CDIC
Canada Deposit
Insurance Corporation

More protection for consumers:
up to $100,000 for eligible deposits

Annual Report 2006

Canada

Highlights of 2005/2006

As a corporation . . .

- Deposit insurance coverage is up to $100,000 for eligible deposits—the first increase in over 20 years.
- CDIC wins the OAG Award for Excellence in Annual Reporting by Crown Corporations.
- CDIC is funded by insurance premiums paid by its member institutions—these premiums remain at an all-time low. For the tenth consecutive year there are no failures of any CDIC members.

Our people . . .

- With the retirement of Ronald N. Robertson, CDIC welcomes Bryan P. Davies as our new Chairman.
- Guy L. Saint-Pierre completes his first year as President and CEO of CDIC.
- Following a survey of our employees, 89% say they are satisfied or extremely satisfied with CDIC, and 81% are proud to work here.

On the horizon . . .

- In an increasingly complex world, we will continue to keep abreast of changes in the financial services sector, keep our skills honed and our systems current—thereby contributing to the stability of the Canadian financial system.
- Public awareness of deposit insurance is increasing—and fewer Canadians incorrectly believe that CDIC covers mutual funds. Improving public awareness of deposit insurance will be, as always, an important focus of our work next year.
- Strengthening partnerships with other members of Canada's financial safety net to improve our efficiency and effectiveness will remain one of our key strategies.

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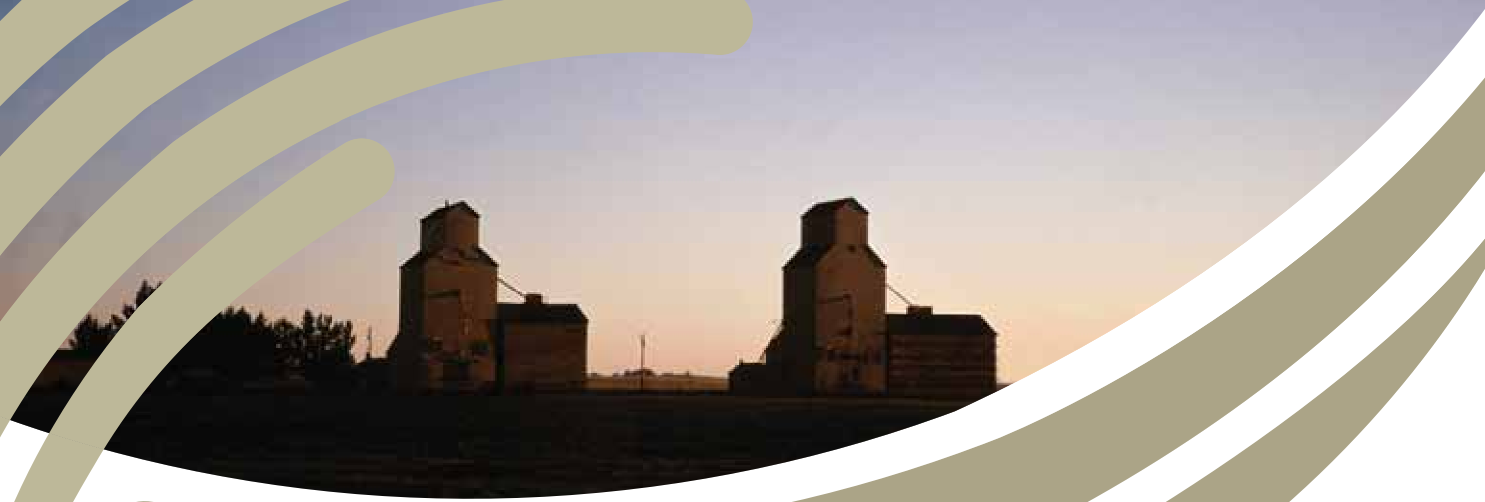
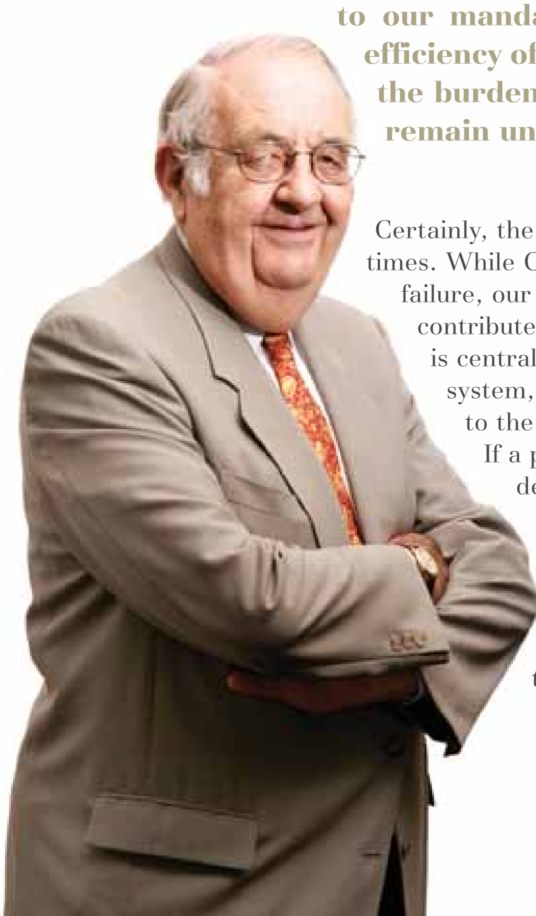


Message from the Chairman

Last summer, Parliament increased the CDIC deposit insurance coverage limit from $60,000 to $100,000. From the Canadian consumer's point of view, the new deposit insurance limit represents the most important change concerning deposit insurance since the last increase in 1983. This was a very timely change as it will enhance the protection of consumers, promote competition among deposit-taking institutions and help Canadians in their retirement. Even though other amendments to our mandate have been introduced in order to improve the efficiency of the Canadian financial regulatory system and reduce the burden on our members, the fundamentals of our mandate remain unchanged.



Certainly, the emphasis on the goals of deposit insurance shifts with different times. While CDIC is required to protect eligible deposits in the event of a failure, our mandate continues to call for CDIC to "promote and otherwise contribute to the stability of the financial system in Canada." This role is central to why deposit insurance exists: the stability of the financial system, when a failure of a deposit-taking institution occurs, owes much to the guarantee afforded to deposits by the insurance CDIC provides. If a particular institution fails, our very presence prevents runs on deposit-taking institutions and thus avoids a destabilizing spillover on the financial system.

However, for CDIC to "contribute to stability" in this manner we must keep Canadians informed about deposit insurance. The new coverage limit has provided us with a unique opportunity to enhance our public awareness program. We have used the newsworthiness of the increase in coverage in our television and print messages to further our efforts to inform Canadians about both the increase and, more generally, about the benefits and limitations of deposit insurance.

The increasing complexity of the financial system and its participants requires CDIC to be on top of what is occurring, especially what is changing, within its membership and the financial system. CDIC has been focusing on being ready to perform its core functions effectively and efficiently. To do that, we must be ready to act both before and after a member is in serious difficulty, and not simply wait to see if the member fails.

History has shown that a failure tends to develop at an accelerated pace if the institution is unable to take appropriate remedial action. It then needs to be dealt with quickly; delay simply exacerbates losses. Even if the member as a whole cannot be saved, quick skilful action may allow for salvaging of at least some of the member's going concern values—which would otherwise be destroyed in the case of a precipitous collapse. CDIC, as the custodian of the deposit insurance fund, must have the ability to quickly determine whether and how a rescue or salvage operation might be mounted, and whether it makes economic sense to do so compared with total liquidation.

Having the information, the skills and the tools to act quickly also feeds into readiness to deal with the consequences of a failure—an equally important aspect of CDIC's mandate to protect depositors. In these times most, if not all, of our members have both an increasing number of depositors and an increasing amount of deposits. More and more depositors rely on continuous and virtually instant access to their deposits to obtain cash, to make individual and periodic payments for household and living expenses, to make debt payments, and so on. Electronic payments are becoming pervasive. Being ready, if necessary, to step into a member's accounting system, to determine entitlements and make funds available promptly to many thousands of depositors, and to respond to potentially thousands of telephone and e-mail enquiries cannot be left until the need arises—it has to be anticipated. Members do not design their systems in anticipation of financial failure.

CDIC's prompt response to a crisis is of vital importance to depositors in particular and to the financial system in general. All of this demands that CDIC be ready to cope quickly should a critical problem arise. It is an emphasis that CDIC has maintained and will continue to pursue in the future.

As a federal Crown corporation, the way in which we fulfill our mandate is carefully scrutinized. It was, therefore, with special pride this year that we received the 2005 Auditor General of Canada Award for Excellence in Annual Reporting by Crown Corporations in the large Crown corporation category. The award is designed to promote enhanced accountability through improved disclosure of information on corporate performance by recognizing Crown corporations that do this well. This recognition of our efforts from the Office of the Auditor General is highly valued by both the Board and the employees.

I deeply appreciate the skills and expertise of our Directors, as well as their continuing support, over the past year. While we were fortunate to see all of our Directors remain in office during the fiscal year, shortly thereafter three of them left the Board. Ian Bennett left his position as Deputy Minister of Finance to become President and CEO of the Royal Canadian Mint. His support of CDIC was constant and well appreciated. John Doran retired from the Office of the Superintendent of Financial Institutions. He served CDIC well, especially through his participation on the Audit Committee where his many talents were put to great use. On behalf of all at CDIC, I say a special word of thanks to Gar Emerson who served as a Director of CDIC for almost 12 years—including as Chair of the Audit Committee and then as Chair of the Human Resources and Compensation Committee. Gar made an invaluable contribution to the Board and to CDIC—he will be missed by all who had the privilege of working with him.

Led by our new President and CEO, Guy Saint-Pierre, our employees continued to support the Board with comprehensive and timely information designed to enable us to discharge our duties and responsibilities as a Board. I continue to be impressed by the calibre of our employees and I thank them for making CDIC such an exemplary organization.

As I leave CDIC, after my close relationship with it these past 20 years, I welcome Bryan P. Davies as my successor. I know that CDIC will be well-served by him, as will the depositors, member institutions and our other stakeholders, as he helps guide this dynamic and important Crown corporation into the future.

R.N. Robertson, Q.C.

Message from the President and CEO

This past year was one of transition at CDIC as several changes were made to our mandate; significantly, however, CDIC's key roles and responsibilities have been maintained. These changes consisted of removing the requirement for CDIC to promote standards of sound business and financial practices for member institutions, and removing CDIC from the entry process for a federal institution accepting retail deposits. Each change had implications for CDIC's operations and was promptly addressed during the year. Of greatest significance for consumers was the increase in the deposit insurance coverage limit to $100,000.

Strong financial performance

CDIC's financial performance remained strong. Consolidated net income of $52 million was down from last year's $105 million, largely as a result of a reduction in premium rates and an increase of $50 million to our provision for insurance losses. The total amount of insured deposits rose by 16%; most of this can be attributed to the increase in the coverage limit. CDIC's *ex ante* funding, represented by the aggregate of both our retained earnings and provision for insurance losses, was $1.4 billion as at March 31, 2006.

CDIC's operating expenses increased by 2.9% over the previous year due to heightened awareness activities supported by our Board of Directors to inform the public about the new limit. We continue to look for ways to streamline our activities in order to keep the members' costs of deposit insurance down. Premiums paid by our members remain at an all-time low.

A positive year for members
Our membership continued to demonstrate solid performance last year, as it has throughout the course of the current positive economic cycle. As a group, members demonstrated strong profitability, good asset quality and robust levels of capital. For the tenth consecutive year there were no failures among CDIC member institutions. CDIC's insurance risk is tied closely to the financial health of its membership and, based on these results, members continue to pose relatively low short-term risk to CDIC. We are expecting 2006 to be another favourable year for our members.

Executing our strategies
During the year, we fulfilled our revised mandate through our four business strategies: readiness, sound governance, strong partnerships and deposit insurance awareness. Our primary focus continued to be our readiness strategy, which represents all the activity and preparation we need to do to respond effectively and efficiently in the event of a member institution failure. Our emphasis at present is on keeping our skills and systems for payout preparedness current, and continuing to enhance the training of our employees in various types of failure resolutions.

