



CDIC

Canada Deposit
Insurance Corporation

2014

ANNUAL REPORT

Committed to protecting your savings

Canada^{ca}

CDIC mandate

CDIC insures eligible deposits made at banks and other financial institutions that are CDIC members. We work for Canadians—by insuring their savings in case a financial institution fails. CDIC helps keep Canada’s financial system strong.

CDIC 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) separately in each of the following:

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

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

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.

What’s an eligible deposit?

Eligible deposits include:

- savings accounts and chequing accounts
- term deposits, such as Guaranteed Investment Certificates (GICs), of five years or less
- money orders, travellers’ cheques and bank drafts issued by CDIC members, and cheques certified by CDIC members

Deposits must be payable in Canada, in Canadian currency.

Contact us

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

Head office

Canada Deposit Insurance Corporation
50 O’Connor Street, 17th Floor
Ottawa, Ontario
K1P 6L2

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

Fax: 613-996-6095

Five-year financial and statistical summary

For the years ending March 31	2014	2013	2012	2011	2010
Selected statement of financial position items (C\$ millions)					
Cash and investments	2,761	2,561	2,441	2,209	1,954
Provision for insurance losses	1,200	1,250	1,150	1,100	1,100
Retained earnings	1,569	1,316	1,294	1,113	858
Selected statement of comprehensive income items (C\$ millions)					
Premiums	192	120	224	253	198
Investment income	36	39	40	33	31
Operating expenses	38	36	32	31	31
(Decrease) increase in provision for insurance losses	(50)	100	50	–	300
Total comprehensive income (loss)	252	23	180	255	(102)
Member institutions (Number)					
Domestic banks and subsidiaries	48	49	46	44	42
Domestic trust and loan companies and associations	15	16	17	21	20
Subsidiaries of foreign financial institutions	16	18	21	20	20
Total number of institutions	79	83	84	85	82
Total insured deposits^a (C\$ billions)	665	646	622	604	590
Growth rate of insured deposits (%)	3.0%	3.9%	3.0%	2.4%	15.2%
Ex ante funding (C\$ billions)	2.77	2.57	2.44	2.21	1.96
Basis points of insured deposits	42	40	39	37	33
Permanent employees (Number) ^b	110	102	99	96	96
Borrowing limit (C\$ billions)	19	19	18	17	17

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

b Represents the number of full-time, permanent employees at year end.

The year at a glance

In 2013/2014...

- CDIC insured approximately **\$665 billion in deposits** at 79 member institutions (as at March 31, 2014).
- CDIC's **membership continued to record strong financial performance**. As a group, they had record net profits in their 2013 fiscal year. Notwithstanding the strong results, household debt levels and potentially elevated real estate prices could present a challenge should there be a rise in unemployment or interest rates.
- CDIC completed **second version resolution plans** for Canada's six largest banks which were designated as domestic systemically important banks (D-SIBs) in March 2013.
- CDIC signed a Memorandum of Understanding with the U. S. Federal Deposit Insurance Corporation to **facilitate cross-border resolution**.
- CDIC achieved **positive results in the International Monetary Fund report** on financial stability in Canada, including the recognition of CDIC's strong collaboration with the Office of the Superintendent of Financial Institutions to develop recovery and resolution plans for Canada's D-SIBs.
- CDIC completed **testing of all members for compliance with our *Data and System Requirements By-law***—nearly all members are compliant. The by-law, together with improved tools, enables us to conduct an insurance determination of any member institution over a weekend.
- In support of financial stability, CDIC continued with **public awareness**, which included print and online advertising, search engine marketing, a series of web videos, and a deposit insurance estimator app for mobile devices to reach Canadians.







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MESSAGE
FROM
THE CHAIR

MESSAGE FROM THE CHAIR



The financial crisis may be behind us but its impacts continue to be felt as the regulatory environment continues to evolve both domestically and internationally. The expectations placed on deposit insurers have never been greater. CDIC has responded to this changing regulatory landscape and we continued our important work on several fronts to enhance our preparedness to handle the failure of a member institution regardless of its size or complexity. At the same time, we took steps to enhance our internal systems to enable us to reimburse depositors faster than ever before. In 2013/2014, CDIC welcomed an International Monetary Fund report on financial stability, which noted that Canada's legal and institutional powers for resolving federal financial institutions are "robust and well-articulated." We were pleased with the positive findings of the report, as they confirmed that we have established leading practices and that CDIC's operational capacity is well developed. The report also recognized our strong collaboration with the Office of the Superintendent of Financial Institutions. While opportunities for improvement were mentioned in the report, such as building up our *ex ante* funding more quickly, the report confirms that CDIC operates effectively.

To further enhance CDIC's capacity to deliver on its mandate, the 2014 Federal Budget included proposals that will specifically impact CDIC and its powers. Of particular significance was the announcement of a review of Canada's deposit insurance program to help ensure deposit insurance continues to meet the needs of Canadians. CDIC looks forward to contributing to this important review.

I would like to thank the entire Board for their valuable contributions this past year, in particular, Mark Carney, Agathe Côté, Ursula Menke, and Ted Price, all of whom left the Board in 2013/2014. During the year, the Board welcomed Andrew Kriegler, Stephen Poloz, Lawrence Schembri, and Lucie Tedesco. I look forward to their support and insights as newly appointed CDIC Board members.

I would also like to recognize the leadership of our President and CEO, Michèle Bourque, and the excellent Management team and employees of CDIC. Our efforts and our successes on all fronts reflect their hard work and I thank them sincerely.

A handwritten signature in black ink that reads "B. Davies". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Bryan P. Davies





MESSAGE FROM THE PRESIDENT AND CEO



It has now been more than five years since the economic crisis of 2008, and I am pleased to report that, overall, CDIC's membership continues to record strong financial performance, with record net profits last fiscal year.

As a Corporation we have continued to make significant improvements to our systems and processes that enable us to monitor the health of member institutions and to intervene in the event of a member failure. This past year, we completed testing of all members for compliance with our *Data and System Requirements By-law*. This by-law, together with improved CDIC payout tools, has provided us with the capability to conduct an insurance determination of any member over a weekend.

In 2013, the Office of the Superintendent of Financial Institutions designated Canada's six largest banks as domestic systemically important banks (D-SIBs). CDIC, as the resolution authority for these member institutions, has developed resolution plans for these banks consistent with Financial Stability Board guidance on this topic. These plans explore the feasibility of resolving a D-SIB within the context of each institution's unique business model and global operating platform.

To further position us to be able to resolve these large, complex banks, we achieved several significant milestones on the international front. CDIC signed a memorandum of understanding (MOU) with the U.S. Federal Deposit Insurance Corporation in June 2013, and is in the process of establishing a similar MOU with financial sector authorities in the United Kingdom. We facilitated the first in a planned series of Crisis Management Group discussions, bringing together domestic and international resolution authorities to discuss resolution related topics. CDIC also continues to be a very active member of the International Association of Deposit Insurers, enabling us to engage with our international counterparts on the development of best practices.

In support of our resolution planning for the D-SIBs, CDIC began a multi-year initiative to build our internal preparedness to effectively handle a large bank failure should this ever be required. This framework consolidates and scales up existing preparedness activities and procedures relating to funding, resourcing, valuation, and communications. In March 2014, we held a resolution tabletop simulation exercise (in collaboration with other federal agencies), to assess key elements of our framework and resolution plans. Similar exercises are planned for the coming years to inform further work initiatives.

Part of our mandate is to ensure the public is informed about our role in protecting the savings of Canadians. To this end, 2013/2014 marked year two of our public awareness strategy which continues to target the general population and the 50-plus age group, and leverages financial advisors. Our public awareness activities have enabled us to maintain awareness above our target levels.

We also recognize the importance of maintaining a positive work environment to help us meet our objectives. Results of a recent employee survey highlighted that employees were engaged, and found their work challenging and meaningful at CDIC. Significant progress was reported in targeted areas from the previous survey and action plans have been developed to address comments from the most recent survey. Resources have been added to bolster our resolution capabilities, strengthen our deposit insurance program, and support the recently announced deposit insurance review initiative.

This year, the Executive Team welcomed the appointment of a new Senior Vice-President, Insurance and Risk Assessment, Karen Badgerow. Karen's extensive experience in the financial services sector in the supervision of deposit-taking institutions has made her an excellent addition to CDIC.

The engagement and support of our Board of Directors has been invaluable to me. I greatly benefit from their direction and advice, under the leadership of our Chair, Bryan Davies, as we work together to address important issues facing the Corporation.

I would like to sincerely thank our dedicated employees for all of their efforts again this year. It is a privilege for me to work with such a talented team. I look forward to the new challenges that lie ahead as we enhance payout systems and D-SIB resolution plans, and respond to new deposit insurance demands to continue to protect depositors and contribute to financial stability within Canada.



Michèle Bourque





PART ONE MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

CDIC's operating environment

CDIC operates in a dynamic environment, both domestically and internationally. In doing so, it must proactively respond to changes in the risk environment, as well as regulatory and other efforts both domestic and abroad aimed at improving the safety and soundness of the financial sector.

Global and domestic risks

Canadian exports and overall economic growth continue to be impacted by global stresses including high government indebtedness abroad, the weak economic recovery in Europe and the risk of a slowdown in growth in emerging countries including the BRIC nations (Brazil, Russia, India and China). Here in Canada, the household debt burden has stabilized relative to incomes, but remains at elevated levels. Changes introduced over the last few years by the federal government to address residential mortgage lending risks have contributed to a more muted rise in real estate prices. However, high consumer indebtedness and potentially elevated residential real estate prices have left Canadian households more vulnerable than in the past to stress events such as a rise in unemployment, interest rate increases, or any significant tightening of mortgage lending rules by regulators.

International regulatory efforts

Countries around the world continue to implement the Financial Stability Board's (FSB's) *Key Attributes of Effective Resolution Regimes for Financial Institutions*. These attributes and related supporting guidance are designed to ensure that financial institution failures can be resolved in a manner that maintains continuity of their vital economic functions and avoids taxpayer exposure to loss. CDIC is participating in a project to develop an assessment methodology relating to the *Key Attributes*. In addition, CDIC is chairing a Joint Working Group of the International Association of Deposit Insurers (IADI) tasked with reviewing and updating the Core Principles for Effective Deposit Insurance Systems developed by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers (BCBS-IADI).

In 2013/2014, the International Monetary Fund's (IMF's) Financial Sector Assessment Program reviewed Canada. The report highlighted CDIC's strong collaboration with the Office of the Superintendent of Financial Institutions (OSFI) to develop recovery and resolution plans for Canada's domestic systemically important banks (D-SIBs). Areas for improvement in the report included: greater operational autonomy for CDIC, stepping up the pace of building CDIC's *ex ante* funding, improving the collection and analysis of data to support depositor profiles, and enhanced resolution powers (aligned with the FSB's *Key Attributes*). CDIC's 2014/2015 to 2018/2019 Corporate Plan provides details on the measures implemented by CDIC to address these recommendations, including plans to increase premium rates, further developing resolution plans consistent with FSB and international best practices, and enhancing cooperation with foreign and domestic resolution authorities.



Economic Action Plan 2014 (Federal Budget)

The 2014 Economic Action Plan included several announcements directly impacting CDIC. Most notably, a review of Canada's deposit insurance program was launched to ensure that deposit insurance provides adequate protection for the savings of Canadians, taking into account lessons from the recent financial crisis and significant shifts in the global banking landscape. CDIC will be working closely with other federal agencies during this important review.

The federal government also announced plans to streamline the process for amalgamating two or more provincial credit unions into one federal credit union—a shift to support credit unions moving to federal jurisdiction (and, potentially, to CDIC membership). The federal government will also review CDIC's ability to lend to credit union centrals and provincial agencies on behalf of the federal government.

A proposal to permit the Bank of Canada to provide banking and custodial services to CDIC for the maintenance of its deposit insurance fund was also announced. As the level of CDIC's *ex ante* funding grows, the Corporation is seeking to enhance its investment management practices. This proposed change is consistent with that objective.

Impact on CDIC

CDIC continues to evolve and update its operational structure to meet new demands. Over the past year, CDIC has made significant improvements to its readiness to intervene in the event of a member institution failure, regardless of the size or complexity of the institution. CDIC has focused on being ready to perform a faster insurance determination and on building the processes needed to support resolution planning for our largest institutions. Effective regulation and supervision can reduce the impact and likelihood of potential failures; however, they do not eliminate all elements of risk. Results of CDIC's most recent corporate-wide risk assessment are outlined below.

Risk governance and management at CDIC

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

As at March 31, 2014, nine significant internal risks were identified across four categories: Insurance, Operational, Financial, and Reputation. A summary of the assessment of the Corporation's key risks, as well as a discussion on those rated as cautionary, is provided below.



Summary of Management's assessment of CDIC's significant risks

as at March 31, 2014

	2013/2014		2012/2013	
	Rating	Trend	Rating	Trend
Insurance risks				
Insurance powers risk: The risk that CDIC does not have the necessary powers to support the management of its insurance risk in accordance with CDIC's statutory objects.		Stable		Stable
Assessment risk: The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.		Stable		Stable
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.		Stable		Decreasing
Operational risks				
People risk: The risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel.		Decreasing		Stable
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.		Increasing		Increasing
Technology risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.		Increasing		Stable
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.		Stable		Stable
Financial risk				
Financial risk: The risk associated with managing CDIC's assets and liabilities, both on- and off-balance sheet.		Stable		Stable
Reputation risk				
Reputation risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.		Stable		Increasing

* Legal/compliance risk is now addressed under process risk.

LEGEND

Residual risk ratings

Acceptable—meaning that the residual risk is acceptable and appropriate risk management practices are in place.

Cautionary—meaning that the residual risk warrants close monitoring and/or that previously identified initiatives to enhance the management of the risk are not yet fully implemented.

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



Significant strides have been made this year to mitigate **intervention risk**. Members' compliance with the *Data and System Requirements By-law* combined with enhancements to CDIC's Insurance Determination and Payout systems have positioned the Corporation to reimburse depositors faster than ever before. CDIC's work related to large bank resolution has also progressed and included the following: completion of second version resolution plans for CDIC's largest members; the hosting of Crisis Management Group discussions between domestic and international regulators to address various resolution topics; and establishment of a Memorandum of Understanding (MOU) with the U.S. Federal Deposit Insurance Corporation (FDIC) to facilitate information sharing and cross-border resolution, if required. The cautionary rating is largely attributable to large bank resolution. While significant progress has been made in this area, many of these initiatives are still in their early stages of implementation. Moreover, the ongoing evolution of standards and expectations related to resolution requires that CDIC constantly review and improve its intervention processes. The rating is expected to remain cautionary until a number of milestones have been achieved, including CDIC's *ex ante* funding being closer to the 100 basis point minimum target and the establishment of arrangements for coordination with additional foreign resolution authorities and domestic partners.

