



CDIC
Canada Deposit
Insurance Corporation

A N N U A L R E P O R T

2 0 0 8

Canada 

\$100,000 DEPOSIT INSURANCE COVERAGE

What's covered?

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

- held in one name
- held in trust for someone else
- registered in RRSPs (Registered Retirement Savings Plans)
- registered in RRIIFs (Registered Retirement Income Funds)
- held for paying realty taxes on mortgaged property

CDIC also insures up to \$100,000 of deposits held jointly in two or more names.

What's an eligible deposit?

Eligible deposits include:

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

Deposits must be payable in Canada, in Canadian currency.

What's not covered?

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

CDIC Mission

To provide deposit insurance and to contribute to the stability of the financial system in Canada in a professional and innovative manner, meeting the highest standards of excellence, integrity and achievement, for the benefit of depositors of member institutions while minimizing the Corporation's exposure to loss. CDIC will provide an environment where employees are treated fairly and given opportunities and encouragement to develop their full potential.

CDIC Values

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

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

Head Office

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

Toronto Office

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

Toll-free telephone service:

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

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the Years Ending March 31	2008 ^a	2007 ^a	2006 ^a	2005 ^a	2004
Selected Balance Sheet Items (\$ millions)					
Cash and investments	1,660	1,554	1,447	1,325	1,195
Provision for insurance losses	650	600	600	550	550
Retained earnings	998	950	844	793	681
Selected Income Statement Items (\$ millions)					
Premiums	68	75	65	93	109
Interest on cash and investments	65	56	43	35	35
Operating expenses	24	22	23	23	22
Adjustment to allowance and provisions for loss	50	(1)	42	1	3
Net income	48	105	52	105	141
Ex ante funding (\$ billions)	1.65	1.55	1.44	1.34	1.23
Member Institutions (Number)					
Domestic banks and subsidiaries	40	42	41	37	37
Domestic trust and loan companies and associations	21	19	20	21	24
Subsidiaries of foreign financial institutions	19	19	21	23	25
Total number of institutions	80	80	82	81	86
Total insured deposits (\$ billions)	477	455	438	376	363
Growth rate of insured deposits (%)	4.6%	4.1%	16.5% ^b	3.4%	4.6%
Employees (Number)					
Permanent employees ^c	83	79	79	79	86

^a 2008, 2007, 2006 and 2005 financial figures are presented on a consolidated basis and include the results of CDIC and of Adelaide Capital Corporation (ACC), a variable interest entity. As described in Note 6 to the Financial Statements, effective April 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities issued by the Canadian Institute of Chartered Accountants. This Guideline required that ACC be consolidated with CDIC.

^b The increase in deposit insurance coverage from \$60,000 to \$100,000 in 2005 contributed to the majority of the 16.5% increase in insured deposits during CDIC's 2005/2006 fiscal year.

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

2007/2008 AT A GLANCE

Corporate highlights

- launched the Payout Capacity Enhancement Project—a major initiative that is being conducted over several years to strengthen our capacity to make faster depositor payments to a greater number of depositors
- continued to manage our exposure to risk through our Enterprise Risk Management process—adjusting plans and activities as required to mitigate risk
- held our second Annual Public Meeting, in Vancouver, with close to 500 attendees
- undertook the third year of a multi-year program designed to raise public awareness of CDIC deposit insurance, with results achieved of just over 50% awareness of CDIC and 25% awareness of the \$100,000 deposit insurance coverage limit
- completed an initial review of internal controls on our higher risk business processes in support of our internal controls certification initiative
- chaired a sub-committee of the International Association of Deposit Insurers, drafting core principles for potential adoption by deposit insurance systems around the world
- conducted an employee satisfaction survey, which shows that the vast majority of employees are satisfied or extremely satisfied with CDIC as an employer

Membership highlights

- as a group, our 80 members experienced record net income in 2007, despite some market turbulence and a challenging environment
- reported asset growth of almost 11%, continuing a trend seen over the past three years
- enjoyed premium rates that were at an all-time low
- completed the 12th consecutive year without a member failure
- CDIC's insurance risk is currently acceptable but rising—CDIC is paying close attention to potential threats to its membership including: capital market uncertainties; asset quality issues; and the degree to which a U.S.-led economic slowdown may affect the Canadian economy

Looking ahead, CDIC will

- build on past readiness work, enhancing core expertise, technology and systems needed to strengthen our payout and non-payout resolution capacity for the failure of all types of member institutions
- invest in our employees through training and on-the-job experience such as participation in intervention simulations to enhance their skills
- host our third Annual Public Meeting in Montréal, October 2008
- develop and implement a new long-term public awareness strategy to inform consumers about CDIC deposit insurance
- continue our work in the domestic and international deposit insurance arena
- continue to participate in a working group of Crown corporations studying the implications of the move to International Financial Reporting Standards (IFRS)



CDIC

Canada Deposit
Insurance Corporation

A N N U A L R E P O R T

2 0 0 8

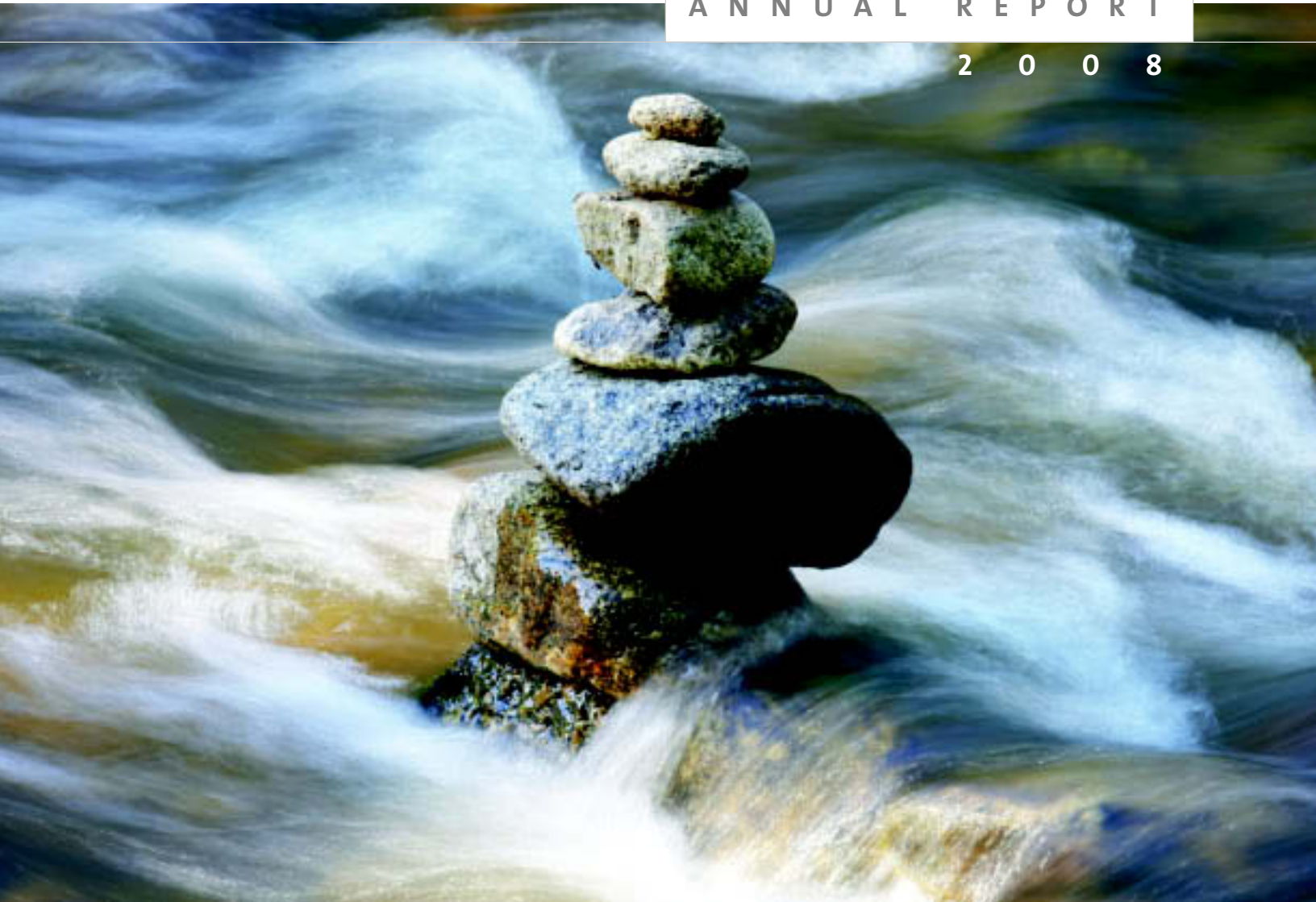




TABLE OF CONTENTS

	Message from the Chair	4
	Message from the President and CEO	6
1	CDIC's Mandate	9
2	Management's Discussion and Analysis	11
	CDIC's Operating Environment	11
	Managing Our Risks	15
	Performance against Plan	20
	Financial Overview	30
	Management ERM Representation to the CDIC Board of Directors	41
3	Financial Statements	43
	Management Responsibility for Consolidated Financial Statements	43
	Auditor's Report	44
	Financial Statements and Notes	45
4	Corporate Governance	61
	Good Governance	61
	Board of Directors	61
	Board Committees	64
	Addressing Public Service Expectations	67
	CDIC's Officers	68
5	Membership Profile and Performance	71
	Membership Profile	71
	Financial Performance	71
	Comparative Membership Information	75
6	Glossary	85



MESSAGE FROM THE CHAIR



2007/2008 was characterized by significant change and upheaval in the global financial markets. For our member institutions, this has meant operating in a more volatile environment. At CDIC, this shift has led to an increased focus on our economic and financial environment, with a view to early identification of potential impacts on the performance of our member institutions. Further, it has reinforced the need to ensure our readiness in the event of a member failure.

To complement and reinforce our emphasis on readiness during the year, CDIC's Board of Directors conducted a strategy session, largely devoted to the role of the Board in failure resolution, in both payout and non-payout scenarios. Such sessions are particularly important following periods of high turnover among Board members, as was the case over the past two years.

As part of its commitment to ensuring that CDIC exercises the highest levels of good corporate governance, in 2007/2008 the Board undertook a comprehensive assessment of its operations and processes. We identified opportunities for improving the effectiveness of the contributions from the Board and its Committees and developed action plans to address those operational changes.

The Board's priorities over the past year included a particular focus on succession planning and leadership development for executive management. Our Human Resources and Compensation Committee held a special session devoted to this topic. CDIC is fortunate to have a talented and professional complement of management and staff—people who work as a team under the excellent leadership of our President and CEO, Guy Saint-Pierre. We do not take the commitment and dedication of our work force for granted—as part of its oversight role, the Board strives to ensure that employees are well supported, trained and motivated to continue to help achieve the goals of the Corporation.

As one of our three corporate strategies, depositor awareness remains a key area of priority and interest for the Board. In order to assist the Board in fulfilling its responsibilities related in this area of increasing importance, our Governance and Nominating Committee took on the oversight role for CDIC's public awareness planning and associated activities, reviewing both the successes of recent and current activities, as well as CDIC's plans for our next long-term public awareness campaign. Also, as part of the Board's continuing outreach to the community, we held our second Annual Public Meeting in the heart of Vancouver's Chinatown, where the Board hosted close to 500 members of the public.

CDIC enjoys excellent working relationships with the other members of Canada's federal financial safety net: the Bank of Canada, the Department of Finance, the Office of the Superintendent of Financial Institutions and the Financial Consumer Agency of Canada. Our ongoing collaboration and partnerships assist CDIC in fulfilling its mandate.

As well, CDIC makes important contributions to international knowledge and development in support of deposit insurance, both directly with other countries and through participation with international organizations and events. Our CEO, other staff members and I all were involved in the activities of the International Association of Deposit Insurers this past year.

In 2007/2008, we said farewell to four Directors and welcomed four new members. I thank all our retiring members—Jim Callon, David Dodge, Claude Huot and Grant Morash—for their outstanding contributions and commitment to CDIC. I wish to acknowledge, in particular, the significant contributions of Grant Morash, who served as a Director from November 2002 to February 2008, when he resigned, due to ill health. Sadly, Grant passed away later that month. I warmly welcome two new private sector Directors, Nancy Lockhart and Barry Moore, as well as our new *ex officio* Directors, Mark Carney and Ursula Menke.

The contribution of our *ex officio* Directors, together with the insights of our private sector Directors, continues to bring strength to the Board's deliberations. I thank all of our Directors, who dedicate untold hours to the work of CDIC, for their commitment and their public service.



Bryan P. Davies



MESSAGE FROM THE PRESIDENT AND CEO



CDIC's financial performance remained strong during the past fiscal year. The absence of a member institution failure for the twelfth consecutive year contributed to a consolidated net income of \$48 million, with year-end retained earnings of \$998 million. Our total revenues for the year of \$133 million included premium revenue of \$68 million and interest revenue from investments of \$65 million. Once again, interest revenue more than covered our net operating expenses of \$24 million. We increased our provision for insurance losses

by \$50 million to \$650 million, a move that reflects CDIC's increasing insurance risk. This provision, combined with retained earnings, resulted in our ex ante funding reaching \$1.6 billion as at March 31, 2008. This represents 35 basis points of insured deposits, below our target range of 40 to 50 basis points.

Our member institutions had another year of record profitability in 2007, with only one third of members recording lower profits than the previous year. For more than half of those with declining profits, write-downs of structured products, including asset-backed commercial paper (ABCP), were the main cause. While some deterioration in credit conditions was evident, our membership's credit quality and capital remained in 2007 at historically favourable levels.

Working with the Office of the Superintendent of Financial Institutions (OSFI), the primary regulator, we continued to analyze and evaluate the state of our membership. Given emerging threats within the current economic environment, CDIC's insurance risk, although acceptable in the short term, is rising. As a result, CDIC is increasing the frequency of its monitoring, particularly surrounding credit and liquidity risk. While we are well equipped to meet our obligations in the event of a member failure, this increasing risk profile has led us this year to intensify our readiness activities. We are strengthening our payout and non-payout resolution capacity for the failure of all types of members. As an example, through our new payment capacity enhancement project, we are ensuring that we will be in a position to make faster payments to a larger number of depositors.

The needs of depositors remain at the forefront of what we do, whether it is in anticipating their expectations in a failure, or in undertaking public awareness activities to inform them about the basics of deposit insurance. While the vast majority of deposits held by Canadians are insured by CDIC, our surveys indicate that just over half of Canadians are aware of CDIC and just over one quarter know about

the \$100,000 deposit insurance coverage limit. As a consequence, increasing deposit insurance awareness remains one of our key priorities. A slate of activities, including television and print advertising, continues to improve Canadians' awareness of CDIC deposit insurance.

Sharing information with partners in Canada's financial safety net and others both at home and abroad is vital to CDIC fulfilling its mandate. This year we hosted two important events. In June 2007, together with OSFI, we held the joint Credit Union/Caisse Populaire Stabilization Fund of Canada and Credit Union Regulatory conference. Topics discussed ranged from the state of the economy and trends in the financial services sector to stabilization and insurance activities at the various participating agencies. CDIC also hosted the Canadian Financial Services Insolvency Protection Forum annual conference, to address the protection of Canadian consumers of financial services.

On the international front, CDIC continued its involvement with the International Association of Deposit Insurers (IADI). In November 2007, I accepted a three-year appointment to the IADI Executive Council. CDIC worked closely with IADI to develop a set of core principles to enhance the effectiveness of deposit insurance regimes throughout the world. Recent events abroad have focused the attention of financial authorities globally on the role that deposit insurance plays in giving depositors confidence and in supporting confidence in the financial system as a whole. The IADI core principles were referred to in the Financial Stability Forum's report on enhancing market and institutional resilience that was presented in April 2008 to the G7 finance ministers.

With respect to CDIC's governance processes, we have made good progress with our internal control certification initiative and have confirmed both that CDIC has in place appropriate operating controls on its higher risk business processes and that we have a solid framework to expand the certification program to other processes.