During the year, we reviewed and updated our Risk Assessment Framework with an emphasis on higher risk member institutions, membership peer trends and emerging issues. Our risk monitoring work continues to rely heavily on the Office of the Superintendent of Financial Institutions (OSFI). This past year we worked closely with OSFI to put in place information-sharing arrangements in support of the new entry regime, under which federal financial institutions authorized to take retail deposits automatically become members of CDIC.

In an era of increased scrutiny for all corporations, maintaining good governance practices has become a corporate necessity. We continued to keep pace with or exceed best practices in governance. We examined closely what the “tone at the top” really means to CDIC, and developed a training session for all employees on the subject of ethics in the workplace. Our work on enterprise-wide risk management is featured in this year's report to highlight the strides we have made in assessing our own risk practices.

The increase in the deposit insurance coverage limit was the central theme of our stepped-up public awareness activities. We undertook initiatives aimed at our three target groups: seniors, adults who have not completed high school and ethnocultural communities. We developed a new corporate identifier, an undertaking that supports and complements our awareness strategy. Our public awareness activities will continue with an emphasis on partnering with others who can assist us in informing Canadians about deposit insurance.

With appreciation
Throughout the year, our employees continued their diligent work for CDIC and the Canadian public. Over the winter, we conducted an employee survey which confirmed that, while there is work to be done in some areas, 89% of employees are satisfied with CDIC. Our employees form a strong team whose professionalism I value, especially in the face of the many changes we have dealt with. Our Board of Directors has given me generous counsel and support, and continues to provide CDIC with sound strategic direction and oversight.

When I first joined CDIC in 1987, I met and worked with Ron Robertson, who was then one of our private-sector Directors. I have seen first-hand his outstanding legal and analytical skills, and his commitment to CDIC and the protection of the interests of its depositors. In my first year as President and CEO, I could not have asked for a more capable mentor. Throughout our time at CDIC together, I always looked forward to my interactions with Ron and, now that he is retiring, I will miss his guidance—as will our employees.

With the beginning of a new year, it is with great pleasure that I welcome Bryan P. Davies as CDIC's new Chair, and I look forward to working with him in the years to come.

Guy L. Saint-Pierre

I Introduction

The Canada Deposit Insurance Corporation (CDIC) is a federal Crown corporation, established in 1967 by the *Canada Deposit Insurance Corporation Act*. The Corporation reports to Parliament through the Minister of Finance. CDIC members are banks, federally or provincially incorporated trust and loan companies, and associations to which the *Cooperative Credit Associations Act* applies.

CDIC's Mandate

CDIC works for the benefit of the people who hold deposits at our member institutions by providing deposit insurance against partial or complete loss in the event that a member institution goes bankrupt or otherwise fails, while at the same time minimizing our own risk. As one of five federal agencies that make up Canada's financial "safety net,"[1] our mandate and role are unique.

CDIC is funded by premiums that are assessed on the insured deposits of member institutions each year—we do not receive federal tax dollars to carry out our work. We conduct regular risk assessments of our members, and monitor their performance and results using a variety of information: documents provided by regulatory authorities; financial information from members; market data and indicators of trends in the economy and in the overall environment. We rely on the Office of the Superintendent of Financial Institutions (OSFI) and provincial regulators to conduct annual examinations of member institutions on our behalf.

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Each year, CDIC reports to Parliament through the Minister of Finance on our accomplishments against our plans and commitments, as set out in our Corporate Plan for the same year. The 2006 Annual Report is organized to present our results and progress, in four broad sections. *Management's Discussion and Analysis* (section II): management's perspectives on the Corporation's progress and accomplishments, written to meet the requirements of Management Discussion and Analysis: Guidance on Preparation and Disclosure—a guideline of the Canadian Institute of Chartered Accountants. The section provides a review of CDIC's performance against its Plan, an overview of our operating environment, our risk, and how CDIC's future activities are expected to affect its business results. It is followed

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

by CDIC's *Financial Statements* (section III). *Corporate Governance* (section IV) outlines CDIC's commitment to governance. We summarize our Board's key activities for 2005/2006 as they relate to our ongoing work to foster a culture of ethical behaviour and business conduct. *Membership Performance and Profile* (section V) provides a review of the financial performance of CDIC's member institutions for last year.

$100,000 Deposit Insurance Coverage

What's covered?
The maximum *basic* coverage for eligible deposits held in the name of a depositor at a single member institution is $100,000 (principal and interest combined). CDIC provides separate coverage for each of the following types of eligible deposits—those held:

- jointly, in the name of two or more persons
- in trust
- in registered retirement savings plans (RRSPs)
- in registered retirement income funds (RRIFs)
- in mortgage tax accounts

What's an eligible deposit?
To be eligible for CDIC 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
- money orders, drafts, certified drafts and cheques

Not all deposits are eligible. For example, mutual funds, stocks and foreign currency deposits, including those in U.S. dollars, are not covered by CDIC.

II Management's Discussion and Analysis

The following discussion and analysis is the responsibility of CDIC management. It provides an overview of CDIC's operating environment, an analysis of CDIC's performance against its strategies (including a Corporate Scorecard), a description of the Corporation's risk management activities and a financial overview.

The Corporation's Board of Directors carries out its responsibility to review this disclosure principally through the Audit Committee. The Audit Committee reviews this disclosure and makes a recommendation to the Board of Directors for its approval.

CDIC's Operating Environment

CDIC's operating environment has an important influence on the ability of the Corporation to fulfill its mandate. CDIC constantly monitors and reviews all aspects of its broad operating environment, including the Canadian economy, the financial sector, the legislative and regulatory environments, international events and other factors with potential to affect the Corporation and its member institutions.

Impact of a Strong Economy

The Canadian economy continued to perform well last year, exhibiting strong growth, low inflation and healthy fiscal surpluses. Consumer spending, home construction, business investment, and rising oil and other commodity prices have all been key factors in growth, and have also contributed to strong overall employment expansion.

Most sectors are performing very well
Business conditions in Canada's corporate sector are generally strong. Profitability in most industries has remained high and debt-to-equity ratios have fallen to very low levels, compared to previous business cycles. The very healthy earnings in the oil and gas industry and other resource sectors have resulted from strong international demand and high commodity prices. Non-residential construction spending has recorded healthy gains driven by commodity-based sectors and government investment in infrastructure. The residential construction industry has also been extremely robust, although

it is beginning to show signs of slowing in the face of rising interest rates. Canada's manufacturing sector has, for its part, been challenged by the strength of the Canadian dollar and its impact on exports, in particular the automotive sector, wood and paper products, and computer and electronics manufacturing.

CDIC member institutions[2] have benefited directly from the robust overall performance of the economy. Our membership is well capitalized, enjoys good credit quality and is experiencing some of the healthiest earnings on record. In particular, business lines related to the stronger sectors of the economy, such as loans to the energy sector, construction lending and consumer credit are reaping the benefits of a strong economy. Some members are taking advantage of Canada's strong currency and attractive growth opportunities in other countries to expand their operations in such areas as the United States and China.

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Looking ahead
While current forecasts are that the economy will continue to perform well during the next year, which will be beneficial to CDIC members, growth could moderate somewhat as a reaction to higher interest rates in Canada and slower growth in the United States. The other principal risks ahead include the possibility of the Canadian dollar heading higher than anticipated, rising energy prices and the potential for a downturn in the real estate sector. In addition, consumer debt levels have been increasing steadily during the current period of economic expansion, putting both households and the some segments of the financial sector in a potentially vulnerable situation. Finally, the persistence of worrisome international trends, such as the burgeoning U.S. current account deficit and the sustainability of the economic boom in China, are factors that could affect the Canadian economy and ultimately the risk profile of CDIC member institutions.

Legislative and Regulatory Developments during 2005/2006

2006 review of financial institutions legislation
Every five years, the Government reviews the federal financial services regulatory framework as required by law. CDIC has been involved in this review, together with the other federal financial agencies: the Department of Finance which leads the review; the Office of the Superintendent of Financial Institutions (OSFI); the Bank of Canada; and the Financial Consumer Agency of Canada (FCAC). Based on consultations with Canadians, the Government will be proposing a variety of initiatives for the financial services sector. In the 2006 Federal Budget, the Government acknowledged that there is not sufficient time to complete the review by the current October 2006 deadline. Accordingly, a White Paper on the 2006 review was published in June 2006 with legislation to be tabled in Parliament this fall. The sunset date for the federal financial institutions statutes will be extended from October 24, 2006, to April 24, 2007.

As related statutes may also be amended in conjunction with the 2006 financial institutions legislation review, the Corporation has utilized this opportunity to review the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). CDIC has proposed a number of amendments to the *CDIC Act* to be included in this review. Although largely technical in nature, certain amendments, such as those related to reimbursements, would provide CDIC in the future with a better ability to affect timely payouts to insured depositors in the event of a member failure.

[2] Further details of our *Membership Performance and Profile* can be found in section V of this Annual Report.

Basel II and CDIC member institutions
The revised international framework governing the capital adequacy of banks, the *Basel II Accord*, will also affect CDIC's membership. Basel II will replace the previous Accord, and is scheduled for implementation in Canada after fiscal year end 2007. Basel II is composed of three pillars. The first pillar deals with the framework for calculating the total minimum regulatory capital requirements for credit, market and operational risk by setting out a range of approaches with increasing levels of sophistication and risk-sensitivity. The supervisory review process is the second pillar, while the third pillar addresses market discipline through disclosure requirements.

Over the course of 2005, OSFI outlined the credit and other data that banks will be required to submit under Basel II. Five quarters of parallel reporting will begin at fiscal year end 2006 for banks that will be using the advanced internal ratings-based approach for credit risk by the start date of Basel II. Until then, OSFI will continue to address any remaining questions related to Basel II data definitions and technical specifications, as well as reviewing banks' implementation efforts and the impact of Basel II on the capitalization of these banks. Full implementation of Basel II will begin in 2008 and, on average, total capital for the membership under the new rules of Basel II is not expected to change significantly, although some CDIC members may decide to alter their business mix and re-balance portfolios in order to reduce absolute capital levels. Concerns about Basel II in the U.S. have led to a delay in its implementation by one year in that country. This raises certain cross-border implementation concerns due to the uncertainty of how rules may apply to banks operating across jurisdictions.

Other ongoing regulatory and accounting changes have added to the complexity of operations of CDIC member institutions. In keeping with the *Sarbanes-Oxley Act* enacted in the U.S. in 2002, the Canadian Securities Administrators has introduced a series of national instruments and policies regarding the governance of Canadian public companies. A phased-in approach to implementing these regulations is expected in Canada, based on the size of a company, and is planned to

2005 Federal Budget Legislation—Impact on CDIC

The Government announced in its February 2005 Federal Budget measures aimed at improving the efficiency and effectiveness of financial services regulation. These measures focused on reducing regulatory burden and, more specifically, eliminating any unproductive overlap and duplication of roles and functions between CDIC and OSFI.

Subsequently, while CDIC's key roles and responsibilities were affirmed, the *CDIC Act* was amended in the summer of 2005 to: increase the deposit insurance coverage limit for insurable deposits from $60,000 to $100,000; remove the requirement to promote standards of sound business and financial practices for member institutions (CDIC's *Standards of Sound Business and Financial Practices By-law* was repealed in April 2005); and provide that a federal institution authorized to take retail deposits automatically be a member of CDIC.

As well as providing CDIC with an opportunity to promote consumer awareness of deposit insurance, the increase in deposit insurance coverage to $100,000 was the primary factor causing the total amount of CDIC insured deposits to increase by 16% during the year—impacting CDIC's premium revenue and the amount of time it will take to reach the bottom of the *ex ante* funding target range. The repeal of the Standards By-law and changes to entry resulted in the Corporation updating the Differential Premiums, Premium Surcharge, Applications, and Policy of Deposit Insurance By-laws.

start in 2007 for companies with a market capitalization of greater than $500 million.

Crime and terrorism
Financial crime and activities related to terrorism, as well as the need to comply with related legislation, can pose significant reputational and legal risks to member institutions, both in Canada and in their foreign operations. It also appears likely that the risk of financial crime is increasing due to such factors as the growing use of technology, including the Internet. One manifestation of growth in financial crime is the increasing incidence of identity theft. In 2005, the Government engaged in public consultations to enhance Canada's anti-money laundering and anti-terrorist financing regime.