People risk remains cautionary as CDIC continues to rely on a core group of employees to deliver its mandate. As such, losing even a few key employees can impact the organization. This risk is partially mitigated, however, by increased staffing levels at CDIC over the past few years, and through standby arrangements that are in place to supplement skills and capacity in the event of an intervention. CDIC continues its efforts to staff the organization with the required skill sets and to realign its organizational structure to meet new demands. Other initiatives, including a new performance management process and an enhanced training program within CDIC's core functions, will improve employee retention efforts and help mitigate people risk further.

Process risk is also assessed as cautionary, driven by recent changes within the Corporation that require a number of processes to be developed or enhanced, including those related to the following:

- internal operational preparedness to support large bank resolution
- handling and safeguarding of an increasing amount of confidential information related to resolution planning
- monitoring and assessing members' ongoing compliance with CDIC's *Data and System Requirements By-law*
- CDIC's investment management practices to ensure they remain appropriate for the expected growth in its *ex ante* funding

These risks are somewhat mitigated by existing processes and procedures, strong management oversight and robust internal controls.



CDIC Management ERM representation to the CDIC Board of Directors

June 4, 2014

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 2013/2014, 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 2013/2014 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2014, we represent that:

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

Based on this work, Management has concluded that, overall, CDIC's risks remain acceptable, although intervention, people, and process risks are assessed as cautionary, meaning that the residual risk in those areas warrants close monitoring. Management has developed initiatives to closely monitor and further mitigate these risks.

In arriving at our conclusion, Management has exercised prudent judgment, caused a reasonable amount of review to take place and applied the concept of significance in the manner contemplated under Principle 16 of its Board Charter.



Michèle Bourque
President and Chief Executive Officer



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



CDIC membership

As at March 31, 2014, CDIC had 79 member institutions, a decrease of four from the previous year as the long-term industry trend of consolidation continued in 2013 (in members' most recent fiscal year).

With respect to specific changes, two institutions ceased being CDIC members (First Data Loan Company, Canada; and Resmor Trust Company), and there were two amalgamations: AGF Trust Company and B2B Bank amalgamated and continued under the name B2B Bank; and Household Trust Company and HSBC Trust Company (Canada) amalgamated and continued under the name HSBC Trust Company (Canada). Further, Equitable Trust became Equitable Bank; Dundee Bank Canada became Hollis Canadian Bank; CTC Bank of Canada became CTBC Bank Corp. (Canada); and MonCana Bank of Canada became CFF Bank.

Insured deposits

As at April 30, 2013, deposits insured by CDIC increased year over year by 3% to \$665 billion. Insured deposits represented 31% of the total deposit liabilities held by member institutions (down from 32% last year). The vast majority of deposits insured by CDIC are from individuals; most wholesale deposits remain uninsured because of their large size (over the \$100 thousand insurance limit). Despite the fact that only 30% of the D-SIBs total deposits are insured, this peer group represents 87% of the membership's total insured deposits. The Consumer peer group had the highest ratio of insured deposits (85%), followed by the Residential and Commercial peer groups, with 66% and 56%, respectively.

Financial performance

Overall, CDIC's membership recorded strong financial performance in 2013 with record net profits, very favourable asset quality metrics (loan impairment), and solid capital ratios.

CDIC member peer groups

Member institutions consolidate to 51 distinct groups on the basis of affiliation with a parent. For the purpose of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, geographic reach of its operations and/or its primary business activities.

Domestic systemically important banks (D-SIBs)—includes the largest six banks designated by OSFI as domestic systemically important

Mid-Sized—includes members with total assets between \$10 billion and \$100 billion

Residential—main business line is residential mortgages

Commercial—main business lines are business loans or commercial mortgages

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

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



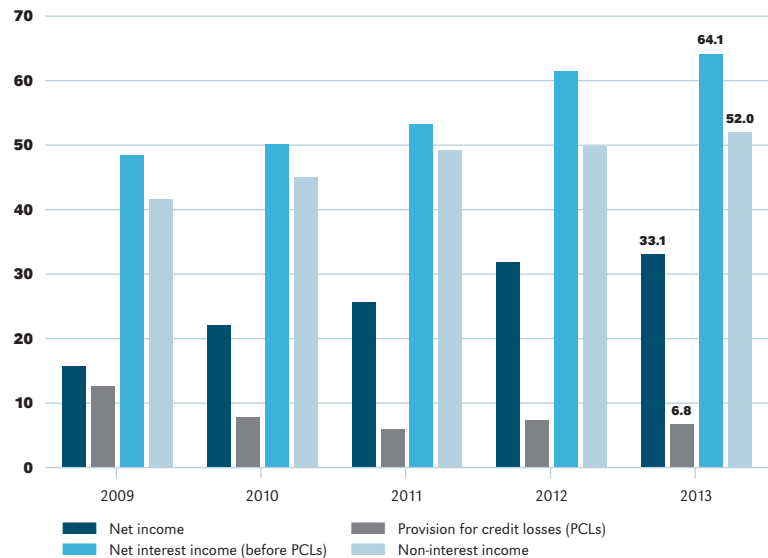
Profit and return on average shareholders' equity

CDIC members earned a combined total net income of \$33.1 billion in fiscal 2013, up from \$31.9 billion in the previous year (a 4% increase). Provisions for credit losses of \$6.8 billion were slightly lower than last year and remained well below the 2009 peak of \$12.6 billion, despite a near 40% increase in assets over the last four years.

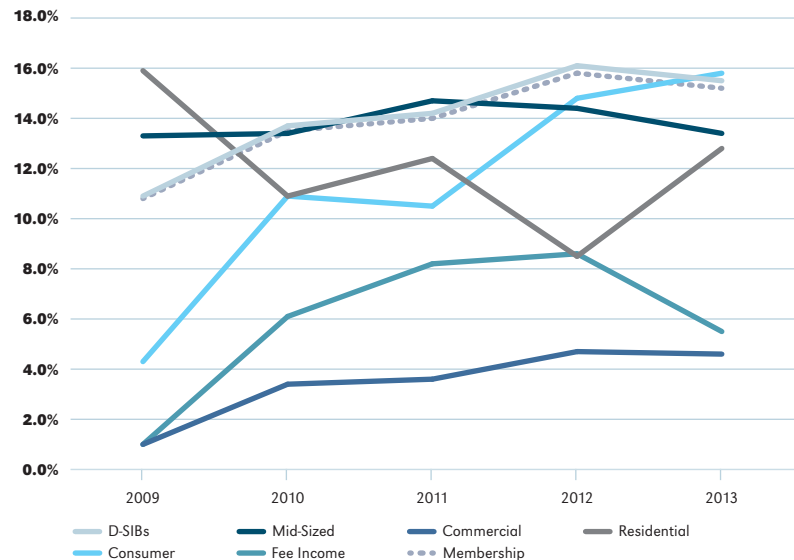
Record profit was driven by increased net interest income and non-interest income. Net interest income improvement was mainly due to a drop in interest expenses associated with a lower cost of funds on deposits and debt instruments. Interest income increased slightly with loan growth, despite margin pressures. Non-interest income increased 4%, as higher contributions from wealth management and credit/debit fee income offset lower revenues from trading and other commissions and fees. Meanwhile, operating expenses increased by 6%.

Year over year, the membership's return on average shareholders' equity (ROAE) decreased by 60 basis points to 15.2% while the return on average assets (ROAA) was virtually unchanged at 86 basis points. The membership's ROAE, while high, remained well below its peak attained in 2006, in large part due to higher capital levels since 2007. The ROAE varies considerably by peer group and individual member due to market conditions in their respective sectors of concentration, varying profitability levels, and degree of leverage utilized.

**Revenue, provisions, and profits for CDIC members, 2009–2013
(C\$ billions)**



**Return on average shareholders' equity (ROAE)
by peer group, 2009–2013**



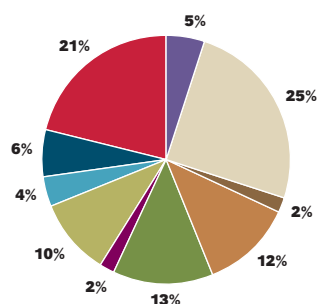
Asset growth and quality

The membership's total asset base grew 4% (\$155 billion) to \$3.85 trillion since last year, while the asset mix was little changed compared to 2012.

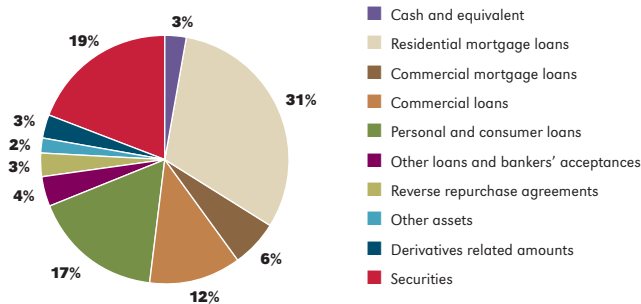
Securities, residential mortgages and commercial loans were the largest contributors to growth. Securities rose 8% year over year with a higher focus on corporate debt and shares, while residential mortgages growth reached 5%, largely driven by uninsured mortgage lending. In addition, commercial loans increased by about 10% as the market became increasingly competitive.

Residential mortgages held on the balance sheet of CDIC members totalled almost \$1 trillion, representing 26% of the membership's on-balance sheet assets. Other large asset classes included securities (21% of total assets, 29% of which were Canadian government securities), personal loans (13%), and commercial loans (12%).

Asset mix—D-SIB peer group* (%)
2013 (C\$3.6 trillion)



Asset mix—All other peer groups* (%)
2013 (C\$258 billion)



* As at members' fiscal year end

The overall asset quality of the membership continued to improve over 2013. Impaired assets decreased on an absolute basis (falling 3%) and the membership's gross impairment ratio improved by 7 basis points to 0.58% of total loans. However, a few members had significantly higher than average impaired asset ratios, which places them in a relatively weaker position should economic conditions deteriorate. Notably, some members have higher concentrations of risky assets (relative to equity) such as construction loans, commercial mortgages, or residential mortgages to weaker borrowers. These assets can experience greater than average impairment under stressed economic conditions. Risks of these asset concentrations can be further exacerbated by fast asset growth before an economic downturn.

Liquidity levels

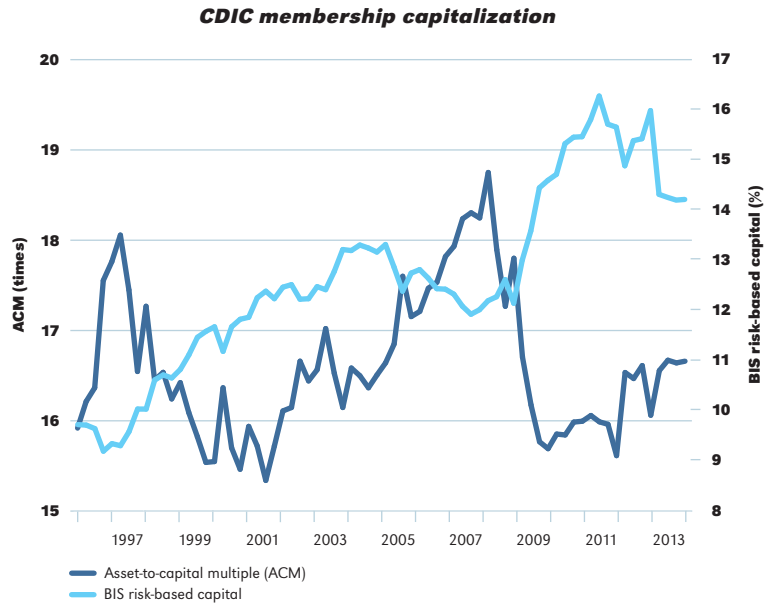
Overall, the membership held lower balances of liquid assets in 2013 while demand deposits rose slightly to more than half of total deposits. In a low interest rate environment, depositors prefer not to lock in for long periods while banks also prefer to borrow on short terms to minimize funding costs. This high proportion of demand deposits highlights the importance of deposit insurance awareness and strong depositor confidence in order to maintain adequate liquidity.

Cash and Canadian government securities (the lowest risk and most liquid assets) represented 11% of the membership's total assets in 2013 (unchanged year over year) and covered 31% of demand and notice deposits (down from 36% in 2012 and 44% in 2011).



Capital ratios

Overall, member institutions maintained good capital levels in 2013 and met Basel III requirements. As at Q4 2013, the membership's average Common Equity Tier 1 (CET1) capital ratio (introduced in early 2013) was 9.7% compared to the OSFI proposed target of 7.0%. The average total capital ratio for the membership fell relative to 2012 (from 16.1% to 14.3%), but this was partly due to a change in the capital calculation methodology which is more conservative under Basel III than under Basel II rules.



The assets-to-capital multiple (ACM), used as a regulatory measure of leverage, was 16.6 times for 2013 (up slightly from 16.0 times last year).

Membership risk

Despite a slower growth environment, the membership as a whole performed very well in fiscal 2013 with record net income, favourable asset quality in terms of impairments, and strong capital ratios. The membership has adapted well to Basel III capital requirements. Liquidity is acceptable at the individual institution level and large banks are well placed to meet Basel III liquidity requirements.

Over the medium term, however, there are a number of environmental concerns, including the combination of high consumer indebtedness and elevated residential real estate prices that have made Canadian households more vulnerable than in the past to adverse economic or financial shocks.

Performance against Plan

CDIC's corporate strategies

Based on its 2013/2014 to 2017/2018 Corporate Plan, in 2013/2014 CDIC focused its efforts on four strategic objectives:

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



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

- **Enable quick access to insured deposits in the event of a member institution failure**

This past year, we completed testing of all members for compliance with our *Data and System Requirements By-law*. This by-law, together with improved capabilities of CDIC's payout tools, has provided CDIC with the ability to conduct an insurance determination of any member institution over a weekend.