Maintaining a well-trained, motivated and satisfied work force is vital to CDIC's readiness. Our most recent employee satisfaction survey, conducted at the end of 2007, shows that most employees (88%) are satisfied or extremely satisfied with CDIC as a workplace. These results tell us that our efforts to listen to and address employee concerns have paid off. We will continue to act on feedback to keep CDIC an excellent place to work.

Our work could not have been accomplished without the skills and dedication of our employees. I take this opportunity to thank them for their hard work and their commitment to CDIC. I would also like to recognize the ongoing dedication and leadership of our Chair, Bryan Davies, and of the full CDIC Board of Directors.



Guy L. Saint-Pierre



CDIC'S MANDATE

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

CDIC is funded by premiums that are assessed on the insured deposits of member institutions each year—we do not receive federal tax dollars to carry out our work. We conduct regular risk assessments of our members and monitor their performance and results using information from a variety of sources, including reports provided by the Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF). We also rely on OSFI and the AMF to conduct annual examinations of member institutions on our behalf. As one of five federal agencies that make up Canada's financial "safety net,"¹ our mandate and role are unique.

Further information on the role and mandate of CDIC, as well as what is insured and what is not, can be found on our website (www.cdic.ca).

¹The "safety net" consists of the Office of the Superintendent of Financial Institutions (OSFI), the Bank of Canada, the Financial Consumer Agency of Canada (FCAC), the Department of Finance and CDIC.



MANAGEMENT'S DISCUSSION AND ANALYSIS

2

CDIC'S OPERATING ENVIRONMENT

CDIC continually monitors trends and developments in the Canadian and world economies, as well as in our membership. We stay up-to-date with ongoing and emerging issues in the regulatory and consumer environments, as well as in our own corporate environment. This review enables us to keep abreast of issues and risks that may have an impact on depositors, CDIC membership, and on the Corporation itself.

Economic Environment

The Canadian economy performed well throughout most of 2007/2008, with a number of indicators pointing to a softening of economic conditions in the latter stages of the year. Our economy benefited from healthy corporate and household balance sheets, resilient domestic demand and a strong labour market. Consumer price inflation remained low and within the Bank of Canada's target band of between 1% and 3%. However, growth in the global economy has weakened, reflecting the effects of a sharp slowdown in the U.S. economy and ongoing dislocations in global financial markets. As a result, more recently, growth in the Canadian economy has moderated as buoyant growth in domestic demand has been substantially offset by a fall in net exports.

Business conditions in Canada's corporate sector varied considerably. Healthy earnings in the oil and gas industry and other resource sectors resulted from strong international demand and high commodity prices. Non-residential construction also posted strong gains during the year, driven by government infrastructure spending and strong commodity-related investment. However, the housing industry saw growth taper off and conditions in the manufacturing sector continued to weaken. The high value of the Canadian dollar has had a negative impact on many goods producers, particularly those in the automotive sector, forestry products, clothing and textiles.

Structured investment products, including those backed by U.S. sub-prime mortgages, have put stress on the global financial system and are having some impact on Canadian financial institutions. The U.S. is experiencing a record high level of mortgage foreclosures. Further rate "re-setting" of sub-prime and other adjustable-rate mortgages will likely cause continued distress to a significant number of U.S. mortgage holders. Should these risks in the U.S. housing sector lead to further market and economic weakness, the negative spill-over effects to the Canadian economy would increase.

In Canada, although interest rates are anticipated to remain low, debt levels are on the rise and could result in consumer affordability concerns in the longer term. With real estate prices at historical highs in 2007 relative to average yearly gross income, market corrections, with their associated impact on consumers and financial institutions, are a possibility. Other risks that could be felt in the Canadian financial system should they escalate include a persistently high or volatile Canadian dollar and volatile energy prices. Rising financial crime, information security threats and the ongoing threat of terrorist activities are also of concern for Canadians and their financial institutions.

Although Canada's financial sector remains in a relatively healthy position to deal with future financial market instabilities, economic growth has been weakening and market participants have been assessing the need for changes in financial practices, given recent economic uncertainties and risks. In the face of continuing slowing trends in the U.S. economy and Canada's slower export growth, our economic activity is expected to moderate during the next year.

Member Environment

Last year, Canada's strong economic performance contributed to growth and profitability at CDIC member institutions. Despite global financial market instability, rising costs of capital and problems in the U.S., capital ratios and the asset quality of our members remained strong. Write-downs of structured financial products, including Canadian asset-backed commercial paper (ABCP), were the main cause of weaknesses in earnings for certain members.

Involvement in complex financial products this year presented a significant risk for some large global banks and, to a lesser extent, to a handful of smaller CDIC member institutions. Nonetheless, volatile capital markets and more conservative lending could result in additional pressure on revenues for the coming year. Central bankers worldwide have taken steps to prevent the recent liquidity crisis from having an excessive impact on credit availability to businesses and individuals.

Going forward, the performance of member institutions will be challenged by the influence of a sluggish U.S. economy, the potential for further losses on structured products and the impact of the high Canadian dollar on goods-producing industries.

Regulatory Developments

CDIC member institutions continue to manage adequately the convergence to international accounting standards and emerging disclosure issues. As well, CDIC members made considerable effort to comply with the new data requirements of the Basel II capital framework which came into effect subsequent to members' 2007 fiscal year ends. While the framework has not significantly changed minimum capital requirements for most member institutions, Basel II capital ratios may prove more sensitive to future changes in credit risk.

Regulated financial institutions have also been managing stricter requirements related to privacy, the security surrounding electronic banking, anti-money-laundering and the protection of private customer information.

Consumer Environment

The profile of Canada's population continues to change, with growth slowing and the population aging. One in seven Canadians is now aged 65 or over—seniors will account for an even greater proportion of Canadians as the first baby boomers reach the 65-year mark in 2011. Canada's foreign-born population increased by 14% between 2001 and 2006, a rate four times higher than that for the Canadian-born population (3%). Similarly, the country's visible minority population is growing much faster than the total population. Net international migration continues to be the main source of population growth in Canada, accounting for about two thirds of the annual increase in 2005/2006.

Financial services continue to evolve to meet the needs and preferences of an ever-changing population. Canadian consumers receive many complex and competing messages from the financial services sector and the media, making financial planning and decision making difficult. In fact, over 40% of Canadians say they find financial information confusing. Overall, there is still relatively low awareness of CDIC and some uncertainty over what is covered and not covered by deposit insurance.

Problems in 2007 at Northern Rock plc, a financial institution in the United Kingdom, have highlighted that depositor confidence in an institution can drop quickly, resulting in large-scale demand for deposit withdrawal. CDIC must anticipate calls for the rapid settlement of claims should a member institution fail in the future. Both the expertise of CDIC employees and the application of current technology will play a significant role in future intervention situations.

Corporate Environment

The absence of a CDIC member failure—the last one was in 1996—presents the Corporation with the challenge of maintaining readiness for a failure in a rapidly evolving technological and financial environment. CDIC maintains readiness in a number of ways, including conducting failure simulations, employee training and through ongoing investment in technology and information systems. In 2007, this type of readiness activity represented a major aspect of our work, and will continue to be a priority.

Our relationships with other financial safety net players at the federal, provincial and international levels continue to be important to CDIC, and contribute to working to improve overall regulatory filings. The recent market disruption in the ABCP market—in particular, its impact on certain CDIC member institutions—demonstrated the importance of maintaining strong relationships with the Office of the Superintendent of Financial Institutions (OSFI) and with other members of the financial safety net. It also reinforced the value of the regular exchange of information through Financial Institutions Supervisory Committee (FISC) meetings.

The significance of CDIC's information technology (IT) infrastructure to the Corporation's overall operations points clearly to the importance of maintaining this infrastructure in a sound and current state. Some weaknesses in the IT infrastructure have reinforced the need for enhancements to our data centre, for which plans are underway. Sound information systems governance remains a priority for CDIC and is accomplished through a senior-level steering committee that reviews technology needs for current operations, and by maintaining current business continuity plans in the event of a potential business disruption.

Managing the risk of corporate knowledge loss is a key aspect of our corporate operating environment, as deposit insurance expertise is not readily found in the labour market. Knowledge is largely acquired on the job. Employee morale and well-being are important factors in ensuring that CDIC is able to fulfill its mandate. A positive working environment is an important attribute that contributes to staff retention. Our most recent (2007) employee survey confirms that CDIC's efforts to achieve excellence as a workplace are recognized by employees.

MANAGING OUR RISKS

CDIC manages its risks in accordance with *Principle 16—Enterprise Risk Management* of the Board Charter which sets out the Board’s responsibilities to:

- understand the significant risks to which CDIC is exposed
- establish appropriate and prudent risk management policies for those risks and review the policies regularly, but at least annually, to satisfy the Board that the policies continue to be appropriate and prudent
- obtain reasonable assurance, on a regular but at least annual basis, that the Corporation has an effective risk management process and that risk management policies are being adhered to

CDIC’s Board has mandated the Audit Committee to assist it in carrying out these responsibilities. It has also established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. Management’s Enterprise Risk Management (ERM) process and results are subject to validation by CDIC’s internal audit function.

CDIC’s Significant Risks

Overall, CDIC’s exposure to its significant risks remains acceptable, although CDIC’s insurance risk and certain operational risks are increasing given the current environment.

Initiatives are in place to address risks assessed as “cautionary” and to ensure that risks considered acceptable remain so. These initiatives are tracked by management and reported to the Audit Committee and the Board. Initiatives of higher significance are also taken into account in developing CDIC’s Corporate Plan, and are tracked and reported through the Corporate Scorecard.

Overview of CDIC's Assessment of Its Significant Risks

	2007/2008		2006/2007	
	Rating	Trend	Rating	Trend
Insurance Risk: CDIC's risk of loss, including costs incurred in the event of an intervention, associated with insuring deposits.				
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 Risk: CDIC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	Rating	Trend	Rating	Trend
Business Continuity Risk: The risk that a disruption impacting CDIC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct its affairs.	■	▼	■	▼
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.	■	▲	■	—
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.	■	—	■	—
People Risk: The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment of CDIC personnel.	■	—	■	—
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.	■	—	■	—
Security Risk: The risk that CDIC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.	■	—	■	—
Technology Risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.	■	▲	■	▲

Overview of CDIC's Assessment of Its Significant Risks

	2007/2008		2006/2007	
	Rating	Trend	Rating	Trend
Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.				
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.	■	—	■	—
Financial Risk: CDIC's risk associated with managing its assets and liabilities, including those that appear on and off the balance sheet.				
Liquidity Risk: The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off-balance sheet) as they arise.	■	—	■	—
Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.	■	—	■	—
Credit Risk: The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off-balance sheet, to CDIC.	■	—	■	—

LEGEND

Risk Rating: ■ Acceptable ■ Cautionary ■ Serious Concern

Risk Trend: ▼ Decreasing — Stable ▲ Increasing

Insurance Risk

In relative terms, insurance risk is CDIC's most significant risk. The failure of a member institution—the worst case scenario from an insurance risk perspective—has the potential for a major impact on CDIC, given the high costs of resolution and the possible need to redeploy resources away from other readiness activities, such as CDIC's multi-year project to enhance its payout capacity. Given the Corporation's current assessment of its operating environment, CDIC considers its insurance risks are increasing.

Board policies are in place governing the management of CDIC's underlying insurance risks. Practices and controls ensure that these risks are managed in accordance with such policies. For example, CDIC has an appropriate risk assessment framework and personnel competent to promptly and systematically identify member institutions posing an unacceptable insurance risk. Moreover, processes are established for dealing with member institutions that pose an unacceptable level of insurance risk.

In 2007/2008, CDIC concluded that its overall insurance risk was acceptable, but increasing, a reflection of two key underlying issues. First, intervention risk continues to be assessed as “cautionary.” While CDIC has the capability and capacity to take appropriate action with respect to higher risk members, work will continue to improve our readiness for a larger depositor payout and our ability to conduct non-payout interventions. Second, international events of the past year highlighted the importance for deposit insurers to have adequate powers to deal with the failure of larger institutions. While CDIC has the key powers to support the management of its insurance risk, it has identified the need to examine the adequacy of its powers in light of the evolving environment.

Operational Risk

CDIC is exposed to operational risk in every aspect of its operations. Such risk is managed in accordance with CDIC’s *Board Operational Risk Policy*, which aims to ensure that the Corporation has, and will continue to have, the operational resources, processes and systems in place to fulfill its mandate. While most of CDIC’s operational sub-risks were assessed as acceptable in 2007/2008, people risk and business continuity risk remained cautionary, and information and technology risks, although currently acceptable, are seen as increasing.

People risk is CDIC’s most significant operational risk. CDIC has knowledgeable and experienced people in place to manage its affairs and has in place an appropriate and effective human resources management program. However, the Corporation operates with only a core level of employees, some of whom would be required to fulfill multiple intervention roles that require specialized knowledge not readily available in the external labour market. This exposes CDIC to risk in the event of unexpected turnover in core positions—risk that is being managed in two key ways. First, employees are continuing to receive intervention training through simulations. Second, the level of employee job satisfaction continues to be closely monitored, above all with respect to the impact of the significant work load increase for particular groups should an intervention be undertaken. While overall employee satisfaction remains high, management will monitor employee feedback and pay close attention to workload, stress and life-balance issues.

CDIC’s business continuity risk remained cautionary in 2007/2008. Progress has been made in preparing for a potential business disruption. Nevertheless, more work is required (and is currently underway) in order to conclude that the Corporation’s key processes can be recovered within an acceptable time in such an event.

CDIC needs to enhance its ability to receive and work in a timely manner with sensitive or confidential information, and to improve member information regulatory filings to keep pace with the rising complexity of the financial industry. If not addressed, these issues could lead to a cautionary information risk rating.

CDIC will also face some information technology challenges over the next few years. Overall, CDIC's technology risk was determined to be acceptable in 2007/2008. However, the Corporation is carrying out major enhancements to its depositor payout system as well as undertaking significant and necessary software and hardware upgrades over the next few years to keep its systems current. The stop-gap measures recently carried out to keep the data centre fully functional are not long-term solutions and plans are in place to develop new data centre facilities.

Reputation Risk

CDIC's *Board Reputation Risk Policy* governs the management of our reputation risk and is supported by processes considered essential to managing CDIC's reputation, including:

- a process to take into account perceived stakeholder views about CDIC
- a process to identify and avoid events that could have a significant impact on CDIC's reputation
- a process to respond to events adversely affecting our reputation in an appropriate and timely manner

CDIC's reputation risk was assessed as acceptable and stable in 2007/2008. This reflects management's view that CDIC is well governed and managed. The key factor supporting the improved rating is the recent formalization of a compliance management process for ensuring CDIC adherence with legal requirements. CDIC's most important underlying reputation risk stems from its response to a member failure—management continues to work hard to ensure that trust and confidence in CDIC would be maintained in such an event.

Financial Risk

CDIC's financial risk represents CDIC's least significant risk and, in 2007/2008, continued to be acceptable and stable. This reflects CDIC Board financial risk policies that direct the Corporation's financial assets to be managed conservatively to ensure that funds are available quickly and without compromise to their value. Management considers that appropriate practices and controls are in place to ensure adherence to policies and to safeguard CDIC's financial assets. In addition to having the appropriate segregation of duties, oversight of the Corporation's treasury strategy is provided by a Risk Management Unit and an Asset/Liability Committee (which reflects a cross-section of CDIC's operations). CDIC's Board receives regular reports on the Corporation's investments and treasury operations. Moreover, CDIC's investment portfolio is invested in securities that meet or exceed the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance.

CDIC has sufficient financial resources (i.e., \$1.6 billion in investments plus a statutory ability to borrow \$6 billion from the Consolidated Revenue Fund) available to meet its liquidity needs and to cover the insured deposits of its higher risk members, individually and collectively. Liquidity risk was still viewed as acceptable last year. Currently, the market value of CDIC's investment portfolio (as at March 31, 2008) exceeds carrying value by approximately \$11.7 million—an improvement from the \$2.6 million unrealized loss as at fiscal year end 2006/2007. While CDIC's investment portfolio will continue to be affected by interest rate movements, this market risk impact is expected to be minimal relative to the size of CDIC's investment portfolio, due to the portfolio's high quality and short term to maturity.