As well, member institutions are constantly upgrading the security surrounding their ATMs and online banking sites in an effort to keep ahead of criminal activities and provide their customers with a safe and secure environment in which to conduct their financial business.

Beyond our borders—other considerations
Further afield, as financial markets around the world continue to integrate, regulatory frameworks in different jurisdictions must also adapt. Major technological advances have rapidly increased cross-border financial flows. These trends have allowed for greater risk dispersion; however, these developments may also increase the likelihood of significant market disruptions and contagion effects as they have increased interdependencies between markets both within and across national borders. In this rapidly changing global financial system, public policy must seek to maintain macroeconomic stability and retain the capacity to contain market shocks while exploiting new technological advances.

Additionally, as member institutions become increasingly active abroad, it is imperative that Canadian financial sector regulation be efficient and competitive with international regulatory frameworks.

Performance against Plan

CDIC's *Summary of the Corporate Plan 2005/2006 to 2009/2010* identified four corporate strategies to support CDIC's objects (see box) and guide our work for the planning period, taking into account our operational environment and risks at the time:

- **Readiness**
- **Sound Governance**
- **Strong Partnerships**
- **Deposit Insurance Awareness**

CDIC's Objects

- to provide insurance against the loss of part or all of deposits
- to promote and otherwise contribute to the stability of the financial system in Canada
- to pursue the above for the benefit of people having deposits with member institutions, and in such manner as will minimize the exposure of the Corporation to loss

The underlying descriptions and explanations for these strategies and the supporting initiatives were revised slightly in an amended version of the 2005/2006 to 2009/2010 Corporate Plan, dated October 2005. The amended Plan was developed to show the impact of the 2005 Federal Budget legislation on the Corporation's plans and resource budgets for the 2005/2006 fiscal year, as well as the implications for the next four years.

Detail about our activities and performance to these strategies over the course of the past year is included in the Corporate Scorecard (found at the end of this section) and discussed below.

Readiness

CDIC must be prepared to deal promptly and effectively with any significant member problems that would affect it. We stay current and knowledgeable with respect to significant events affecting our membership and ensure that we have a sound corporate and technological infrastructure in place. Our focus on readiness is a key strategy in support of our management of CDIC's insurance risk, that is, the risk of loss associated with insuring deposits, including costs incurred in the event of an intervention.

Staying informed and understanding the risks

CDIC continually monitors the financial markets for changes and emerging issues, assesses the impact of these on its membership and prepares to respond as appropriate. As well, CDIC assesses economic and financial market developments with a view to their implications for membership risk assessment, differential premiums, resource requirements and employee training needs. The Risk Assessment Framework was updated in response to the 2005 Federal Budget legislation and in particular the removal of the promotion of standards of sound business and financial practices. Under the updated framework, CDIC now places greater reliance on OSFI's assessment of low-risk members and puts more emphasis on the analysis of trends and monitoring of higher risk members and peer groups. As well, it will continue to enhance its intervention preparedness for higher risk members. Risk in the overall membership remains low on a historic basis as members continue to record high levels of profit and capital. Some competitive and strategic trends, however, point to an increasing risk profile for certain smaller, niche-oriented members.

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Intervention tools: staying current

Technology plays an important role at CDIC. Our payout system is used to reimburse depositors in the event of a failure of a member institution. In 2005/2006, progress was made on the development of innovative payout processes (e.g., electronic delivery channels). New technologies were introduced to support remote system access by CDIC's payout team and construction began on a website that would be made operational in the event of a member institution failure. Through the site, depositors would be able to obtain information regarding the status of a failed member and would have access to instructions about reimbursement of their insured deposits. CDIC is also completing the update of its special examination processes and documentation, and continues to bring up-to-date its business continuity plans to ensure that mission critical systems, such as our payout system, are always ready and available.

Intervention simulations

In 2005/2006, the Corporation performed the second end-to-end test of its payout system, from the loading of deposit data to the simulated payment of depositors by cheque. This type of activity helps to identify the strengths and weaknesses of CDIC's payout processes. Looking ahead, plans call for regular full-failure and targeted limited-scope simulations to assess CDIC's payout readiness as well as other aspects of its intervention capabilities.

In order to maintain an effective network of suppliers that will assist CDIC in the event of an intervention, we organized and delivered a seminar to suppliers and liquidators about payout system developments and other intervention issues.

Sound Governance

CDIC constantly strives to demonstrate that it is a well-managed organization with sound policies and procedures in place, complemented by a rigorous validation and reporting regime, and with a Board Charter and Codes of Business Conduct and Ethical Behaviour in place for both its Board of Directors and its employees.

Governance, accountability, efficiency and effectiveness

Key to safeguarding CDIC's reputation and managing our reputation risk is our strong focus on governance. Our governance activities are intended to meet or exceed best practices in governance which, in turn, allows us to demonstrate our commitment to having a strong accountability regime in place.

The Office of the Auditor General (OAG) recognized CDIC's dedication to accountability by awarding the Corporation the 2005 Award for Excellence in Annual Reporting by Crown Corporations in the large Crown corporation category. As stated on OAG's website, the purpose of the award is to "promote enhanced accountability through improved disclosure of information on corporate performance by recognizing Crown corporations that do this well." (More information about the award is available on the OAG website at: www.oag-bvg.gc.ca/domino/other.nsf/html/98award_e.html)

The Office of the Auditor General (OAG) recognized CDIC's dedication to accountability by awarding the Corporation the 2005 Award for Excellence in Annual Reporting by Crown Corporations in the large Crown corporation category.

Over the course of the year, we continued with improvements to our overall efficiency and effectiveness. Through further adjustments to our organizational structure and the tightening of operating expenditures, we kept the overall cost of providing deposit insurance down. In fact, notwithstanding our public awareness campaign expenditures, the Corporation has maintained its actual level of operating expenditures relatively unchanged over the course of the past three years. CDIC also increased its level of accountability by establishing benchmarks for its performance and conducting rigorous enterprise-wide self-assessments of governance practices.

A joint CDIC/OSFI study carried out in 2005 focused on the potential for streamlining of administrative functions between the two organizations. After a thorough review by CDIC and OSFI, both organizations concluded that there were no compelling financial reasons to pursue identified opportunities at this time.

Review of Crown corporation governance

CDIC continued to implement the measures contained in the Treasury Board of Canada Secretariat's *Review of the Governance Framework for Canada's Crown Corporations—Meeting the Expectations of Canadians*. This Review, which addresses key aspects of the governance regime for Crown corporations, contains 31 measures detailed in the report (a copy of the Review may be obtained on the Treasury Board website at: www.tbs-sct.gc.ca/report/rev-exa/gfcc-cgse_e.asp). Both management and the Board's current and future work plans take into consideration the measures contained in the Review, as well as other ways to ensure that CDIC continues to maintain best practices in this field. For example, in December 2006, CDIC will hold its first annual meeting for the public and stakeholders, as recommended by the Review.

Over the course of the past year, CDIC management conducted a scoping exercise designed to determine what CEO/CFO certification would mean to CDIC. This exercise resulted in a plan as well as the identification of the resources required to implement a certification regime at CDIC. In management's view, adopting a certification regime could be an important step in demonstrating leadership and maintaining best practices in governance by showing CDIC's stakeholders that our financial reporting adheres to the highest standards, and is a process that will lead to stronger internal controls.

Management was directly involved in and provided support to the Board of Directors in looking at ways to enhance the governance practices of CDIC. A detailed discussion of the many aspects of this work and the results are set out in the Corporate Governance section of this Annual Report.

Human resources

Last year saw the development of the new three-year *Human Resources Strategy and Plan* (HRSP), which sets out CDIC's human resource objectives and plans. The HRSP reinforces the importance of CDIC's employees as a key resource, helps to ensure the future of the organization by creating a sustainable and adaptable work force, and maintains our excellence as a workplace. The HRSP was drafted to take into account the issues identified in the assessment of our people risk (discussed in more detail under "Managing Our Risks" later in this section) as well as the results of the employee satisfaction survey (see sidebar).

As part of the HRSP, CDIC continued to identify potential successors for key positions within the organization. Recruitment and training initiatives were reviewed for appropriateness and relevance. The HRSP will continue to be implemented during the coming fiscal year and thereafter.

Audits

During 2005/2006, CDIC addressed the four opportunities that arose from a Special Examination of the Corporation by OAG, completed in late fall 2004. Specifically, CDIC completed or made significant progress in the four areas identified as opportunities by OAG:

Employee Satisfaction Survey

CDIC conducts regular employee satisfaction surveys. In light of the assessment this past year of our people risk as "cautionary," the importance of carrying out this survey and addressing employee concerns was highlighted. As a result, in December 2005, CDIC employees participated in an employee survey conducted by an external consultant, designed to capture employee views and gauge the level of satisfaction with a variety of employment-related policies and practices.

The results have identified areas for improvement, which are grouped into four main themes: seeking input and two-way communication; employee/teamwork recognition; stress/workload; and coaching/mentoring. Furthermore, with uncertainty inevitably created as a result of the change in mandate in 2005, 40% of employees responded that morale was not as good as reported in previous employee surveys. While morale is a function of many factors within an organization, management takes employees' views and concerns seriously and has already sought their suggestions on steps that CDIC can take to improve it. The new *Human Resources Strategy and Plan* and related initiatives will also help address this issue.

Overall, the results remain largely positive with 89% of employees saying that they are satisfied or extremely satisfied with CDIC at the present time, and 81% stating that they are proud to work at CDIC. Management welcomes this employee feedback and is committed to acting on it.

- Assessing the readiness to deal with future interventions of all key parts of the organization, by member institution peer group—*work is in progress*.
- Finalizing key documents on our processes and systems for intervention and payout—*work completed*.
- Updating and documenting the valuation model used in assessing various intervention methods—*work completed*.
- Addressing concerns about the timing content and clarity of Enterprise Risk Management (ERM) reports—*work completed*.

CDIC maintains a strong internal audit function with a mandate that meets statutory requirements and is built around best practices. During 2005/2006, in addition to its ongoing compliance and internal audit work, focused internal audits were carried out on the Corporation's payout practices, simulation and controls, controls surrounding the premiums receivable process, and our ERM activities.

Maintaining strong partnerships with its fellow safety net organizations and other stakeholders is vital in enabling CDIC to fulfill its role as a deposit insurer in an efficient and effective manner.

Information technology
Our information technology (IT) work over the past year was focused on making enhancements to systems that support our mandate. In particular, the systems required to perform payouts and electronic filing for premium collection were improved to make them more functional and responsive.

Maintaining capacity to stay current with best practices in the field of IT is essential to CDIC's work. To this end, CDIC adopted industry standard solutions in the areas of service support and delivery. We documented IT operations and put in place tools that will formalize processes for requesting services, and for prioritizing and approving system changes.

We also extended the information portal used to manage our large collection of information holdings. This will enable us to better collaborate across CDIC in order to work more efficiently. The portal has been integrated with a new records management application designed to make access to the common repository for all of CDIC's information more user friendly.

Business continuity and business resumption
In the current operating environment, CDIC's business continuity planning and business resumption processes are important aspects of our governance work. CDIC defines its Business Continuity Management Program (BCMP) in a comprehensive fashion to cover all aspects of continuing operations regardless of the nature of a given business disruption. Last year, CDIC conducted business continuity planning exercises to ensure our ongoing readiness in the event of a disruptive event or disaster. Exercises focused on remote access recovery and addressed, among other things, the need for employees to have flexibility in selecting their location of work depending on the severity of the threat and the potential impact on employees. CDIC continued to explore the potential benefits of collaborating with other organizations to adopt and adapt their BCMP initiatives in order to lower our own operating costs. As part of our BCMP efforts, we began to develop our own Pandemic Preparedness Plan.

Strong Partnerships

Maintaining strong partnerships with its fellow safety net organizations and other stakeholders *is vital in enabling CDIC to fulfill its role as a deposit insurer in an efficient and effective manner, and allowing the Corporation to contribute to efforts to improve regulatory efficiency for member institutions.*

In 2005/2006, CDIC engaged in a number of initiatives aimed at strengthening its relationships with member institutions, regulators, supervisors, other deposit insurers and suppliers. CDIC and OSFI continued to collaborate in a number of areas, including those covered by the *CDIC/OSFI Strategic Alliance Agreement*. While CDIC and OSFI have unique mandates, each organization strives to identify areas where efficiencies may be realized through joint efforts. One new area of collaboration last year was the arrangement that CDIC operate the OSFI call centre on a cost recovery basis. This arrangement is also in place between FCAC and CDIC. Throughout the year CDIC continued to explore opportunities for collaboration with others with a view to improving our efficiency and effectiveness.