CDIC also prepared intervention plans for its highest risk members and estimated potential losses for CDIC in the event of a member institution failure. A review of non-payout resolutions was explored in the context of some higher risk members and these processes will continue to be reviewed with a wider range of circumstances in future years. In addition, CDIC collaborated with OSFI in the review of member institution recovery plans.

In 2013/2014, regulatory agencies introduced a successful and significant modernization of the systems for filing of most regulatory information. CDIC's participation in this renewal took priority over other planned enhancements to regulatory data metrics and risk assessment information tools at CDIC. To support this initiative, upgrades to CDIC's data warehouse were initiated in 2013/2014 and will continue through 2015/2016.

- **Build preparedness for complex resolutions**

In 2013, OSFI designated Canada's six largest banks as domestic systemically important banks (D-SIBs). Consistent with the FSB guidance, CDIC, as the resolution authority for these member institutions, developed resolution plans for these banks. The 2013/2014 plans address challenges identified during the development of first version resolution plans in 2012; they also explore the feasibility of resolving a D-SIB within the context of each institution's unique business model and global operating platform.

On the international front, CDIC signed a memorandum of understanding (MOU) with the U.S. Federal Deposit Insurance Corporation (FDIC) in June 2013, and is in the process of establishing a similar MOU with financial sector authorities in the United Kingdom. The strengthening of these relationships will allow CDIC to share best practices in resolution and deposit insurance and, more importantly, to coordinate with international counterparts well in advance of a member failure. CDIC also facilitated the first in a planned series of Crisis Management Group (CMG) discussions, bringing together domestic and international resolution authorities to advance resolution related topics.

On the domestic front, CDIC continues to collaborate with other Canadian financial system participants, including critical clearing and settlement infrastructures, securities regulators, financial sector protection schemes and federal safety net agencies to strengthen the Canadian system's readiness for a resolution event.



In 2013/2014, CDIC began a multi-year initiative to build the Corporation's internal preparedness framework to effectively handle a large bank failure. This framework consolidates and enhances existing preparedness activities and procedures for CDIC's large bank resolution powers, including deposit insurance determination, communications, funding, resourcing, valuation and exit options. In late 2013/2014, CDIC held a resolution tabletop simulation exercise (in collaboration with other federal agencies), to test key elements of its preparedness framework and resolution plans. Further internal and external scenario-based exercises are planned in the coming years to test preparedness capabilities and inform further work initiatives.

- **Promote public awareness of CDIC deposit insurance**

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

In 2013/2014, CDIC marked year two of its three-year public awareness strategy and plan. The strategy maintains a focus on promoting awareness of CDIC, of the \$100,000 coverage limit, and of the key financial products that are covered and not covered by CDIC.

The strategy continues to target the general population and the 50-plus age group. It also targets financial advisors, in recognition of their growing role in helping Canadians make financial decisions and their importance to CDIC's ability to reach Canadians. CDIC recognizes that leveraging the relationship financial advisors have with their clients will need some time to take root and may require adjustments. To inform its activities, CDIC conducted a survey of financial advisors and held focus groups to validate its approach in reaching this target audience.

A cornerstone of CDIC's public awareness efforts continues to be advertising. The 2013/2014 campaign included print and online advertising, and search engine marketing. In response to a growing need to reach Canadians through a variety of traditional and digital channels, CDIC also increased its presence at consumer and trade shows, launched a series of videos, and developed a deposit insurance estimator "app" for mobile devices. As CDIC's stable of communications tools expands, so too does its ability to reach depositors and stakeholders quickly and effectively in the event of a bank failure.

- **Optimize the use of CDIC's strategic resources**

CDIC conducts regular employee surveys to solicit feedback from staff on a wide range of issues. The surveys measure employee engagement and satisfaction, and serve to monitor and measure the impact of actions taken based on previous survey results. Results of a survey conducted in 2013/2014 were below CDIC targeted employee satisfaction scores of 75%, but remained well above industry averages at 70%. The survey showed progress in targeted areas from the last survey, such as training, leadership, development and communication.

CDIC Management continually reviews the Corporation's organizational structure and human resource practices to ensure that employees are well-positioned and supported to perform their functions in an efficient and effective manner. For example, in 2012/2013 CDIC began a review of its information systems (IS) service delivery model. Resulting recommendations for improving the effectiveness of CDIC's IS function were implemented throughout 2013/2014. CDIC also enhanced some of its key human resources programs throughout the year. Specifically, the Corporation introduced new pay and performance policies as well as a new performance management program.



CDIC's Corporate Scorecard—2013/2014 to 2017/2018

The following Scorecard is a summary of CDIC's progress as at March 31, 2014, against the key initiatives and performance outcomes identified in its 2013/2014 to 2017/2018 Corporate Plan. As shown in the Scorecard, the majority of CDIC's expected outcomes are on track and key initiatives are proceeding as planned, with the following exceptions:

Strategy: Enable quick access to insured deposits in the event of a member institution failure

- *Review and adjust CDIC's risk assessment and monitoring processes*—The modernization of systems for the filing of regulatory data took priority over additional planned enhancement to regulatory data metrics and risk assessment information tools at CDIC.
- *Enhance CDIC's intervention preparedness through expanded intervention plans for specific member institutions*—Work in this area is in early stages as some work was deferred due to other priorities. In 2014/2015, CDIC will expand the scope of its resolution planning efforts to include mid-sized and high-risk members.
- *Develop and implement new channels for reimbursements to insured depositors*—New payment channels for depositors will be addressed as part of a comprehensive review with the objective of transforming CDIC's payout approach which will begin in 2014/2015.

Strategy: Build preparedness for complex resolutions

- *Develop an operational framework for large bank resolution*—This work did not progress as quickly as planned due to a slower pace of hiring for newly created positions related to complex resolution. However, CDIC has developed a three-year plan outlining activities and resources needed to deliver on this initiative over the planning period.

Strategy: Optimize the use of CDIC's strategic resources

- *Conduct employee opinion survey to measure employee engagement and develop appropriate action plans in response to the results (targeted satisfaction score of 75%)*—Results of an employee survey conducted in December 2013 showed above industry average employee satisfaction scores at CDIC of 70%; however, the best in class target of 75% was not met.



CDIC's Corporate Scorecard—2013/2014 to 2017/2018

Key corporate initiatives	Status ▲ ▼ ●	Update
Corporate strategy: Enable quick access to insured deposits in the event of a member institution failure	On track	Corporate Target: CDIC is able to provide access to funds over a weekend following a failure of any member institution, under any resolution scenario. (Target date: March 31, 2018)
Review and adjust CDIC's risk assessment and monitoring processes.	▼	The modernization of systems for the filing of regulatory data took priority over additional planned enhancement to regulatory data metrics and risk assessment information tools at CDIC. Upgrades to these tools, however, have been identified and are expected to be gradually deployed over the next few years.
Develop and implement a process to monitor member institutions' ongoing compliance with CDIC's <i>Data and System Requirements By-law</i> .	▲	Compliance test procedures, including timing of tests, selection criteria and test frequency have been developed. A "Compliance Approach" document has been posted to CDIC's webpage.
Enhance CDIC's intervention preparedness through expanded intervention plans for specific member institutions.	▼	Some of the work in this area was deferred due to other priorities. However, intervention planning was performed on CDIC's highest risk members. A limited scope simulation of a mid-size member institution failure is expected to take place in 2014/2015 and will begin resolution planning efforts on mid-sized members in that same year.
Develop and implement new channels for reimbursements to insured depositors.	●	New payment channels for depositors are being addressed as part of a more comprehensive review with the objective of transforming CDIC's payout approach.
Corporate strategy: Build preparedness for complex resolutions	On track	Corporate Target: CDIC will enhance its capacity to resolve the failure of a large, complex member institution in a manner that contributes to the stability of the financial system, protects depositors, seeks to minimize the cost of the resolution to CDIC, and avoids taxpayer exposure. (Target date: March 31, 2018)

LEGEND

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



CDIC's Corporate Scorecard—2013/2014 to 2017/2018

Key corporate initiatives	Status ▲ ▼ ●	Update
Further develop resolution plans consistent with Financial Stability Board (FSB) and international best practices.	▲	CDIC completed second version resolution plans for its largest members, reflecting international best practice, as well as a first generation resolvability assessment: the conclusions from these initiatives have set the scope for 2014/2015 resolution planning.
Enhance cooperation with foreign and domestic resolution authorities.	▲	CDIC continues to enhance cooperation with resolution counterparts. In 2013, CDIC established a Memorandum of Understanding (MOU) with the U.S. Federal Deposit Insurance Corporation (FDIC) and co-hosted (with OSFI) Crisis Management Group (CMG) discussions with domestic and international regulators to discuss Canadian bank resolution strategies and challenges.
Develop action plans to address possible gaps with the FSB's <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> .	▲	CDIC's current powers largely comply with the FSB's <i>Key Attributes</i> and offer flexible resolution alternatives. In addition, this year amendments to the Corporation's by-laws were made to ensure that CDIC receives the necessary information and analysis from member institutions to develop robust resolution plans, a key component of the <i>Key Attributes</i> .
Develop an operational framework for large bank resolution.	▼	This work has not progressed as quickly as planned due to a slower pace of hiring for newly created positions related to complex resolution. CDIC has developed a three-year plan outlining activities and resources needed to deliver on this initiative. In March 2014, CDIC conducted a large bank resolution tabletop exercise with federal safety net agencies which served to inform resolution planning, preparedness, and policy development going forward.
Corporate strategy: Promote public awareness of CDIC deposit insurance	On track	Corporate Target: Outreach activities make at least 45% of Canadians aware of CDIC. (Target date: Throughout the planning period)

LEGEND

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



CDIC's Corporate Scorecard—2013/2014 to 2017/2018

Key corporate initiatives	Status ▲ ▼ ●	Update
Implement CDIC's public awareness strategy.	▲	Awareness levels have increased from one year ago; total awareness of CDIC has increased to 58% from 56% amongst the general Canadian population (remaining above the 45% target). CDIC continues to leverage its partnerships to reach its target audience. Activities have included: paid advertising; speaking engagements; conference sponsorships; financial advisor education; trade show outreach; earned media opportunities; and the production and distribution of multi-media tools such as deposit insurance videos and a mobile app to estimate deposit insurance coverage.
Corporate strategy: Optimize the use of CDIC's strategic resources	Not met	Corporate Targets: <ul style="list-style-type: none"> CDIC is able to attract and maintain an engaged and stable work force, as evidenced through its employee satisfaction scores at or near best in class levels of 75%. <i>(Target date: Throughout the planning period)</i>
	On track	<ul style="list-style-type: none"> CDIC is able to meet its obligations while managing its operations within approved budget levels. <i>(Target date: Throughout the planning period)</i>
Conduct employee opinion survey to measure employee engagement and develop appropriate action plans in response to the results.	▼	Results of an employee survey conducted in December 2013 showed above industry average employee satisfaction scores at CDIC of 70%; however, the best in class target of 75% was not met.
Continue to look for opportunities to increase operational efficiency and effectiveness.	▲	At March 31, 2014, net operating expenses for 2013/2014 were within approved budget. In addition, recommendations stemming from the recent information systems (IS) service delivery model review are in the process of being implemented to improve strategic alignment between IS and CDIC's operational groups, and to ensure the efficient and effective delivery of IS services.

LEGEND

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



Financial overview

This section of CDIC's Management's Discussion and Analysis provides a narrative context in which to interpret the Corporation's financial position, financial performance and cash flows. It should be read in conjunction with CDIC's fiscal 2013/2014 annual consolidated financial statements and notes. CDIC's statutory objects are to provide insurance against the loss of part or all of deposits, to promote or otherwise contribute to the stability of the financial system in Canada, and to pursue these objects for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss. The Corporation's financial position, financial performance and cash flows are influenced by the pursuit of these objects.

Financial highlights

CDIC earned total comprehensive income of \$252 million in fiscal 2013/2014.

Premium revenue was \$192 million for the year, an increase of \$72 million (60%) from fiscal 2012/2013. The increase in premium revenue reflects the impact of a one-time incentive offered in fiscal 2012/2013 to eligible member institutions for early compliance with CDIC's *Data and System Requirements By-law*, as well as the growth in insured deposits, offset by improved Differential Premiums categorization for some members.

Investment income was \$36 million for the year, a decrease of \$3 million (7%) from fiscal 2012/2013. Reduced income was a result of lower yields on the investment securities portfolio, partially offset by growth in the portfolio.

Net operating expenses were \$38 million for the year, a year over year increase of \$2 million (6%). Increased operating expenses mainly reflect planned costs associated with the development of CDIC's capabilities related to large bank resolution.

The Corporation's asset base continued to grow during the year. Total assets were \$2,778 million as at March 31, 2014, an increase of 8% over the 2012/2013 fiscal year. The majority of the Corporation's assets are investment securities, which totalled \$2,760 million.

The Corporation's provision for insurance losses was \$1,200 million as at March 31, 2014, a decrease of \$50 million compared to last year. The decrease reflects an overall improvement in the risk environment.

The Corporation's *ex ante* funding, a measure of CDIC's ability to fund interventions, stood at \$2,769 million, or 42 basis points of insured deposits, as at March 31, 2014, a year over year increase of \$203 million.

Basis of preparation

CDIC's consolidated financial statements include the Corporation's results as well as those of Adelaide Capital Corporation (ACC), a structured entity created by CDIC in 1992 to effect the resolution of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. (Please see Notes 2 and 18 to the Corporation's fiscal 2013/2014 consolidated financial statements for more information.)

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



Consolidated statement of financial position

Assets

The total assets of the Corporation increased to \$2,778 million as at March 31, 2014, from \$2,575 million as at March 31, 2013, representing an increase of 8%. The following table summarizes CDIC's assets:

(C\$ thousands)	March 31, 2014	March 31, 2013
Assets		
Cash	699	422
Investment securities	2,760,461	2,560,483
Current tax asset	1,940	1,286
Trade and other receivables	1,554	1,545
Prepayments	303	244
Property, plant and equipment	6,461	6,716
Intangible assets	6,542	4,310
Deferred tax asset	–	122
Total assets	2,777,960	2,575,128

Investment securities

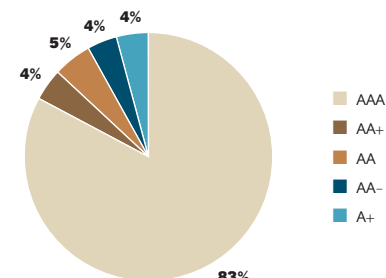
CDIC's \$2.8 billion investment portfolio forms the majority of its assets. The Corporation's investment strategy is based on two key principles:

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

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

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

**Investment securities credit profile,
as at March 31, 2014**



As a result of these policies, the credit profile of CDIC's investment portfolio is relatively stable from period to period. During the year, the duration of the portfolio was extended to 1.4 years (March 31, 2013: 0.8 years). As a result, the impact of a lower rate environment was somewhat offset by the higher yield earned on longer term investments. CDIC's investments as at March 31, 2014, carry a weighted average yield to maturity of 1.4% (March 31, 2013: 1.5%).