ERM Representation

CDIC management provides the Board of Directors with an annual ERM representation. The objective of the representation is to support the Board in fulfilling its responsibilities under the Board Charter and to enable the Board to be in a position to consider CDIC's risks, including any risk management issues, prior to approving CDIC's annual financial statements and considering CDIC's Annual Report. In this regard, it is intended to provide reasonable rather than absolute assurance of the soundness of the risk management processes at CDIC.

CDIC's representation letter for the 2007/2008 fiscal year is presented on page 41 at the end of the Management's Discussion and Analysis section.

PERFORMANCE AGAINST PLAN

Three Corporate Strategies

Based on a review of our environment, CDIC has focused on three strategies to guide its work. These strategies support the Corporation's statutory objects (see sidebar) while at the same time placing considerable importance on managing CDIC's significant risks:

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

The activities that CDIC carried out over the past year in each of these three strategic areas are described below and our success in meeting performance targets is reflected in the Corporate Scorecard (pages 28–30).

CDIC's Objects

CDIC's statutory objects are the basis upon which all of the Corporation's strategic planning takes place. These objects, as set out in section 7 of the *CDIC Act*, are:

- (a) to provide insurance against the loss of part or all of deposits;
- (b) to promote and otherwise contribute to the stability of the financial system in Canada; and
- (c) to pursue the objects set out in paragraphs (a) and (b) for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss.

■ Strengthening Core Expertise and Readiness

Much of our current readiness work is focused on developing capacity on a number of fronts.

During the year we continued to monitor the financial performance of members as well as the environment in which our members operate, focusing on those emerging risks that

have the potential to affect groups of member institutions. In particular, we paid close attention to negative developments in global financial markets, housing and sub-prime mortgage markets in the U.S., and non-bank ABCP markets in Canada. CDIC focuses on proactively managing the risk posed by members that exhibit higher risk profiles and relies on supervisory information provided by OSFI to carry out this work. We also made improvements to the systems that support our risk assessment and we remained committed to maintaining a productive working relationship with OSFI and other safety net agencies. In conjunction with OSFI, CDIC updated the *Guide to Intervention for Federal Financial Institutions*, which is available to member institutions and the public on CDIC's website at www.cdic.ca.

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

Over the years, CDIC carried out research and provided internal training related to the introduction of new accounting standards and capital rules under the Basel II Accord. With respect to premium assessment, we will be evaluating over the next year the impact of the implementation of the Basel II Accord and of fair value accounting on the factors used under the *CDIC Differential Premiums By-law* to assign a premium category to each member institution. We are consulting with member institutions about possible modifications to the calculations of the insured deposit base supporting premium assessment.

We continued our work as a member of the Financial Information Committee (FIC), a sub-committee of FISC, considering such issues as potential improvements to regulatory filings by member institutions.

With the growth of Islamic banking worldwide, CDIC participated in a working group to examine the implications of introducing Sharia-based banking in Canada, led by the Department of Finance, and including representation from OSFI, the Bank of Canada, the Financial Consumer Agency of Canada (FCAC), and the Canada Revenue Agency.

In the event of the failure of a member institution, immediate and effective communication with affected depositors would be a priority for CDIC. We are working to update our intervention communication plans and making sure that information is as clear and simple as possible. Our intervention website, which would provide depositors with information about the failed institution and their access to funds insured by CDIC, is in development.

To strengthen our capacity to carry out a depositor payout, CDIC worked on processes to respond promptly to meet depositor needs and expectations. During the year, we launched the Payout Capacity Enhancement Project—a major initiative that is being conducted in stages over several years, thus ensuring that our payout system is fully operational at all times. Over the past year, CDIC also researched and considered varied approaches to payout, including those appropriate for the failure of a larger member institution. Progress included the following:

- Important enhancements to CDIC's electronic payout application to make it accessible securely by remote users, while ensuring privacy of information. The system was also revised to add the capacity to make partial (tranche) payments to depositors.
- A large-scale depositor database was created for use in simulation exercises, including the one scheduled for June 2008.
- A comprehensive end-to-end intervention simulation involving every division of the Corporation was conducted and monitored by an outside observer. The observer noted that the simulation was successful for a number of reasons—in particular that a complete end-to-end payout simulation was conducted and tasks were performed internally, including cheque production. Based on the observer's report and lessons learned throughout the simulation process, CDIC developed an action plan that is currently being addressed to improve aspects of the intervention process.

Depositor payout is one method available to CDIC to resolve the failure of a member institution. Other (non-payout) options include assisting a buyer for a failing institution. CDIC is also examining its powers in its search for additional approaches to handling a failing member institution. Over the year, we reviewed non-payout options for larger member institutions, based on consideration of the characteristics of Canadian institutions as well as experiences of other countries with both single bank failures and system-wide crises.

CDIC added five core employees in the intervention area to enhance readiness capacity. We have also reviewed our capacity to provide back-up for core intervention positions and are addressing any potential gaps.

In 2007/2008, we also updated the manual used by risk managers to conduct special examinations² of member institutions. Training in support of the updated manual and related information on valuation will be conducted early in 2008/2009.

CDIC continually evaluates how changes in the environment affect the various elements of the deposit insurance system, such as how premiums are assessed and the eligibility of products for insurance. All CDIC by-laws directed at member institutions undergo regular reviews, resulting in amendments to the “opting-out” by-laws in early 2008. A review of the *CDIC Joint and Trust Account Disclosure By-law* was initiated this year and continues.

CDIC worked with member institutions to implement over the year the amendments to the *CDIC Deposit Insurance Information By-law* which came into force in December 2006. The by-law governs statements made by financial institutions about their standing as a CDIC member institution and about what constitutes a deposit eligible for insurance. The amendments alleviated regulatory burden on members by eliminating the deposit register and mandatory product clearance, while ensuring that depositors continue to have appropriate and accurate information regarding the eligibility of deposits for insurance.

Promoting Depositor Awareness

CDIC is mandated to contribute to the stability of the financial system in Canada. Informing depositors about CDIC deposit insurance is one of the principal methods we use to make this contribution. Moreover, research shows that the success of a deposit insurance system hinges largely on consumers knowing about it.

CDIC works to increase public awareness of deposit insurance and of its benefits and limits. Through our targeted, long-term approach, we will carry out public awareness initiatives that build on past years' initiatives, with continued emphasis on the increase in the deposit insurance coverage limit to \$100,000.

CDIC insures the vast majority of deposits held by Canadians. Our research shows that just over half of Canadians are aware of CDIC and approximately a quarter know about the \$100,000 insurance limit. Awareness of what is covered by CDIC deposit insurance is low. Such results reinforce the importance of the Corporation's continued focus on increasing depositor awareness.

To this end, 2007/2008 marked the end of a three-year strategy for depositor awareness. Our key audiences under this strategy were seniors, adults with lower literacy levels and certain ethnocultural communities in Canada. Activities under this strategy focused on a mix of television and print advertising, participation in financial trade shows, as well as the operation of our 1-800 phone line and website.

² A Special Examination is a detailed examination of the assets and deposit liabilities of a bank with a view to estimating CDIC's potential exposure to loss.

Partners in our awareness activities include FCAC, the Federation of Canadian Independent Deposit Brokers, financial and consumer associations such as CARP—Canada’s Association for the 50 Plus. CDIC partnered with the Autorité des marchés financiers (AMF) on its advertising efforts in Québec. We also continued to collaborate with our partners in the Canadian Financial Services Insolvency Protection Forum on the www.financeprotection.ca website.

CDIC held its second annual public meeting in Vancouver’s Chinatown in September 2007. With close to 500 attendees, the meeting provided CDIC’s Board members and senior management the opportunity to discuss deposit insurance with Canadians and to hear their questions first-hand. On a related note, CDIC’s work in reaching out to the multicultural community was recognized in Heritage Canada’s most recent Annual Report on the Operation of the *Canadian Multiculturalism Act*.

Towards the end of the year, CDIC began to develop a new long-term awareness strategy and plan that will be put into action in 2008/2009, once it has been approved by CDIC’s Board of Directors.

■ Sustaining Efficient Governance and Operational Capacity

CDIC continued its work on addressing regulatory, legislative and similar requirements. For example, we completed an initial detailed report on our compliance with all statutory provisions, policies and guidelines to which CDIC must adhere. The document will assist management in ensuring that appropriate compliance is demonstrated on an annual basis.

To maintain the public’s confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. Therefore, CDIC must manage its significant risks, demonstrate leadership in governance, and continue to work actively with all its key stakeholders, who include: member institutions, the depositing public, employees, parliamentarians, regulators, supervisors, and other deposit insurers in Canada and around the world.

During the year we monitored the evolution of accounting standards to ensure that we are applying appropriate accounting principles and that our systems are capturing the necessary financial information. CDIC has adopted in our 2007/2008 financial statements the Canadian Institute of Chartered Accountants (CICA) guidelines on financial instruments and comprehensive income. We also completed an initial review of internal controls on our higher risk business processes in support of our internal certification initiative. Work is now underway to develop an efficient approach to maintain this ongoing program.

The Corporation continued to monitor Treasury Board Secretariat (TBS) guidance for Crown corporations. CDIC has implemented TBS measures and related guidelines in the areas of disclosure and transparency in annual reporting, reporting to the public and other stakeholders, and holding an annual public meeting for stakeholders. CDIC has addressed the governance measures contained in the 2005 Treasury Board of Canada Secretariat report on the governance of Crown corporations.

The move to International Financial Reporting Standards (IFRS) will have an impact on CDIC and its member institutions. In January 2008, the Corporation hosted and chaired the inaugural meeting of a working group of Crown corporations to study the implications of these new standards and is actively involved in a working group of Crown corporations studying this issue.

Skilled, motivated and satisfied employees form an important foundation for all of CDIC's work. Our Human Resources (HR) Strategy and Plan continued in 2007/2008 to focus on development of excellence in employees and in CDIC as an employer.

During the year, CDIC updated its information management tools, including its server platform, and introduced a number of productivity enhancements to support e-forms, work flow, documentation, collaboration and online meetings. CDIC also made significant progress in implementing portal technology to allow employees to share and manage files and work flows. Portal technology has been used to assist with a variety of corporate activities—from maintaining tools used for member assessment, to managing CDIC compliance, to meeting regulatory requirements. The Corporation is also continuing its progress towards having no more than 1% of paper records uncatalogued.

Progress was made in ongoing training of Information System (IS) employees, following sound IS practices and keeping software current and hardware on a three-year refresh cycle. We stayed close to our goal of focusing 60% of IS resources on support-oriented work and 40% on new business development. CDIC's IS Strategic Plan was also updated during the past year.

2007 Employee Survey

CDIC's 2007 employee survey shows that most employees (88%) are satisfied or extremely satisfied with CDIC as an employer. Results show employees continue to believe that CDIC provides a highly professional work environment and that the Corporation is well managed. The 2007 survey results point to significant improvements since 2005 in some important areas: morale, teamwork (and recognition of teamwork), employee empowerment and career opportunities.

Findings point to the need for more work in some areas, notably: improving effectiveness of the performance management program to ensure it provides appropriate feedback on performance to employees; the need to review the incentive bonus and compensation system to ensure continued competitiveness; and communications with employees.

Audit & Consulting Services

CDIC's Audit & Consulting Services department (A&CS) fulfills the Corporation's internal audit function. A&CS prepares a risk-based Strategic and Operational Plan annually, which is approved by the Audit Committee of the Board. Highlights of the work done in 2007/2008 included: a review of the payout simulation; reviews of systems development projects and the data warehouse; audits of accounting systems and of compliance with authorities; reviews of the processes for updating the Corporation's external and internal websites; validation of ERM self-assessments; and a review of the status of the HR Strategy and Plan. Based on its work and its knowledge of the business, the department reported that the Corporation had a strong internal control structure in place.

A number of technical infrastructure upgrades were carried out in 2007/2008, including those to support e-mail and project management. CDIC tested and identified a replacement for its current secure remote access service to improve the flexibility and responsiveness of remote services while maintaining CDIC's high security standards. Technical security policies have also been revised to follow the Government of Canada's Management of Information Technology Security operational standard framework, where appropriate for CDIC.

We also introduced a new approach to developing applications which was used in 2007/2008 for, among other things, strengthening our depositor payout capabilities.

The Corporation's business continuity efforts are ongoing. During the year we monitored potential risks to our plans and developed actions to mitigate them. We also conducted further testing and made improvements to our shared emergency back-up site and to its business recovery capabilities. CDIC carried out a Business Impact Analysis which is currently being analyzed to determine areas of future action, and also improved on its draft Pandemic Preparedness Plan.

In 2007, CDIC initiated a leasehold project to ensure that the Corporation has appropriate long-term accommodation for its offices in Ottawa and Toronto, work that will continue into 2008/2009. Directly related to this project are improvements to be made to CDIC's Ottawa data centre, with the plans for an upgraded centre being developed in conjunction with the leasehold arrangements.

CDIC works in partnership with other organizations both at home and abroad. Within Canada, CDIC was approached by a number of provincial regulators and deposit insurers seeking collaboration and advice from CDIC in intervention planning.

In June 2007, CDIC, together with OSFI, hosted the joint Credit Union/Caisse Populaire Stabilization Fund of Canada and Credit Union Regulatory conference. Twenty credit unions/caisses populaires deposit insurers and regulatory agencies from across Canada participated in the two-day conference, held in Ottawa. Topics discussed ranged from credit union system trends in Canada, stabilization activities at the various agencies, as well as legislative and regulatory developments affecting deposit insurance at the provincial and federal levels.

In October 2007, CDIC hosted the annual conference of the Canadian Financial Services Insolvency Protection Forum. The forum brought together the various organizations responsible for the protection of Canadian consumers of financial services, namely: CDIC, Assuris, Canadian Investors Protection Fund (CIPF), Property and Casualty Insurance Compensation Corporation (PACICC), Deposit Insurance Corporation of Ontario (DICO), the Autorité des marchés financiers (AMF), Financial Institutions Commission of British Columbia (FICOMBC), and Mutual Fund Dealers Association of Canada (MFDA).

CDIC's international activities saw the Corporation participating actively in conferences and seminars around the world, with our Chair, Bryan Davies, speaking at the International Association of Deposit Insurers (IADI) Symposium on Cross-Border Issues in Basel, Switzerland. CDIC's President and CEO, Guy L. Saint-Pierre, was appointed to the IADI Executive Council in November 2007 for a three-year term.

The Corporation worked closely with IADI to develop a set of core principles to enhance the effectiveness of deposit insurance regimes throughout the world. We also worked with the International Monetary Fund (IMF) and the U.S. Federal Deposit Insurance Corporation (FDIC) to develop criteria for assessing deposit insurance systems.

CDIC employees shared information with FDIC on resolution techniques and cross-border information sharing issues, and with the Deposit Insurance Corporation of Japan (DICJ) on coverage and cross-border issues. CDIC also provided assistance to the U.K. Treasury and other U.K. organizations in support of reforms to their financial sector in the wake of the Northern Rock plc failure, as well as to the People's Republic of China. CDIC staff received study group delegations from Japan, Kenya, Russia and Sweden during the year.

CDIC CORPORATE SCORECARD—RESULTS AGAINST KEY INDICATORS, AS AT MARCH 31, 2008

CDIC's Corporate Scorecard, presented on the following pages, indicates that progress against the majority of key performance indicators proceeded as planned for the year ended March 31, 2008. Only two of the eighteen indicators did not proceed as planned:

- Technical amendments to be made to the differential premiums system for the 2009 premium year do not require significant consultation. One to two years of Basel II data are needed in order for CDIC to effectively consult on potential amendments to the differential premiums system. The revised time frame is to complete consultations and make appropriate amendments to the differential premiums system for the 2010 premium year.
- Training on special examination methodology and on the valuation model has been postponed due to other priorities. We are currently projecting completion of this initiative in our 2008/2009 fiscal year.

