer Group* (%) 2012 (C$3.2 trillion)



Asset Mix— All Other Peer Groups* (%) 2012 (C$430 billion)



- Cash and equivalent
- Securities
- Residential mortgage loans
- Commercial mortgage loans
- Personal/Consumer loans
- Commercial loans
- Reverse repurchase agreements
- Other loans and bankers' acceptances
- Derivatives related amounts
- Other assets

*As at members' fiscal year-end

Some members have higher concentrations of risky assets (relative to equity) such as construction loans, commercial mortgages, or residential mortgages to weaker borrowers. These assets can experience greater than average arrears or impairment under more difficult economic circumstances.

Liquidity Levels

Liquidity levels remained appropriate, although member institutions were holding slightly lower balances of more liquid assets compared to a year ago. Cash and government securities covered 36% of demand and notice deposits, down from 44% in the same period last year. Demand and notice deposits represented 51% of the membership's total deposits, a slight increase from 2011. Given the prevailing low interest rate environment, a substantial portion of deposits continues to be on short terms, pointing to the importance of depositor confidence in maintaining adequate liquidity.

Insured Deposits

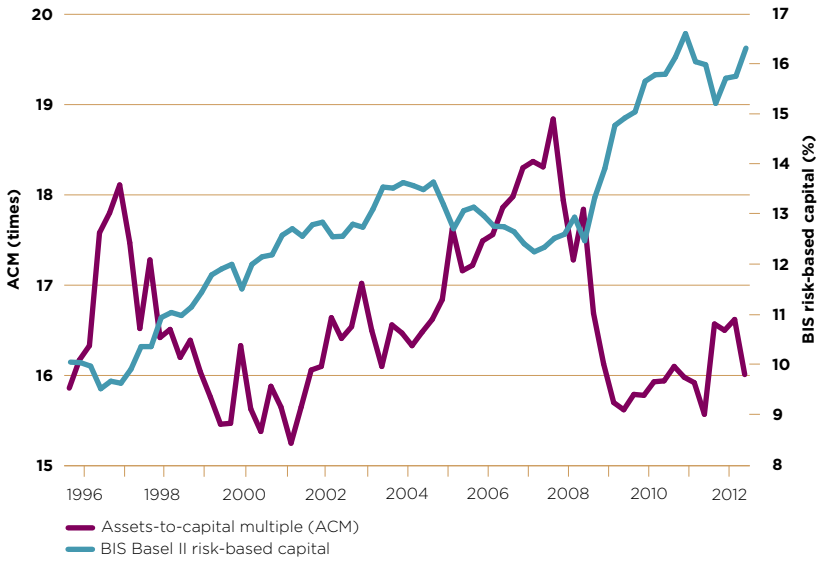
As at April 30, 2012, CDIC insured $646 billion in deposits, a 4% increase from the prior year. This amount represented 32% of the $2.0 trillion in deposit liabilities held by member institutions. The International peer group (Canada's big five banks) held 78% of the membership's total insured deposits. Total deposits rose by 8% between April 2011 and April 2012, driven in part by long-term wholesale funding raised by the large Canadian banks.

The Consumer and Residential peer groups had the highest ratios of insured deposits at 88% and 75%, respectively.

Capital Ratios

CDIC members overall maintained good Basel II capital ratios throughout 2012. The membership's Tier 1[1] and total capital ratios increased slightly to 13.3% and 16.0%, respectively. The assets-to-capital multiple (ACM), used as a regulatory measure of leverage, increased slightly from 2011 levels to 16.0 times (from 15.4 times). CDIC members are well positioned to adopt the Basel III capital requirements, including the Common Equity Tier 1 (CET1) ratio of 7.0% in the first quarter of 2013.

CDIC Membership Capitalization



Membership Risk

The CDIC membership as a whole achieved improved profitability and asset quality, while liquidity and capital ratios remained solid. However, all members, and some more than others, carry significant sensitivity to economic factors. In terms of assets, the most significant sensitivity factor remains real estate prices, which are potentially overvalued in some markets or segments.

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[1] Tier 1 capital consists mostly of common shares and retained earnings.

Some of these markets have begun to experience softening conditions. With their record high level of indebtedness, Canadian households may be more vulnerable than in the past to adverse economic or financial shocks, such as a sudden rise in interest rates or higher unemployment.

Several member institutions continued to record very high on-balance sheet asset growth rates during the year, which have further compounded asset growth since the 2009 to 2010 period. Unless risk management efforts keep pace with growth initiatives, fast asset growth can subsequently lead to credit, liquidity and operational risk challenges. Impaired loan growth often follows a prolonged period of fast growth.

Performance Against Plan

CDIC's Corporate Strategies

Based on its 2012/2013 to 2016/2017 Corporate Plan, in 2012/2013 CDIC focused its efforts on four strategic objectives:

- **Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure**
- **Build Preparedness for Complex Resolutions**
- **Promote Public Awareness of CDIC Deposit Insurance**
- **Optimize the Use of CDIC's Strategic Resources**

These strategies support the Corporation's mandate to provide insurance against the loss of part or all deposits and to promote and otherwise contribute to the stability of the financial system in Canada. Following is a summary of the key activities and achievements carried out this year in support of each of these strategies.

• *Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure*

CDIC actively monitors and assesses the performance of its member groups and of its membership as a whole in order to ensure that we can respond promptly to a potential deterioration in their circumstances. Monitoring and assessment of members includes a review of regulatory and public information, and ongoing communication with OSFI supervision teams and specialist groups.