Intangible assets

CDIC's intangible assets represent its investment in specialized systems. Intangible assets have increased by \$2.2 million over the previous year, to \$6.5 million, mainly due to the significant modernization of systems used for the filing of most regulatory information by CDIC's member institutions.

Liabilities

The total liabilities of the Corporation decreased to \$1,209 million as at March 31, 2014, from \$1,259 million as at March 31, 2013, a decrease of 4%. The following table summarizes the liabilities of the Corporation:

<i>(C\$ thousands)</i>	March 31, 2014	March 31, 2013
Liabilities		
Trade and other payables	5,177	5,577
Deferred lease inducement	1,299	1,412
Employee benefits	2,486	1,859
Provision for insurance losses	1,200,000	1,250,000
Deferred tax liability	469	–
Total liabilities	1,209,431	1,258,848

Provision for insurance losses

The \$1,200 million provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits at member institutions. The provision decreased by \$50 million in fiscal 2013/2014, reflecting an overall improvement in the risk environment.

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

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



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

Ex ante funding

Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC has developed an *ex ante* funding strategy to cover possible deposit insurance losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and the provision for insurance losses. CDIC's funding strategy involves the accumulation of resources during good economic times to address potential losses during periods of economic stress, avoiding as much as possible significant increases in premium rates at a time when CDIC's member institutions are dealing with economic head winds.

CDIC primarily utilizes two methodologies to assess the optimal level of *ex ante* funding. The first of these is referred to as "Discretionary Analysis." Under this methodology, the Corporation considers the profile of its membership and determines the ability of a specific level of funding to address the hypothetical failure of member institutions.

The second methodology is referred to as "Loss Estimation." This methodology utilizes statistical techniques to estimate theoretical loss scenarios. Multiple loss scenarios are developed that permit a calibration of funding levels. The inputs to a "Loss Estimation" scenario include the level of insured deposits, probability of default statistics and loss given default assumptions.

As part of its regular assessment of sufficiency, the Corporation "stress tests" model assumptions. The purpose of these "stress tests" is to evaluate how funding requirements could be impacted by changes in model inputs. The "stress tests" primarily assess how changes in probability of default and loss given default affect funding requirements.

As at March 31, 2014, the minimum target level of the Corporation's *ex ante* funding is 100 basis points of insured deposits. The Corporation reviews this target level regularly to ensure it remains appropriate.

The actual level of *ex ante* funding at March 31, 2014, was \$2,769 million or 42 basis points (0.42%) of insured deposits. Based on the level of insured deposits at April 30, 2013, the 100 basis point target would amount to \$6,653 million of *ex ante* funding.

Ex ante funding comprises one component of CDIC's entire funding envelope. The Corporation has the ability to borrow from the Government of Canada or capital markets. The borrowing limit increases with the growth in insured deposits and, as at March 31, 2014, CDIC had the legislative authority to borrow \$19 billion. Parliamentary approval for additional borrowing could be sought through an appropriations act, if required.



The following table sets out the liquid funds available to CDIC as at period end:

<i>(C\$ millions)</i>	March 31, 2014	March 31, 2013
<i>Available liquid funds:</i>		
Cash	1	1
Fair value of high quality, liquid investment securities	2,768	2,573
<i>Availability of borrowings:</i>		
Borrowings authorized under the <i>CDIC Act</i> , either from market sources or from the Consolidated Revenue Fund ^a	19,000	19,000
Total available funds	21,769	21,574

^a Includes existing \$10 million bank credit facility

Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2013/2014 totalled \$252 million, an increase from \$23 million in fiscal 2012/2013. The Corporation's financial performance is summarized in the following table:

<i>(C\$ thousands)</i>	2013/2014	2012/2013
Revenue		
Premium	191,727	120,081
Investment income	36,437	38,985
Other	54	45
Expenses		
Operating expenses	38,023	35,835
Recovery of amounts previously written off	(11,500)	(166)
Increase in provision for insurance losses	(50,000)	100,000
Income tax (recovery) expense	(389)	815
Net income	252,084	22,627
Other comprehensive income	165	116
Total comprehensive income	252,249	22,743



Premium revenue

In the 2013/2014 fiscal year, premium revenue increased by \$72 million to \$192 million. The increase in premium revenue reflects the impact of a one-time incentive offered in fiscal 2012/2013 to eligible member institutions for early compliance with CDIC's *Data and System Requirements By-law*, as well as growth in insured deposits, offset by improved Differential Premiums categorization for some members.

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

Premium Category (basis points of insured deposits)	2013/2014	2012/2013
Category 1	2.8	2.8
Category 2	5.6	5.6
Category 3	11.1	11.1
Category 4	22.2	22.2

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

Distribution of member institutions by Premium Category (% of members)					
Premium Category	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010
1	79	76	73	62	68
2	14	17	20	26	21
3	6	5	5	10	10
4	1	2	2	2	1

Investment income

Investment income was \$36 million during the 2013/2014 fiscal year compared to \$39 million in the previous year. Although premiums and recoveries received during the year added to the size of CDIC's investment portfolio, investment income decreased as a result of the low interest rate environment. The weighted average yield on CDIC's investment portfolio decreased from 1.5% as at March 31, 2013, to 1.4% as at March 31, 2014.

Recoveries

From time to time, CDIC receives recoveries from the estates of failed member institutions. These potential recoveries relate primarily to recoveries of amounts that were previously written off and are not reflected in CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. Factors contributing to uncertainty include creditor disputes, lawsuits against the estate, and competing claims for specific assets.

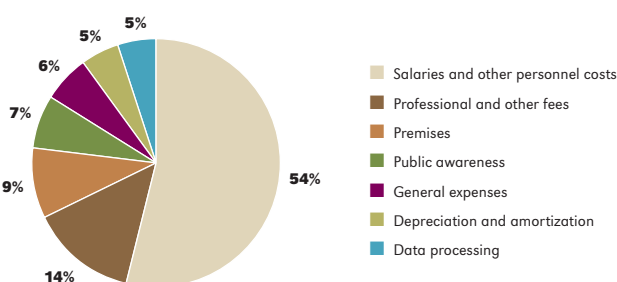
During fiscal 2013/2014, CDIC received and recognized income of \$11.5 million as part of its recovery on the estate of Standard Trust Company, a member institution that failed in 1991 and for which all recoverable amounts had previously been written off. It is expected that additional amounts will be recovered from this estate; however, the amount of those recoveries is not determinable.

Operating expenses

Operating expenses increased to \$38 million in fiscal 2013/2014 from \$36 million in fiscal 2012/2013.

An increase in operating expenses is consistent with CDIC's Corporate Plan. The increased costs mainly reflect costs associated with the development of CDIC's capabilities related to large bank resolution.

**Profile of operating expenses
for fiscal 2013/2014**



Consolidated statement of cash flows

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

(C\$ thousands)	2013/2014	2012/2013
Increase in cash from operating activities	204,195	127,407
Decrease in cash from investing activities	(203,918)	(127,441)
Increase (decrease) in cash balance	277	(34)

In fiscal 2013/2014, CDIC generated \$204 million in cash from its operations, \$4 million of which was used to purchase/develop capital assets, and \$200 million of which was contributed to the investment portfolio.

Comparison with 2013/2014 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2013/2014 with the Corporate Plan for the same year.

Consolidated statement of financial position

Total assets as at March 31, 2014, were \$2,778 million, substantially the same as the planned amount of \$2,772 million.

Total liabilities as at March 31, 2014, were \$1,209 million, compared to the planned amount of \$1,255 million. The variance was due to the unplanned decrease in the provision for insurance losses. The Corporate Plan assumed no change in the provision for insurance losses during the 2013/2014 fiscal year. In the third quarter of fiscal 2013/2014 the Corporation recognized a decrease in the provision for insurance losses of \$50 million, in recognition of an overall improvement in the risk environment.



Consolidated statement of comprehensive income

Total revenue during the year was \$228 million, or \$6 million below Plan. The primary sources of revenue are premiums and investment income:

- *Premiums:* Actual premium revenue was \$192 million, compared to the planned amount of \$195 million. The Corporate Plan was based on certain assumptions regarding the classification of members under the Differential Premiums system and members' eligibility for premium incentives for early compliance with CDIC's *Data and System Requirements By-law*, as well as the growth in insured deposits. Actual results have differed from the assumptions, resulting in the variance between the planned and actual amounts.
- *Investment income:* Actual investment income was \$36 million, compared to the planned amount of \$39 million. The Corporate Plan assumed a higher yield on the portfolio than was actually achieved.

Net operating expenses for the year were \$38 million, or \$4 million below Plan. This was mainly due to a slower pace of hiring than planned for newly created positions related to complex resolutions, and other vacancies within the Corporation.

Total comprehensive income for the year ended March 31, 2014, was \$252 million compared to planned total comprehensive income of \$203 million, a positive variance of \$49 million. This variance is mainly attributable to an unplanned decrease in the provision for insurance losses of \$50 million.

A look ahead to 2014/2015

As set out in the Corporation's 2014/2015 to 2018/2019 Corporate Plan, CDIC's work will be guided by four strategic objectives in fiscal 2014/2015, largely unchanged from the current year:

- Enable timely, convenient and secure access to insured deposits in the event of a member institution failure
- Build preparedness for complex resolutions
- Promote public awareness of CDIC
- Manage CDIC's strategic resources effectively

• Enable timely, convenient and secure access to insured deposits in the event of a member institution failure

CDIC has launched a multi-year payout transformation plan aimed at enhancing its payout capabilities. Specifically, the plan is designed to enhance depositor reimbursement processes, ensure that they continue to meet depositor expectations, respond to advances in banking technology, and accommodate the continued growth and challenges within the banking industry. The plan will address challenges related to the reimbursement of trust and registered accounts, payment channels used by CDIC, and communication approaches in the event of a payout.

Key 2014/2015 initiatives

- *Refine and begin implementation of CDIC's payout transformation plan*
- *Develop and "roll out" resolution planning for mid-sized members*



In 2014/2015, CDIC also plans to expand the scope of its resolution planning activities to include mid-sized member institutions. Work will include building on its large bank resolution processes and collaborating across CDIC departments and with OSFI to start developing resolution plans for mid-sized members.

• **Build preparedness for complex resolutions**

Over the course of the year, CDIC will begin implementing a plan to enhance a range of processes and procedures with the goal of further improving the Corporation's readiness in the event of the failure of one of its largest member institutions. The plan or "operational framework" includes reviewing the current valuation methodology, resource and funding models, and the organizational structures that support work in this area. Work during the planning period will also include developing and documenting a model or "playbook" to guide the resolution of large institutions.

Key 2014/2015 initiatives

- *Develop an operational framework to enhance CDIC's readiness for a large bank resolution*
- *Enhance cooperation with foreign and domestic resolution authorities*
- *Further develop resolution plans consistent with Financial Stability Board and international best practices*

CDIC's collaboration at home and internationally with other resolution and financial authorities is essential. In 2014/2015, CDIC will develop coordination protocols to strengthen its cooperative relationships with resolution authorities in the United States and the United Kingdom, and potentially other regions where Canadian financial institutions have a significant presence. CDIC will host Crisis Management Groups (CMGs) during the planning period; these groups bring together domestic and international resolution authorities as well as CDIC's largest complex members, to advance resolution-related issues.

Domestically, over the next few years, the Corporation will continue to work with the Bank of Canada to facilitate access to designated financial market infrastructures (FMIs) in the event of a failure, as well as to develop coordinating protocols with provincial securities regulators and applicable financial services protection schemes. CDIC will also perform resolvability assessments and develop action plans to address identified challenges to implement various resolution approaches.

• **Promote public awareness of CDIC**

2014/2015 marks the final year of CDIC's current three-year public awareness strategy. In this third year, the focus will continue to be on leveraging the relationship that financial advisors have with their clients to inform them about deposit insurance. We will also increase our presence in their community through strategic partnerships, outreach, continuing education opportunities and advertising. The Corporation will evaluate the effectiveness of this strategy on public awareness

of CDIC and deposit insurance. CDIC will develop a new long-term public awareness strategy and plan by the end of 2014/2015, for implementation at the beginning of April 2015, that builds on the current strategy and anticipates changes to the financial regulatory framework.

Key 2014/2015 initiatives

- *Complete implementation of CDIC's current public awareness strategy*
- *Evaluate the effectiveness of CDIC's current public awareness strategy and develop a new strategy*



• **Manage CDIC's strategic resources effectively**

As part of CDIC's ongoing work to remain well-positioned to carry out its mandate effectively and efficiently, and to proactively respond to environmental changes, the Corporation will add new positions dedicated to monitoring emerging issues that may impact depositors, CDIC's membership, and/or the Corporation directly. A multi-year training program developed in 2013/2014 to ensure that CDIC maintains a work force that is well trained in the core functions related to intervention readiness for member institutions of all sizes will also be implemented. The program will focus on knowledge sharing and skills advancement, delivered through simulations, tabletop exercises and case studies.

In recognition of the growth of CDIC's *ex ante* fund, Management plans to enhance the Corporation's investment management framework in 2014/2015 by expanding internal capabilities. This will include improving the governance framework and the related risk management and reporting functions that support CDIC's investment management practices. The Corporation will also complete the roll-out of its new information systems (IS) service delivery model to ensure that IS resources and operational requirements are strategically aligned, and that IS services are delivered efficiently and effectively to serve the Corporation's evolving needs. In a similar vein, CDIC continuously looks to refine its financial processes and controls to help ensure that its operations and costs are managed effectively. Over the planning period, supporting processes related to financial reporting, budgeting, forecasting, and vendor management will be reviewed to ensure that adequate financial controls are in place throughout the Corporation.