CDIC Corporate Scorecard—2007/2008 to 2011/2012

CDIC Objects: Provide deposit insurance and contribute to the stability of the financial system, for the benefit of depositors, and while minimizing the Corporation's exposure to loss.		
Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Strengthening Core Expertise and Readiness CDIC must stay alert to developments that affect the Corporation and our members, and have the ability to anticipate and react to events and to manage its insurance risk. The Corporation will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolutions.	Insurance	
	<ul style="list-style-type: none"> Amend the differential premiums system to address the impact of Basel II implementation and new accounting rules Review premium assessment base 	<ul style="list-style-type: none"> First phase of consultation with members will be underway by March 31, 2008, in support of appropriate amendments to the differential premiums system being made during the planning period ● Complete first phase of member consultation and make recommendations to the Board on future direction ▲
	Risk Monitoring	
	<ul style="list-style-type: none"> Upgrade the data warehouse to take advantage of technology improvements and respond to the changes to financial regulatory reporting Improve the system supporting the monitoring of member institutions 	<ul style="list-style-type: none"> Data warehouse technology updates and testing will be completed by March 31, 2008 ▲ System enhancements in support of the development of more current and efficient Risk Assessment Profiles of member institutions will be completed, tested and in use by March 2008 ▲
	Intervention and Resolution	
	<ul style="list-style-type: none"> Conduct training on special examination methodology and on the valuation model Finalize the assessment of readiness for non-payout resolution and documenting optimal solutions by peer group of member institutions Enhance the ROADMAP payout application to facilitate it supporting a payout of member institutions with larger deposit bases Perform annual simulations 	<ul style="list-style-type: none"> All risk managers will receive training on these two intervention tools by March 31, 2008 ▼ A "toolbox" of non-payout failure resolution strategies and supporting documentation by peer group will be developed by March 31, 2008 ▲ ROADMAP payout application will be upgraded and tested by March 31, 2008 ▲ Conduct end-to-end and limited scope simulations by March 31, 2008. The success of the simulation to be validated based on a review by a qualified independent party ▲

CDIC Corporate Scorecard—2007/2008 to 2011/2012

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

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Promoting Depositor Awareness CDIC must work to increase public awareness of deposit insurance and of its benefits and limitations. Through our targeted, long-term approach, we will carry out public awareness initiatives that build on past years' initiatives, with continued emphasis on the increase in the deposit insurance coverage limit to \$100,000.	<ul style="list-style-type: none"> Implement year three of the current three-year public awareness strategy and plan Conduct research related to target audiences and develop new long-term public awareness strategy and plan 	<ul style="list-style-type: none"> Higher than 50% awareness of CDIC and higher than 25% awareness of the \$100,000 deposit insurance coverage limit ▲ Implementation of a new long-term public awareness strategy and plan during the planning period ▲
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. Therefore, CDIC must manage its significant risks, demonstrate leadership in governance, and continue to work actively with all its key stakeholders, which include: member institutions, the depositing public, employees, parliamentarians, regulators, supervisors, and other deposit insurers in Canada and around the world.	<p style="text-align: center;">Assessing Corporate Risk</p> <ul style="list-style-type: none"> Continue to conduct annual assessments of CDIC's significant corporate risks, review CDIC's risk policies, and provide an annual report to stakeholders about the management of CDIC's significant corporate risks <p style="text-align: center;">Addressing Regulatory, Legislative and Other Requirements, and Monitoring Governance Best Practices</p> <ul style="list-style-type: none"> Implement a corporate-wide process to identify, assess and monitor CDIC's compliance with applicable statutes, regulations, guidelines and other requirements to which CDIC is subject, including providing an annual compliance report to CDIC's Board The Canadian Institute of Chartered Accountant's (CICA) accounting recommendations with respect to the Financial Instruments and Comprehensive Income come into effect for CDIC's 2007/2008 year end—a thorough analysis will be undertaken to ensure that CDIC is applying appropriate accounting principles and that the systems are capturing the necessary information Implement any applicable outstanding guidance regarding the Treasury Board Secretariat (TBS) governance measures for Crown corporations 	<ul style="list-style-type: none"> Significant risks are assessed annually; risk management initiatives are undertaken on a timely basis to ensure exposure is within acceptable levels ▲ A corporate-wide compliance process and reporting structure will be in place by March 31, 2008 ▲ CDIC will address CICA's recommendations on financial instruments and comprehensive income, and its 2007/2008 financial statements will appropriately reflect these recommendations ▲ CDIC will receive an unqualified audit opinion on its 2007/2008 financial statements ▲ Timely implementation of guidance regarding the TBS governance measures for Crown corporations—as applicable to CDIC ▲

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

CDIC Corporate Scorecard—2007/2008 to 2011/2012

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

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. Therefore, CDIC must manage its significant risks, demonstrate leadership in governance, and continue to work actively with all its key stakeholders, which include: member institutions, the depositing public, employees, parliamentarians, regulators, supervisors, and other deposit insurers in Canada and around the world.	Supporting Our Employees	
	<ul style="list-style-type: none"> • Monitor employee satisfaction on a periodic basis to ensure that there are no impediments to a productive and motivated work force • Continue to implement the Human Resources (HR) Strategy and Plan 	<ul style="list-style-type: none"> • An employee survey will be undertaken with the survey results analyzed and addressed during the planning period ▲ • Initiatives specified in the HR Strategy and Plan will be implemented in accordance with timelines set out in that Plan ▲
	Infrastructure and Operations Improvements	
	<ul style="list-style-type: none"> • Continue to implement the Information Systems (IS) Strategic Plan 	<ul style="list-style-type: none"> • Initiatives specified in the IS Strategic Plan will be implemented in accordance with timelines set out in that Plan ▲

Legend:

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

FINANCIAL OVERVIEW

About the Consolidated Financial Statements

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

The impact of the consolidation of ACC on CDIC's financial statements is an increase in assets of \$1.5 million (2007: \$1.5 million) and an increase in liabilities of \$3 thousand (2007: \$24 thousand), as well as an increase in total revenue of \$14 thousand (2007: \$569 thousand) and an increase in total expenses of \$10 thousand (2007: \$283 thousand). As a result, the impact on the Corporation's retained earnings is \$1.5 million (2007: \$1.5 million).

In addition, CDIC adopted CICA Handbook Section 3855 *Financial Instruments—Recognition and Measurement*, Section 3861 *Financial Instruments—Presentation and Disclosure*, Section 3251 *Equity*, and Section 1530 *Comprehensive Income*, during the 2007/2008 fiscal year. These sections required that CDIC's financial assets be classified as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables. Financial liabilities must be classified as held-for-trading or other financial liabilities.

The Corporation elected to classify its investments as available-for-sale. Accounts and other receivables, as well as net claims receivable, are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. As a result of these designations, investments are now measured at fair value. Unrealized gains and losses on these investments resulting from changes in fair value are included in other comprehensive income and reported in the new consolidated statement of comprehensive income. In addition, the Corporation's consolidated balance sheet now includes accumulated other comprehensive income, which is classified as part of shareholders' equity and includes the cumulative changes in other comprehensive income.

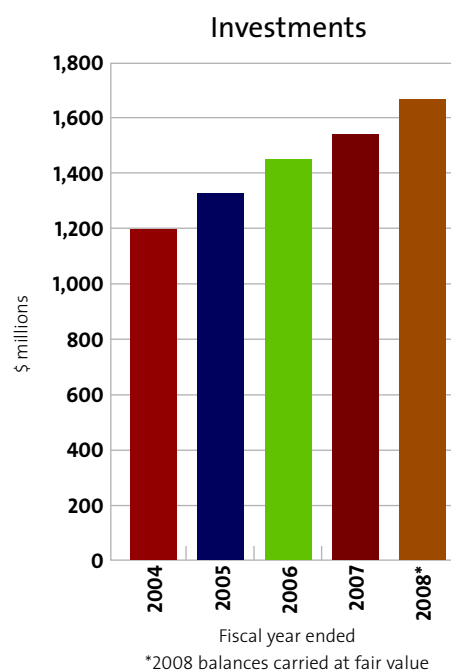
Consolidated Balance Sheet Highlights

As at March 31, 2008, CDIC's total assets amounted to \$1,664 million representing growth of approximately 7% compared to total assets of \$1,560 million as at March 31, 2007. Total assets are comprised primarily of investments (99.8% of total assets). CDIC's investment portfolio is made up of Government of Canada or provincially guaranteed treasury bills (49.4%), Government of Canada or provincially guaranteed bonds (43.4%) and other Government of Canada or provincially guaranteed securities rated "A" or higher (7.2%). CDIC's investments as at March 31, 2008, carry a weighted average yield to maturity of 3.93% with a modified duration of 0.59. This suggests that CDIC's investments have a low exposure to interest rate risk and thus a low volatility in value given the short-term nature of the portfolio.

Investments

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

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



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

Net Claims Receivable and Future Recoveries

Claims receivable decreased to nil during fiscal 2008 as a result of recoveries of \$1 million from the liquidation of Security Home Mortgage Corp. (SHMC). CDIC does not expect any additional recoveries from SHMC.

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

Name of Institution (Method of Failure Resolution— Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2008	CDIC's Possible Future Recoveries	CDIC's Projected Loss as a % of:	
				Claims and Loans—Nominal Basis	Claims and Loans—NPV ^a Basis
Standard Trust Co. (Formal Liquidation—1991)	1,164	967	14	16%	33%
Adelaide Capital Corp. (Loan and Management Agreement—1992)	1,588	1,484	2	6%	15%

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

Income Taxes

CDIC is subject to federal income tax. The Corporation's primary source of taxable income is its interest on cash and investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. For the year ended March 31, 2008, CDIC's income tax expense was \$13.3 million and its income taxes payable (after taking into account installments made during the year) was \$2.1 million.

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

The future benefits or costs of income taxes are recognized, subject to a valuation allowance as appropriate, to the extent it is more likely than not that such income taxes will be realized. In accordance with CICA recommendations, the related asset or liability is revalued each year. As at March 31, 2008, the future income tax liability was \$2.4 million, compared to an income tax asset of \$1.7 million as at March 31, 2007. The inclusion of unrealized gains at year end on CDIC's investment portfolio caused the future tax asset to revert to a future tax liability.

Provision for Insurance Losses

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. As at March 31, 2008, the provision was \$650 million, an increase of \$50 million from March 31, 2007. This increase is in response to recent data suggesting that credit strains have broadened and deepened and estimates of write-downs by many banks have continued to rise. This deterioration in financial conditions has started to filter through to real economic activity and economic growth domestically has weakened. These conditions have the potential to negatively impact the financial condition of financial institutions domestically and globally. Further, although CDIC's membership enjoyed a good year overall in 2007, existing exposures are increasing as confirmed in CDIC's assessment of its insurance risk.

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

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

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

Ex Ante Funding

CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was further determined that this amount of *ex ante* funding would be represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits—which translate into a range of approximately \$1.9 billion to \$2.4 billion based on insured deposits as at April 30, 2007. The reported amount as at March 31, 2008, was \$1.6 billion, representing 35 basis points of insured deposits.

Under current forecasts, as set out in CDIC's 2008/2009 to 2012/2013 Corporate Plan, the bottom of the range will be achieved in CDIC's 2015/2016 fiscal year—a three-year extension over the estimate in the 2007/2008 to 2011/2012 Corporate Plan. The primary reasons for this extension are an increase in the estimated growth rate of insured deposits to 4% from 3% and a forecast decline in the yield on the Corporation's investment portfolio.

Consolidated Statement of Income and Retained Earnings—Highlights

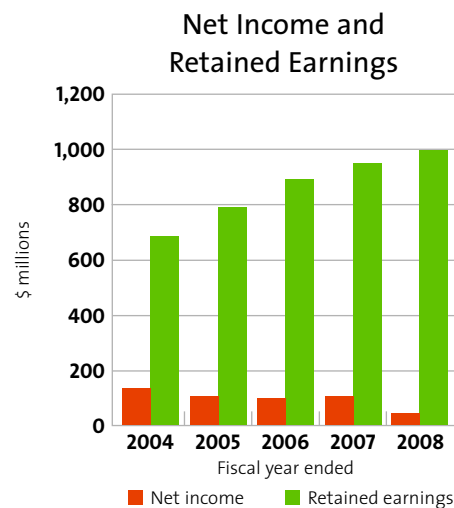
CDIC ended 2007/2008 with **retained earnings** of \$997.5 million, an increase of approximately 5% compared to last year. For the year ended March 31, 2008, CDIC's **revenues** totaled \$133.5 million, offset by net operating expenses of \$23.6 million, income taxes of \$13.3 million, an increase in allowances and provision for loss of \$50.0 million and other adjustments of \$1.3 million, resulting in a **net income** for the year of \$47.9 million.

Premiums for the fiscal year were \$67.8 million, compared to \$74.8 million for 2006/2007.

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

Classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2007 premium year, unchanged from 2006, were as follows:

- Category 1—1/72nd of 1% of insured deposits
- Category 2—1/36th of 1% of insured deposits
- Category 3—1/18th of 1% of insured deposits
- Category 4—1/9th of 1% of insured deposits



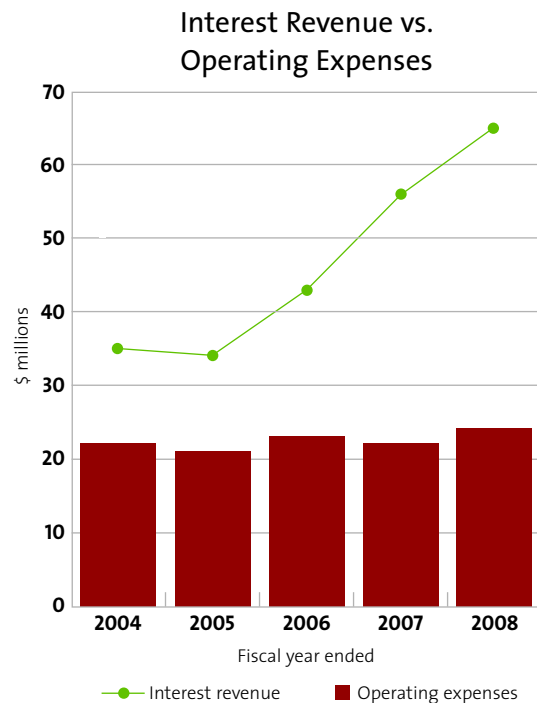
The table below illustrates the distribution of members among premium categories in the 2007 premium year as well as the preceding four premium years.

Premium Category	Premium Year				
	2003 %	2004 %	2005 %	2006 %	2007 %
1	63	78	81	84	81
2	33	18	18	14	18
3	3	3	–	2	1
4	1	1	1	–	–

CDIC generates sufficient interest revenue on its cash and investments to cover its operating expenses. **Interest revenue from cash and investments** was \$64.9 million in 2007/2008, an increase of 16.2% from the previous fiscal year due both to the higher level of cash and investments and higher average yields earned during the year.

Net operating expenses for the year ended March 31, 2008, totaled \$23.6 million (\$22.1 million in 2006/2007). The increase in operating expenses compared to last year reflects increases in personnel, professional fees and data processing costs, due, in large part, to a Payout Capacity Enhancement project designed to strengthen CDIC's core expertise and readiness.

CDIC's operating expenses are net of cost recoveries received from other organizations. CDIC provides call centre services to FCAC and OSFI (related parties) on a cost-recovery basis. The Autorité des marchés financiers in Québec contributes to CDIC's public awareness campaign. The total recoveries recorded in 2007/2008 were \$802 thousand (\$878 thousand in 2006/2007).



Comparison with 2007/2008 Corporate Plan

Balance Sheet

Total assets as at March 31, 2008, were \$1,664 million, compared to the planned amount of \$1,670 million. The negative variance of \$6.0 million was primarily the result of lower-than-planned cash and investments.