Higher risk institutions are the subject of more intense monitoring and reporting; if warranted, they are included in CDIC's intervention planning and coordination. Intervention planning includes identifying steps CDIC would undertake to reduce the risk of failure and potential losses to CDIC, as well as issues that could impede the optimal recovery of assets or the speedy repayment to insured depositors under a resolution scenario. If a failure appears likely, CDIC establishes formal plans to proceed to a member examination, under which we would estimate losses under different resolution options in order to select the least cost alternative.

In 2011/2012, CDIC made major gains in its capacity to quickly (e.g., over a weekend) determine the amounts of insured deposits owing to depositors, by implementing the CDIC *Data and System Requirements By-law*. The by-law requires that member institutions be able to put in place certain capabilities that would allow CDIC to conduct an insurance determination over a weekend. All CDIC member institutions are required to have these capabilities by June 30, 2013; over 50% had them in place by June 30, 2012.

In 2012/2013, the Corporation completed and implemented a parallel project designed to enhance CDIC's intervention systems to ensure the Corporation has the capacity to conduct an insurance determination of even its largest member institutions. As part of this project,

we successfully developed (and applied, for 2012 compliance tests) a system for testing member institutions' compliance with the *Data and System Requirements By-law* and introduced the capability to perform an insurance determination on a member institution with over 10 million depositors.

• *Build Preparedness for Complex Resolutions*

CDIC's large member institutions are complex international and interconnected financial institutions. A disorderly failure, whether through financial distress or other risk factors, could impact the stability of Canada's financial system. In this regard, and consistent with international best practices, it is critical that CDIC undertake comprehensive planning and preparedness activities in the event of a large member failure. CDIC is working with domestic and international supervisors and resolution authorities, to ensure that the Corporation has the operational capacity to effectively implement resolution methods for large complex members.

CDIC carried out a number of key initiatives during 2012/2013 to support our preparedness to deal with the failure of a complex member. These include: developing resolution plans for our largest member institutions; establishing an advisory panel to provide expert advice on large bank resolution issues; and contributing to a number of domestic and international large bank resolution initiatives.

CDIC prepared a first set of resolution plans for its largest member institutions based on the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*. These plans were developed following a series of information requests and consultations with dedicated teams at each of the large banks. The plans serve to guide the effective use of CDIC's powers to resolve a large member institution in the event that the member's own recovery measures are not feasible or have proven ineffective. CDIC's approach to resolution planning leverages the ongoing coordination between CDIC and OSFI in an effort to make information requests and working meetings with the banks as effective as possible.

During the year an Advisory Panel was established to provide advice to CDIC on a broad range of large bank resolution issues. The Panel consists of individuals with extensive banking, insolvency and legal backgrounds who are experts in Canadian financial services issues. Although bank-specific information is not discussed, CDIC's ability to access the Panel's collective experience has provided valuable insights and perspective on the resolution issues that the Corporation is facing. The inaugural meeting was held in March 2013 and it is intended that meetings will be held twice a year going forward.

Large Bank Resolution Panel Members

James Christie
Robert Kelly
Ron Lalonde
Michael MacKey
Graham Parsons
Robert Sanderson
Barbara Stymiest

Resolution planning continues to be an evolving process and is part of the larger financial sector regulatory agenda. CDIC continued to foster international coordination by pursuing memoranda of understanding (MOUs) with selected foreign resolution authorities, including those of the United States and the United Kingdom. CDIC also actively participated in the FSB cross-border working groups developing guidance on resolution mechanisms.

• *Promote Public Awareness of CDIC Deposit Insurance*

CDIC's mandate includes contributing to the stability of the Canadian financial system. Promoting awareness of CDIC deposit insurance is integral to this mandate. By informing Canadians about our program and our coverage, we help them to make sound decisions about protecting their savings which, in turn, contributes to their confidence in our financial system.

In 2012/2013, CDIC launched a new Long-Term Public Awareness Strategy and Plan. The strategy maintains a focus on promoting awareness of CDIC, of the $100,000 coverage limit, and of the key financial products that are covered and not covered by CDIC.

The new strategy continues to target the general population and the 50 plus age group. It also targets financial advisors, in recognition of their growing role in helping Canadians make financial decisions and their importance to CDIC's ability to reach Canadians.

The strategy includes advertising campaigns through print and online advertising, and search engine marketing. In addition, CDIC launched a Twitter account and a YouTube channel in 2012/2013 to increase its reach. These new tools will also serve to enhance CDIC's capabilities to communicate with depositors and stakeholders more quickly and effectively in the event of a bank failure.

• *Optimize the Use of CDIC's Strategic Resources*

CDIC focused efforts in 2012/2013 on ensuring that our employees are engaged, and our supporting systems are operating efficiently and effectively and will continue to do so in the years to come.

In 2012/2013, human resource related initiatives focused on enhancing management acumen, increasing internal communication, and formalizing divisional learning and development strategies. These initiatives are contributing to ongoing work force stability; employees continue to grow and are part of multidisciplinary work projects across all divisions. Current staff assist new employees in knowledge transfer of deposit insurance-specific knowledge that is not readily found in the open market.

CDIC also took steps in 2012/2013 to enhance the systems that support our work. We completed a review of our Information Systems (IS) service delivery model to increase the efficiency and effectiveness of this critical function and to ensure that resources are principally focused on systems that are core to CDIC's mandate, such as our intervention systems. Recommendations resulting from this review will be implemented in the coming years through the updated IS structure.