Key 2014/2015 initiatives

- *Expand and refine the approach to monitor changes to CDIC's environment and their potential impacts on the Corporation*
- *Implement a formal work force training program for core functions*
- *Enhance CDIC's investment management practices*
- *Complete implementation of CDIC's new information systems service delivery model*
- *Reinforce financial management processes and controls*

2014/2015 to 2018/2019 financial plan

The projections included in CDIC's 2014/2015 to 2018/2019 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan. Key financial assumptions include the following:

- A 3.5% growth in insured deposits year over year.
- The premium rate for Category 1 member institutions (the base premium rate) will increase by just less than one basis point (approximately 0.72 basis points) in 2014/2015, and by one basis point per year for four years thereafter.
- Investment income is based on an assumed average yield of 1.3% for fiscal 2014/2015, 1.5% for fiscal 2015/2016, 1.8% for fiscal 2016/2017, and 2.0% thereafter.
- No member institution failure is assumed during the planning period.
- The provision for insurance losses is forecast to remain at \$1,200 million.



2014/2015 fiscal year

Total comprehensive income is forecast at \$246 million for the 2014/2015 fiscal year.

Total revenues are planned to be \$287 million in the 2014/2015 fiscal year, including \$250 million of premium revenue and \$37 million of investment income.

Planned **premium revenue** of \$250 million is \$58 million higher than fiscal 2013/2014 premium revenue of \$192 million. The increase is the result of higher premium rates and an expected increase in insured deposits.

Expected **investment income** of \$37 million is \$1 million higher than in fiscal 2013/2014, reflecting a higher fund balance and a continued low interest rate environment.

Net operating expenses are planned to be \$42 million in fiscal 2014/2015, compared to \$38 million actual operating expenses in fiscal 2013/2014. This increase reflects a fully staffed Complex Resolution Division and an increase to CDIC's public awareness budget to account for media inflation costs and to allow CDIC to continue its outreach activities.

Cash and investments are projected to be \$3.0 billion at the end of the 2014/2015 fiscal year.

The **provision for insurance losses** is forecast to remain unchanged at \$1.2 billion at the end of the 2014/2015 fiscal year.

The level of **ex ante funding** is forecast to be \$3.0 billion at the end of the 2014/2015 fiscal year, representing 44 basis points of forecast insured deposits, an increase of two basis points from the previous year.



<i>(C\$ millions)</i>	2014/2015 Corporate Plan ^a	2013/2014 Actual results	2013/2014 Corporate Plan ^a
Consolidated statement of financial position <i>(as at March 31)</i>			
Cash and investments	3,007	2,761	2,760
Capital assets	13	13	11
Other current assets	3	4	1
Total assets	3,023	2,778	2,772
Current liabilities	5	5	2
Provision for insurance losses	1,200	1,200	1,250
Other non-current liabilities	3	4	3
Retained earnings	1,815	1,569	1,517
Total liabilities and equity	3,023	2,778	2,772
Consolidated statement of comprehensive income <i>(for the year ended March 31)</i>			
Revenue			
Premiums	250	192	195
Investment income	37	36	39
	287	228	234
Expenses			
Operating	42	38	42
Recovery of amounts previously written off	–	(12)	(14)
Decrease in provision for insurance losses	–	(50)	–
	42	(24)	28
Net income before income tax	245	252	206
Income tax recovery (expense)	1	–	(3)
Net income and total comprehensive income	246	252	203

a The Corporate Plans 2013/2014 to 2017/2018 and 2014/2015 to 2018/2019 were developed based on information as at December 31, 2012, and December 31, 2013, respectively.



PART TWO
CONSOLIDATED
FINANCIAL
STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Management responsibility for consolidated financial statements

June 4, 2014

The accompanying consolidated financial statements of the Canada Deposit Insurance Corporation and the information related to the consolidated financial statements in this *Annual Report* are the responsibility of Management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. 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 this *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. Internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls. In addition, the internal and external auditors have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the consolidated financial statements to the Board of Directors.

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



Michèle Bourque
President and Chief Executive Officer



Dean A. Cosman
Vice-President, Finance and Administration, and Chief Financial Officer



Independent auditor's report



Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Canada Deposit Insurance Corporation, which comprise the consolidated statement of financial position as at 31 March 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Deposit Insurance Corporation as at 31 March 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

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

Nancy Y. Cheng, FCPA, FCA
Assistant Auditor General
for the Auditor General of Canada

4 June 2014
Ottawa, Canada



Consolidated financial statements and notes

CANADA DEPOSIT INSURANCE CORPORATION Consolidated statement of financial position as at March 31, 2014

(in thousands of Canadian dollars)

	Notes	March 31, 2014	March 31, 2013
ASSETS			
Cash		699	422
Investment securities	5	2,760,461	2,560,483
Current tax asset		1,940	1,286
Trade and other receivables	6	1,554	1,545
Prepayments		303	244
Property, plant and equipment	8	6,461	6,716
Intangible assets	9	6,542	4,310
Deferred tax asset	14	–	122
TOTAL ASSETS		2,777,960	2,575,128
LIABILITIES			
Trade and other payables		5,177	5,577
Deferred lease inducement	10	1,299	1,412
Employee benefits	20	2,486	1,859
Provision for insurance losses	11	1,200,000	1,250,000
Deferred tax liability	14	469	–
Total liabilities		1,209,431	1,258,848
EQUITY			
Retained earnings		1,568,529	1,316,280
TOTAL LIABILITIES AND EQUITY		2,777,960	2,575,128

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

Approved by the Board on June 4, 2014



Director



Director



CANADA DEPOSIT INSURANCE CORPORATION
Consolidated statement of comprehensive income
for the year ended March 31, 2014

(in thousands of Canadian dollars)

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
REVENUE			
Premium	15	191,727	120,081
Investment income	5	36,437	38,985
Other		54	45
		228,218	159,111
EXPENSES			
Operating	16	38,023	35,835
Recovery of amounts previously written off	7	(11,500)	(166)
(Decrease) increase in provision for insurance losses	11	(50,000)	100,000
		(23,477)	135,669
Net income before income taxes		251,695	23,442
Income tax (recovery) expense	14	(389)	815
NET INCOME		252,084	22,627
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to net income			
Actuarial gain on defined benefit obligations	20	220	155
Income tax effect		(55)	(39)
Other comprehensive income, net of tax		165	116
TOTAL COMPREHENSIVE INCOME		252,249	22,743

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



CANADA DEPOSIT INSURANCE CORPORATION
Consolidated statement of changes in equity
for the year ended March 31, 2014

(in thousands of Canadian dollars)

	Retained earnings and total equity
Balance, March 31, 2012	1,293,537
Net income	22,627
Other comprehensive income	116
Total comprehensive income	22,743
Balance, March 31, 2013	1,316,280
Net income	252,084
Other comprehensive income	165
Total comprehensive income	252,249
Balance, March 31, 2014	1,568,529

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



CANADA DEPOSIT INSURANCE CORPORATION
Consolidated statement of cash flows

for the year ended March 31, 2014

(in thousands of Canadian dollars)

	Year ended March 31, 2014	Year ended March 31, 2013
OPERATING ACTIVITIES		
Net income	252,084	22,627
Adjustments for:		
Depreciation and amortization	1,971	2,022
Investment income	(36,437)	(38,985)
Tax (recovery) expense	(389)	815
Defined benefit expense	229	228
Defined benefit payment	(64)	(16)
Change in working capital:		
(Decrease) increase in provision for insurance losses	(50,000)	100,000
Increase in prepayments	(59)	(103)
Increase in trade and other receivables	(9)	(8)
(Decrease) increase in trade and other payables	(400)	1,788
Increase in other long-term employee benefits	682	-
Decrease in deferred lease inducement	(113)	(113)
Interest received	36,428	42,643
Income tax recovered	1,295	-
Income tax paid	(1,023)	(3,491)
Net cash generated by operating activities	204,195	127,407
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, and intangible assets	(3,948)	(4,090)
Purchase of investment securities	(6,081,570)	(4,435,184)
Proceeds from sale or maturity of investment securities	5,881,600	4,311,833
Net cash used in investing activities	(203,918)	(127,441)
Net increase (decrease) in cash	277	(34)
Cash, beginning of year	422	456
Cash, end of year	699	422

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



CANADA DEPOSIT INSURANCE CORPORATION

Notes to the consolidated financial statements

March 31, 2014

1 – General information

The Canada Deposit Insurance Corporation (CDIC or the Corporation) was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). It is a Crown corporation without share capital 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 address of the registered office is 50 O'Connor Street, 17th Floor, in Ottawa, Ontario.

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, act as liquidator, receiver or inspector of a member institution or a subsidiary thereof, and establish a bridge institution.

The Corporation is an agent of Her Majesty in right of Canada for all purposes of the *CDIC Act*. As a result, all obligations incurred by the Corporation in the course of carrying out its mandate are obligations of Canada.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on June 4, 2014.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and are presented in Canadian dollars.

The consolidated financial statements have been prepared on the historical cost basis, except for the provision for insurance losses and certain employee benefits (see Note 20), which are measured at their present value. Historical cost is generally based on the fair value of the consideration given in exchange for assets and the amount of cash expected to be paid to satisfy a liability.

The accounting policies set out in Note 2 were consistently applied to all the periods presented unless otherwise noted below.



2 – Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of Adelaide Capital Corporation (ACC), a structured entity controlled by the Corporation.

The results of ACC are included in the consolidated statement of comprehensive income until the date control ceases or the company is dissolved. All transactions, balances, income, and expenses between CDIC and ACC are eliminated in full on consolidation.

The overall impact of consolidation is not significant.

These consolidated financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened but does not have control.

Judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to exercise judgment in applying the Corporation's accounting policies. The following are the significant judgments made in the process of applying the Corporation's accounting policies.

Consolidation

Management has determined, based on an analysis of the facts and circumstances, that the Corporation controls ACC and the consolidated financial statements of CDIC should incorporate the financial statements of ACC. Control is achieved where the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Although CDIC does not own any of the share capital of ACC, it is the sole creditor of ACC, having provided a loan to ACC in 1992, a portion of which remains outstanding. The facts and circumstances that Management considered in arriving at the conclusion that CDIC controls ACC are as follows:

- The loan exposes CDIC to variable returns from its involvement with ACC.
- A CDIC employee is the sole member of the Board of Directors of ACC, giving CDIC the power to make decisions about ACC's operations to affect the returns that CDIC ultimately receives from its loan to ACC.
- The terms of the loan restrict the activities of ACC and stipulate that ACC cannot alter the composition of the Board of Directors, giving CDIC power of ACC's key activities.

Financial instruments

The Corporation holds a significant amount of investment securities. Management has determined, based on an analysis of the facts and circumstances, that: (i) the investment securities are held in order to collect contractual cash flows; and (ii) the contractual terms of the investment securities give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, the Corporation measures the investment securities at amortized cost. See "Financial instruments" below for further details.



Estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions. Estimates and assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates or assumptions are revised and any future periods affected.

Estimating CDIC's provision for insurance losses involves significant estimation uncertainty and requires Management to make significant assumptions.

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. The provision 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. See "Provisions for insurance losses" below for further details on how the provision is measured.

Actual results in the near term could differ significantly from these estimates, including the timing and extent of losses the Corporation incurs as a result of future failures of member institutions. This could require a material adjustment to the carrying amount of the provision for insurance losses. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium rates charged to member institutions be increased or decreased, depending on the situation.

Financial instruments

In fiscal 2011/2012, the Corporation early adopted IFRS 9 *Financial Instruments*, issued by the International Accounting Standards Board (IASB) in November 2009 (IFRS 9 (2009)).

Recognition and initial measurement

All financial assets and financial liabilities are recognized initially at fair value plus directly attributable transaction costs.

Purchases of financial assets that require delivery of assets within a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date, that is, the date the asset is delivered to or by CDIC.

Classification

A) Financial assets

Subsequent to initial recognition, a financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is subsequently measured at fair value. All the Corporation's financial assets are subsequently measured at amortized cost.



B) Financial liabilities

Subsequent to initial recognition, all the Corporation's financial liabilities are measured at amortized cost.

Amortized cost measurement

Amortized cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method or any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are categorized within a fair value hierarchy:

- *Level 1:* Fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* Fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- *Level 3:* Fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Identification and measurement of impairment

The Corporation assesses at the end of each reporting period whether there is any objective evidence that financial assets carried at amortized cost are impaired. Impairment losses on assets carried at amortized cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in net income and reflected in an allowance account.

Cash

Cash includes cash on hand and demand deposits. Cash is measured at amortized cost on the statement of financial position.

Investment securities

Investment securities are debt instruments, such as Treasury bills and Government of Canada bonds, held by the Corporation. Investment securities are measured on the statement of financial position at amortized cost, plus accrued interest.

Interest income on investment securities is recognized using the effective interest method.



Trade and other receivables

Trade and other receivables are measured at amortized cost less any impairment losses.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

- Leasehold improvements—shorter of the term of the lease and the useful life of the leasehold improvement
- Furniture and equipment—five years
- Computer hardware—three years

Depreciation expense is included in operating expenses. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in operating expenses.

Items of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in operating expenses.

Intangible assets

The Corporation records an internally generated intangible asset arising from the development of software once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of an application are capitalized if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use
- the intention to complete the intangible asset and use it
- the ability to use the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial, and other resources to complete the development and to use the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of directly attributable costs incurred from the date when the intangible asset first meets the recognition criteria listed above.



Subsequent to initial recognition, internally generated intangible assets are measured at cost less accumulated amortization and any impairment losses, and are amortized on a straight-line basis over their estimated useful lives which range from three to seven years. The estimated useful lives, residual values, and depreciation methods are reviewed annually at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is included in operating expenses.

The Corporation considers potential indicators of impairment at the end of each reporting period. If any indication of impairment exists, the recoverable amount of the asset is estimated to determine the extent of the loss. Intangible assets that are not yet available for use are tested for impairment annually, irrespective of the presence of indicators, by comparing carrying amounts to recoverable amounts. Impairment losses are included in operating expenses.

Trade and other payables

Trade and other payables are measured at amortized cost. The carrying amounts of trade and other payables approximate fair value due to their short term to maturity.