Financial Information Committee
CDIC is a member of the Financial Information Committee (FIC)—a federal committee under the auspices of the Financial Institutions Supervisory Committee (FISC) that is chaired by OSFI and includes representatives from the Bank of Canada, Department of Finance and CDIC. CDIC worked with FIC, with the participation of Statistics Canada, in its efforts to carry out a review, rationalization and inventory of all financial data collected by federal deposit-taking institutions.

Consultations and other collaborative efforts
The Corporation completed a follow-up consultation to the comprehensive review of the *Differential Premiums By-law* in response to the 2005 Federal Budget legislation that removed CDIC's requirement for the promotion of standards of sound business and financial practices. CDIC also initiated revisions to the *Deposit Insurance Information By-law* through the issuance of a consultation paper for consideration by member institutions, their associations and other interested parties.

Activities with Other Deposit Insurers

CDIC is recognized as a leader in deposit insurance. Our involvement with other organizations is measured in order to ensure that any collaboration will help CDIC sustain its high level of core competencies, contribute to its readiness, and provide employees with the opportunity to learn from the experiences of other deposit insurers. Activities during 2005/2006 included:

- **The development of strong relationships with other deposit insurers to share knowledge, expertise and experiences**—CDIC maintains regular contact with provincial deposit insurers, including l'Autorité des marchés financiers, the Deposit Insurance Corporation of Ontario, and the caisse populaire/credit union stabilization funds. CDIC employees participated as speakers, discussion leaders and in other capacities in a variety of events during the year. The Corporation has been working with Jordan on failure resolution method and with Kazakhstan on developing a differential premium system. CDIC received various study groups from Korea, Ghana and Tanzania and hosted an official from the Korea Deposit Insurance Corporation to study CDIC's systems and practices.
- **Providing assistance in establishing deposit insurance systems or enhancing existing systems**—Internationally, CDIC provided speakers and technical advice to the People's Republic of China, Japan, Malaysia, Sweden and Thailand. Employees also took part in two special study tours of the U.S. Federal Deposit Insurance Corporation to review the latest developments in failure resolution methods and claims and recovery techniques.
- **Contributing to the development of guidance and good practices in deposit insurance**—As an active member of the International Association of Deposit Insurers (IADI), CDIC is leading the development of research and guidance on practices in the governance of deposit insurance systems. CDIC is collaborating with other members of IADI on the development of research and guidance on funding deposit insurance systems and claims and recoveries from the estates of failed institutions.

Moving forward, CDIC will continue to work closely with member institutions to put the revisions in place, aiming to improve upon the provision of relevant information to depositors while identifying opportunities to reduce costs for members. We also worked to improve information sharing and consultation with members through the use of Intranet technology.

Deposit Insurance Awareness

This strategy assists CDIC in its role of contributing to the stability of the financial system in Canada. The increase in deposit insurance coverage from $60,000 to $100,000 brought about by the 2005 Federal Budget legislation provides CDIC with an opportunity to further emphasize the benefits and limitations of deposit insurance for depositors in our member institutions.

Strategy

CDIC developed its three-year public awareness strategy in March 2005; fiscal year 2005/2006 was its first year of implementation. The aim is to sustain the current level of general public awareness, while improving knowledge among specific target audiences (seniors, ethnocultural communities and adults who have not completed high school). The strategy is geared towards concise communication of the details of insurance coverage to the target audiences, with emphasis on the coverage limit increase to $100,000, as well as those financial products that depositors most often mistake as insured.

Throughout the year CDIC continued its major initiative of promoting an understanding among Canadians of federal deposit insurance. CDIC recognizes that an important factor in managing its reputation risk is the regular communication of information about deposit insurance to the public. Certainly, general awareness levels of both CDIC and deposit insurance have remained high as a result of the Corporation's past efforts. Nevertheless, our research indicates that the incorrect belief persists among the public that certain products such as mutual funds and foreign currency accounts are insured. Increasingly, CDIC is looking at public perceptions and formulating the issue, less as one about whether consumers know the details of deposit insurance, but rather as whether they think that their financial products are protected when they are not. We will continue to pursue initiatives with a view to making inroads that will assist consumers in this regard.

Our recently completed annual public awareness survey shows improvement in the following areas. Awareness of CDIC increased to 59% of Canadians, compared to 56% in 2005. For those survey respondents who bank with a CDIC member institution, the increase was slightly larger, from 57% to 61%. With respect to awareness of the deposit insurance limit, just over 10% of survey respondents were aware of the new CDIC deposit insurance limit of $100,000. Another 15% mentioned the old limit of $60,000. While this may appear to be a drop in awareness (from 25% who knew the correct limit of $60,000 in 2005), it also indicates a solid start in awareness of the new limit. There are fewer people who incorrectly believe that CDIC covers mutual funds, down to 30% this year from 45% last year. But more people are answering this question with, "I don't know." Unchanged is the 53% of respondents who incorrectly believe that CDIC would fully or partially reimburse their investment in a mutual fund purchased through a Canadian banking institution that has failed. It will be important going forward to emphasize the message to consumers: "Do you think you're protected when you're not?" Furthermore, our survey indicates that television advertising is the most effective means of increasing public awareness of deposit insurance among our target groups. We plan on continuing the use of this medium in the coming year.

Distribution channels

CDIC devoted considerable effort to advertising and promoting its messages and made use of numerous distribution channels to reach its target audiences. Print ads appeared in magazines and newspapers in a wide variety of languages, including English, French, Chinese, Punjabi and Italian; and television ads, which were first tested in cross-country focus groups, aired on both mainstream and specialty channels during the fall and winter.

CDIC also undertook other activities to convey its message through different media. We participated in financial trade shows, which provided the opportunity for CDIC to meet face to face with members of the general public and to answer their questions directly. Other activities included a touring exhibit that was developed and presented in Eastern Ontario, Prince Edward Island, Nova Scotia and Newfoundland, and the publication of an information pamphlet that was made available in shopping mall kiosks between September 2005 and January 2006.

Corporate visual identifier
An initiative that complements our strategy and awareness activities is the adoption of the new corporate visual identifier. A number of options were tested in focus groups composed of members of the public—the results of this testing contributed to the final selection of the identifier. The process of integrating the identifier in all communication began in 2005/2006 and will continue in the coming year. It will also be incorporated into our website. We began revamping our website last year, both in terms of its appearance and layout and its content, to make it more user friendly.

Call centre and website access
Again in 2005/2006, the CDIC call centre and website were effective means of interacting with the depositors. The CDIC call centre received over 16,000 calls (representing a 32% increase over last year), and the website saw a year-over-year increase of 100,000 hits for a total of 380,000 (35% more than in 2004/2005).

Working with our partners
CDIC continued to build partnerships with consumer groups and associations as a mechanism for reaching specific target audiences. A key partner in this area is the FCAC with whom CDIC participated in a National Symposium on Financial Capability held in June 2005. CDIC also continued its activities with financial services associations which, in turn, allow us to reach a much broader group of consumers. For example, CDIC worked on a continuing education course with the financial advisors' association Advocis, and participated in the annual general meeting of the Federation of Canadian Independent Deposit Brokers (FCIDB). We also began work with organizations that serve our key target groups, including Canada's Association for the Fifty-Plus (CARP), Option consommateurs, and the Association of Chinese Canadian Entrepreneurs (ACCE). In the coming year, work will continue with these diverse groups. As well, special emphasis will be placed on working closely with parliamentarians as a means to reach their constituents.

CDIC Corporate Scorecard—Results against Key Indicators, as at March 31, 2006

CDIC's Corporate Scorecard, set out on the following page, demonstrates that progress against the majority of the key performance indicators supporting our four strategies proceeded as planned, with the following exceptions:

- CDIC is completing the update of its special examination processes and documentation—with work on completion of the Special Examination Manual carrying into the 2006/2007 fiscal year.
- Work on some projects detailed in the Information Systems (IS) Strategic Plan was delayed, in part due to the refocus of resources to the CDIC/OSFI streamlining study arising from the 2005 Federal Budget, as well as a result of overall corporate workload reprioritization.
- Further work on the E-Business Shared Services (ESIS) joint project with OSFI has been deferred as the current focus is on upgrading the common Financial Information Committee (FIC) database (Tri-Agency Data base System).
- Although work in support of revisions to the *Deposit Insurance Information By-law* commenced during 2005/2006, the final consultation will not be completed until into the 2006/2007 fiscal year.

CDIC Corporate Scorecard—Results against Key Indicators as at March 31, 2006

Mandate	Business Strategy	Current/Ongoing Activities (in support of Business Strategies)

For the Benefit of Depositors:
 	
› Provide Deposit Insurance
 	
› Contribute to the Stability of the Financial System
 	
. . . while minimizing exposure to loss.
	Readiness
	
	Be prepared to fulfill CDIC's role of deposit insurer by being alert to events affecting CDIC members and having the ability to anticipate, react to and manage risk.
		› Business Continuity Planning
		› Risk assessment of members and membership
		› Close monitoring of higher risk members
		› Contingency Planning for intervention
		  › Payout simulation exercises
		  › Research of alternative mechanisms (e.g., ATMs)
		  › Documentation
		  › E-training
		  › Maintaining key supplier relationships
		› Maintaining funding plans
		› Administering the differential premiums system
		› Maintaining the technological infrastructure
		› Emerging issues research and analysis

	Sound Governance *Ensure that policies, procedures and reporting are in place such that the Corporation can fulfill its mandate in an effective and efficient manner.*	› Board of Directors and Standing Committees meetings › Strategic Management › Enterprise Risk Management (ERM) › Internal Audit › Regular review of CDIC by-laws › Examining opportunities for increasing CDIC's efficiency and effectiveness › Business Continuity/Resumption Planning › Implementation of Information Systems (IS) Strategic Plan › Administration of Human Resources (HR) Strategy, succession planning, training and compensation scheme
	Strong Partnerships *Enhance relationships with our partners (members, regulators, supervisors and suppliers) to better achieve CDIC's mandate. This will include continuing to work with members to identify opportunities to reduce costs, and to maximize the benefits of deposit insurance for depositors and member institutions.*	› Consultation with membership › Maintaining existing partnership arrangements (OSFI, Bank of Canada, FCAC, l'Autorité des marchés financiers, Communications Canada) › Complying with the *CDIC/OSFI Strategic Alliance Agreement* › Participation in joint external committees (Senior Advisory Committee (SAC), sub-SAC, Financial Institutions Supervisory Committee (FISC), sub-FISC) › International participation (e.g., International Association of Deposit Insurers and various other international organizations) › Examining opportunities for improving efficiency and effectiveness of CDIC's operations (e.g., through out-sourcing and co-sourcing opportunities)

	Deposit Insurance Awareness
	
	Increase depositor awareness and explain the benefits and limitations of deposit insurance.
		› Public awareness activities (including focus on new $100,000 deposit insurance coverage level):
		  › Advertising and public relations
		  › 1-800 lines
		  › CDIC website
		  › Updating and disseminating CDIC information through partnership arrangements
		  › Annual public awareness surveys
		› Administration of the *Deposit Insurance Information By-law*

Planned progress on schedule and within budget.   Slippage in terms of time to completion, and/or budget variances.