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

The following Scorecard is a summary of CDIC's progress as at March 31, 2013, against the key initiatives and performance outcomes identified in its 2012/2013 to 2016/2017 Corporate Plan. As shown in the Scorecard, almost all of the key initiatives were completed or are proceeding as planned and expected outcomes on track, with the following exceptions that experienced slippage in terms of time to completion and/or budget:

Strategy: Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure

- *Develop and enhance alternative methods, activities and processes for non-payout resolutions*—Further development of the operational elements related to non-payout resolution methods for a mid-size member institution is still required. A simulation in this area will therefore likely not take place in 2013/2014 as was originally planned.

Strategy: Build Preparedness for Complex Resolutions

- *Build operational capability related to the use of CDIC powers to resolve a large member institution failure;* and
- *Initiate discussions with resolution counterparts to advance cross-border resolution issues.*

These work streams have not progressed as quickly as originally planned due to a slower than expected pace of hiring staff with the required expertise. However, now that first generation resolution plans are complete, there will be greater focus on other activities going forward, such as internal preparedness and cross-border coordination initiatives.

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

Corporate Strategies	Expected Performance Outcomes	Key Targets (and Status—Behind, On Track, or Exceeding)	Supporting Key Initiatives	Status △▽●	Update
Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure	*Membership Risk Monitoring* CDIC assesses and understands risks of its member institutions in support of preparedness and a prompt response to intervene when required.	Risks of each member group are assessed and documented annually (including risk rating and trend). **(On Track)**	Close monitoring and assessment of CDIC's membership.	▲	• Annual risk assessment completed and documented for all member groups. • Management continues to review member risks and trends on a quarterly basis and assessment risk remains well contained.
			Participation in the redesign and replacement of the Tri-Agency Data Sharing System (TDS).	▲	• Implementation is on time and within budget.
		Intervention plans are developed for CDIC's highest risk members, and are updated on a regular basis, based on ongoing monitoring and assessments of member institutions. **(On Track)**	Development and timely update of intervention plans for high-risk members.	▲	• Intervention plans have been prepared for CDIC's highest risk members. The plans will be updated in 2013/2014 as needed.

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

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

Corporate Strategies	Expected Performance Outcomes	Key Targets (and Status—Behind, On Track, or Exceeding)	Supporting Key Initiatives	Status ▲▼●	Update
Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure	*Readiness for Insurance Determination* CDIC can complete an insurance determination on any member institution, regardless of size or complexity, over a weekend.	Evaluation of member institutions' compliance with the *Data and System Requirements By-law* by 2013. **(On Track)**	Development of assessment methodology and tools to assess members' compliance with data and system requirements in support of Fast Insurance Determination (FID). All members to be assessed by the end of 2013, starting in July 2012.	▲	• Assessment methodology and tools have been developed. CDIC is on track to complete all assessments by the end of 2013 as originally planned (44 assessments have been completed to date).
		Improve CDIC's proprietary insurance determination software and related processes to accommodate up to 10 million depositors by the end of 2012. **(On Track)**	FID systems project to expand the capacity and speed of the insurance determination tools and processes to manage a member institution with up to 10 million depositors.	▲	• ROADMAP is deployed with the capability to perform an insurance determination of a member institution with up to 10 million depositors.
		Test CDIC's ability to accurately perform an insurance determination over a weekend. *—CDIC is in the process of determining the scope/focus of the simulation to be performed.*			
	Readiness for Non-Payout Resolutions CDIC resolution of a failing or failed member institution.	Simulate the failure and resolution of a mid-sized member to assess CDIC's capability and identify process enhancements. **(Behind)***—Refer to initiative status update.*	Develop and enhance alternative methods, activities and processes for non-payout resolutions (e.g., bridge bank, assisted transaction).	▼	• This activity requires further development of the operational elements to consider in the non-payout resolution of a mid-size member institution.

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

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

Corporate Strategies	Expected Performance Outcomes	Key Targets (and Status—Behind, On Track, or Exceeding)	Supporting Key Initiatives	Status ▲▼●	Update
Build Preparedness for Complex Resolutions	*Readiness for Complex Resolutions* CDIC is ready to implement non-payout resolutions for larger member institution failures (including bridge institution).	Resolution plans are developed and maintained. **(On Track)**	Preparation of a first set of resolution plans for member institutions pursuant to Financial Stability Board (FSB) guidance in regard to *Key Attributes of Effective Resolution Regimes for Financial Institutions.*	▲	• CDIC has completed first generation resolution plans for its six largest members. Plans will be maintained and enhanced throughout 2013 to address resolvability challenges and updated to reflect changes within our members.
			Build operational capability related to the use of CDIC powers (including Financial Institution Restructuring Provisions and bridge institution) to resolve a large member institution failure.	▼	• This work has not progressed as quickly as planned. However, now that first generation resolution plans are complete, there will be greater focus on this initiative going forward. Work to date has included: • Collaboration with safety net partners to allow an institution in resolution continued participation in key settlement and clearing systems. • Development of a large bank resolution communications strategy. • Formation of an advisory panel composed of experienced industry leaders to advise the Corporation across areas related to large bank resolution. • Planning has begun for a bank resolution table-top simulation exercise to be carried out in early 2014 with participants from the Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada, and the Department of Finance.