Statement of Income and Retained Earnings

Total revenue during the year was \$133.5 million, or \$3.3 million higher than budgeted. The variance was the result of higher-than-planned premium revenue combined with higher-than-planned interest revenue on cash and investments and other revenue.

Net income for the year ended March 31, 2008, was \$59.2 million less than planned. This variance is primarily the result of a \$50.0 million increase in CDIC's provision for insurance losses and lower-than-planned recoveries of amounts previously written off. During the year, CDIC had net operating expenses of \$23.6 million, compared to a planned amount of \$23.4 million. As mentioned above, this negative variance is primarily the result of a Payout Capacity Enhancement project that was approved by CDIC's Board of Directors in September 2007.

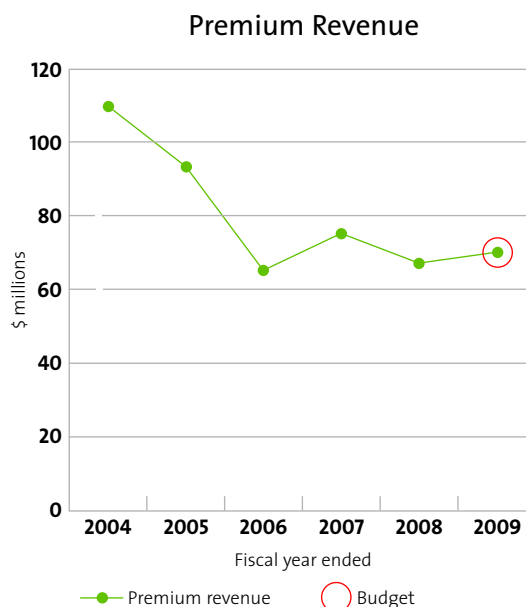
The year-end **retained earnings** of \$997.5 million were \$55.5 million lower than planned. This variance reflects a higher than expected provision for insurance losses and lower than expected recoveries of amounts previously written off.

2008/2009 to 2012/2013 Corporate Plan³

2008/2009 Fiscal Year

Given CDIC's financial position, it is assumed that premium rates will remain at their current levels. This is expected to result in \$70.5 million in premium revenue for the 2008/2009 fiscal year. Combined with a planned \$64.9 million in interest on cash and investments and other revenue, CDIC's total revenues are expected to be \$135.4 million. Operating expenses are planned to be \$25.3 million, resulting in a projected net income before income taxes of \$110.1 million.

As at March 31, 2009, cash and investments, and retained earnings are projected to be \$1,758 million and \$1,156 million, respectively. Also as at March 31, 2009, CDIC's level of *ex ante* funding is projected to be \$1,756 million, representing 36 basis points (bps) of insured deposits.



2008/2009 to 2012/2013

Over CDIC's current five-year planning period, premium revenue is expected to total \$381.0 million and interest income on cash and investments is forecast to total \$353.0 million. Over this same period, CDIC expects to incur total net operating expenses of \$127.0 million.

At the end of the planning period (March 31, 2013), cash and investments are projected to be \$2,195 million and CDIC's retained earnings are expected to grow to \$1,591 million.

³ The Corporate Plan 2008/2009 to 2012/2013 was developed based on information at December 31, 2007, and was approved by the Governor in Council in March 2008. As a result, the impact of the increase in provision for loss of \$50 million to a total provision of \$650 million at March 31, 2008, was not reflected in that Plan.

The projections included in CDIC's 2008/2009 to 2012/2013 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan. Key financial assumptions include the following:

- Premium revenue is projected assuming: premium rates remain unchanged from their current levels through the Corporation's 2012/2013 fiscal year; the growth of insured deposits will average 4% per year; and the distribution of member institutions across premium categories through 2012/2013 will reflect our estimate of the categorization of member institutions for the 2008 premium year.
- Interest revenue on cash and investments is based on an assumed average yield of 3.7%.
- The adequacy of the provision for insurance losses is assessed on an annual basis and, if necessary, adjustments are recorded. For the purposes of the Corporate Plan 2008/2009 to 2012/2013, the provision for insurance losses was forecast to remain at \$600 million.

\$ millions

Consolidated Balance Sheet (as at March 31)	2008/2009 Corporate Plan ^a	2007/2008 Actual Results ^a	2007/2008 Corporate Plan ^a
Assets			
Cash and investments	1,758	1,660	1,666
Accounts receivable	—	2	1
	1,758	1,662	1,667
Capital assets	2	2	2
	1,760	1,664	1,669
Future income tax asset	1	—	1
Total assets	1,761	1,664	1,670
Liabilities			
Accounts payable	4	4	5
Income taxes payable	1	2	12
Future income tax liability	—	2	—
Provision for insurance losses	600	650	600
	605	658	617
Equity			
Retained earnings	1,156	998	1,053
Accumulated other comprehensive income	—	8	—
	1,156	1,006	1,053
Total liabilities and equity	1,761	1,664	1,670
Consolidated Statement of Income and Retained Earnings (for the year ended March 31)			
Revenue			
Premiums	70	68	67
Interest on cash and investments	65	65	63
Other revenue	—	1	—
	135	134	130
Expenses			
Net operating expenses	25	24	23
Adjustment to allowance and provision for loss	—	50	—
Recovery of amounts previously written off	—	(1)	(13)
	25	73	10
Net income before reduction in future income tax asset/income tax expense	110	61	120
Reduction in future income tax asset/income tax expense	13	13	13
Net income	97	48	107
Retained earnings, beginning of year	1,059	950	946
Retained earnings, end of year	1,156	998	1,053
Consolidated Statement of Comprehensive Income (for the year ended March 31)			
Net income	97	48	107
Other comprehensive income			
Change in unrealized gains on available-for-sale financial assets	—	14	—
Income taxes	—	4	—
Other comprehensive income	—	10	—
Comprehensive income	97	58	107

^a2007/2008 actual results reflect the adoption of new CICA standards regarding financial instruments and comprehensive income. The impact of these standards was not incorporated in the 2007/2008 Corporate Plan and it was assumed in the 2008/2009 Corporate Plan that market value was equal to book value; therefore, there were no unrealized gains or losses on available-for-sale financial assets.

MANAGEMENT ERM REPRESENTATION TO THE CDIC BOARD OF DIRECTORS

May 2, 2008

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 2007/2008, 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 2007/2008 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2008, we represent that:

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

Based on this work, management has concluded that CDIC's overall risk remains acceptable, although CDIC's insurance risk and certain operational risks are increasing given the current environment.

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


 Guy L. Saint-Pierre
 President and Chief Executive Officer


 Michèle Bourque
 Vice-President, Insurance and Risk Assessment
 Chairperson, Enterprise Risk Management Committee



FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

May 2, 2008

The accompanying consolidated financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this *Annual Report* are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts, the most significant one being the provision for insurance losses, that are necessarily based on management's best estimates and judgment.

The consolidated financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the *Annual Report* is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the consolidated financial statements to the Board of Directors.

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



Guy L. Saint-Pierre
President and Chief Executive Officer



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



AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Canada Deposit Insurance Corporation as at March 31, 2008 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in the method of accounting for financial instruments as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act*, and the by-laws of the Corporation.

Ronald C. Thompson, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 2, 2008

FINANCIAL STATEMENTS AND NOTES

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

	Notes	2008	2007
ASSETS			
Cash		\$ 425	\$ 64
Investments	3	1,659,793	1,554,039
Accounts and other receivables		1,972	1,881
		1,662,190	1,555,984
Capital assets		1,512	1,613
Net claims receivable	4,5	—	1,008
Future income tax asset	8	—	1,719
		1,512	4,340
		\$ 1,663,702	\$ 1,560,324
LIABILITIES			
Accounts payable and accrued liabilities		\$ 3,723	\$ 3,446
Income taxes payable	8	2,101	7,080
Future income tax liability	8	2,355	—
Provision for insurance losses	5	650,000	600,000
		658,179	610,526
EQUITY			
Retained earnings		997,518	949,798
Accumulated other comprehensive income	9	8,005	—
		1,005,523	949,798
		\$ 1,663,702	\$ 1,560,324
Contingent liabilities and commitments	13, 14		

(See accompanying notes)

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	2008	2007
REVENUE			
Premium	10	\$ 67,838	\$ 74,832
Interest on cash and investments		64,928	55,860
Other		691	1,064
		133,457	131,756
EXPENSES			
Operating	11	23,624	22,081
Increase/(decrease) to allowance and provisions for loss	5	49,998	(742)
Recovery of amounts previously written-off		(1,338)	(6,249)
		72,284	15,090
Net income before income taxes		61,173	116,666
INCOME TAXES			
Current	8	12,944	10,846
Future	8	346	525
		13,290	11,371
Net income		47,883	105,295
Retained earnings, beginning of year		949,798	844,503
Adjustment as a result of the adoption of the effective interest method		(163)	—
Retained earnings, end of year		\$997,518	\$949,798

(See accompanying notes)

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

	2008	2007 ^a
Net Income	\$47,883	\$105,295
Other Comprehensive Income		
Change in unrealized gains on available-for-sale financial assets	14,314	—
Income tax expense on unrealized gains on available-for-sale financial assets	4,548	—
Other comprehensive income	9,766	—
Comprehensive Income	\$57,649	\$105,295

^a In accordance with new accounting standards, prior periods have not been restated.

(See accompanying notes)

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

	2008	2007
OPERATING ACTIVITIES		
Premium revenue received	\$ 67,838	\$ 74,832
Claims recovered	1,008	4,958
Interest revenue received	59,556	53,102
Recovery of amounts previously written-off	1,338	6,249
Other amounts received	597	1,412
Income taxes paid	(17,922)	(7,532)
Recoveries/(payments) under guarantee agreements	2	(158)
Payments to suppliers and employees	(23,246)	(28,826)
Cash flows from operating activities	89,171	104,037
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(4,107,347)	(2,663,327)
Maturities of securities and term deposits	4,018,537	2,558,161
Cash flows used in investing activities	(88,810)	(105,166)
CASH		
Increase/(decrease) during the year	361	(1,129)
Balance, beginning of year	64	1,193
Balance, end of year	\$ 425	\$ 64

(See accompanying notes)

CANADA DEPOSIT INSURANCE CORPORATION
Notes to Consolidated Financial Statements
March 31, 2008

1 – Authority and Objective

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

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

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

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

These consolidated financial statements include the results of the Corporation and of Adelaide Capital Corporation (ACC), a variable interest entity (VIE) for which the Corporation is considered to be the primary beneficiary.

2 – Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Basis of Consolidation. These consolidated financial statements include the financial statements of the Corporation and, as required by Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) (see Note 6), the financial statements of ACC, a VIE for which the Corporation is considered to be the primary beneficiary. Inter-company balances and transactions have been eliminated.

Changes in Accounting Policies. The Corporation's short-term investments are now classified with investments. In prior years, short-term investments were included with cash and short-term investments due to their "cash equivalent" nature. However, upon the adoption of new accounting standards, discussed below, short-term investments were classified with investments to accommodate fair value disclosure. Cash is now shown as a separate item. This change increased investments by \$344 million (2007: \$214 million).

The following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) became effective for the Corporation on April 1, 2007: Section 3855 *Financial Instruments—Recognition and Measurement*, Section 3861 *Financial Instruments—Presentation and Disclosure*, Section 3251 *Equity* and Section 1530 *Comprehensive Income*.

Upon adopting Section 3855, the Corporation elected to classify its investments as available-for-sale. Accounts and other receivables, as well as net claims receivable, are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. Financial instruments are recognized on a settlement date basis. In accordance with the new standards, prior periods are not restated.

The standards require that all financial assets be classified as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables. Financial liabilities must be classified as held-for-trading or other financial liabilities. On initial recognition, all financial instruments are to be measured at fair value on the Consolidated Balance Sheet.

Subsequent to initial recognition, financial instruments classified as held-for-trading will continue to be measured at fair value. Realized and unrealized gains and losses will be included in interest on cash and investments. Financial instruments classified as available-for-sale will also continue to be measured at fair value. Unrealized gains and losses will be recorded in other comprehensive income. As unrealized gains and losses are realized as a result of disposition or other than temporary reduction in value, they will be transferred from other comprehensive income into interest on cash and investments. Financial instruments classified as loans and receivables, held-to-maturity or other financial liabilities are measured at amortized cost using the effective interest method.

Section 1530 introduces Comprehensive Income, which includes net income and other comprehensive income. Other comprehensive income includes any unrealized gains and losses resulting from the change in fair value of financial assets that are classified as available-for-sale. A Consolidated Statement of Comprehensive Income has been included with these financial statements. Section 1530 also introduces a new component of the balance sheet entitled Accumulated Other Comprehensive Income, which is classified as part of the equity and includes the cumulative changes in other comprehensive income.

Derivatives must be recognized on the Consolidated Balance Sheet at fair value, including derivatives that are embedded in financial instruments or other contracts, but are not closely related to the host contract. The Corporation has conducted a review of its contracts from the transition date (April 1, 2003). Based on this review, these contracts do not contain any embedded derivatives that need to be separated and none of these represent non-financial derivatives.

Transaction costs related to held-for-trading financial instruments must be immediately expensed to Net Income. For financial instruments that are not classified as held-for-trading, the transaction costs can either be deferred and amortized using the effective interest method or immediately expensed to Net Income. The Corporation has chosen to expense transaction costs on its financial instruments designated as available-for-sale.

In accordance with the new standards on April 1, 2007, and where appropriate, the Corporation's investments were re-measured with the resulting unrealized loss of \$2.6 million (before taxes) included as a transition adjustment in accumulated other comprehensive income (Note 9).

Use of Estimates. Financial statements prepared in accordance with Canadian generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant area requiring the use of estimates is 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. 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 \$6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

Investments. The Corporation's investments are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency (Standard & Poor's or Moody's). The Corporation's Financial Risk Policies limit investments to Government of Canada or provincially guaranteed securities. Counterparties for investments of less than three years must have a minimum credit rating of A at the time of acquisition. The Corporation's investments of more than three years are restricted to Government of Canada securities.

Investments, consisting of marketable securities and term deposits, are classified as available-for-sale and carried at fair value using observable market data in accordance with the new accounting standards issued by the CICA. Any unrealized gains or losses 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 other comprehensive income into interest on cash and investments. Interest income is calculated using the effective interest rate method and is included in interest on cash and investments.

Claims Receivable. Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation. The Corporation records its claims receivable at amortized cost and it is reported on the balance sheet net of an allowance (see Note 4). For the purposes of the new accounting standards, claims receivable are categorized as loans and receivables.

In certain situations the Corporation may be entitled to a proportional share in amounts in excess of its claim (referred to as post-liquidation interest). Such situations arise when there are assets remaining in the estates after all claims have been paid. To the extent that post-liquidation interest is recorded, it is included in other revenue.

Allowance and Provisions for Loss and Guarantees. In its financial statements, the Corporation records the following allowance and provisions for loss and guarantees:

Allowance for Loss on Claims Receivable—The allowance for loss on claims receivable reflects the Corporation's best estimate of losses in respect of claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

Claims receivable are written-off against the allowance, in full or in part, when there is no reasonable expectation of realization. In certain situations the Corporation will receive payments on loans and claims receivable that have been previously written-off. In such situations, any payments received are recorded first to recover amounts previously written-off before recognizing additional amounts as other revenue.

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 allowance and provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the allowance and provisions for loss in the period in which the changes occur.

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

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

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

Employee Future Benefits. Employees are entitled to certain non-pension benefits provided for under their conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

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.

Future Accounting Changes. On December 1, 2006, the CICA issued new standards: Section 3862 *Financial Instruments—Disclosures*, Section 3863 *Financial Instruments—Presentation* and Section 1535 *Capital Disclosures*. These standards become effective for the Corporation on April 1, 2008. The impact of these standards will be assessed.

International Financial Reporting Standards (IFRS). In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles with IFRS for all Publicly Accountable Enterprises. In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be for fiscal years starting on or after January 1, 2011. The Corporation will be required to report under IFRS for the year ended March 31, 2012, with IFRS compliant comparatives for the year ended March 31, 2011. The impact of the changeover is being assessed.