	Planned Key Initiatives 2005/2006 to 2009/2010 (in support of Business Strategies)	Key Performance Indicators (Measure/Target)	Status ▲ ▼ ●
	Update Special Examination of Member Institution/ Asset Review Guidelines Manual	Special Examination Manual update completed by Y/E March 2006	▼
	Investments in technology (upgrades to intervention tools, continued development of early warning system (EWS), quantitative monitoring tools, portal applications)	Successful implementation of projects detailed in IS Strategic Plan—hardware refresh and portal technology deployments implemented on schedule	▼
	Plan and conduct a full payout intervention simulation	Successful completion of a full payout intervention simulation by March 2006	▲
	Follow up on the comprehensive review of the *Differential Premiums By-law*	Any amendments required as a result of the follow-up review of the *Differential Premiums By-law* to be implemented for the 2006 Premium Year	▲
	Integrate internal audit as an ERM tool	Initial Internal Audit review of ERM conducted by Y/E March 2006	▲
	Implement ERM policies in all areas of significant risk	ERM policies governing CDIC's significant risks in place by Y/E March 2006	▲
	Address opportunities arising from the 2004 OAG Special Examination of CDIC	All opportunities addressed and/or appropriate business plans in place by Y/E March 2006	▲
	Work with Financial Information Committee (FIC) in a review and rationalization of financial data collected from federal deposit-taking institutions	CDIC perspective on data collection and sharing reflected in the final FIC study	▲
	Improve communications tools with OSFI and other strategic partners and increase efficiency of information flow	Improvements to data communications infrastructure with strategic partners	▲
		Progress made in regard to E-Business Shared Information Services (ESIS) project	●
	Continued analysis of regulatory burden issues including a focused review of the overall cost of providing deposit insurance	Timely implementation of any changes arising from the March 2004 and February 2005 Federal Budget announcements focused on reducing regulatory burden on CDIC members by seeking opportunities to address overlap and duplication in prudential, administrative and corporate services functions between CDIC and OSFI	▲
	Undertake research of specific deposit insurance issues in support of potential amendments to the *CDIC Act* and other related financial systems legislation towards the 2006 review of the *Bank Act*	Research pertaining to financial sector legislative and relevant international issues completed and supporting additional issues papers finalized by Y/E March 2006	▲
	Implement and report on effectiveness of new communications and deposit insurance awareness strategy and plan commencing 2005/2006	Annual reporting to the Board re: effectiveness of awareness strategy via measurement by survey and stakeholder feedback	▲
	Revisions to the *Deposit Insurance Information By-law*	Consultations completed by Y/E March 2006 in support of revisions to the *Deposit Insurance Information By-law*	▼
	Development of financial awareness tools	Tools available on CDIC website and through other channels commencing in 2006 and fully in place by Y/E March 2007	▲

● Cancelled or deferred.

Enterprise Risk Management at Work

CDIC management supports the CDIC Board of Directors in meeting its ERM commitments.

- The President and CEO is accountable to the Board for management's risk management responsibilities.
- An ERM Committee (comprised of CDIC's executive and management team) confirms CDIC's significant risks, the environment within which each risk is managed, the potential impact and likelihood of each risk, management's risk exposure and trend assessments, any risk management initiatives to be undertaken and proposed Board risk management policies.
- The Internal Audit function reviews and validates the ERM work and reports on its findings to the Audit Committee.

Managing Our Risks

CDIC's significant risks are continuously and consistently identified, assessed, managed, monitored and reported, on a corporate-wide basis.

During 2005/2006, CDIC management carried out detailed assessments of all its significant risks, and CDIC's Board of Directors formalized or re-confirmed Board policies governing the management of these risks.

Governance and Risk

CDIC's risk management framework is governed by a formal risk policy contained in the Board of Directors Charter. The policy sets out the Board's responsibilities to:

- understand the significant risks to which CDIC is exposed
- establish appropriate and prudent risk management policies for those risks and review the policies regularly—at least annually—to satisfy the Board that they continue to be appropriate and prudent
- ensure, as much as possible—through annual or more frequent reviews—that the Corporation has an effective risk management process and that risk management policies are being adhered to

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

CDIC's Significant Risks across Four Categories

Insurance Risk: *CDIC's risk of loss associated with insuring deposits, including costs incurred in the event of an intervention.*

Financial Risk: *CDIC's risk associated with managing its assets and liabilities, including those that appear on and off the balance sheet.*

Operational Risk: *CDIC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.*

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.*

Insurance Risk

In relative terms, insurance risk represents the most significant risk to CDIC. The failure of a member institution—the worst case scenario from an insurance risk perspective—has the potential for having a great impact on CDIC, given the high costs of resolving a failure and the potential need for resources to be diverted from other planned activities. In recent years, CDIC considers the likelihood of a member failure to be low, and this outlook continues for the near future.

CDIC's Insurance Risk Exposure

Underlying Risk	Risk Exposure	Risk Trend[a]
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.	Acceptable	Stable
Assessment Risk: The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.	Acceptable	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.	Cautionary	Decreasing

[a] Risk Trend—CDIC management's view, giving consideration to all aspects of the management of the risk and its related risks and the environment within which the risk is being managed, about whether the residual risk is decreasing, stable or increasing.

Acceptable Cautionary Serious concern Decreasing Stable Increasing

CDIC has defined three underlying insurance risks, as set out in the table above.

Practices and controls are in place to ensure that our insurance risk is managed in accordance with the Board's expectations: CDIC conducts risk assessments on all members and a corporate-wide Operational Readiness Group is in place to coordinate CDIC's intervention preparedness and overall strategic readiness.

Over the course of last year, CDIC's insurance risk environment underwent significant change. The Corporation's statutory objects were amended to remove promotion of standards of sound business and financial practices, and the federal application regime was changed to discontinue CDIC's approval of federal institution deposit insurance applications. In response, the Board of Directors repealed the CDIC *Standards of Sound Business and Financial Practices By-law* and amended related by-laws, including the *Deposit Insurance Policy By-law* and the *Differential Premiums By-law*. The Corporation's Risk Assessment Framework was also updated accordingly.

Management has concluded that CDIC's overall insurance risk exposure is acceptable, reflecting an improvement over the previous year. The improvement is primarily due to the elimination of uncertainties about CDIC's insurance powers and improvements to our deposit payout capability. Intervention risk is rated as "cautionary." While much work has been done over the past year to update and test our intervention readiness, work remains to be done to strengthen our capacity to intervene and resolve failures by means other than payout. Work is currently underway on this front.

Financial Risk

CDIC is exposed to three underlying financial risks—liquidity risk, market risk and credit risk—described in the table below.

The management of these risks is governed by Board-approved financial risk policies. These policies require that the Corporation's financial assets be managed conservatively, with financial assets invested in securities selected to minimize market risks and maximize liquidity—in the event they need to be accessed quickly, for the benefit of depositors of a failed institution—and with credit ratings that meet or exceed the Minister of Finance guidelines for Crown corporations. Investments are not permitted in equities and foreign exchange exposures.

CDIC's Financial Risk Exposure

Underlying Risk	Risk Exposure	Risk Trend
Liquidity Risk: The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off-balance sheet) as they arise.		—
Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.		—
Credit Risk: The risk of loss attributable to counter-parties failing to honour their obligations, whether on- or off-balance sheet, to CDIC.		—

Management considers that appropriate practices and controls are in place to ensure adherence to the policies and to safeguard financial assets. In addition to having the appropriate segregation of duties, oversight of the Corporation's treasury strategy is provided by a Risk Management Unit and an Asset/Liability Committee (which reflects a cross-section of CDIC's operations). Treasury positions are also reported regularly to the Board; no exceptions to policies were noted in 2005/2006.

Management's conclusion that CDIC's financial risks were acceptable and stable also reflects the conservative policies, practices and controls in place to manage CDIC's assets and liabilities. The worst case scenario related to this risk would be the requirement to liquidate the entire investment portfolio to support a CDIC intervention related to a failed member. As at March 31, 2006, such a portfolio sale would have exposed CDIC to a loss of approximately $8 million (which is about 15% of CDIC's 2005/2006 net income and about 0.9 of 1% of CDIC's consolidated retained earnings). However, as mentioned above, the likelihood of a member failure is viewed as low in the near term. Barring circumstances such as a member failure, CDIC's practice is to hold investments until maturity. As at March 31, 2006, CDIC's portfolio of investments had a weighted average term to maturity of approximately 1.1 years.

At fiscal year end, management was in the process of reviewing CDIC's investment portfolio and related financial risk policies and practices, at the request of the Audit Committee, with the view to identifying opportunities for improving the yield without taking additional undue risk.

Operational Risk

CDIC is exposed to operational risks in every aspect of its operations; significant operational risks are described in the table below.

CDIC's operational risks are managed in accordance with a Board Operational Risk Policy, which aims to ensure that CDIC has the resources and processes in place to fulfil its statutory objects that key resources are safeguarded and that CDIC's operational risks are managed in a coordinated manner.

CDIC's Operational Risk Exposure

Underlying Risk	Risk Exposure	Risk Trend
Business Continuity Risk: The risk that a disruption with an impact on CDIC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct its affairs.		▼
Contracting Risk: The risk associated with CDIC engaging third parties to provide it with goods and/or to perform services on its behalf.		—
Information Risk: The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.		—
Legal/Compliance Risk: The risk that CDIC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.		▲
People Risk: The risk resulting from inadequacies in the competencies, capacity, performance or inappropriate treatment of CDIC personnel.		—
Process Risk: The risk resulting from the incorrect execution of, or a breakdown or gap in, a policy, practice or control respecting CDIC's processes.		—
Security Risk: The risk that CDIC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.		—
Technology Risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.		—

CDIC management has concluded that while most of its operational risks are acceptable, some work remains in the areas of business continuity risk, people risk and legal/compliance risk.

With respect to **business continuity risk**, much progress was made during the past fiscal year in updating and testing CDIC's business continuity plan. Some testing remains to be completed. This risk is expected to maintain a "cautionary" rating until a corporate-wide business disruption simulation, planned for the 2007/2008 fiscal year, has been completed.

As to CDIC's **people risk**, the Corporation had assessed potential low employee morale as a result of streamlining and related downsizing during the past few years, as well as continued pressures to do more with fewer human and other resources.

The "cautionary" rating applied to **legal/compliance risk** relates to increasing compliance requirements faced by Crown corporations. A formal corporate-level integrated compliance management process is currently being put in place to provide additional assurance that compliance requirements are formally identified and continue to be met. Overall, CDIC management considers that appropriate and effective practices and controls are in place to prevent operational problems from occurring and that appropriate action has been identified and is being undertaken to address areas rated as cautionary.

Reputation Risk

The potential likelihood and impact of a reputation risk event are viewed respectively as low/moderate, meaning that, over the next fiscal year, management does not anticipate any sustained adverse stakeholder reaction to the manner in which CDIC conducts its work. This view reflects that CDIC is following sound governance and management practices.

CDIC's Reputation Risk Exposure

Underlying Risk	Risk Exposure	Risk Trend
Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.		

CDIC's Board Reputation Risk Policy is premised on sound governance and management practices and is supported by processes considered essential to managing CDIC's reputation:

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

In 2005/2006, CDIC conducted its first formal assessment of its reputation risk exposure. Management has concluded its reputation risk warrants a "cautionary" rating, and that this risk is on an increasing trend. This assessment reflects the fact that CDIC is facing increasing governance and compliance requirements, and is operating in an environment with low tolerance to any perceived breakdowns or deficiencies in this regard. It also demonstrates that more work is required to implement CDIC's reputation risk management processes and to better explain to stakeholders the role and value of CDIC and deposit insurance. Work is underway to address these issues.

An Eye on the Future—Plans for 2006/2007

Looking ahead, CDIC will be making a number of enhancements to its ERM process during the 2006/2007 fiscal year. We will enhance our risk events database to better document past and potential risk events—providing additional means of assessing whether appropriate and effective policies, practices and controls are in place for each significant corporate risk.

Beginning with the 2006/2007 fiscal year end, management will provide the Board of Directors with an annual ERM representation. The Board will continue to obtain independent and objective validation of CDIC's ERM implementation and management's risk assessments from the Corporation's Audit and Consulting Services.

Financial Overview

About the Consolidated Financial Statements

CDIC's consolidated financial statements include the results of the Corporation and of Adelaide Capital Corporation (ACC), a variable interest entity (VIE). This is due to the fact that, effective April 1, 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) issued by the Canadian Institute of Chartered Accountants (see sidebar and Note 3 to the Consolidated Financial Statements, page 52). The Guideline requires the consolidation of VIEs that are subject to control on a basis other than through ownership of a majority of voting interest. This change in accounting policy has been applied retroactively, and figures from previous years have been restated.

The impact of the consolidation of ACC on CDIC's financial statements is an increase in assets of $3.0 million (2005: $6.3 million), an increase in liabilities of $1.8 million (2005: $2.2 million), as well as an increase in total revenue of $800,000 (2005: $2.0 million) and an increase in total expenses of $3.7 million (2005: $5.3 million). As a result, the impact on the Corporation's retained earnings is $1.2 million (2005: $4.1 million).