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

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

Corporate Strategies	Expected Performance Outcomes	Key Targets (and Status—Behind, On Track, or Exceeding)	Supporting Key Initiatives	Status ▲▼●	Update
Build Preparedness for Complex Resolutions			Continued contribution to Senior Advisory Committee (SAC) and other inter-agency initiatives on enhancing Canada's large bank resolution framework.	▲	• CDIC continues to collaborate with SAC agencies on resolution matters.
	Global Resolutions CDIC has in place internationally compatible resolution strategies and has appropriately mitigated the barriers to achieving a coordinated resolution of globally active member institutions.	Foster international coordination through the development of general (i.e., non-institution specific) memoranda of understanding (MOUs) with selected foreign resolution authorities by March 2013 with more comprehensive coordination agreements to be formulated throughout the planning period. **(Behind)**—*Refer to initiative status update.*	Initiate discussions with resolution counterparts to advance cross-border resolution issues and continued representation at the FSB Cross-Border Crisis Management working group.	▼	• This work has not progressed as quickly as planned. However, now that first generation plans are complete, there will be greater focus on this initiative going forward. Work to date has included: • Establishing an MOU between CDIC and the U.S. Federal Deposit Insurance Corporation (FDIC) is at an advanced stage. • Due diligence in establishing an MOU with the U.K. Financial Services Authority is underway. • CDIC continues to be an active member of the FSB Cross-Border Crisis Management working group which aims to make operational cross-border resolution strategies.
	International Collaboration CDIC continues to collaborate with international partners to develop international standards and best practices in deposit insurance.	Demonstrate leadership as an active member of the International Association of Deposit Insurers (IADI) Executive Council and on certain FSB working groups. **(On Track)**	Participate in IADI and certain FSB working groups, which supports CDIC contributing to robust deposit insurance systems and improved cross-border resolution mechanisms.	▲	• CDIC's CEO continues to be an active member of the IADI Executive Council. CDIC has representatives on the FSB Resolution Steering Group as well as the working groups associated with both resolution planning best practices and implementation of the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

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

CDIC's Corporate Scorecard—2012/2013 to 2016/2017

Corporate Strategies	Expected Performance Outcomes	Key Targets (and Status—Behind, On Track, or Exceeding)	Supporting Key Initiatives	Status ▲▼●	Update
Promote Public Awareness of CDIC Deposit Insurance	*Awareness of CDIC and the Deposit Insurance Limit* Canadians are aware of CDIC, the $100,000 coverage limit, as well as key financial products covered and not covered by CDIC.	Total awareness of CDIC remains at or above 45%, and awareness of the $100,000 coverage limit remains at or above 15% of Canadians throughout the planning period. **(Exceeding)**	Implement CDIC's new Long-Term Public Awareness Strategy and Plan.	▲	• As at March 31, 2013, total awareness of CDIC was measured at 56% of the general population, and unaided awareness of the $100,000 coverage limit was measured at 24%.
			Leverage financial advisors to reach consumers.	▲	• Efforts to encourage financial advisors to discuss CDIC with their clients were undertaken during the year.
			Implement a social media strategy.	▲	• CDIC launched its Twitter account in 2012, and also launched a YouTube channel to display corporate videos on CDIC coverage.
Optimize the Use of CDIC's Strategic Resources	*Engaged and Stable Work Force* Employees are provided with training and development opportunities, and succession plans are in place to address predicted retirements/departures.	CDIC achieves best-in-class engagement/satisfaction scores (75%+) on its employee surveys throughout the planning period. ***(Not Measured in 2012)**—Employee satisfaction was last measured at 71% in 2011. Another survey is planned for 2013/2014.*	Continue to implement CDIC's Long-Term Human Resource Strategy and Plan (HRSP) (including succession management, conducting employee surveys and developing action plans).	▲	• All initiatives identified in the HRSP for the period are complete, including action plans arising from the 2011 employee survey results.
	Focused Information Systems Resources Information Systems (IS) resources are focused on CDIC's core/mandated business activities.	The majority of IS spending is dedicated to core activities throughout the planning period. **(On Track)**	Develop and implement IS Tactical Plan that expands focus on core business initiatives and optimizes IS services.	▲	• The IS Tactical Plan was developed and focuses on core activities (e.g., CDIC's insurance determination systems). The plan is currently being implemented.
	Cost Efficiency CDIC is able to manage its operations in a cost-effective manner, while meeting its statutory obligations and adhering to cost containment measures.	Maintain net operating expenses within approved budget levels in 2012/2013 and throughout the rest of the planning period. **(On Track)**	Continue to look for opportunities to increase operational flexibility and efficiencies.	▲	• Management conducted a review of the Corporation's IS service delivery model in 2012/2013, and is currently implementing changes to increase organizational efficiencies. • 2012/2013 net operating expenses were within budget.

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

Financial Overview

This section of CDIC's Management's Discussion and Analysis provides a narrative context in which to interpret the Corporation's financial position, financial performance and cash flows. It should be read in conjunction with CDIC's fiscal 2012/2013 annual consolidated financial statements and notes. CDIC's statutory objects are to provide insurance against the loss of part or all of deposits, to promote or otherwise contribute to the stability of the financial system in Canada, and to pursue these objects for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss. The Corporation's financial position, financial performance and cash flows are influenced by the pursuit of these objects.

Financial Highlights

CDIC earned total comprehensive income of $23 million in fiscal 2012/2013.