Provisions for insurance losses

Provisions are to be recognized when the Corporation has a present obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Corporation has a stand-ready obligation to provide insurance against the loss of part, or all, of deposits in a member institution in the event of failure. The provision for insurance losses represents the Corporation's best estimate of the consideration required to settle this obligation and is determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The estimate takes into account the risks and uncertainties surrounding the obligation. The provision is estimated by assessing the aggregate risk of the Corporation's member institutions 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 expected losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage of insured deposits 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, plus an adjustment for measurement uncertainty. The present value of the provision is determined using a pre-tax risk-free discount rate.

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

Premium revenue

Premium revenue is recognized at the fair value of the consideration received and reported as income proportionately over the fiscal year. Premiums are determined annually based on the amount of insured deposits held by member institutions as at April 30 of the current fiscal year, and are payable in two equal installments on July 15 and December 15.



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* funding relative to the target.

Other revenue

Other revenue includes payments received for services provided to other unrelated organizations, sub-lease income, certain interest income, and foreign exchange gains and losses.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are treated as operating leases.

All of the Corporation's leases are treated as operating leases.

Rentals payable under operating leases are charged to operating expenses on a straight-line basis over the term of the lease. In the event that lease incentives are received, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of operating expenses on a straight-line basis over the term of the lease. Rental income from operating sub-leases is recognized on a straight-line basis over the term of the lease.

Public Service Pension Plan

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

Employee benefits

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits and death benefits; and other long-term employee benefits in the form of accumulating, non-vesting sick leave benefits.

The cost of all such benefits earned by employees is actuarially determined using the projected unit credit method. The determination of the benefit expense requires the use of assumptions such as the discount rate to measure obligations, expected resignation rates, and the expected rate of future compensation. The discount rate used is determined by reference to high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. The expected rate of future compensation represents a long-term assumption and includes components for inflation, merit and promotion adjustments. Actual results may differ from estimates based on assumptions.

For all such benefits, the liability recognized in the statement of financial position is the present value of the obligation at the end of the reporting period.



With respect to the defined benefit plans, all actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized immediately in retained earnings as other comprehensive income. Past service costs are recognized as an expense at the earlier of: (i) the date the plan amendment or curtailment occurs; and (ii) the date the Corporation recognizes related restructuring costs or termination benefits.

With respect to the other long-term employee benefits, all costs, including all actuarial gains and losses, are recognized immediately in operating expenses.

Income taxes

Income tax expense represents the sum of the current and deferred tax expenses.

Current tax is recognized in net income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and income tax laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax relating to actuarial gains and losses on defined benefit obligations is recognized directly in retained earnings as other comprehensive income.

3 – Application of new and revised International Financial Reporting Standards (IFRS)

In the current year, the Corporation has applied a number of new and revised IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

The application of the following new and revised IFRS resulted solely in enhanced disclosures in these consolidated financial statements:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Ventures*
- IFRS 12 *Disclosures of Involvement with Other Entities*
- IFRS 13 *Fair Value Measurement*
- IAS 19 *Employee Benefits*
- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)
- *Annual Improvements to IFRS 2009–2011 Cycle*



4 – Future accounting changes

At the date these consolidated financial statements were authorized, certain standards, interpretations and amendments to existing standards were issued by the IASB but are not yet effective. Unless otherwise noted, the Corporation does not plan to early adopt any of the changes.

IFRS 9 Financial Instruments: In November 2009, the IASB issued IFRS 9 (2009), introducing new requirements for classifying and measuring financial assets. This was the IASB's first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In October 2010, the IASB issued IFRS 9 (2010), incorporating new requirements for accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. In November 2013, the IASB issued IFRS 9 (2013), which incorporates a new hedge accounting model and permits entities to modify the accounting for debt designated as at fair value through profit or loss. IFRS 9 (2013) removed the mandatory effective date of all versions of IFRS 9. A new effective date has not yet been set by the IASB. In fiscal 2011/2012, the Corporation early adopted IFRS 9 (2009). The IASB allows early adoption of IFRS 9 (2010) and IFRS 9 (2013). The Corporation does not expect the additional requirements of IFRS 9 (2010) to have a material impact on its consolidated financial statements. The Corporation is evaluating the potential impact of IFRS 9 (2013) on its consolidated financial statements.

Annual Improvements 2010–2012 Cycle: In December 2013, the IASB issued its *Annual Improvements 2010–2012 Cycle*, resulting in minor amendments to seven different standards, including IFRS 13 *Fair Value Measurement*, IAS 16 *Property, Plant and Equipment*, and IAS 24 *Related Party Disclosures*. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The amendments have an effective date of July 1, 2014, with early application permitted. The Corporation is evaluating the potential impact of these amendments on its consolidated financial statements.

Annual Improvements 2011–2013 Cycle: In December 2013, the IASB issued its *Annual Improvements 2011–2013 Cycle*, resulting in minor amendments to four different standards, including IFRS 13 *Fair Value Measurement*. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The amendments have an effective date of July 1, 2014, with early application permitted. The Corporation is evaluating the potential impact of these amendments on its consolidated financial statements.



5 – Investment securities

Information on the maturity and composition of the Corporation's investment securities is included in the tables below.

(C\$ thousands)	Remaining term to maturity March 31, 2014			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	310,774	401,290	–	712,064
Weighted average effective yield (%)	1.04	1.05	–	1.04
Bonds	499,851	405,899	1,138,447	2,044,197
Weighted average effective yield (%)	1.37	1.77	1.58	1.57
Other	4,200	–	–	4,200
Weighted average effective yield (%)	0.95	–	–	0.95
Total investment securities	814,825	807,189	1,138,447	2,760,461
Weighted average effective yield (%)	1.24	1.41	1.58	1.43

(C\$ thousands)	Remaining term to maturity March 31, 2013			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	331,012	643,728	–	974,740
Weighted average effective yield (%)	1.02	1.07	–	1.05
Bonds	212,670	583,223	789,850	1,585,743
Weighted average effective yield (%)	1.73	1.42	1.92	1.71
Other	–	–	–	–
Weighted average effective yield (%)	–	–	–	–
Total investment securities	543,682	1,226,951	789,850	2,560,483
Weighted average effective yield (%)	1.30	1.23	1.92	1.46



(C\$ thousands)	March 31, 2014			March 31, 2013
	Amortized cost	Gross unrealized gains (losses)	Fair value	Fair value
Treasury bills	712,064	(480)	711,584	974,933
Bonds	2,044,197	7,684	2,051,881	1,598,467
Other	4,200	–	4,200	–
Total investment securities	2,760,461	7,204	2,767,665	2,573,400

The carrying amounts in the above tables include accrued interest.

The fair values of investment securities are quoted prices in active markets for identical assets (i.e., Level 1 of the fair value hierarchy).

The Corporation's total interest income for financial assets measured at amortized cost was \$36,437 thousand in fiscal 2013/2014 (fiscal 2012/2013: \$38,985 thousand).

6 – Trade and other receivables

(C\$ thousands)	March 31, 2014	March 31, 2013
Accounts receivable	86	77
Other receivables	1,468	1,468
Total trade and other receivables	1,554	1,545

As at March 31, 2014, and March 31, 2013, none of the receivable balances were past due and there was no objective evidence of impairment.

The carrying amount of accounts receivable approximate fair value due to their short term to maturity. Other receivables consist of a note receivable due on June 30, 2015, the fair value of which was \$1,463 thousand as at March 31, 2014 (March 31, 2013: \$1,455 thousand). The fair value of the note receivable has been estimated by present valuing future cash flows and is categorized as Level 2 of the fair value hierarchy.

7 – Recovery of amounts previously written off

CDIC recovered \$11.5 million during fiscal 2013/2014 as part of its claim on the estate of Standard Trust Company, a member institution that failed in 1991.

In Management's view, it is probable that CDIC will recover additional amounts from the estate of Standard Trust Company; however, the value of those recoveries is not determinable.

8 – Property, plant and equipment

<i>(C\$ thousands)</i>	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance, March 31, 2012	5,002	1,873	5,689	12,564
Additions	727	70	673	1,470
Retirements	–	–	–	–
Balance, March 31, 2013	5,729	1,943	6,362	14,034
Additions	402	378	161	941
Retirements	(171)	–	–	(171)
Balance, March 31, 2014	5,960	2,321	6,523	14,804
Accumulated depreciation				
Balance, March 31, 2012	3,932	894	1,406	6,232
Depreciation	615	145	326	1,086
Retirements	–	–	–	–
Balance, March 31, 2013	4,547	1,039	1,732	7,318
Depreciation	651	164	380	1,195
Retirements	(170)	–	–	(170)
Balance, March 31, 2014	5,028	1,203	2,112	8,343
Carrying amounts				
Balance, March 31, 2012	1,070	979	4,283	6,332
Balance, March 31, 2013	1,182	904	4,630	6,716
Balance, March 31, 2014	932	1,118	4,411	6,461

As at March 31, 2014, there was no property, plant and equipment in the course of construction. Included in property, plant and equipment as at March 31, 2013, was an amount of \$719 thousand relating to leasehold improvements in the course of construction.



9 – Intangible assets

<i>(C\$ thousands)</i>	Computer software	Computer software under development	Total
Cost			
Balance, March 31, 2012	1,646	1,936	3,582
Additions—internal development	–	2,620	2,620
Transfers	2,394	(2,394)	–
Retirements	–	–	–
Balance, March 31, 2013	4,040	2,162	6,202
Additions—internal development	1,015	1,993	3,008
Transfers	3,641	(3,641)	–
Retirements	–	–	–
Balance, March 31, 2014	8,696	514	9,210
Accumulated amortization			
Balance, March 31, 2012	956	–	956
Amortization	936	–	936
Retirements	–	–	–
Balance, March 31, 2013	1,892	–	1,892
Amortization	776	–	776
Retirements	–	–	–
Balance, March 31, 2014	2,668	–	2,668
Carrying amounts			
Balance, March 31, 2012	690	1,936	2,626
Balance, March 31, 2013	2,148	2,162	4,310
Balance, March 31, 2014	6,028	514	6,542



The carrying amount as at March 31, 2014, consists of two intangible assets: the Fast Insurance Determination (FID) software and the Regulatory Reporting System (RRS). The FID software tests members' compliance with CDIC's *Data and System Requirements By-law* and facilitates the determination of member insured deposits. Its carrying amount as at March 31, 2014, was \$2,190 thousand, with a remaining amortization period of 3.25 years (March 31, 2013: \$2,148 thousand and 4.25 years, respectively). The RRS, a system used for collecting financial data from federally regulated financial institutions, commenced amortization during the current year. Its carrying amount as at March 31, 2014, was \$4,352 thousand, with a remaining amortization period of 6.5 years (as at March 31, 2013, \$2,162 thousand had been capitalized as computer software under development).

10 – Deferred lease inducement

The Corporation has received lease inducements from one of its landlords, in the form of free rent periods and reimbursements for leasehold improvements. The aggregate benefit of these incentives is recognized as a reduction of operating expenses on a straight-line basis over the term of the lease. A total of \$1,186 thousand is expected to be recognized as reduction of operating expenses more than 12 months after March 31, 2014 (more than 12 months after March 31, 2013: \$1,299 thousand).

11 – Provision for insurance losses

The provision for insurance losses represents the Corporation's best estimate of the future outflow of economic benefits resulting from the Corporation's duty to insure deposits held by member institutions in the event of failure. The estimate is based on an expected loss calculation and is subject to uncertainty surrounding amount and timing of losses. As such, actual losses may differ significantly from estimates.

Changes in the provision for insurance losses are summarized as follows:

(C\$ thousands)	Provision for insurance losses
Balance, March 31, 2012	1,150,000
Additional provisions	100,000
Balance, March 31, 2013	1,250,000
Additional provisions	(50,000)
Balance, March 31, 2014	1,200,000



12 – Financial instruments

The table below sets out the carrying amounts of the Corporation's financial assets and financial liabilities, all of which are measured at amortized cost in accordance with IFRS 9 (2009):

<i>(C\$ thousands)</i>	March 31, 2014	March 31, 2013
Cash	699	422
Investment securities	2,760,461	2,560,483
Trade and other receivables	1,554	1,545
Financial assets	2,762,714	2,562,450
Trade and other payables	5,177	5,577
Financial liabilities	5,177	5,577

See Note 5 for additional information on the maturity and composition of the Corporation's investment securities.

Fair value of financial instruments

With the exception of investment securities and certain trade and other receivables, the carrying amounts of the Corporation's financial instruments measured at amortized cost approximate their fair values. The fair values of the Corporation's investment securities are disclosed in Note 5 and are determined based on quoted mid-market prices in active markets. The fair value of certain trade and other receivables are disclosed in Note 6 and are based on a discounted cash flow model, discounting expected future cash flows using a discount rate appropriate to an AA rated counterparty.

Financial risk management objectives

The Corporation's assets consist primarily of its investment securities. CDIC's investment strategy is based on two key principles: limiting credit and market risk to preserve principal; and the use of the investment portfolio as a funding source for intervention activity. CDIC has a comprehensive risk management framework to evaluate, monitor and manage its risks. All risks, financial and other, are managed in accordance with an Enterprise Risk Management (ERM) framework which sets out the responsibilities of the Board of Directors.

Formal policies are in place for all significant financial risks to which CDIC is exposed. The policies are reviewed regularly, at least annually, in order to ensure that they continue to be appropriate and prudent. Significant financial risks that arise from transacting and holding financial instruments include credit, liquidity, and market risks.



Credit risk

Credit risk is defined as the risk of loss attributable to counterparties failing to honour their obligation, whether on- or off-balance sheet, to CDIC. CDIC's maximum exposure to credit risk is the carrying amount of cash, investment securities, and trade and other receivables held on the consolidated statement of financial position. None of the trade and other receivables are past due.

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

The Corporation's Financial Risk Policies limit investments to the obligations of the Government of Canada and agent Crowns and the obligations of provincial governments or municipal financing authorities. Risk is further limited by setting a maximum amount and term for each investment. Counterparties for investments of less than three years must have a minimum credit rating of A. The Corporation's investment securities with a term of more than three years but less than five years are restricted to securities having a minimum credit rating of AA-. Securities with a term of more than five years are not permitted.