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

Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15)

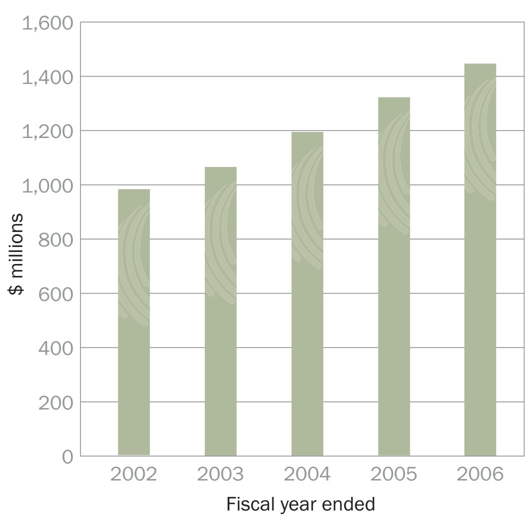
AcG-15 provides guidance on the consolidation of variable interest entities (VIEs). A VIE is defined as a legal structure used to conduct activities or to hold assets whereby the equity investment at risk is not greater than the expected losses, or the holders of the equity investment at risk lack specific characteristics of control. AcG-15 requires the Corporation to consolidate any VIEs as at March 31, 2006, where it is deemed to be the primary beneficiary. The primary beneficiary of a VIE is defined as the variable interest holder that will absorb the majority of the VIE's expected losses if they occur, receive a majority of the VIE's expected residual returns if they occur, or both. ACC is such a VIE.

Consolidated Balance Sheet Highlights

Cash and Investments

As at March 31, 2006, the combined balance of cash and investments was $1.447 billion, made up of cash and short-term investments of $131.4 million and investments of $1.316 billion. The combined cash and investments balance increased by $122.3 million from March 31, 2005, when the combined balance of cash and investments was $1.325 billion, consisting of cash and short-term investments of $230.5 million and investments of $1.094 billion. The weighted average yield as at March 31, 2006, was 3.43% compared to 2.99% as at March 31, 2005. The sources and uses of cash are described fully in the Statement of Cash Flows.

Cash and Investments



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

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

These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* (Guidelines) issued by the Minister of Finance. CDIC's Board Financial Risk Policies require that investments be limited to only those that meet or exceed the credit quality criteria mandated by the Guidelines. The Board Financial Risk Policies further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument.

Net Claims Receivable and Future Recoveries

Claims receivable decreased by $16.7 million to $6.0 million. During the year, CDIC received $15.7 million in recoveries on its claims receivable and wrote off an additional $1.0 million in claims determined to be uncollectible from the estate of Shoppers Trust Company. At March 31, 2006, CDIC's allowance for loss on its claims receivable was $600,000. As a result, as at March 31, 2006, the Corporation's net claims receivable was $5.4 million—a reduction of $7.4 million from the prior year.

The liquidators of the failed member institutions currently have approximately $30 million of remaining assets. In addition to its net claims receivable, CDIC projects possible further recoveries from these estates of approximately $16 million—this would result in total future recoveries of approximately $22 million. These potential additional recoveries primarily relate to recoveries of amounts that were previously written off by CDIC and are not reflected on CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. There is considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to this uncertainty include creditor disputes, lawsuits against the estates or specific assets, and the quality of the remaining non-cash assets.

CDIC's Outstanding Claims, Recoveries, and Losses on Claims and Loans Relating to Failed Member Institutions

Name of Institution (Method of Failure Resolution—Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2006	CDIC's Projected Future Recoveries	CDIC's Projected Loss/ (Gain) as a % of:	
	($ millions)	($ millions)	($ millions)	Claims and Loans—Nominal Basis	Claims and Loans—NPV[a] Basis
Saskatchewan Trust Co. (Formal Liquidation—1991)	64	56	5	3	16
Standard Trust Co. (Formal Liquidation—1991)	1,164	967	13	16	33
Adelaide Capital Corp. (Loan and Management Agreement—1992)	1,588	1,484	1	6	15
Income Trust Co. (Formal Liquidation—1995)	193	174	2	9	19
Security Home Mortgage Corp. (Formal Liquidation—1996)	42	43	1	(5)	18

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

Income Taxes

CDIC is subject to federal income tax. The Corporation's primary source of taxable income is its interest on cash and investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. As at March 31, 2006, CDIC's income taxes payable were $3.8 million. In its 2004/2005 fiscal year, the Corporation had tax losses from prior years available to reduce its earnings for tax purposes. Any unused tax losses expired on March 31, 2005, and therefore were not available to reduce the current year's taxable income.

CDIC recognizes future income tax assets and liabilities based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis.

The future benefits of income tax assets are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such benefits will be realized. In accordance with Canadian Institute of Chartered Accountants recommendations, the related asset is revalued each year. As at March 31, 2006, the future income tax asset was $2.2 million, representing a decrease of $2.6 million from March 31, 2005.

Provision for Guarantees

The provision for guarantees is a result of CDIC entering into Deficiency Coverage Agreements (DCAs) with The Toronto-Dominion Bank on December 31, 1992, in order to facilitate the transfer of assets valued at $9.8 billion of Central Guaranty Trust and Central Guaranty Mortgage Corporation to The Toronto-Dominion Bank.

As at March 31, 2006, the provision for guarantees was $300,000, a decrease of $900,000 from $1.2 million as at March 31, 2005. During 2005/2006, CDIC's net payments to The Toronto-Dominion Bank totalled

$802,000. CDIC also reduced its provision estimate on this guarantee by $98,000. As mentioned in Note 7 to the Financial Statements (Provision for Guarantees), the guarantees remained in force until December 31, 2002, although under the terms of the guarantees claims for losses incurred during the coverage period can be filed with CDIC subsequent to that date.

When the DCAs were initiated, $2 billion in commercial loans, $4.26 billion in residential mortgage loans and $840 million in personal loans were eligible for claims coverage against losses; however, total claims under the agreements were subject to a cap of $2.49 billion. Since 1992, CDIC has incurred net guarantee costs under these agreements totalling $173 million.

Provision for Insurance Losses

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. As at March 31, 2006, the provision was $600 million, an increase of $50 million from March 31, 2005. This reflects the increase in the amount of deposits insured by CDIC, mainly a result of the increase in the deposit insurance coverage limit from $60,000 to $100,000.

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

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

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

> CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system.

In 2005/2006, there was an overall decrease in the default statistics utilized for estimating the provision for insurance losses. However, such reductions were more than offset by the 16% increase in the level of deposits insured by CDIC resulting primarily from the increase in the deposit insurance coverage limit.

Ex Ante Funding

CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was further determined that this amount of *ex ante* funding would be represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits—which translates into a range of approximately $1.7 to $2.2 billion based on insured deposits as at April 30, 2005. The reported amount as at March 31, 2006, was $1.4 billion, representing 33 basis points of insured deposits.

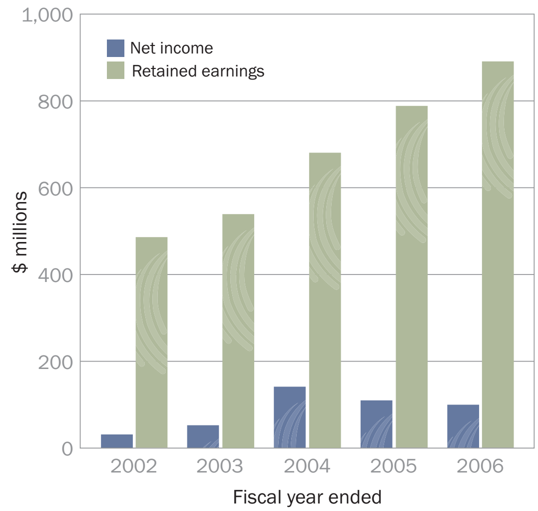
As is the case with the provision for insurance losses, CDIC's *ex ante* funding was affected by the increase in the deposit insurance coverage limit to $100,000. The target range of *ex ante* funding is expressed in terms of basis points of insured deposits and represents the ratio of funding to the amount of total insured deposits. The associated growth in insured deposits caused the amount of *ex ante* funding (as a percentage of insured deposits) to decrease from 36 basis points of insured deposits as reported in CDIC's March 31, 2005, financial statements to 33 basis points of insured deposits at March 31, 2006.

This change has had an impact on the timing for CDIC to attain its target funding range. At March 31, 2005, it was forecast that CDIC would achieve the low end of the target range in its 2008/2009 fiscal year. Under current forecasts, as set out in CDIC's 2006/2007 to 2010/2011 Corporate Plan, due to the reduction in the amount of *ex ante* funding in relation to the increased level of insured deposits, the bottom of the range will be achieved in CDIC's 2013/2014 fiscal year.

Consolidated Statement of Income and Retained Earnings—Highlights

CDIC ended 2005/2006 with **retained earnings** of $844.5 million, an increase of $51.9 million over 2005. For the year ended March 31, 2006, CDIC's **revenues** totalled $108.1 million, offset by **operating expenses** of $22.9 million and other expenses and adjustments of $33.3 million, resulting in a **net income** for the year of $51.9 million.

Net Income and Retained Earnings



Premiums for the fiscal year were $64.6 million, compared to $93.1 million for 2004/2005. For the 2005 premium year, CDIC reduced the premium rates in all four premium categories by one third. The lower premium rates combined with the increase in the level of insured deposits and the impact of the movement of members between CDIC premium categories resulted in a $28.5 million decrease in premium revenue.

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

Classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2005 premium year were as follows:

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

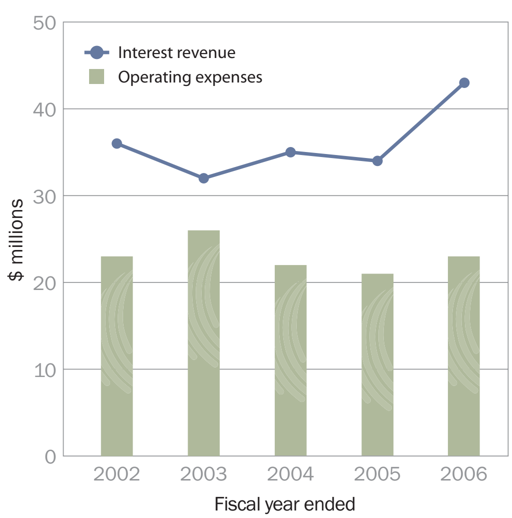
The table below illustrates the distribution of members among premium categories in the 2005 premium year as well as the preceding four premium years.

Percentage Distribution of Member Institutions by Premium Category and Premium Year, 2001 to 2005

Premium Category	Premium Year				
	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)
1	67	78	63	78	81
2	23	14	33	18	18
3	9	7	3	3	0
4	1	1	1	1	1

CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations. **Interest revenue from cash and investments** was $43.0 million in 2005/2006, an increase of $7.9 million from the previous fiscal year primarily due to higher cash balances and higher average yields earned during the year.

Interest Revenue vs. Operating Expenses



Operating expenses for the year ended March 31, 2006, totalled $22.9 million ($22.5 million in 2004/2005). The increase in operating expenses is primarily attributed to additional expenditures on public awareness activities to promote the increase in the deposit insurance coverage limit.

CDIC's operating expenses are net of cost recoveries received from other organizations. CDIC provides call centre services to FCAC and OSFI, and l'Autorité des marchés financiers in Québec contributes to CDIC's public awareness campaign. The total recoveries recorded in 2005/2006 were $618,000 (2004/2005: $532,000).