Premium revenue was $120 million for the year, a decrease of $104 million (46%) from fiscal 2011/2012. The decrease in premium revenue reflects the impact of a one-time incentive offered to eligible member institutions for early compliance with CDIC's *Data and System Requirements By-law*, as well as improved Differential Premiums categorization for some members, offset by the impact of the growth in insured deposits.

Investment income was $39 million for the year, a decrease of $1 million (3%) from fiscal 2011/2012. Reduced income was a result of lower yields on the investment securities portfolio, partially offset by growth in the portfolio.

Net operating expenses were $36 million for the year, a year-over-year increase of $4 million (13%). Increased operating expenses reflect the staffing of a new Division charged with large bank resolution.

The Corporation's asset base continued to grow during the year. **Total assets** were $2,575 million as at March 31, 2013, an increase of 5% over the 2011/2012 fiscal year. The majority of the Corporation's assets are investment securities, which totalled $2,560 million.

The Corporation's **provision for insurance losses** was $1,250 million as at March 31, 2013, an increase of $100 million compared to last year. The increase reflects an elevated risk environment, a 4% increase in the level of insured deposits and downgrades of the credit ratings of some of CDIC's member institutions.

The Corporation's ***ex ante* funding**, a measure of CDIC's ability to fund interventions, stood at $2,566 million, or 40 basis points of insured deposits, as at March 31, 2013, a year-over-year increase of $122 million.

Basis of Preparation

CDIC's consolidated financial statements include the Corporation's results as well as those of Adelaide Capital Corporation (ACC), a special purpose entity created by CDIC in 1992 to effect the resolution of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. (Please see Note 2 to the Corporation's fiscal 2012/2013 consolidated financial statements for more information.)

The impact of the consolidation of ACC is immaterial to the consolidated financial results.

Consolidated Statement of Financial Position

Assets

The total assets of the Corporation increased to $2,575 million as at March 31, 2013, from $2,452 million as at March 31, 2012, representing an increase of 5%. The following table summarizes CDIC's assets:

(C$ thousands)	March 31, 2013	March 31, 2012
Assets		
Cash	422	456
Investment securities	2,560,483	2,440,790
Current tax asset	1,286	–
Trade and other receivables	1,545	1,537
Prepayments	244	141
Property, plant and equipment	6,716	6,332
Intangible assets	4,310	2,626
Deferred tax asset	122	206
Total assets	**2,575,128**	**2,452,088**

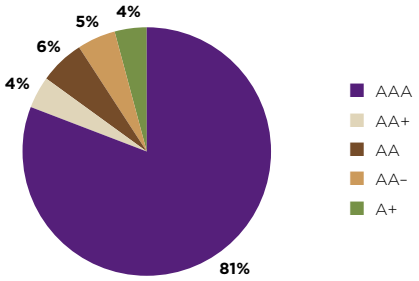
Investment Securities

CDIC's $2.6 billion investment portfolio forms the majority of its assets. The Corporation's investment strategy is based on two key principles:

- Limit credit and market risk to preserve capital.
- Use the investment portfolio as a funding source for intervention activity.

These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance. CDIC's Board Financial Risk Policies further limit risk by setting a maximum amount (and term) that can be invested in each qualifying instrument.

Investment Securities Credit Profile, as at March 31, 2013



CDIC is restricted under these policies to the obligations of the Government of Canada and agent Crowns and the obligations of Provincial Governments/Municipal Financing Authorities. Counterparties for investments of less than three years must have a minimum credit rating of A. The Corporation's investment securities with a term of more than three years but less than five years are restricted to securities having a minimum credit rating of AA-. Securities with a term of more than five years are not permitted.

As a result of these policies, the credit profile of CDIC's investment portfolio is relatively stable from period to period. CDIC's investments as at March 31, 2013, carry a weighted average yield to maturity of 1.5% (March 31, 2012: 1.7%) with a modified duration of 0.8 year (March 31, 2012: 1.3 years).

Intangible Assets

CDIC's intangible assets represent its investment in specialized systems. Intangible assets have increased by $1.7 million over the previous year, to $4.3 million, as the Corporation continued to enhance its systems that support, among other things, CDIC's ability to respond to a member institution failure.

Future Recoveries

CDIC estimates possible future recoveries from failed member institutions of approximately $14 million. These potential recoveries relate primarily to recoveries of amounts that were previously written off by CDIC and are not reflected in 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 for specific assets.

Name of Institution (Method of Failure Resolution—Year of Failure)	CDIC's Total Claims (C$ millions)	CDIC's Recoveries to March 31, 2013 (C$ millions)	CDIC's Possible Future Recoveries (C$ millions)	CDIC's Projected Loss as a % of:	
				Claims—Nominal Basis	Claims—NPV[a] Basis
Standard Trust Co. (Formal Liquidation —1991)	1,164	967	14	16%	33%

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

Liabilities

The total liabilities of the Corporation increased to $1,259 million as at March 31, 2013, from $1,159 million as at March 31, 2012, an increase of 9%. The following table summarizes the liabilities of the Corporation:

(C$ thousands)	March 31, 2013	March 31, 2012
Liabilities		
Trade and other payables	5,616	3,828
Current tax liability	–	1,435
Deferred lease inducement	1,412	1,525
Defined benefit obligations	1,820	1,763
Provision for insurance losses	1,250,000	1,150,000
Total liabilities	**1,258,848**	**1,158,551**

Provision for Insurance Losses

The $1,250 million provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits at member institutions. The provision increased by $100 million in fiscal 2012/2013, reflecting an increase in the level of insured deposits to $646 billion from $622 billion, and downgrades by external credit rating agencies of the credit ratings of some of CDIC's member institutions.