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

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

(C\$ thousands) Credit rating	March 31, 2014	March 31, 2013
AAA	2,291,656	2,087,132
AA+	109,000	93,791
AA	143,061	143,211
AA-	118,465	141,752
A+	98,279	94,597
Total investment securities	2,760,461	2,560,483

CDIC may at times intervene in one capacity or another, in providing financial assistance to a troubled financial institution, either in the form of a loan, by guarantee or otherwise. The Corporation could also have to make payment to insured depositors in the event of a member institution failure. The latter action results in claims receivable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed member institutions, thus exposing CDIC to additional credit risk. The Corporation is closely involved in the asset realization process of these failed institutions in order to mitigate credit risk and minimize any potential loss to CDIC.



Liquidity risk

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

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

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

The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC currently has authority to borrow up to \$19 billion (March 31, 2013: \$19 billion). Under the *Budget Implementation Act, 2009*, the borrowing limit is adjusted annually to reflect the growth of insured deposits.

Market risk

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

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

Interest rate risk

The Corporation accounts for its investment securities at amortized cost but obtains fair market values for the investment securities on a monthly basis for disclosure and financial risk management purposes. As a result, the Corporation obtains a clear picture of the impact of changes in interest rates on the market value of its investment securities. The difference between the amortized cost of its investment securities and their fair market value is disclosed in Note 5 of these consolidated financial statements. Movement in interest rates can have a significant impact on the Corporation's consolidated financial statements, specifically on its investment income due to the size of its portfolio of investment securities and the relative importance of the revenue it generates. CDIC manages its interest rate exposures with the objective of enhancing interest income within established risk tolerances while diligently respecting approved policies. Interest rate shock analyses are performed on a regular basis on the Corporation's investment securities to evaluate the impact of possible interest rate fluctuations on interest income.



Other financial assets exposed to interest rate risk include cash which is held at short-term interest rates. Such exposure is not significant.

The following table shows how after-tax net income would have been affected by a 100 basis point increase or by a 25 basis point decrease in interest rates based on the investment portfolios at the end of each corresponding fiscal year:

(C\$ thousands)	Increase (decrease) in net income	
	2013/2014	2012/2013
100 basis point increase	8,139	7,151
25 basis point decrease	(2,035)	(1,788)

Currency risk and other price risk

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

13 – Capital management

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

The Corporation has determined that it is prudent to maintain an amount of advance or *ex ante* funding to absorb losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses. As at March 31, 2014, the minimum target for the *ex ante* funding is 100 basis points of insured deposits.

The Corporation has not yet achieved the target for capital as determined by the *ex ante* funding process. The key mechanism used to manage the level of capital is premium rates.



Ex ante funding

(C\$ thousands)	Actual		Target
	March 31, 2014	March 31, 2013	March 31, 2014
Retained earnings	1,568,529	1,316,280	
Provision for insurance losses	1,200,000	1,250,000	
Total ex ante funding	2,768,529	2,566,280	6,652,746^a
Total basis points of insured deposits	42^a	40^b	100

a Based on level of insured deposits as at April 30, 2013

b Based on level of insured deposits as at April 30, 2012

14 – Income taxes

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest income. 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.

The following table sets out details of income tax expense recognized in net income:

(C\$ thousands)	2013/2014	2012/2013
Current income tax:		
Current income tax (recovery) expense	(912)	764
Adjustments in respect of current income tax of previous years	(13)	6
Deferred tax:		
Relating to the origination and reversal of temporary differences	536	45
Income tax (recovery) expense recognized in net income	(389)	815



The following table sets out details of income tax expense (recovery) recognized in other comprehensive income:

<i>(C\$ thousands)</i>	2013/2014	2012/2013
Income tax effect of actuarial gain on defined benefit obligations	55	39
Income tax expense recognized in other comprehensive income	55	39

The following table presents a reconciliation of the Corporation's recognized income tax expense to income tax expense based on the Canadian federal tax rate:

<i>(C\$ thousands)</i>	2013/2014	2012/2013
Net income before income taxes	251,695	23,442
Tax expense at the Canadian federal tax rate of 25.0% (2013: 25.0%)	62,924	5,861
Non-taxable premium revenue	(47,932)	(30,020)
(Decrease) increase in non-deductible provision for insurance losses	(12,500)	25,000
Non-taxable recovery of amounts previously written off	(2,875)	(42)
Other	(6)	16
Income tax (recovery) expense recognized in net income	(389)	815

Deferred tax assets and liabilities are attributable to the following:

<i>(C\$ thousands)</i>	Consolidated statement of financial position		Recognized in net income	
	March 31, 2014	March 31, 2013	2013/2014	2012/2013
Property, plant and equipment, and intangible assets	(1,244)	(538)	(706)	(83)
Holdbacks	–	13	(13)	13
Lease incentives	325	353	(28)	(28)
Defined benefit obligations	270	284	41	53
Other long-term employee benefits	180	10	170	–
Deferred tax expense			(536)	(45)
Net deferred tax (liabilities) assets	(469)	122		



15 – Premium revenue

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 the 2013/2014 fiscal year are as follows:

Premium Category (basis points of insured deposits)	2013/2014	2012/2013
Category 1	2.8	2.8
Category 2	5.6	5.6
Category 3	11.1	11.1
Category 4	22.2	22.2

Premium revenue of \$192 million was recorded during the year, compared to \$120 million for the same period last year, a 60% increase. Premium revenue is higher compared to last year mainly as a result of a one-time reduction in premium rates offered to eligible member institutions last year for early compliance with CDIC's *Data and System Requirements By-law*. An increase in insured deposits this year also contributed to higher premium revenue. These effects were to some extent offset by improvement of some members' premium category during the year, resulting in lower premium revenue for the Corporation.

16 – Operating expenses

(C\$ thousands)	2013/2014	2012/2013
Salaries and other personnel costs	20,529	18,197
Professional and other fees	5,208	5,236
Premises	3,556	3,190
Public awareness	2,663	2,458
General expenses	2,497	3,025
Depreciation and amortization	1,971	2,022
Data processing	1,739	1,964
	38,163	36,092
Expense recoveries from related parties	140	257
Total operating expenses	38,023	35,835

The Corporation provides call centre services on a cost-recovery basis to the Office of the Superintendent of Financial Institutions (OSFI) through an outsourcing arrangement with a third party.



17 – Related party disclosures

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of Adelaide Capital Corporation (ACC), a structured entity controlled by the Corporation. Balances and transactions between the Corporation and ACC have been eliminated on consolidation and are not disclosed in this Note.

Although CDIC is a corporation without share capital, its parent is the Government of Canada as all the Directors of the Corporation, other than *ex officio* Directors, are appointed by the Governor in Council or by a minister of the Government of Canada with the approval of the Governor in Council.

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. The following table discloses significant related party transactions:

(C\$ thousands)	Note	Expense for the fiscal year		Capitalized costs for the fiscal year		Balance payable	
		2013/ 2014	2012/ 2013	2013/ 2014	2012/ 2013	March 31, 2014	March 31, 2013
Bank of Canada	a	688	472	2,191	2,162	679	722
Public Service Pension Plan	b	2,876	2,394	–	–	252	226

- a The Bank of Canada hosts the Regulatory Reporting System (RRS), a system used for collecting financial data from federally regulated financial institutions. The RRS is jointly controlled by CDIC, OSFI, and the Bank of Canada, and the three parties share equally the operating and capital costs of the system. Access to the RRS is integral to CDIC's operations.
- b All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. See Note 20 for further details.

Remuneration of Key Management Personnel

The amounts in the table below were recognized as expenses related to Key Management Personnel remuneration:

(C\$ thousands)	2013/2014	2012/2013
Short-term benefits	1,548	1,675
Post-employment benefits	521	609
Other long-term benefits	15	–
Termination benefits	–	243
Total Key Management Personnel remuneration	2,084	2,527



18 – Interests in consolidated structured entities

CDIC has loaned funds to ACC, a structured entity controlled by the Corporation. The most recent loan, for \$200 thousand, was provided in fiscal 2010/2011. The loans have been provided to fund litigation efforts and administration costs of the structured entity. Management does not expect any further loans to be provided, and expects that ACC will be wound up in fiscal 2015/2016.

19 – Contingencies and commitments

There were no claims pending against the Corporation as at March 31, 2014.

The Corporation leases office space in Ottawa and Toronto. The lease of office space in Ottawa ends in September 2020, with two consecutive renewal options, both for five-year terms. The lease of office space in Toronto ends in October 2016, with an option to renew for an additional five years.

Minimum lease payments recognized as an expense for the year ended March 31, 2014, totalled \$1.5 million (2013: \$1.4 million).

The following table shows future aggregate minimum lease payments (exclusive of other occupancy costs) under non-cancellable operating leases:

<i>(C\$ thousands)</i>	March 31, 2014	March 31, 2013
Not later than one year	1,523	1,531
Later than one year and not later than five years	6,421	6,333
Later than five years	2,577	4,189
Total	10,521	12,053

As at March 31, 2014, the Corporation had no commitments to purchase property, plant and equipment (March 31, 2013: \$180 thousand).

As at March 31, 2014, CDIC had commitments of \$250 thousand in relation to the development of the RRS, a system used for collecting financial data from federally regulated financial institutions (March 31, 2013: \$2,975 thousand).



20 – Employee benefits

(C\$ thousands)	2013/2014	2012/2013
Defined benefit obligation	1,765	1,820
Other long-term employee benefits	721	39
Employee benefits	2,486	1,859

The Corporation's employees receive a number of employee benefits, including membership in the Public Service Pension Plan, defined benefit plans, and other long-term employee benefits.

Public Service Pension Plan

All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established and governed by the *Public Service Superannuation Act*, and sponsored by the Government of Canada. Pension benefits are based on salary, pensionable service, age, and reason for termination. Contributions to the Public Service Pension Plan are required from both the employees and the Corporation. As required under present legislation, the contributions made by the Corporation to the Public Service Pension Plan are 7.59 times (2013: 8.00 times) the employees' contribution on amounts of salaries in excess of \$155 thousand (2013: \$150.9 thousand). For amounts of salaries below \$155 thousand, the Corporation's contribution rate depends on the employee's employment start date. For employment start dates before January 1, 2013, the Corporation's contribution rate is 1.45 times (2013: 1.64 times) the employee's contribution; for employment start dates after December 31, 2012, the Corporation's contribution rate is 1.43 times (2013: 1.57 times) the employee's contribution.

Amendments were made during the year to the Public Service Pension Plan, affecting new entrants. For employees with employment start dates before January 1, 2013, an unreduced pension benefit can be received at age 60 with at least two years of pensionable service (or age 55 with 30 years of service). For employees with employment start dates after December 31, 2012, an unreduced pension benefit can be received at age 65 with at least two years of pensionable service (or age 60 with 30 years of service).

In the financial statements of the Corporation, the Public Service Pension Plan is treated as a defined contribution plan. The Corporation's expense in relation to the Public Service Pension Plan is provided in Note 17. There is no contractual agreement or stated policy for charging the net defined benefit cost of the pension plan to CDIC; the only obligation of the Corporation with respect to the pension plan is to make the specified contributions.

Defined benefit plans

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits, and death benefits.

Retirement benefits are provided by the Corporation to certain employees upon retirement based on years of service and final salary. Resignation benefits are provided to certain employees with 10 or more years of continuous employment with the Corporation. The death benefit plan provides a lump sum payment based on salary at the time of death. These benefit plans are unfunded, require no contributions from employees, and thus have no assets. The benefit plans have a plan deficit equal to the accrued benefit liability. Benefits will be paid from the Corporation's operations.



The most recent actuarial valuation of the unfunded obligations, and the related current service cost and past service cost, was carried out as at March 31, 2014, by an independent actuary, using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	March 31, 2014	March 31, 2013
Discount rate	3.90%	3.73%
Rate of compensation increase:		
Fiscal 2013/2014	N/A	2.0% + merit
Fiscal 2014/2015	1.0% + merit	2.0% + merit
Thereafter	1.0% + merit	2.0% + merit

The following table shows amounts recognized in operating expenses in respect of these defined benefit plans:

(C\$ thousands)	2013/2014	2012/2013
Current service cost	159	166
Interest on obligation	70	74
Past service gains	–	(12)
Defined benefit obligations expense	229	228

The expense for the year is included in operating expenses as salaries and other personnel costs. The following table shows cumulative actuarial gains/losses recognized immediately in retained earnings as other comprehensive income:

(C\$ thousands)	Actuarial gains (losses)
Cumulative amount at March 31, 2012	(148)
Recognized during the period	155
Cumulative amount at March 31, 2013	7
Recognized during the period	220
Cumulative amount at March 31, 2014	227



The amount included in the statement of financial position is equivalent to the present value of the unfunded defined benefit obligations. The following table presents movements in the present value of the defined benefit obligations:

<i>(C\$ thousands)</i>	Defined benefit obligations
Balance, March 31, 2012	1,763
Current service cost	166
Interest cost	74
Past service gains	(12)
Benefit payments	(16)
Actuarial gain arising from changes in demographic assumptions	(210)
Actuarial loss arising from changes in financial assumptions	55
Balance, March 31, 2013	1,820
Current service cost	159
Interest cost	70
Benefit payments	(64)
Actuarial loss arising from changes in demographic assumptions	2
Actuarial gain arising from changes in financial assumptions	(222)
Cumulative amount at March 31, 2014	1,765

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below.

<i>(C\$ thousands)</i>	March 31, 2014	March 31, 2013
Increase (decrease) in defined benefit obligations		
Effect of an increase of 1%		
Discount rate	(152)	(174)
Rate of compensation increase	189	215
Effect of a decrease of 1%		
Discount rate	176	204
Rate of compensation increase	(166)	(187)



The sensitivity analysis presented above has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as that applied in calculating the defined benefit obligations recognized in the statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligations as some of the assumptions may be correlated.

There was no change from prior years in the methods and assumptions used in preparing the sensitivity analysis.

As at March 31, 2014, the weighted average duration of the defined benefit obligations was 10 years (March 31, 2013: 11 years).

21 – Reclassification of prior year comparative figures

Certain comparative figures have been reclassified to conform to the current presentation used in the Corporation's fiscal 2013/2014 consolidated financial statements. The reclassification was immaterial and did not have an impact on the consolidated statement of financial position or the consolidated statement of comprehensive income. As a result, a third consolidated statement of financial position, as at April 1, 2012, and the related note disclosures, have not been provided.



A close-up photograph of a white Arctic wolf standing on a snow-covered rock. The wolf has piercing brown eyes and a black nose, looking directly at the camera. The background is a soft-focus snowy landscape with some dark rocks visible.