Comparison with 2005/2006 Corporate Plan

Balance Sheet

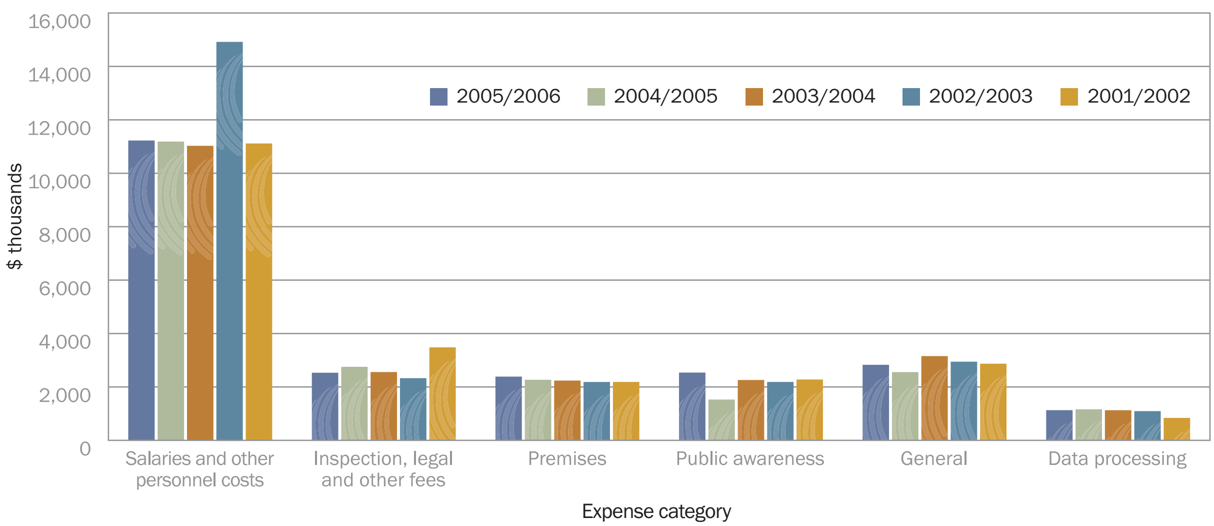
Total assets as at March 31, 2006, were $1.458 billion, compared to the planned amount of $1.450 billion. The positive variance of $8 million was primarily the result of higher-than-planned net claims receivable of $5 million.

Statement of Income and Retained Earnings

Total revenue during the year was $108 million, or $2 million higher than budgeted. The variance was the result of higher-than-planned premium revenue combined with higher-than-planned interest revenue on cash and investments offset by lower-than-planned other revenue.

Net income for the year ended March 31, 2006, was $59 million higher than planned. The primary cause for this positive variance is the lower-than-planned increase to the

Operating Expenses



Corporation's provision for insurance losses. CDIC anticipated a $100 million increase to its provision for insurance losses due to the increase in the amount of insured deposits resulting primarily from the increase in the deposit insurance coverage limit. The actual impact of the increase in the insured deposits was somewhat offset by a decline in the default statistics used in calculating the provision estimate. As a result, the impact on the provision for insurance losses was an increase of $50 million and not $100 million as reflected in the 2005/2006 Corporate Plan.

CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations. Interest revenue from cash and investments was $43.0 million in 2005/2006.

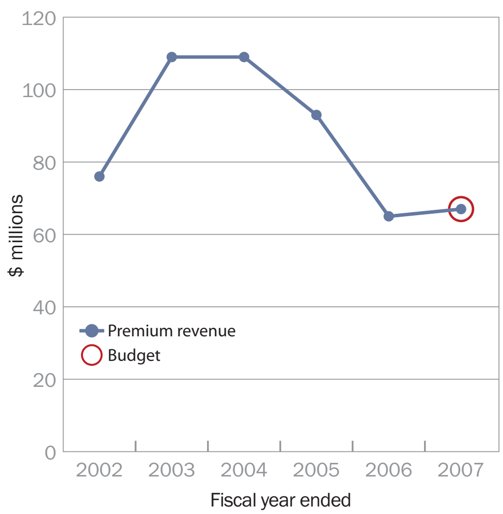
During the year, CDIC had total operating expenses of $23 million, compared to a planned amount of $24 million. This positive variance is the result of lower-than-planned spending in areas such as general expenses, public awareness and data processing.

The year-end **retained earnings** of $844 million were $59 million higher than planned. This variance reflects the higher-than-planned net income during the year.

2006/2007 to 2010/2011 Corporate Plan

Given CDIC's strong financial position and the relatively stable state of overall membership risk, premium rates will remain at their current levels. This is expected to result in $67 million in premium revenue for the 2006/2007 fiscal year. Combined with a planned $53 million in interest on cash and investments and other revenue, CDIC's total revenues are expected to be $120 million. Operating expenses, net of recoveries of amounts previously written off, are planned to be $7 million, resulting in a projected net income before income taxes of $113 million.

Premium Revenue



As at March 31, 2007, cash and investments, and retained earnings are projected to be $1.558 billion and $895 million, respectively. Also as at March 31, 2007, CDIC's level of *ex ante* funding is projected to be $1.5 billion, representing 34 basis points of insured deposits. Under current assumptions, CDIC continues to expect that the bottom of the target range (i.e., 40 basis points of total insured deposits) will be reached in its 2013/2014 fiscal year.

Over CDIC's current five-year planning period, premium revenue is expected to total $353 million and interest income on cash and investments is forecast to total $300 million. Over this same period, CDIC expects to incur total operating expenses of $119 million.

At the end of the planning period (March 31, 2011), cash and investments are projected to be $1.949 billion and CDIC's retained earnings are expected to grow to $1.279 billion.

The projections included in CDIC's 2006/2007 to 2010/2011 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan.

Key financial assumptions include the following:

- Premium revenue is projected assuming premium rates remain unchanged from their current levels through the Corporation's 2010/2011 fiscal year. For planning purposes, the distribution of member institution ratings across premium categories is assumed to be the same as in the year ended March 31, 2006, and the annual growth in insured deposits is forecast to be 3%. Premium rates are fixed annually and take into consideration CDIC's financial condition, the economic and financial environment, the risk profile of CDIC's membership, and the actual and projected level of *ex ante* funding relative to the target range.
- Interest revenue on cash and investments is based on an assumed average yield of 3.5%.
- It is assumed that there are no member institution failures during the planning period, and that CDIC's provision for insurance losses remains unchanged at $650 million.

Future Accounting Changes

The Canadian Institute of Chartered Accountants issued two new accounting standards that will have an impact on CDIC: Section 1530, Comprehensive Income, and Section 3855, Financial Instruments—Recognition and Measurement. These pronouncements establish standards for the recognition, measurement and presentation of financial instruments.

The new standards, described in Note 2 to CDIC's Financial Statements, will come into effect for the Corporation's 2007/2008 fiscal year; however, early adoption provisions exist. CDIC is in the process of determining the impact these standards will have on its financial reporting.

	$ Millions		
	2006/2007 Corporate Plan[a]	2005/2006 Actual Results[a]	2005/2006 Corporate Plan[a]
Balance Sheet (as at March 31)			
ASSETS			
Cash and investments	1,558	1,447	1,446
Accounts receivable	1	2	1
	1,559	1,449	1,447
Capital assets	2	2	2
Claims receivable	–	6	–
Allowance for loss on claims receivable	–	(1)	–
	1,561	1,456	1,449
Future income tax asset	2	2	1
Total assets	1,563	1,458	1,450
LIABILITIES			
Accounts payable	8	10	10
Income taxes payable	10	4	5
Provision for guarantees	–	–	–
Provision for insurance losses	650	600	650
	668	614	665
Retained earnings	895	844	785
Total liabilities and retained earnings	1,563	1,458	1,450
Statement of Income and Retained Earnings (for the year ended March 31)			
REVENUE			
Premiums	67	65	64
Interest on cash and investments	53	43	41
Other revenue	–	–	1
	120	108	106
EXPENSES			
Operating expenses	23	23	24
Ajustment to allowance and provision for loss	–	42	100
Recovery of amounts previously written off	(16)	(15)	(20)
	7	50	104
Net income before reduction in future income tax asset/income tax expense	113	58	2
Reduction in future income tax asset/income tax expense	10	6	9
Net income	103	52	(7)
Retained earnings, beginning of year	792	792	792
Retained earnings, end of year	895	844	785

[a] As noted earlier, effective April 1, 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) issued by the Canadian Institute of Chartered Accountants. AcG-15 required that Adelaide Capital Corporation (a variable interest entity) be consolidated with CDIC. The actual results presented above reflect the Corporation's change in accounting policy. For comparability, the 2005/2006 Corporate Plan and 2006/2007 Corporate Plan figures above have been restated to also reflect this change.

III Financial Statements

Management Responsibility for Consolidated Financial Statements

June 7, 2006

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

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

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

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

Guy L. Saint-Pierre
President and Chief Executive Officer

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

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Canada Deposit Insurance Corporation as at March 31, 2006 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for variable interest entities as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

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

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

Ottawa, Canada
May 5, 2006

Financial Statements and Notes

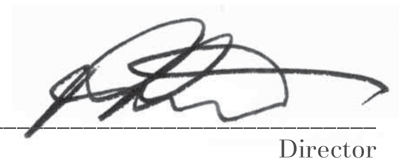
Canada Deposit Insurance Corporation
Consolidated Balance Sheet
as at March 31

(in thousands of dollars)

	Note	2006	2005 (Restated – Note 3)
ASSETS			
Cash and short-term investments	4	$ 131,381	$ 230,520
Investments	5	1,315,928	1,094,519
Accounts and other receivables		1,818	9,205
		1,449,127	1,334,244
Capital assests		1,822	1,960
Net claims receivable	6, 8	5,366	12,782
Future income tax asset	10	2,244	4,793
		$1,458,559	**$1,353,779**
LIABILITIES			
Accounts payable and accrued liabilities		$ 9,990	$ 9,979
Income taxes payable	10	3,766	–
Provision for guarantees	7, 8	300	1,200
Provision for insurance losses	8	600,000	550,000
		614,056	561,179
RETAINED EARNINGS		844,503	792,600
		$1,458,559	**$1,353,779**
Contingent liabilities and commitments	13, 14		

(See accompanying notes)

Approved by the Board:



Director

Director

Canada Deposit Insurance Corporation
Consolidated Statement of Income and Retained Earnings
for the year ended March 31

(in thousands of dollars)

	Note	2006	2005 (Restated – Note 3)
REVENUE			
Premiums	11	$ 64,568	$ 93,080
Interest on cash and investments		43,055	35,171
Other revenue		527	586
		108,150	128,837
EXPENSES			
Operating expenses		22,910	22,509
Increase to allowance and provisions for loss	8	41,640	566
Recovery of amounts previously written-off		(14,618)	(5,765)
		49,932	17,310
Net income before income taxes		58,218	111,527
Income tax expense	10	3,766	–
Decrease in future income tax asset	10	2,549	6,938
		6,315	6,938
Net income		51,903	104,589
Retained earnings, beginning of year		792,600	688,011
Retained earnings, end of year		**$844,503**	**$ 792,600**

(See accompanying notes)

Canada Deposit Insurance Corporation
Consolidated Statement of Cash Flows
for the year ended March 31

(in thousands of dollars)

	2006	2005 (Restated – Note 3)
OPERATING ACTIVITIES		
Premium revenue received	$ 64,568	$ 93,080
Claims recovered	15,678	14,040
Interest revenue received	40,204	29,103
Recovery of amounts previously written-off	14,618	5,765
Other amounts received	7,421	2,963
Payments under guarantee agreements	(802)	(166)
Payments to suppliers and employees	(22,176)	(24,896)
Cash flows from operating activities	119,511	119,889
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(923,661)	(1,576,744)
Maturities of securities and term deposits	705,011	1,058,128
Cash flows used in investing activities	(218,650)	(518,616)
CASH AND SHORT-TERM INVESTMENTS		
Decrease during the year	(99,139)	(398,727)
Balance, beginning of year	230,520	629,247
Balance, end of year	**$131,381**	**$ 230,520**

(See accompanying notes)

Canada Deposit Insurance Corporation
Notes to Consolidated Financial Statements
March 31, 2006

1 – Authority and Objective

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

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

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

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

These consolidated financial statements include the results of the Corporation and of Adelaide Capital Corporation (ACC), a variable interest entity.

2 – Significant Accounting Policies

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

Basis of Consolidation. These consolidated financial statements include the financial statements of the Corporation and, as required by Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) (see note 3), the financial statements of ACC, a variable interest entity (VIE) for which the Corporation is considered to be the primary beneficiary. Inter-company balances and transactions have been eliminated.

Use of Estimates. Financial statements prepared in accordance with Canadian generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the provision for insurance losses; (ii) the provision for guarantees; (iii) the future income tax asset; and (iv) the allowance for loss on claims receivable.