CDIC's provision for insurance losses 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 Investors Service and Standard & Poor's default statistics are used to derive a historically based view of default. 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 based on the cumulative un-weighted average loss sustained by CDIC in member failures since 1987, adjusted for measurement uncertainty as required by IFRS. In 1987, CDIC's legislation was changed to require that it pursue its objects in a manner so as to minimize its exposure to loss. Accordingly, the losses associated with failures since that time are significantly lower than those incurred by CDIC prior to 1987 and are more indicative of the losses the Corporation can expect to incur in the future.

Ex Ante *Funding*

Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC maintains an *ex ante* fund to cover possible deposit insurance losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and the provision for insurance losses. The minimum target level of the Corporation's *ex ante* funding is 100 basis points of insured deposits. The Corporation reviews this target funding level regularly to ensure it remains appropriate.

CDIC's *ex ante* funding level was $2,566 million as at March 31, 2013, or 40 basis points of insured deposits. Based on the level of insured deposits as at April 30, 2012, the 100 basis point minimum target would equate to $6,456 million of *ex ante* funding.

The Corporation's *ex ante* funding forms one part of the funding available should the need arise to intervene with a member institution. Additional funds are available through CDIC's authority to borrow under the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). As at March 31, 2013, the Corporation can borrow up to $19 billion. The borrowing limit is adjusted annually to reflect the growth in insured deposits. Additional borrowings, if required, could be authorized by Parliament through an appropriation act.

The following table sets out the liquid funds available to CDIC as at March 31, 2013:

(C$ millions)	March 31, 2013	March 31, 2012
Available liquid funds:		
Cash	1	1
Fair value of high-quality, liquid investment securities	2,573	2,459
Availability of borrowings:		
Borrowings authorized under the *CDIC Act*, either from market sources or from the Consolidated Revenue Fund[a]	19,000	18,000
Total available funds	**21,574**	**20,460**

[a] Includes existing $10 million bank credit facility.

Consolidated Statement of Comprehensive Income

CDIC's total comprehensive income for fiscal 2012/2013 totalled $23 million, a decrease from $180 million in fiscal 2011/2012. The Corporation's financial performance is summarized in the following table:

(C$ thousands)	2012/2013	2011/2012
Revenue		
Premium	120,081	223,887
Investment income	38,985	40,194
Other	45	26
Expenses		
Operating expenses	35,835	31,991
Recovery of amounts previously written off	(166)	(375)
Increase in provision for insurance losses	100,000	50,000
Income tax expense	815	2,345
Net income	22,627	180,146
Other comprehensive income (loss)	116	(94)
Total comprehensive income	**22,743**	**180,052**

Premium Revenue

In the 2012/2013 fiscal year, premium revenue decreased by $104 million (46%) to $120 million. The decrease in premium revenue reflects the impact of a one-time incentive offered to eligible member institutions for early compliance with CDIC's *Data and System Requirements By-law*, as well as improved Differential Premiums categorization for some members, partially offset by the impact of the growth in insured deposits.

Premiums are based on the total amount of insured deposits held by members as of April 30th each year, calculated in accordance with the *CDIC Act* and its *Differential Premiums By-law*, which classifies member institutions into one of four premium categories. Classification is based on a mix of quantitative and qualitative factors. Premium rates, expressed as basis points of insured deposits, are presented below.

Premium Category ***(basis points of insured deposits)***	2012/2013	2011/2012
Category 1	2.8	2.8
Category 2	5.6	5.6
Category 3	11.1	11.1
Category 4	22.2	22.2

The distribution of members among premium categories is set out in the following table:

Distribution of Member Institutions by Premium Category (% of members)					
Premium Category	**2012/2013**	**2011/2012**	**2010/2011**	**2009/2010**	**2008/2009**
1	76	73	62	68	75
2	17	20	26	21	20
3	5	5	10	10	5
4	2	2	2	1	–

Investment Income

Investment income was $39 million during the 2012/2013 fiscal year compared to $40 million in the previous year. Although premiums received during the year added to the size of CDIC's investment portfolio, investment income decreased as a result of the low interest rate environment. The weighted average yield on CDIC's investment portfolio decreased from 1.7% as at March 31, 2012, to 1.5% as at March 31, 2013.

Partially offsetting the impact of the lower yields was a realized gain of $238 thousand on the sale of securities during the first quarter of fiscal 2012/2013. The sale was prompted by the downgrade of the external credit rating of one of the Corporation's counterparties. The downgrade resulted in the Corporation temporarily being in non-compliance with its credit risk policy. Management immediately sold sufficient securities to enable continued compliance with its credit risk policy.

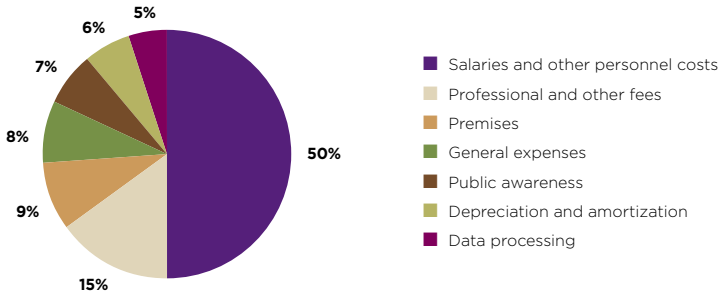
Recoveries

In fiscal 2012/2013, the Corporation recovered $166 thousand in relation to amounts previously written off. CDIC occasionally recovers amounts from the estate of failed member institutions; however, there is no certainty with regard to timing or amount. As a result, the Corporation recognizes such recoveries in the period in which they are received.