3 – Investments

All investments are highly liquid fixed rate contracts.

March 31, 2008				March 31, 2007*		
Remaining term to maturity (in thousands of dollars)						
	Under 1 year	1 to 3 years	Total	Under 1 year	1 to 3 years	Total
Treasury bills	\$ 819,070	\$ —	\$ 819,070	\$ 896,668	\$ —	\$ 896,668
Weighted average effective yield (%)	4.09	—	4.09	4.21	—	4.21
Bonds	459,845	260,527	720,372	184,963	342,900	527,863
Weighted average effective yield (%)	3.89	3.67	3.82	3.30	3.81	3.63
Other	120,351	—	120,351	129,508	—	129,508
Weighted average effective yield (%)	3.55	—	3.55	4.20	—	4.20
Total investments	\$1,399,266	\$260,527	\$1,659,793	\$1,211,139	\$342,900	\$1,554,039
Weighted average effective yield (%)	3.98	3.67	3.93	4.06	3.81	4.01

* The 2007 comparative is comprised of held-to-maturity investments which were carried at amortized cost.

March 31, 2008					March 31, 2007
(in thousands of dollars)					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized* Cost
Treasury bills	\$ 813,191	\$ 5,879	\$ –	\$ 819,070	\$ 896,668
Bonds	714,924	5,448	–	720,372	527,863
Other	119,945	406	–	120,351	129,508
Total investments	\$1,648,060	\$11,733	\$ –	\$1,659,793	\$1,554,039

* Comparative balances are carried on the Consolidated Balance Sheet at amortized cost. The fair value of these investments as at March 31, 2007, was \$1,551 million.

4 – Net Claims Receivable

March 31, 2008		March 31, 2007
(in thousands of dollars)		
Claims receivable	\$ –	\$1,008
Allowance for loss	–	–
Net claims receivable	\$ –	\$1,008

5 – Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2008, with corresponding totals as at March 31, 2007.

March 31, 2008					March 31, 2007
(in thousands of dollars)					
	Allowance for Claims Receivable	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	\$ –	\$ –	\$600,000	\$600,000	\$600,900
(Payments)/receipts	–	2	–	2	(158)
Write-offs	–	–	–	–	–
Adjustment to allowance and provisions for loss	–	(2)	50,000	49,998	(742)
End of period	\$ –	\$ –	\$650,000	\$650,000	\$600,000

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

6 – Variable Interest Entities

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

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

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

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of \$1.5 million (2007: \$1.5 million) and an increase in liabilities of \$3,000 (2007: \$24,000), as well as an increase in total revenue of \$14,000 (2007: \$569,000) and an increase in total expenses of \$10,000 (2007: \$283,000). As a result, the impact on the Corporation's retained earnings is \$1.5 million (2007: \$1.5 million).

7 – Financial Instruments and Risk Management

Credit Risk. The Corporation is subject to credit risk from its holdings of investments. The Corporation minimizes its credit risk by adhering to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*, by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

Claims receivable relate to failed member institutions. Realization of claims receivable is largely dependent on the credit quality or value of assets held within the estates of failed member institutions.

Fair Value. Other than cash and 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. The estimates of fair value as at March 31, 2008, involve uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

The book value of accounts and other receivables and accounts payable and accrued liabilities approximate fair value because of their short term to maturity.

The book value of net claims receivable approximates fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of claims receivable. The Corporation bases its estimates on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

8 – Income Taxes

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

A reconciliation of the Corporation's income tax expense, related to the Corporation's net income, is as follows:

	March 31, 2008	March 31, 2007
(in thousands of dollars)		
Statutory tax rate	32%	32%
Income tax expense at the federal statutory rate	\$19,435	\$37,333
Increase/(decrease) resulting from:		
Non-taxable premium revenue	(21,552)	(23,946)
Recovery of amounts previously written-off	(425)	(2,000)
Increase/(decrease) to allowance and provision for loss	15,884	(237)
Other	(398)	(304)
Income tax expense	\$12,944	\$10,846

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, 2008, \$4.3 million of undepreciated capital cost (2007: \$5.3 million) and \$3.7 million relating to unrealized gain on available-for-sale financial assets has been applied, in calculating the future income tax liability of \$2.4 million (2007: future income tax asset of \$1.7 million).

9 – Accumulated Other Comprehensive Income

	March 31, 2008	March 31, 2007*
(in thousands of dollars)		
Opening balance	\$ –	\$ –
Unrealized gains/(losses) on available-for-sale financial assets at date of transition—April 1, 2007	(2,581)	–
Income tax on transition adjustment	820	–
Other comprehensive income	9,766	–
Accumulated other comprehensive income	\$8,005	\$ –

* In accordance with the new standards, prior periods are not restated.

10 – Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2007, were \$477 billion (2006: \$455 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 2008, unchanged from 2007, are 1/72nd of 1% of insured deposits for members in Category 1, 1/36th of 1% for Category 2, 1/18th of 1% for Category 3 and 1/9th of 1% for members in Category 4. 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.

As a matter of prudence, the Corporation maintains an amount of advance or *ex ante* funding. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses as reported in its financial statements. The target range for the funding is set at between 40 and 50 basis points of insured deposits. The reported amount as at March 31, 2008, is \$1.65 billion (2007: \$1.55 billion) representing 35 basis points of insured deposits (2007: 34 basis points).

11 – Operating Expenses

	March 31, 2008	March 31, 2007
(in thousands of dollars)		
Salaries and other personnel costs	\$11,779	\$11,438
Professional and other fees	3,202	2,329
General expenses	3,348	3,001
Premises	2,483	2,487
Public awareness	2,180	2,674
Data processing	1,434	1,030
	24,426	22,959
Expense recoveries		
Related parties	527	603
Other	275	275
Operating Expenses	\$23,624	\$22,081

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

12 – 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.

13 – Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2008, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

14 – Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2008, are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2009	\$1,085
2010	1,085
2011	757
2012	250
Total	\$3,177

15 – Pension Plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. As required under present legislation the contributions made by the Corporation to the Plan are 2.02 times the employees' contribution on amounts of salaries below \$130,700 and 7.3 times the employees' contribution on amounts of salaries in excess of \$130,700. The contributions during the year were as follows:

	2008	2007
	(in thousands of dollars)	
Employer	\$1,450	\$1,545
Employee	\$ 551	\$ 571

16 – Comparative Figures

Certain of the 2007 figures have been reclassified to conform to the presentation adopted for 2008.



CORPORATE GOVERNANCE

4

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

GOOD GOVERNANCE

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

As part of its commitment to ensuring that CDIC exercises the highest levels of good corporate governance, the Board of Directors undertook a comprehensive assessment of its operations and processes in 2007/2008. Opportunities for improving the effectiveness of the contributions from the Board and its Committees were identified, and action plans have been developed to address those operational changes.

The Board and its standing committees also reviewed each of their respective Charters and assessed whether all applicable provisions of those Charters are being fulfilled. The reviews determined that all responsibilities are being discharged appropriately. As a result of the review, the Board refined the provisions of several of its Committee Charters to enhance the clarity of the oversight responsibilities set out in those documents.

The Board's commitment to effective stewardship of the Corporation and its overall mandate are outlined in the Board Charter, available in the "Who is CDIC" section of CDIC's website (www.cdic.ca) under "Responsibilities of the Board of Directors."

BOARD OF DIRECTORS

CDIC's Board of Directors consists of a Chairperson, five *ex officio* Directors and five private sector Directors, as provided for in the *CDIC Act*. Biographical information about each Director is available at www.cdic.ca.

There was a large turnover in the composition of the Board of Directors in 2007/2008. In total, there were changes to four members of the eleven-person Board of Directors, as noted in the attendance charter on page 66.

Chairperson

The Chair is primarily responsible for the effective operation of the Board and for representing the Board. The Chair ensures that the relationship between the Board and Parliament facilitates CDIC fulfilling its mandate and, in performing this role, the Chair works closely with the President and CEO.






Ex Officio Directors

Ex officio Directors bring knowledge and expertise to the Board garnered from their respective offices within the public sector.

Private Sector Directors

Private sector Directors bring both skill and practical experience to the work and decisions of the Board from a range of relevant fields outside the public sector.

BOARD COMPOSITION AND ACTIVITIES IN 2007/2008








Board of Directors Mandate and Composition (March 31, 2008)		Highlights of Board Activities 2007/2008
<p>The Board of Directors provides strategic guidance to management and oversees the activities of the Corporation. CDIC's affairs are administered by its Board, made up of a Chairperson, up to five other private sector Directors and five <i>ex officio</i> Directors (the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions (SOFI), a Deputy Superintendent of Financial Institutions or another officer of the Office of the Superintendent of Financial Institutions (OSFI) appointed by the Minister, and the Commissioner of the Financial Consumer Agency of Canada (FCAC)).</p>		<ul style="list-style-type: none">• Monitored CDIC's readiness activities and public awareness plans• Monitored the financial health of CDIC's member institutions and exposures to market changes based on risk assessment information received from management (which itself is provided much information from OSFI)• Conducted the President and CEO assessment for 2006/2007• Reviewed and approved CDIC's five-year Corporate Plan, Operating and Capital Budgets, and Borrowing Plan (with recommendations on premium rates to the Minister of Finance)• Reviewed and approved the President and CEO objectives for 2008/2009 and approved amendments to the CEO Accountability Profile• Reviewed and approved CDIC Management's Discussion and Analysis and financial statements
<h3>Chairperson</h3>		
<div><p>Bryan P. Davies Chair of the Board Canada Deposit Insurance Corporation Joined Board: June 2006</p></div>		
<h3>Private Sector Directors</h3>	<h3>Ex Officio Directors</h3>	
<div><p>Tracey Bakkeli President T. Bakkeli Consultants Inc. Regina, Saskatchewan Joined Board: March 2001</p></div> <div><p>Nancy Lockhart Chief Administrative Officer Frum Development Group Toronto, Ontario Joined Board: December 2007</p></div>	<div><p>Mark Carney Governor Bank of Canada Joined Board: February 2008</p></div> <div><p>Julie Dickson Superintendent of Financial Institutions Office of the Superintendent of Financial Institutions Joined Board: October 2006 <i>(Acting Superintendent from October 2006, until appointed Superintendent in July 2007)</i></p></div>	

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

Education and Training

Each new Director appointed to the CDIC Board in 2007/2008 received an orientation on his or her responsibilities and the Corporation. Continuing education opportunities for all Directors were made available throughout the year. A comprehensive information session was devoted to reviewing the responsibilities of the Directors generally and their oversight role in the event of a failure of a CDIC member institution.

BOARD COMPOSITION AND ACTIVITIES IN 2007/2008

Board of Directors Mandate and Composition (March 31, 2008)		Highlights of Board Activities 2007/2008
Private Sector Directors	Ex Officio Directors	<ul style="list-style-type: none"> Reviewed and approved amendments to the Board Charter and to the Charters of the Governance and Nominating Committee and the Human Resources and Compensation Committee Approved amendments to the CDIC <i>Code of Business Conduct and Ethical Behaviour for Directors</i>, the CDIC <i>Travel and Expense Policy</i> and the CDIC <i>Contracting Policy</i> Reviewed an annual report on CDIC's significant corporate risks Approved amendments to by-laws governing CDIC member institutions
 Barry Moore Senior Auditor Maniwaki, Québec Joined Board: December 2007	 Ursula Menke Commissioner Financial Consumer Agency of Canada Joined Board: December 2007	
 Shelley M. Tratch Lawyer Vancouver, British Columbia Joined Board: December 2006	 Ted Price Assistant Superintendent Supervision Sector Office of the Superintendent of Financial Institutions Joined Board: January 2007	
[One position vacant]		
	 Robert Wright Deputy Minister Department of Finance Joined Board: June 2006	
Alternates (for Ex Officio Directors)		
 Pierre Duguay Deputy Governor Bank of Canada Appointed Alternate: September 2005	 Serge Dupont Assistant Deputy Minister Financial Sector Policy Branch Department of Finance Appointed Alternate: July 2006	
[Vacant—Alternate for Superintendent of Financial Institutions]		

BOARD COMMITTEES

CDIC's Board had four standing committees in 2007/2008—the Audit Committee, the Human Resources and Compensation (HRC) Committee, the Governance and Nominating Committee, and the Executive Committee. The mandate of each Committee is set out in the Committee Charters, available at www.cdic.ca under "CDIC Board Committee Responsibilities." Highlights of the Charters and an overview of each of the Board Committee's activities during 2007/2008 are outlined below.

Audit Committee

Mandate and Composition (March 31, 2008)	Highlights of Activities
<p>Audit Committee—oversees internal and external audits, advises the Board on financial issues (including the review of the Management Discussion and Analysis (MD&A), which includes the consolidated financial statements and the Office of the Auditor General's attest audit) and oversees risk management</p> <p>T. Bakkeli (Chair) N. Lockhart B. Moore T. Price</p>	<ul style="list-style-type: none"> recommended MD&A and consolidated financial statements approved internal audit's 2008/2009 plan reviewed internal audit reports reviewed the Enterprise Risk Management Annual Report and Management Representation letter reviewed and recommended amendments to CDIC's <i>Travel and Expense Policy</i> and its <i>Contracting Policy</i> monitored management's initiatives concerning internal control certification, information systems enhancements and its planning for convergence to international financial reporting standards conducted a self-assessment of the Audit Committee

Mandate and Composition (March 31, 2008)	Highlights of Activities
<p>Human Resources and Compensation Committee—reviews and advises the Board on human resource issues (policies, succession planning, compliance with legal requirements, compensation and complaints)</p> <p>S. Tratch (Chair) B.P. Davies J. Dickson</p>	<ul style="list-style-type: none"> reviewed the President and CEO objectives (2008/2009) and conducted the annual performance assessment of the President and CEO (2006/2007) reviewed the Human Resources Strategy and Plan for employees reviewed the annual report on employee compliance with codes/policies concerning ethical behaviour monitored succession planning for senior executives oversaw management's implementation of an employee satisfaction survey conducted a self-assessment of the HRC Committee as against its Charter reviewed and recommended amendments to the HRC Committee Charter reviewed employee salary compensation

Human Resources and Compensation Committee

Mandate and Composition (March 31, 2008)	Highlights of Activities
<p>Governance and Nominating Committee—ensures appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities and succession planning for the private sector Directors</p> <p>B.P. Davies (Chair) T. Bakkeli N. Lockhart U. Menke S. Tratch</p>	<ul style="list-style-type: none"> oversaw the process for Board, Committee, Committee Chairs and the Board Chair assessments oversaw planning of the 2007 Annual Public Meeting monitored the CDIC public awareness program oversaw Director continuing education opportunities reviewed and recommended amendments to the <i>Code of Business Conduct and Ethical Behaviour for Directors</i> and the CEO Accountability Profile conducted a self-assessment of the Governance and Nominating Committee as against its Charter reviewed and recommended amendments to the Board Charter and the Governance and Nominating Committee Charter

Governance and Nominating Committee

Mandate and Composition (March 31, 2008)	Highlights of Activities
<p>Executive Committee—to meet, when required, at the request of the Board, the Chairperson, or the President and CEO</p> <p>B.P. Davies (Chair) T. Bakkeli M. Carney</p>	<p>There were no meetings held in 2007/2008.</p>

Executive Committee

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

Board and Committee Meetings and Attendance^a
(April 1, 2007 to March 31, 2008)

BOARD COMMITTEES

	Board of Directors ^b	Executive Committee	Audit Committee	Governance and Nominating Committee	HRC Committee ^c
Number of Meetings	6	0	4	3	4
Attendance:					
Current Directors					
B.P. Davies—Chair	6		3	3	4
T. Bakkeli	6		4	3	
N. Lockhart ^d	1		1	1	
B. Moore ^e	1		1		
S. Tratch	6			3	4
Directors who departed during the year					
C. Huot ^f	3			2	2
G. Morash ^g	5		3		2
<i>Ex officio</i> members ^h					
Bank of Canada (alternate) ⁱ	3 (5)				
SOFI ^j	5				1
OSFI—second Director ^k	5		4		
Department of Finance (alternate) ^l	0 (6)				
FCAC ^m	5			1	

^a Also includes meetings attended by telephone.