PART THREE CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

CDIC remains committed to and maintains a strong governance framework. This section of our *Annual Report* presents information about the CDIC Board of Directors, including its committees and Director attendance. It also outlines how CDIC works to meet public service expectations in the area of good governance.

More about governance

For additional information on how CDIC is governed, including information about Board and committee charters and Directors, please visit our website at www.cdic.ca.

Board of Directors

CDIC's affairs are administered by its Board, made up of a Chairperson, five other private sector Directors and five *ex officio* Directors (the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions (OSFI), a Deputy Superintendent of Financial Institutions or another officer of OSFI appointed by the Minister of Finance, and the Commissioner of the Financial Consumer Agency of Canada (FCAC)).

CDIC's Board of Directors oversees the strategic direction of the Corporation and ensures that significant business risks are identified and well-managed. The Board's commitment to effective stewardship and its overall mandate are outlined in its charter. An overview of the composition of CDIC's Board of Directors and of its supporting committees follows.



Board of Directors composition



Bryan P. Davies

Chair

Joined: June 2006

Re-appointed as Chair for a five-year term, effective June 2011

Private sector Directors



George Burger

Business Executive

Toronto, Ontario

Joined: November 2010

*Appointed for a three-year term**



John S. McFarlane

Lawyer

Halifax, Nova Scotia

Joined: September 2008

Re-appointed September 2011 for a three-year term



Éric Pronovost

Chartered Professional

Accountant

Trois-Rivières, Québec

Joined: September 2008

Re-appointed September 2011 for a three-year term



Shelley M. Tratch

Lawyer

Vancouver, British Columbia

Joined: December 2006

Re-appointed February 2013 for a three-year term



Angela Tu Weissenberger

Economist

Calgary, Alberta

Joined: June 2012

Appointed for a three-year term

Ex officio Directors



Mark Carney

Governor

Bank of Canada

Board member from

February 2008 to June 2013



Stephen Poloz

Governor

Bank of Canada

Joined: June 2013

Appointed for a seven-year term



Julie Dickson

Superintendent of

Financial Institutions

Office of the Superintendent

of Financial Institutions

Joined: October 2006

Appointed for a seven-year term



Michael Horgan

Deputy Minister

Department of Finance

Joined: September 2009

Appointed to hold office during pleasure



Ursula Menke

Commissioner

Financial Consumer

Agency of Canada

Board member from

December 2007

to June 2013



Lucie Tedesco

Commissioner

Financial Consumer

Agency of Canada

Joined: June 2013

Appointed for a five-year term

Ex officio Directors (continued)



Ted Price

Deputy Superintendent

Office of the Superintendent

of Financial Institutions

Board member from

January 2007 to June 2013



Andrew Kriegler

Deputy Superintendent

Supervision Sector

Office of the Superintendent

of Financial Institutions

Joined: June 2013

Appointed pursuant to

s. 5(1)(b.1) of the CDIC Act

Alternates

(for ex officio Directors)



Agathe Côté

Deputy Governor

Bank of Canada

Designated Alternate from

August 2010 to April 2013



Lawrence Schembri

Deputy Governor

Bank of Canada

Designated Alternate:

April 2013



Jeremy Rudin

Assistant Deputy Minister

Financial Sector Policy Branch

Department of Finance

Designated Alternate:

October 2008

Names in bold denote current Board members.

* Remains in office until re-appointment or the appointment of a successor.



Board committees

Four committees supported the Board in its activities throughout 2013/2014: the Audit Committee, the Human Resources and Compensation Committee, the Governance and Nominating Committee, and the Executive Committee.

Audit Committee

Mandate:

The Audit Committee oversees internal and external audits and risk management, and advises the Board on financial issues, including the review and approval of quarterly financial reports, and the review of the Management's Discussion and Analysis (MD&A) section of CDIC's *Annual Report* (which includes the consolidated financial statements).

Composition:

- **É. Pronovost (Chair)**—Member since September 2008 and Chair since June 2009
- **G. Burger**—Member since January 2011
- **J.S. McFarlane**—Member since September 2008
- T. Price—Member from January 2007 to June 2013
- **A. Kriegler**—Member since July 2013
- **A. Tu Weissenberger**—Member since June 2012

Human Resources and Compensation Committee

Mandate:

The Human Resources and Compensation Committee reviews and advises the Board on human resource issues including: Chief Executive Officer (CEO) performance management, succession planning, compliance with standards of business conduct and ethics, statutory requirements, and compensation.

Composition:

- **S.M. Tratch (Chair)**—Member since January 2007 and Chair since February 2008
- **B.P. Davies**—Member since September 2006 and Chair from September 2006 to February 2008
- **J. Dickson**—Member since February 2008
- **J.S. McFarlane**—Member since September 2008
- **A. Tu Weissenberger**—Member since June 2012

Names in bold denote current Board members.



Governance and Nominating Committee

Mandate:

The Governance and Nominating Committee ensures that appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities, including the Corporation's public awareness strategy and plan.

Composition:

- **J.S. McFarlane (Chair)**—Chair since January 2011
- **G. Burger**—Member since January 2011
- **B.P. Davies**—Member since June 2006 and Chair from June 2006 to June 2009
- U. Menke—Member from February 2008 to June 2013
- **L. Tedesco**—Member since September 2013
- **S.M. Tratch**—Member since January 2007

Executive Committee

Mandate:

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

Composition:

- **B.P. Davies (Chair)**—Member and Chair since June 2006
- M. Carney—Member from February 2008 to June 2013
- **S. Poloz**—Member since June 2013
- **S.M. Tratch**—Member since January 2009

Names in bold denote current Board members.



Board and committee meetings and attendance

(April 1, 2013, to March 31, 2014)

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

	Board Committees				
	Board of Directors	Audit Committee	Governance and Nominating Committee	Human Resources and Compensation Committee	Executive Committee
Number of meetings^a	6 ^b	4	3	4	0
Attendance					
Private sector Directors					
B.P. Davies—Chair	6		3	4	N/A
G. Burger	4	3	3		
J.S. McFarlane	6	4	3	4	
É. Pronovost	5	4			
S.M. Tratch	6		3	4	N/A
A. Tu Weissenberger	6	4		4	
Ex officio Directors (Alternates)					
Bank of Canada ^c	5 (5)				N/A
Superintendent of Financial Institutions ^d	6			4	
Office of the Superintendent of Financial Institutions ^e —Second Director	6	4			
Department of Finance ^f	1 (6)				
Financial Consumer Agency of Canada ^g	5		3		

a Also includes meetings attended by telephone.

b Includes a Strategic Planning Session of the Board.

c M. Carney resigned from the Bank of Canada effective May 31, 2013. S. Poloz was appointed Governor of the Bank of Canada effective June 3, 2013 (L. Schembri replaced A. Côté as Alternate, effective April 12, 2013).

d J. Dickson.

e T. Price retired from OSFI effective June 24, 2013. A. Kriegler was appointed Deputy Superintendent, Supervision Section, effective June 24, 2013.

f M. Horgan (J. Rudin).

g U. Menke retired as Commissioner, FCAC, effective June 2, 2013. L. Tedesco was appointed acting Commissioner effective June 3, 2013, and permanent Commissioner, effective September 3, 2013.



Directors' fees

In 2013/2014, private sector Directors' fees for the performance of their services in respect of their office totalled \$88,530 (compared to \$97,546 in 2012/2013).

Executive Team

CDIC's Executive Team is comprised of its President and CEO, along with four vice-presidents, each responsible for a Division within the Corporation. The President and CEO is appointed by the Governor in Council, which also approves compensation for this position. The salary range for the current CEO is set between \$254,400 and \$299,200. CEO performance objectives are determined and evaluated annually by the Board of Directors and submitted to the Minister of Finance. Officers are appointed by the Board of Directors. The Board also approves the salary range for these individuals which, as at March 31, 2014, was \$185,544 to \$271,630. CDIC's officers, as of March 31, 2014, are set out below.

Michèle Bourque

President and CEO

Karen Badgerow

Senior Vice-President, Insurance and Risk Assessment

Thomas J. Vice

Senior Vice-President, Complex Resolution Division

Dean A. Cosman

Vice-President, Finance and Administration, and Chief Financial Officer

M. Claudia Morrow

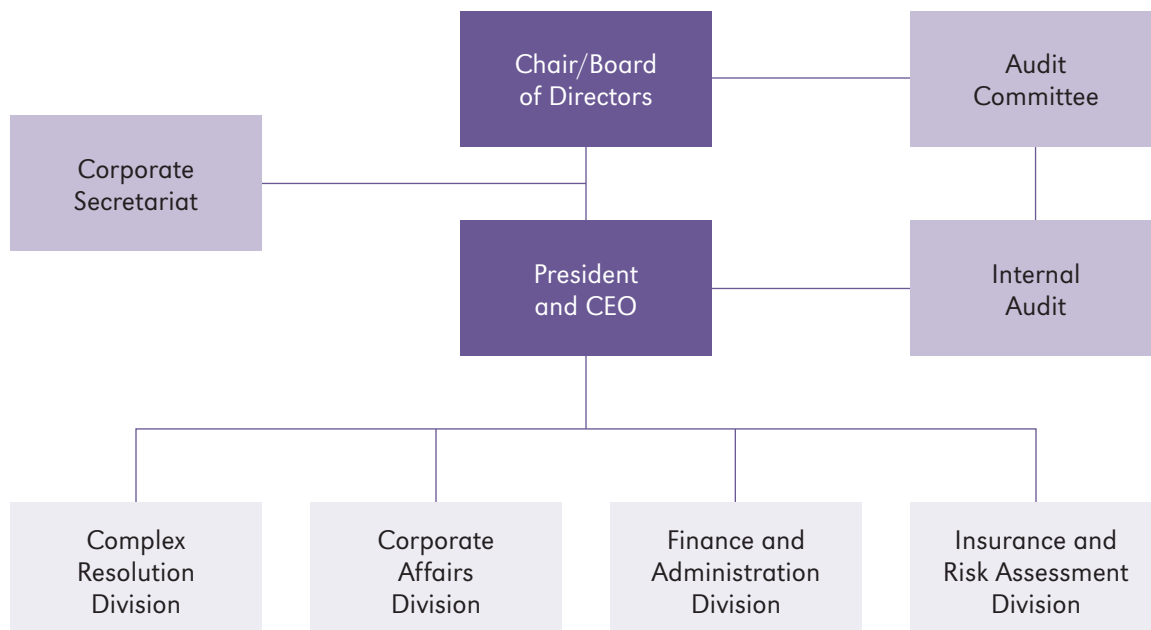
Vice-President, Corporate Affairs, General Counsel and Corporate Secretary

Travel and hospitality expenses for CDIC's officers are disclosed quarterly on the Corporation's website (www.cdic.ca).



CDIC's organizational structure

as at March 31, 2014



Addressing public service expectations

Ethical behaviour and integrity

Promoting ethical behaviour and integrity is an important focus for CDIC. Adherence to our codes and ethics-related policies is a condition of employment, as is adherence to the *Values and Ethics Code for the Public Sector*, which is fully integrated into CDIC policies. Directors and employees must confirm compliance with their respective codes annually. Compliance with the codes and other ethics-related corporate practices is reported to the Audit Committee and the Human Resources and Compensation Committee.

Ethics training

Mandatory employee ethics training is conducted every two years. For our most recent session (January 2014) employees were required to review CDIC policies and codes related to business conduct and ethical behaviour. The session outlined key employee obligations, and provided practical information to employees about ethics issues that may arise on the job.

Annual Public Meeting

In November 2013, CDIC hosted its Annual Public Meeting (APM) in Toronto, Ontario, in collaboration with Advocis, the Financial Advisors Association of Canada. The APM is an opportunity for CDIC to provide information to stakeholders and the public on our services and mandate, as well as to answer any questions.



GLOSSARY



GLOSSARY

Basel III Accord: The third of the Basel Accords, Basel III was developed in a response to deficiencies in financial regulation revealed by the global financial crisis. It is meant to strengthen bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. (*Accord de Bâle III*)

Basis point: One basis point is equivalent to 0.01%. (*Point de base*)

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

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

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

Domestic systemically important banks (D-SIBs): A bank that has been judged by its regulators to pose a serious risk to the financial system if it were to fail. The framework for identifying D-SIBs is set out by the Basel Committee on Banking Supervision and the assessment considers bank-specific characteristics of systemic importance, such as size, inter-connectedness and substitutability, which are correlated with the systemic impact of failure. Banks designated as such are subject to intensive supervision and higher capital requirements to minimize the likelihood of failure. (*Banque d'importance systémique nationale (BISN)*)

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 de faillite*)

Fast insurance determination: The ability to quickly determine the amount of insured deposits owed to depositors. (*Accélération du calcul des dépôts à rembourser*)



Financial institution restructuring provisions: Provisions of the *CDIC Act* whereby an order may be made by the Governor in Council, to carry out a transaction or a series of transactions to restructure a substantial part of the business of a failing or failed member institution. (*Programme de restructuration des institutions financières*)

Financial Market Infrastructures (FMIs): A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. (*Infrastructure des marchés financiers (IMF)*)

Financial Stability Board (FSB): A body established to coordinate internationally the work of national financial authorities and international standard-setting bodies, and to develop and promote effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. (*Conseil de stabilité financière (CSF)*)

International Financial Reporting Standards (IFRS): Standards for accounting and reporting, developed and revised by the International Accounting Standards Board (IASB) to support reliable and relevant reporting that is understandable and comparable across international jurisdictions. IFRS have increasingly replaced national financial reporting standards. (*Normes internationales d'information financière*)

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, federal credit union, or an association governed by the *Cooperative Credit Associations Act* whose deposits are insured by CDIC. (*Institution membre*)

Non-payout resolution: The resolution of a failing or failed member institution through methods and approaches that do not involve a payout to depositors. Alternatives can include establishing a bridge bank (see “Bridge Bank”) and assisting with the sale of all or part of the institution. (*Règlement autre qu'un remboursement*)

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

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

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

Provision for loss: The amount set aside on a balance sheet to provide for anticipated or possible loss or expenditure. CDIC maintains a provision for insurance losses that reflects the organization's best estimate of the losses it is likely to incur as a result of insuring deposits at member institutions. (*Provision pour pertes*)

Tier 1 Capital Ratio: The ratio of a bank's core equity capital to its risk-weighted assets. (*Ratio de fonds propres de catégorie 1*)