Operating Expenses

Operating expenses increased to $36 million in fiscal 2012/2013 from $32 million in fiscal 2011/2012. Increased operating expenses mainly reflect the staffing of the new Division charged with large bank resolution.

Profile of Operating Expenses for Fiscal 2012/2013



Consolidated Statement of Cash Flows

CDIC's cash flows are summarized in the following table:

(C$ thousands)	2012/2013	2011/2012
Increase in cash from operating activities	127,407	232,621
Decrease in cash from investing activities	(127,441)	(232,904)
Decrease in cash balance	**(34)**	**(283)**

In fiscal 2012/2013, CDIC generated $127 million in cash from its operations, $4 million of which was used to purchase/develop capital assets, and $123 million of which was contributed to the investment portfolio.

Comparison with 2012/2013 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2012/2013 with the Corporate Plan for the same year.

Statement of Financial Position

Total assets as at March 31, 2013, were $2,575 million, compared to the planned amount of $2,539 million. The variance resulted mainly from higher than planned revenue which increased the balance of investment securities held by the Corporation. The variance in revenue is discussed further below.

Total liabilities as at March 31, 2013, were $1,259 million, compared to the planned amount of $1,157 million. The variance was due to the unplanned increase in the provision for insurance losses. The Corporate Plan assumed no increase in the provision for insurance losses during the 2012/2013 fiscal year. In the first quarter of fiscal 2012/2013 the Corporation recognized an increase in the provision for insurance losses of $100 million.

Statement of Comprehensive Income

Total revenue during the year was $159 million, or $28 million above Plan. The primary sources of revenue are premiums and investment income.

- *Premiums:* Actual premium revenue was $120 million, compared to the planned amount of $89 million. The Corporate Plan was based on certain assumptions regarding the classification of members under the Differential Premiums system and members' eligibility for premium incentives for early compliance with CDIC's *Data and System Requirements By-law*, as well as the growth in insured deposits. Actual results have differed from the assumptions, resulting in the variance between the planned and forecast amounts.
- *Investment income:* Actual investment income was $39 million, compared to the planned amount of $42 million. The Corporate Plan assumed a higher yield on the portfolio than was actually achieved.

Total comprehensive income for the year ended March 31, 2013, was $23 million compared to planned total comprehensive income of $91 million, a negative variance of $68 million. This variance is attributable to an unplanned increase in the provision for insurance losses of $100 million, partially offset by higher than planned revenue.

A Look Ahead to 2013/2014

As set out in the Corporation's 2013/2014 to 2017/2018 Corporate Plan, CDIC's work will be guided by four strategic objectives in fiscal 2013/2014, unchanged from 2012/2013:

- **Enable quick access to insured deposits in the event of a member institution failure**
- **Build preparedness for complex resolutions**
- **Promote public awareness of CDIC deposit insurance**
- **Optimize the use of CDIC's strategic resources**

Details on each of these strategic objectives are provided below.

• Enable Quick Access to Insured Deposits in the Event of a Member Institution Failure

CDIC will continue to enhance its capacity to deliver a quick reimbursement to depositors or transfer of insured deposits to another institution should this be required. The following key initiatives will support this strategic objective in 2013/2014:

- Review and adjust CDIC's risk assessment and monitoring processes.
- Develop and implement a process to monitor member institutions' ongoing compliance with CDIC's *Data and System Requirements By-law*.
- Enhance CDIC's intervention preparedness through expanded intervention plans for specific member institutions.
- Develop and implement new channels for reimbursements to insured depositors.

CDIC requires access to timely and reliable data to assess and monitor the performance of its membership and highlight potential risks as they arise. To this end, work in 2013/2014 will include identifying and implementing, in coordination with the Office of the Superintendent of Financial Institutions (OSFI) and the Bank of Canada, improvements to the regulatory data that are currently available, as well as enhancing our risk assessment tools. Risk assessment information systems will be updated, including upgrades to the business intelligence data warehouse and the e-filing application (used by member institutions to submit data to CDIC).

Following the deadline for member compliance with CDIC's *Data and System Requirements By-law* of June 30, 2013, CDIC will test its remaining member institutions for compliance in 2013/2014 (44 out of 83 have been tested to date). Once initial testing is complete, we will implement a process to ensure ongoing compliance with the by-law. To this end, CDIC will develop a methodology and supporting procedures for monitoring of members' ongoing compliance.

In 2013/2014, the Corporation will also continue to review and revise its intervention plans for its highest risk member institutions and assess alternative payment delivery methods beyond the traditional method of cheques or transfer of deposit base to another financial institution.

• Build Preparedness for Complex Resolutions

Following the formative work undertaken this past year in developing resolution plans for the largest member institutions, second generation plans will be developed in 2013/2014 and further refined on an annual basis thereafter. The 2013/2014 plans will seek to address the challenges identified through work to date, as well as international resolution best practices.

In 2013/2014, CDIC will continue its work with the Senior Advisory Committee (SAC) agencies to finalize policy proposals designed to address possible gaps in CDIC's ability to resolve its large complex members.