^b Includes a strategic planning session of the Board.

^c Includes a special HRC Committee session devoted to management succession planning.

^d Nancy Lockhart was appointed as a Director on December 14, 2007.

^e Barry Moore was appointed as a Director on December 3, 2007.

^f Claude Huot ceased to be a Director on December 2, 2007.

^g Grant Morash retired as a Director on February 7, 2008.

^h The names of the *ex officio* Directors, and alternates, who served on the Board during the year are listed below.

ⁱ **Bank of Canada**

David A. Dodge retired as Governor of the Bank of Canada on January 31, 2008.

Mark Carney was appointed Governor of the Bank of Canada, effective February 1, 2008.

Pierre Duguay, alternate

^j **SOFI**

Julie Dickson was appointed Acting Superintendent, OSFI, effective October 14, 2006, and Superintendent, OSFI, effective June 29, 2007.

^k **OSFI**

Ted Price

^l **Department of Finance**

Robert Wright

Serge Dupont, alternate

^m **FCAC**

Jim Callon ceased to be Acting Commissioner, FCAC, effective December 2, 2007.

Ursula Menke was appointed Commissioner, FCAC, effective December 3, 2007.

In 2007/2008, private sector Directors' fees for the performance of their services in respect of their office totaled \$230,507.93. These Directors also incurred expenses of \$116,359.08. CDIC's internal audit function reviewed the foregoing and concluded that they were duly authorized, supported with documentation, complied with applicable corporate policies and appeared reasonable.

ADDRESSING PUBLIC SERVICE EXPECTATIONS

CDIC is mindful of and committed to meeting Canadians' public service expectations in areas such as codes of conduct, whistleblowing, ethical behaviour and proactive disclosure. Key activities in 2007/2008 included:

- The Board reviewed and completed further amendments to CDIC's "whistleblower" policy, namely the *Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace*, to reflect all obligations under the newly enacted *Public Servants Disclosure Protection Act*. CDIC also provided mandatory training to its employees regarding business conduct and ethical matters.
- As part of its commitment to maintaining the highest standards of corporate governance, the Board reviewed and amended CDIC's *Code of Business Conduct and Ethical Behaviour for Directors*, to align it with related CDIC policies. The Board also amended the *CDIC Travel and Expense Policy* to extend the application of this policy to the Board of Directors.
- CDIC's *Code of Business Conduct and Ethical Behaviour for Directors*, its *Code of Business Conduct and Ethical Behaviour for Employees* and *Conflicts of Interest Code* reflect the commitment of CDIC and its Directors, officers and employees to continue to live up to CDIC's reputation as an organization with high ethical standards. Directors and employees annually confirm their commitment to continue to adhere to these codes. The Board of Directors monitors compliance with the codes and other corporate practices related to business and employee conduct through the receipt of annual reports to its Audit Committee and HRC Committee. These documents along with other governance-related materials are available on www.cdic.ca.
- CDIC knows from its research, and from practices carried out by deposit insurers around the world, that the success of a deposit insurance system hinges on consumers knowing about it. Informed consumers make informed decisions about where to keep their money. CDIC continued its ongoing efforts to increase public awareness of deposit insurance, completing in 2007/2008 a three-year campaign aimed at creating awareness of CDIC and the increase in coverage from \$60,000 to \$100,000 per depositor, per institution.

- CDIC's Board held its second Annual Public Meeting in Vancouver, British Columbia, on September 25, 2007, as part of its commitment to hold this meeting in a different city each year to reflect CDIC's national mandate. The meeting was well attended and provided an opportunity for CDIC to provide information about the Corporation's activities to many new Canadians.

CDIC'S OFFICERS

CDIC's officers, as of March 31, 2008, are set out below. Biographical information about each officer is available on the CDIC website (www.cdic.ca).

Guy L. Saint-Pierre
President and Chief Executive Officer

Michèle Bourque
Vice-President, Insurance and Risk Assessment

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

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

Salary ranges for CDIC's officers, as of March 31, 2008, are:

- for the position of President and Chief Executive Officer—\$216,800–\$255,000
- for the position of Vice-President—\$165,430–\$220,560

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



MEMBERSHIP PROFILE AND PERFORMANCE

This section of CDIC's Annual Report provides an overview of our member institutions and highlights of their collective financial performance in 2007.

MEMBERSHIP PROFILE

At the end of CDIC's 2007/2008 fiscal year, 80 financial institutions formed CDIC's membership, unchanged from the previous year. Caledon Trust Company, GE Money Trust Company and DirectCash Bank became CDIC members. National Bank of Greece (Canada) and BCPBank Canada were purchased by The Bank of Nova Scotia and Bank of Montreal, respectively, and thus had their policies cancelled. Ubiquity Bank of Canada amalgamated with Bank West and was dissolved. See the table of CDIC members as at March 31, 2008 (page 76). A current list of CDIC members is also posted on www.cdic.ca.

CDIC has 54 distinct groups of member institutions based on affiliation with a parent institution. For the purposes of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, geographic reach of its operations and/or its primary business activities (see sidebar above).

FINANCIAL PERFORMANCE

2007 was a year of record net income for CDIC members, despite market turbulence and a challenging environment. After-tax profits reached \$21.0 billion compared to \$20.7 billion in the previous year.

Although the capital markets and credit environment has become progressively more challenging, overall, member institutions continue to pose only a moderate level of short-term risk to CDIC. Membership performance and financial health remained fairly positive in 2007. The number of members reporting net losses for the year remained low. Individual institution profits varied within peer groups depending on the level of exposure to structured products, growth in commercial and retail loans, revenues from capital market related activities, and the degree of conservatism used to establish provisions for credit losses and asset write-downs.

CDIC Member Peer Groups

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

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

Residential—main business line is residential mortgages

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

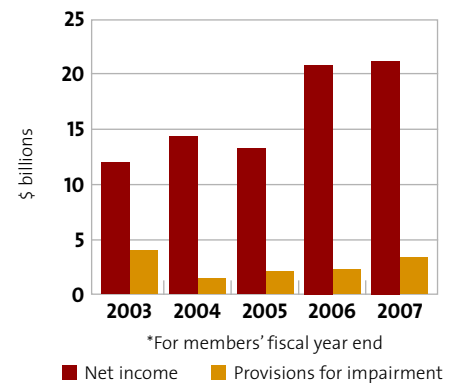
Consumer—main business lines are retail and investment loans to individuals

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

Higher profits of the membership were largely driven by higher commercial and retail loan volumes—only partially off-set by weaker interest rate spreads and higher provisions for losses. Fiscal year 2007 results reflect a general decline in return on average assets, leading to lower returns on average equity.

The potential for further losses by members remains on exposures to structured products (including those related to U.S. sub-prime mortgages), to Canadian asset-backed commercial paper (ABCP), and to leveraged loans. Additional material write-downs in the near future will likely result since uncertainty in credit markets persists. Going forward, member institutions and the Canadian economy could be affected by a ripple effect from the U.S. real estate crisis and the slowdown in the U.S. economy, as well as by the effects of a strong Canadian dollar. Credit quality is expected to decline modestly at our member institutions over the coming year and their collective financial performance has likely reached a near-term peak.

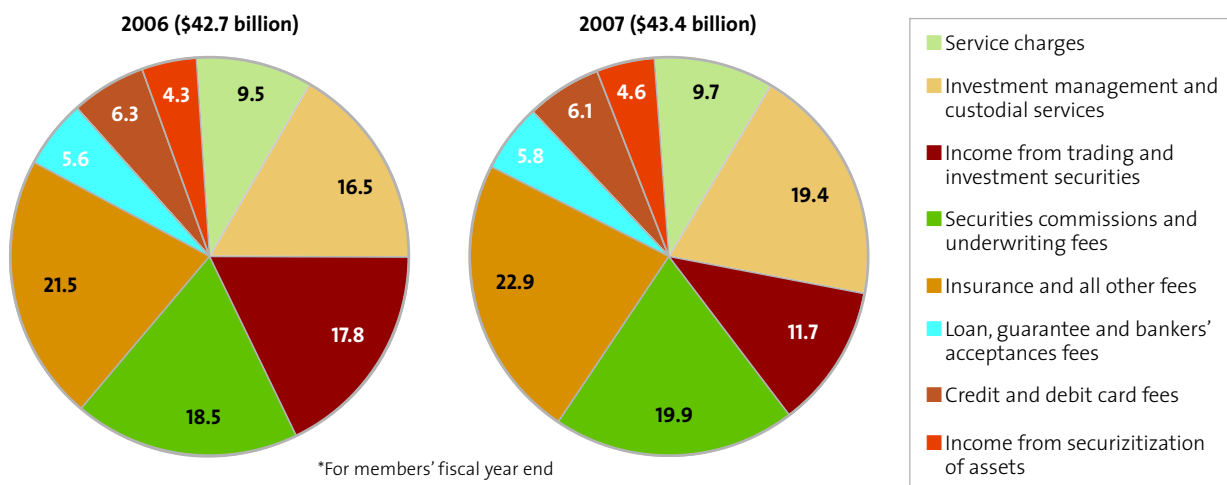
Net Income and Provisions of CDIC Members*



Modest non-interest income growth due to lower trading and investment-related revenues

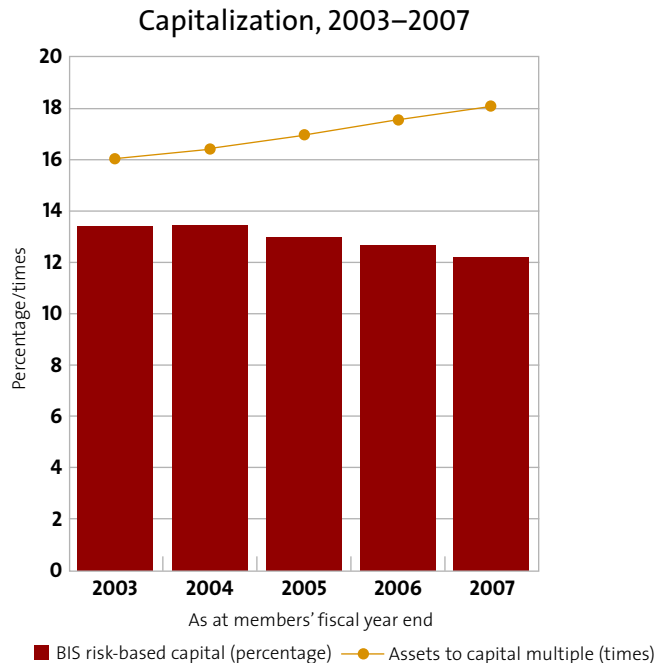
Non-interest income increased a modest 2% during the year but still represents a significant 55% of gross revenues. While revenue from investment management, custodial services and mutual fund fees grew by a healthy 19%, trading and investment book securities revenues dropped by over 30%. Other sources of non-interest income posted gains of less than 10%.

Components of Non-interest Income* (%)



Capital ratios declining, but still well above OSFI guidelines

The average Bank for International Settlements (BIS) total capital ratio for CDIC membership declined slightly to 12.2% from 12.6%, but remained well above OSFI's well-capitalized requirements of 10%. The assets to capital multiple (ACM), a measure of leverage, continued its rising trend to 18.2 times, up from 17.7 times in 2006. The decline in capital ratios and the increase in leverage were noticeable mainly in the largest banks due to significant foreign acquisitions, write-downs of structured credit exposures and liquidity issues in the Canadian ABCP market that caused some large banks to hold loans on their balance sheets rather than selling them to outside investors. Further write-downs related to exposure to structured products and closing of acquisitions could reduce capital ratios if these are not offset by profits and new capital in 2008. The current ability of Canadian banks to raise capital at reasonable costs speaks to the strength of their overall financial condition.



Double digit asset growth over each of the past three years

Asset growth across the CDIC membership continued to be robust in 2007 at almost 11%, continuing a trend seen over the past three years. As a result, total assets held by CDIC members are quickly approaching the \$2.5 trillion mark. The International peer group enjoyed substantial growth over the past three years due to major U.S. and Latin America acquisitions. The growth rate is even more pronounced at smaller members in the Commercial, Consumer and Residential peer groups—several of which had annual growth exceeding 25%.

Loans continue to be the dominant asset class, making up just over 56% of total assets. Strong growth in residential mortgages and personal loans, as well as in commercial loans, was noted in fiscal 2007. The overall membership loan portfolio increased by over 10% with corporate and commercial loans reaching \$579 billion and retail loans increasing to \$770 billion in fiscal 2007.

Overall credit quality remains strong but may have passed its peak

Credit quality remained surprisingly good and near historical highs as both retail loans and commercial loans benefited from favourable economic circumstances and real estate prices in Canada. Net impaired loans as a percentage of average loans and bankers' acceptances remained low mainly due to growth in loan volumes. However, a modest deterioration in credit quality is now noticeable across CDIC membership, along with higher provisions for impaired assets and increased impaired loan formations. Provisions for credit losses increased 44% in 2007 to \$3.5 billion, albeit from previously low levels. In addition, allowances for credit losses have not kept pace with the increase in impaired loans, resulting in a deterioration of the coverage ratio of impaired loans. Nevertheless, the level of impaired loan coverage remains very favourable from a historical perspective.

The financial world has changed significantly since the summer of 2007

Liquidity for virtually all types of structured products has evaporated since the summer of 2007. Investor risk aversion began in 2007 when defaults on U.S. sub-prime mortgages rose beyond expected levels. Credit rating agency downgrades of structured products accelerated over the year and into 2008. Many of the more complex structured products (such as collateralized debt obligations) have been re-valued and now sell for less than par, with few trades occurring. Some other structured products and loans, such as collateralized loan obligations based on non-investment grade or leveraged corporate loans and commercial mortgage-backed securities, may also need to be re-valued downwards. Many of these products may remain illiquid (not readily convertible to cash) for an extended period of time until investors can obtain a better understanding of the true risks associated with the underlying assets. While all of the International peer group members have some exposure to structured products and have been affected by liquidity and valuation issues, for most exposure is well below that of the large U.S. and European banks.

CDIC insurance risk is acceptable, but greater caution is warranted

CDIC's membership as a whole, as well as some peer groups, achieved record profitability in 2007—but performance was uneven. In the short term, CDIC's insurance risk is acceptable but it is rising. There are a number of significant emerging threats that may result in the need for interventions in the affairs of some of our members in the medium term. While liquidity and valuation issues surrounding structured products and Canadian non-bank ABCP were a major concern in the last year, future threats to CDIC members will likely be determined by capital market uncertainties, asset quality issues and the degree to which a U.S.-led economic slowdown affects the Canadian economy.

CDIC continues to be concerned with trends at some institutions, particularly members with rapid asset growth and those holding elevated and rising high-risk real estate asset categories, such as commercial mortgages, interim construction loans and commercial loans to the real estate sector. Other emerging issues affecting our membership include liquidity and valuation issues surrounding certain assets, a continued challenging capital markets environment, possible effect on capital levels from the implementation of Basel II, high Canadian consumer leverage, and weak mortgage underwriting practices (such as longer amortization term and low down payments, as well as potential corrections to Canadian real estate prices).

In summary, CDIC members had a good 2007 fiscal year despite operating in a more challenging environment. Their overall financial condition remains sound, but greater caution will be needed going forward for both CDIC and its member institutions.

COMPARATIVE MEMBERSHIP INFORMATION

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

The membership profile includes:

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

It should be noted that, in its five-year tables, CDIC restates the peer group results of prior years to reflect the current year's membership. Accordingly, the following table excludes the financial information of institutions that were no longer members as of March 31, 2008.