A major initiative in 2013/2014 will also be the development of a framework essential to building the Corporation's internal preparedness to effectively handle a large bank failure. The framework will consolidate and enhance existing preparedness activities, including communications, funding, resourcing, valuation and exit options for CDIC's large bank resolution powers.

CDIC will continue to improve its capacity to respond to the failure of a large, complex member through the following initiatives:

- Further develop resolution plans consistent with the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* and international best practices.
- Enhance cooperation with foreign and domestic resolution authorities.
- Develop action plans to address possible gaps with the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*.
- Develop an operational framework for large bank resolution.

• Promote Public Awareness of CDIC Deposit Insurance

CDIC's Long-Term Public Awareness Strategy and Plan aims to make at least 45% of Canadians aware of CDIC. The strategy leverages the relationship financial advisors have with their clients as a means of reaching Canadians to inform them about the deposit insurance program. CDIC will continue to monitor awareness levels through regular omnibus surveys of Canadians during the year.

CDIC will continue to promote awareness of the Corporation's deposit insurance program to contribute to stability and confidence in the Canadian financial system.

• Optimize the Use of CDIC's Strategic Resources

CDIC conducts regular employee surveys to solicit feedback from employees on a wide range of issues. The surveys measure employee engagement and satisfaction, and serve to monitor and measure the impact of actions taken based on previous survey results. An employee engagement survey will formally measure employee engagement in fiscal 2013/2014.

CDIC's work force and effective and efficient processes are essential to the Corporation's ability to fulfill its mandate.

Recruitment will also be an area of focus for the Corporation in 2013/2014, to help ensure that CDIC is able to attract and retain the skills and expertise that are required to further advance the Corporation's key initiatives—in particular those related to large bank resolution activities.

To ensure its information systems are operating effectively, CDIC will continue to implement recommendations from the recent IS service delivery model review. In addition, the Corporation will continue to perform the required upgrades to its back office and supporting systems in 2013/2014 and throughout the planning period.

2013/2014 to 2017/2018 Financial Plan

The projections included in CDIC's 2013/2014 to 2017/2018 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:

- A 3.5% growth in insured deposits.
- The premium rate for Category 1 member institutions (the base premium rate) is assumed to increase by one basis point per year, for five years, starting in fiscal 2014/2015.
- Investment income is based on an assumed average yield of 1.5% for fiscal 2013/2014, rising to 1.75% thereafter.
- No member institution failure is assumed during the planning period.[2]
- The provision for insurance losses is forecast to remain at $1,250 million.

2013/2014 Fiscal Year

Total comprehensive income is forecast at $203 million for the 2013/2014 fiscal year.

Total revenues are planned to be $248 million in the 2013/2014 fiscal year, including $195 million of premium revenue and $39 million of investment income.

Planned **premium revenue** of $195 million is $75 million higher than fiscal 2012/2013 premium revenue of $120 million. Fiscal 2012/2013 premium revenue was impacted by a one-time premium incentive for members who demonstrated early compliance with CDIC's *Data and System Requirements By-law*. Fiscal 2013/2014 reflects a return to non-discounted premiums as well as the impact of the forecast 3.5% growth in insured deposits.

Investment income is expected to remain unchanged at $39 million, reflecting a higher fund balance and a continued low interest rate environment.

Net operating expenses are planned to be $42 million in fiscal 2013/2014, compared to $36 million actual operating expenses in fiscal 2012/2013. This increase reflects funding required for the development of the Corporation's large bank resolution capabilities and will ensure that CDIC is well equipped to meet its mandate and responsibilities. Spending on other activities is budgeted to remain relatively flat to fiscal 2012/2013 budget levels, as we maintain our commitment to managing costs in a prudent and responsible manner, in keeping with the spirit of current federal government deficit reduction activities.

Cash and investments are projected to be $2.8 billion at the end of the 2013/2014 fiscal year.

The **provision for insurance losses** is forecast to remain unchanged at $1,250 million at the end of the 2013/2014 fiscal year.

The level of ***ex ante* funding** is forecast to be $2.8 billion at the end of the 2013/2014 fiscal year, representing 41 basis points of forecast insured deposits, an increase of one basis point from the current year.

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

(C$ millions)	2013/2014 Corporate Plan[a]	2012/2013 Actual Results	2012/2013 Corporate Plan[a]
Consolidated Statement of Financial Position (as at March 31)			
Cash and investments	2,760	2,561	2,525
Other current assets	1	3	1
Capital assets	11	11	13
Total assets	**2,772**	**2,575**	**2,539**
Current liabilities	2	6	3
Provision for insurance losses	1,250	1,250	1,150
Other non-current liabilities	3	3	4
Retained earnings	1,517	1,316	1,382
Total liabilities and equity	**2,772**	**2,575**	**2,539**
Consolidated Statement of Comprehensive Income (for the year ended March 31)			
Revenue			
Premiums	195	120	89
Investment income	39	39	42
Other	14	–	–
	248	159	131
Expenses			
Operating	42	36	39
Increase in provision for insurance losses	–	100	–
	42	136	39
Net income before income tax	206	23	92
Income tax expense	(3)	–	(1)
Net income and total comprehensive income	**203**	**23**	**91**

a The Corporate Plans 2012/2013 to 2016/2017 and 2013/2014 to 2017/2018 were developed based on information as at December 31, 2011, and December 31, 2012, respectively.