MEMBERSHIP INFORMATION

CDIC Members as at March 31, 2008⁴

Domestic Banks and Subsidiaries		Domestic Trust and Loan Companies and Associations		Subsidiaries of Foreign Institutions	
Member Institutions	Peer Group	Member Institutions	Peer Group	Member Institutions	Peer Group
Bank of Montreal	International	AGF Trust Company	Consumer	Amex Bank of Canada	Consumer
Bank of Montreal Mortgage Corporation		Caledon Trust Company	Fee Income	Bank of China (Canada)	Commercial
BMO Trust Company		CIBC Mellon Trust Company	Fee Income	Bank of East Asia (Canada) (The)	Commercial
Bank of Nova Scotia (The)	International	Community Trust Company	Commercial	Citibank Canada	Fee Income
Bank of Nova Scotia Trust Company (The)		Concentra Financial Services Association	Residential	Computershare Trust Company of Canada	Fee Income
Dundee Bank of Canada		Concentra Trust		CTC Bank of Canada	Commercial
Maple Trust Company		Desjardins Trust Inc.	Fee Income	First Data Loan Company, Canada	Fee Income
Montreal Trust Company of Canada		Effort Trust Company (The)	Residential		
National Trust Company					
Scotia Mortgage Corporation					
Bank West	Consumer	Equitable Trust Company (The)	Residential	Habib Canadian Bank	Commercial
Bridgewater Bank	Residential	GE Money Trust Company	Consumer	HSBC Bank Canada	Regional Residential
Canadian Imperial Bank of Commerce	International	Home Trust Company	Residential	Household Trust Company	
CIBC Mortgages Inc.		Industrial Alliance Trust Inc.	Fee Income	HSBC Mortgage Corporation (Canada)	
CIBC Trust Corporation		League Savings & Mortgage Company	Residential	HSBC Trust Company (Canada)	
Canadian Tire Bank	Consumer	MCAN Mortgage Corporation	Residential	ICICI Bank Canada	Commercial
Canadian Western Bank	Regional	M.R.S. Trust Company	Consumer	ING Bank of Canada	Residential
Canadian Western Trust Company		Investors Group Trust Co. Ltd.	Residential	Korea Exchange Bank of Canada	Consumer
Citizens Bank of Canada	Residential	Peace Hills Trust Company	Commercial	MBNA Canada Bank	Consumer
CS Alterna Bank	Residential	Peoples Trust Company	Residential	Mega International Commercial Bank (Canada)	Commercial
DirectCash Bank	Fee Income	RBC Dexia Investor Services Trust	Fee Income	State Bank of India (Canada)	Commercial
General Bank of Canada	Consumer	ResMor Trust Company	Residential	UBS Bank (Canada)	Fee Income
Laurentian Bank of Canada	Regional	Sun Life Financial Trust Inc.	Residential		
B2B Trust					
Laurentian Trust of Canada Inc.					
LBC Trust					
Manulife Bank of Canada	Residential				
National Bank of Canada	Regional				
Natcan Trust Company					
National Bank Trust Inc.					
Pacific & Western Bank of Canada	Commercial				
Royal Bank of Canada	International				
Royal Bank Mortgage Corporation					
Royal Trust Company (The)					
Royal Trust Corporation of Canada					
Toronto-Dominion Bank (The)	International				
Canada Trust Company (The)					
First Nations Bank of Canada					
TD Mortgage Corporation					
TD Pacific Mortgage Corporation	Commercial				
Total: 40		Total: 21		Total: 19	

Total: 80 members

⁴ Member institutions with common affiliation have been grouped together, starting with the member having the largest assets and following in alphabetical order.

Membership Changes:
April 1, 2007–March 31, 2008

New Members

April 20, 2007: Caledon Trust Company

August 21, 2007: GE Money Trust Company

January 24, 2008: DirectCash Bank

Other Membership Changes

May 8, 2007: Home Trust Company changed its French name to Compagnie Home Trust

October 1, 2007: Ubiquity Bank of Canada amalgamated with Bank West—continuing as Bank West

October 26, 2007: National Bank of Greece (Canada) ceased to accept deposits and was discontinued as a federal institution

December 14, 2007: BCPBank Canada ceased to accept deposits and the bank was dissolved

Summary Financial Information—Total CDIC Membership

Balance Sheet (\$ billions and percentage)

<i>As at members' fiscal year end</i>	2007		2006		2005		2004		2003	
	\$	%	\$	%	\$	%	\$	%	\$	%
Assets										
Cash resources	129.7	5.3	112.8	5.1	102.8	5.2	83.7	4.7	93.7	5.5
Securities	642.4	26.1	626.5	28.1	527.0	26.6	453.4	25.5	429.8	25.5
Loans and acceptances	1,384.7	56.3	1,255.4	56.4	1,114.5	56.3	1,006.2	56.6	954.3	56.5
Other assets	301.4	12.3	232.6	10.4	236.1	11.9	235.3	13.2	210.6	12.5
Total assets	2,458.2	100.0	2,227.3	100.0	1,980.4	100.0	1,778.6	100.0	1,688.4	100.0
Liabilities										
Deposits	1,618.5	65.8	1,479.9	66.4	1,329.4	67.1	1,187.3	66.8	1,129.2	66.9
Other liabilities	716.9	29.2	644.1	28.9	560.0	28.3	504.9	28.4	475.9	28.2
Total liabilities	2,335.4	95.0	2,124.0	95.3	1,889.4	95.4	1,692.2	95.2	1,605.1	95.1
Shareholders' equity	122.8	5.0	103.3	4.7	91.0	4.6	86.4	4.8	83.3	4.9
Total liabilities and shareholders' equity	2,458.2	100.0	2,227.3	100.0	1,980.4	100.0	1,778.6	100.0	1,688.4	100.0

Income Statement (\$ millions)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
Interest income	111,635	93,728	74,484	64,077	66,693
Interest expense	75,556	60,178	41,294	30,849	33,512
Net interest income	36,079	33,550	33,190	33,228	33,181
Provision for impairment	3,481	2,413	2,187	1,476	4,088
Net interest income after provision for impairment	32,598	31,137	31,003	31,752	29,093
Non-interest income	43,376	42,693	37,517	33,931	31,947
Net interest income and non-interest income	75,974	73,830	68,520	65,683	61,040
Non-interest expenses	49,802	47,185	49,320	45,260	44,125
Net income before provision for income taxes	26,172	26,645	19,200	20,423	16,915
Provision for income taxes	4,897	5,618	5,409	5,470	4,321
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	21,275	21,027	13,791	14,953	12,594
Non-controlling interest in net income of subsidiaries and extraordinary items	245	373	507	575	612
Net income	21,030	20,654	13,284	14,378	11,982

Deposit Liabilities in Canada, by Peer Group

Total Deposits (\$ billions and percentage)

<i>As at April 30</i>	2007		2006		2005		2004		2003	
	\$	%	\$	%	\$	%	\$	%	\$	%
International	1,204.7	84.6	1,074.1	85.0	1,008.2	85.9	955.2	87.8	905.3	87.9
Regional	143.7	10.1	127.9	10.1	112.2	9.6	95.7	8.8	92.7	9.0
Residential	41.0	2.9	35.6	2.8	29.6	2.5	23.0	2.1	18.1	1.8
Commercial	5.2	0.4	3.9	0.3	3.0	0.3	2.6	0.2	2.4	0.2
Consumer	7.6	0.5	5.0	0.4	3.6	0.3	3.5	0.3	3.5	0.3
Fee Income	21.9	1.5	17.1	1.4	16.8	1.4	8.1	0.8	7.9	0.8
Membership	1,424.1	100.0	1,263.6	100.0	1,173.4	100.0	1,088.1	100.0	1,029.9	100.0

Insured Deposits (\$ billions and percentage of Total Deposits)

<i>As at April 30</i>	2007		2006		2005		2004		2003	
	\$	%	\$	%	\$	%	\$	%	\$	%
International	382.1	31.7	371.1	34.5	363.1	36.0	316.1	33.1	306.4	33.8
Regional	54.4	37.9	50.5	39.5	46.5	41.4	39.5	41.3	40.1	43.3
Residential	30.9	75.4	26.6	74.7	22.3	75.3	16.1	70.0	13.1	72.4
Commercial	3.8	73.1	2.6	66.7	1.8	60.0	1.4	53.8	1.3	54.2
Consumer	4.4	57.9	3.1	62.0	2.4	66.7	1.8	51.4	1.6	45.7
Fee Income	1.3	5.9	1.5	8.8	1.3	7.7	0.3	3.7	0.2	2.5
Membership	476.9	33.5	455.4	36.0	437.4	37.3	375.2	34.5	362.7	35.2

Profitability Measures, by Peer Group

Efficiency (percentage)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
International	62.3	62.0	71.0	68.0	68.4
Regional	67.3	62.9	63.6	64.8	64.7
Residential	57.7	55.6	58.0	56.3	56.1
Commercial	67.9	59.6	81.2	80.6	76.2
Consumer	58.8	59.4	58.4	59.0	60.4
Fee Income	71.6	60.5	58.5	65.3	67.7
Membership	62.7	61.9	69.8	67.4	67.8

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

Non-Interest Income (percentage)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
International	54.8	56.0	53.0	50.0	48.3
Regional	52.6	53.9	51.2	52.3	51.6
Residential	14.2	22.3	22.8	27.1	30.5
Commercial	17.0	30.5	27.1	24.1	26.0
Consumer	55.9	58.7	59.6	59.4	61.9
Fee Income	88.5	90.8	102.7	97.0	77.1
Membership	54.6	56.0	53.1	50.5	49.1

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

Return on Average Assets (ROAA) (percentage)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
International	0.9	1.0	0.7	0.8	0.7
Regional	0.6	0.8	0.9	0.8	0.8
Residential	0.6	0.7	0.7	0.8	0.8
Commercial	0.4	0.8	0.4	0.4	0.1
Consumer	1.8	2.4	2.5	3.3	3.3
Fee Income	0.6	1.1	0.9	0.8	0.5
Membership	0.9	1.0	0.7	0.8	0.7

ROAA: Net income/average assets

Return on Average Equity (ROAE) (percentage)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
International	19.8	22.3	14.9	17.2	14.6
Regional	13.6	17.3	17.8	15.8	15.3
Residential	11.8	11.9	10.9	13.9	15.1
Commercial	4.7	9.0	3.8	4.2	1.2
Consumer	11.0	13.1	13.6	17.0	19.3
Fee Income	8.5	18.4	13.5	13.0	8.3
Membership	18.6	21.3	15.0	16.9	14.6

ROAE: Net income/average shareholders' equity

Cost of Funds (percentage)

<i>For the members' fiscal year ending in</i>	2007	2006	2005	2004	2003
International	4.7	4.2	3.2	2.5	2.8
Regional	4.3	3.6	2.6	2.4	2.6
Residential	4.3	3.9	3.2	3.1	3.6
Commercial	4.2	3.9	3.3	3.2	3.6
Consumer	6.3	6.4	5.3	4.4	3.9
Fee Income	3.5	3.5	2.6	2.0	2.7
Membership	4.6	4.2	3.1	2.5	2.8

Cost of funds: Interest expense/average interest bearing liabilities

Capitalization Measures

Leverage (times)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	21.8	22.6	22.5	21.4	21.4
Regional	22.9	21.2	21.0	19.6	19.8
Residential	19.7	17.7	16.3	17.6	19.3
Commercial	10.6	11.1	10.1	9.9	9.8
Consumer	6.1	5.5	5.4	5.1	5.8
Fee Income	14.6	16.3	15.5	16.5	16.2
Membership	21.3	21.8	21.7	20.8	20.9

Leverage: Average assets/average shareholders' equity

BIS Risk-Based Capital (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	11.9	12.4	12.8	13.2	13.2
Regional	12.0	12.3	11.6	12.3	12.9
Residential	16.3	16.2	19.6	18.0	16.5
Commercial	17.5	14.9	15.0	15.7	17.0
Consumer	16.9	19.6	19.7	20.1	20.6
Fee Income	22.7	25.3	20.3	19.7	16.4
Membership	12.2	12.6	12.9	13.3	13.3

BIS (Bank for International Settlements) risk-based capital: Total regulatory capital/risk-weighted assets

Asset Quality Measures, by Peer Group

Asset Growth (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	11.2	11.3	11.5	4.6	1.3
Regional	4.7	10.8	17.9	8.5	5.0
Residential	14.6	19.2	29.2	36.3	34.0
Commercial	30.7	35.5	24.9	15.7	2.2
Consumer	24.3	18.4	14.7	15.9	47.0
Fee Income	14.1	58.9	5.1	10.3	-13.6
Membership	10.9	12.0	12.3	5.5	2.0

Asset growth: Year-over-year growth in (total assets + own securitized assets + off-balance sheet risk-weighted assets)

Impaired Assets to Total Assets (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	0.2	0.2	0.3	0.4	0.6
Regional	0.3	0.3	0.3	0.5	0.7
Residential	0.3	0.2	0.1	0.2	0.2
Commercial	0.6	0.6	0.8	1.4	2.1
Consumer	0.2	0.8	1.1	1.1	1.1
Fee Income	0.3	0.0	0.0	0.0	0.1
Membership	0.2	0.2	0.3	0.4	0.6

Impaired assets (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	0.4	0.4	0.5	0.7	1.2
Regional	0.5	0.5	0.5	0.8	1.0
Residential	0.2	0.2	0.2	0.3	0.3
Commercial	0.8	1.0	1.1	2.0	2.9
Consumer	0.2	1.0	1.3	1.3	1.5
Fee Income	0.0	0.1	0.4	0.4	0.8
Membership	0.4	0.4	0.5	0.7	1.1

Impaired loans (gross)/total loans (gross)

General Allowance to Risk-Weighted Assets (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	0.5	0.5	0.6	0.7	0.9
Regional	0.6	0.6	0.7	0.9	1.0
Residential	0.5	0.5	0.5	0.6	0.7
Commercial	0.6	0.6	0.7	0.8	0.9
Consumer	2.0	2.0	2.3	2.4	2.6
Fee Income	0.1	0.1	0.2	0.3	0.4
Membership	0.5	0.5	0.6	0.7	0.9

General allowance/risk-weighted assets

Net Impaired Loans to Total Shareholders' Equity (percentage)

<i>As at members' fiscal year end</i>	2007	2006	2005	2004	2003
International	-2.8	-4.2	-4.4	-3.3	-2.0
Regional	-3.4	-4.5	-5.3	-5.2	-3.7
Residential	-1.4	-1.8	-1.9	-2.0	-3.5
Commercial	-0.8	-2.1	-2.2	0.0	4.1
Consumer	-10.7	-4.7	-4.7	-5.2	-5.5
Fee Income	-0.7	-1.0	-1.5	-1.7	-1.2
Membership	-2.9	-4.1	-4.4	-3.5	-2.2

Impaired loans (net)/average shareholders' equity



GLOSSARY

6

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

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

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

Deposit: As defined in the *Canada Deposit Insurance Corporation Act*, a deposit is the unpaid balance of money received or held by a CDIC member institution from or on behalf of a person in the usual course of deposit-taking business for which the member:

- (a) is obliged to give credit to that person's account or is required to issue an instrument for which the member is primarily liable,
- (b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person. (*“Dépôt”*)

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

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

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

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

Guide to Intervention for Federal Financial Institutions: This document, developed by the Office of the Superintendent of Financial Institutions (OSFI) and CDIC, outlines the intervention steps that may be taken when a federally regulated deposit-taking financial institution or CDIC member is experiencing problems. It describes the coordination mechanisms in place between OSFI and CDIC, summarizes the circumstances under which certain intervention measures may be taken, and defines a graduated and progressive set of responses, based on the institution’s particular circumstances. (*“Guide en matière d’intervention à l’intention des institutions financières fédérales”*)

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

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

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

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

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

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

Special Examination: A Special Examination is a detailed examination of the assets and deposit liabilities of a bank with a view to estimating CDIC’s potential exposure to loss. It enables CDIC to compare payout and non-payout intervention strategies to minimize its exposure to loss. (*“Examen spécial”*)

Term Deposit: A deposit for a fixed length of time. (*“Dépôt à terme”*)