The Corporation reviews these estimates annually. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The timing and extent of losses the Corporation incurs as a result of future failures of member institutions;
- The extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others;
- The Corporation's ability to generate sufficient taxable income to benefit from its future income tax asset; and
- The ability of the Corporation to recover its claims receivable based on prevailing economic trends and expectations as to future developments either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through successful lawsuits as appropriate against relevant parties of failed member institutions.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium charged to member institutions be increased or decreased, depending on the situation. The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

Cash and Short-Term Investments and Investments. The Corporation classifies investments with a remaining term to maturity of less than 90 days as short-term investments. Those with a remaining term to maturity of 90 days or greater are classified as investments. Short-term investments and investments, consisting of marketable securities and term deposits, are carried at amortized cost as they are intended to be held to maturity. In the case of a significant and other than temporary loss in the value of an investment, the investment would be written down in value at the time of impairment. Interest income is accrued in the accounts in the period earned. Premiums or discounts on investments are amortized to income on a straight-line basis.

Claims Receivable. Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation. The Corporation records its claims receivable at their net realizable value.

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

To the extent that post-liquidation interest is recorded, it is included in other revenue.

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

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

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

Provision for Guarantees—In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.

Provision for Insurance Losses—The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions.

The provision for insurance losses is estimated by assessing the aggregate risk of the Corporation's members based on (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and (iii) an expected loss given default. The Corporation calculates its losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage and reflects the cumulative un-weighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

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

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

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

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

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

Income Taxes. The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. The future benefits of income tax assets including unused tax losses carried forward are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such benefits will be realized. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date.

Future Accounting Changes. In January 2005 the Canadian Institute of Chartered Accountants (CICA) issued the following two accounting standards that will impact the Corporation:

> *Financial Instruments—Recognition and Measurement*—This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorize its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. The related accounting treatment will be dependent on the classification. Financial assets categorized as held for trading or available for sale are to be measured at fair value while financial assets held to maturity, loans and receivables are measured at amortized cost.
>
> *Comprehensive Income*—This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in other comprehensive income until such time as it is considered appropriate for them to be recognized in net income. The Corporation may be required to present a new financial statement titled Comprehensive Income to record such amounts until they are realized.

These new standards will come into effect for the Corporation's 2007/2008 fiscal year, however early adoption provisions exist. The Corporation is in the process of determining the impact these standards will have on its financial reporting.

3 – Change in Accounting Policy

Effective 1 April 2005, the Corporation adopted AcG-15 issued by the Canadian Institute of Chartered Accountants, which required the consolidation of certain VIEs that are subject to control on a basis other than through ownership of a majority of voting interest. This change in accounting policy has been applied retroactively and prior year figures have been restated.

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

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

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of $3.0 million (2005: $6.3 million) and an increase in liabilities of $1.8 million (2005: $2.2 million) as well as an increase in total revenue of $800,000 (2005: $2.0 million) and an increase in total expenses of $3.7 million (2005: $5.3 million). As a result, the impact on the Corporation's retained earnings is $1.2 million (2005: $4.1 million).

4 – Cash and Short-Term Investments

The short-term investments have a term to maturity of less than 90 days. All of these investments are highly liquid fixed rate contracts.

	March 31, 2006			March 31, 2005 (Restated – Note 3)		
	(in thousands of dollars)					
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-term investments	$130,188	2.85%	55	$230,196	2.53%	42
Cash	1,193			324		
Total	**$131,381**			**$230,520**		

5 – Investments

Investments have a term to maturity of 90 days or greater. All investments are highly liquid fixed rate contracts.

	March 31, 2006			March 31, 2005 (Restated – Note 3)		
	(in thousands of dollars)					
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills	$ 745,319	3.51%	214	$ 468,356	2.82%	184
Bonds	526,549	3.45%	733	615,275	3.30%	1,008
Commercial paper	30,321	4.02%	156	–	–	–
Sub-total	1,302,189			1,083,631		
Accrued interest	13,739			10,888		
Total	**$1,315,928**	**3.49%**	**427**	**$1,094,519**	**3.09%**	**653**

6 – Net Claims Receivable

	March 31, 2006	March 31, 2005
	(in thousands of dollars)	
Claims receivable	$5,966	$22,682
Allowance for loss	(600)	(9,900)
Net claims receivable	**$5,366**	**$12,782**

7 – Provision for Guarantees

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation has in the past provided deficiency coverage guarantees. These guarantees provide for payment by the Corporation of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees provided coverage for losses incurred to December 31, 2002, although under the terms of the guarantees, claims for losses incurred during the coverage period can be filed with the Corporation subsequent to that date.

The provision for guarantees as at March 31, 2006 is $300,000 (2005: $1.2 million) and represents the maximum exposure for the Corporation under these guarantees.

8 – Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2006, with corresponding totals as at March 31, 2005.

	March 31, 2006				March 31, 2005
	(in thousands of dollars)				
	Allowance for Claims Receivable	Provisions for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	$ 9,900	$ 1,200	$550,000	$ 561,100	$ 562,100
Receipts/(Payments)	–	(802)	–	(802)	(166)
Write-offs	(1,038)	–	–	(1,038)	(1,400)
Adjustment to allowance and provisions for loss	(8,262)	(98)	50,000	41,640	566
End of period	**$ 600**	**$ 300**	**$600,000**	**$600,900**	**$561,100**

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

9 – Financial Instruments and Risk Management

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

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

Fair Value. Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgments regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2006, and involve uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, investments other than bonds, accounts receivable and accounts payable approximate fair value because of their short term to maturity.

The Corporation's investments in bonds, including those with a term to maturity of less than 90 days, consist of Government of Canada and provincial government obligations. As at March 31, 2006, the fair value of these investments, based on observable market prices, is $609 million (2005: $634 million), which compares to the book value (2005: $635 million).

Financial Statements

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

The book value of the provisions for guarantees and for insurance losses approximates fair value as it represents the Corporation's best estimate of future payments to be made under the guarantees, and losses on future claims.

10 – Income Taxes

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

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

	March 31, 2006	March 31, 2005
	(in thousands of dollars)	
Statutory tax rate	32%	34%
Income tax expense at the federal statutory rate	$18,630	$37,866
Increase/(decrease) resulting from:		
Non-taxable premium revenue	(20,662)	(31,647)
Recovery of amounts previously written-off	(4,677)	(1,845)
Increase to allowance and provision for loss	13,325	192
Capital cost allowance in excess of amortization	(2,509)	454
Other, net	(341)	(327)
Application of prior years' tax losses	–	(4,693)
Income tax expense	**$ 3,766**	**$ –**

Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. As at March 31, 2006, $7 million of undepreciated capital cost (2005: $14.3 million) has been applied in calculating the future income tax asset of $2.2 million (2005: $4.8 million).

11 – Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2005, were $437 billion (2004: $376 billion). The Minister of Finance announced in his February 23, 2005 Federal Budget that the Government of Canada was increasing the deposit insurance coverage limit from $60,000 for insurable deposits to $100,000 effective that day. This increase in the coverage limit resulted in a 16% increase in insured deposits.

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 2005 are 1/72nd of 1% of insured deposits for members in Category 1, 1/36th of 1% for Category 2, 1/18th of 1% for Category 3 and 1/9th of 1% for members in Category 4. By way of comparison, the premium rates in effect for 2004 were 1/48th of 1% of insured deposits for members in Category 1, 1/24th of 1% for Category 2, 1/12th of 1% for Category 3 and 1/6th of 1% for members in Category 4.

Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of the membership and the actual and projected size of the Corporation's *ex ante* fund relative to the target range.

As a matter of prudence, the Corporation maintains an amount of advance or *ex ante* funding. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses as reported in its financial statements. The target range for the funding is set at between 40 and 50 basis points of insured deposits. The reported amount as at March 31, 2006 is $1.445 billion (2005: $1.339 billion) representing 33 basis points of insured deposits (2005: 36 basis points). The Corporation's current level of *ex ante* funding relative to the amount of insured deposits represents a decrease of 3 basis points from March 31, 2005. This decrease can be attributed to the increase in insured deposits, a result of the increase in the deposit insurance coverage limit.

12 – Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation has transacted with related parties through both the provision and receipt of various services. Such transactions were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13 – Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2006 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

14 – Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2006 are as follows:

Fiscal Year Ending March 31	Amount
	(in thousands of dollars)
2007	$1,074
2008	1,085
2009	1,085
2010	1,085
2011–2012	1,007
Total	**$5,336**

15 – Pension Plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. As required under present legislation the contributions made by the Corporation to the Plan are 2.14 times the employees' contribution on amounts of salaries below $120,300 and 7.2 times the employees' contribution on amounts of salaries in excess of $120,300. The contributions during the year were as follows:

	2006	2005
	(in thousands of dollars)	
Employer	$1,327	$1,969
Employee	$ 447	$ 440

In the Corporation's 2004/2005 fiscal year it was determined that bonuses paid to employees by the Corporation are to be treated as salary for the purposes of the *Public Service Superannuation Act* and are therefore considered pensionable. As a result, the Corporation is required to make contributions to the Plan with respect to bonuses paid to employees in prior years and in this regard recorded a pension expense of $700,000 to recognize its required contributions to the Plan in relation to bonuses paid to employees during the period 1985 to 2004.

IV Corporate Governance

This section of the Annual Report details our commitment to fostering a culture of ethical behaviour and business conduct at CDIC, or setting the "tone at the top," and to being accountable for our work and achievements. Such commitment is supported by the CDIC Board of Directors and our President and CEO, and is evidenced by the steps they have taken this year, as described below. In turn, this commitment will both enhance our reputation and allow Canadians to have confidence in our ability to fulfill our mandate.

Fostering a Culture of Ethical Behaviour and Business Conduct

Corporate governance issues continued to dominate the Canadian business landscape. Governance in federal Crown corporations received particular attention with the issuance of the Treasury Board of Canada Secretariat report on governance in Crown corporations (the "TBS Report").[3] CDIC's Board of Directors and its management focused on making adjustments to practices as required by the TBS Report, and also to reflect the "tone at the top." We want to ensure that this tone is embraced and reflected in all of our work, at all levels—from the Board as a whole, to individual Directors, to senior management and all employees. Accordingly, many of our governance initiatives last year were designed to anchor this culture within CDIC.

How CDIC Stacks Up—Winner of OAG Award for Excellence in Reporting

Another essential goal of a strong governance regime is being transparent and accountable for the work we do. Reporting annually to Parliament, to the public and to our membership on our accomplishments is central to demonstrating our commitment to this goal. Confirmation of our commitment came last year, when CDIC was awarded the Auditor General Award for Excellence in Annual Reporting by Crown Corporations (in the large Crown corporation category) for our 2005 Annual Report and 2004/2005 to 2008/2009 Summary of the Corporate Plan. CDIC previously won this award in 1996 (in the small Crown corporation category) and has been a finalist in each of the past 11 years.

[3] *Review of the Governance Framework for Canada's Crown Corporations—Meeting the Expectations of Canadians*, published by the Treasury Board of Canada Secretariat on February 17, 2005. The full text of the report can be found on the Treasury Board of Canada Secretariat website (www.tbs-sct.gc.ca).

Key to the success of creating "tone at the top"—one that starts with the Board and the CEO—is having a strong compliance culture. While it is the job of the CEO and management to make that happen on a daily basis, it is the Board that establishes the framework that enables compliance. Moreover, a strong compliance culture with timely reporting allows management to demonstrate to the Board that the corporate policies and processes that the Board has put into place safeguard the corporation's assets and manage its risks. Also key are the mechanisms included in our policies and processes that provide employees not only with the rules to comply with, but with a means of reporting non-compliance.

Governance—underpinning everything we do
The nexus between a strong governance regime and corporate results is well established. Reflecting its role in underpinning all our activities, governance remained one of our four strategies again last year (and is detailed in the Management's Discussion and Analysis (MD&A), section II of this report). Part of maintaining the strength of our current governance framework lies in our vigilance; while we have achieved much in the past, there is always more to be done. CDIC will continue to review and improve its governance framework by staying on top of best practices and assessing our practices against them.

Part of maintaining the strength of our current governance framework lies in our vigilance.

CDIC Board of Directors—Role and Key Activities

The Corporation's affairs are governed by a Board of Directors. Its key stewardship responsibilities are set out in the Board Charter. The Charter was converted from a Board governance policy and revised in March 2006. It articulates the Board's understanding of its governance responsibilities and its determination that CDIC should follow current standards of sound business, financial practices and governance guidelines specific to Crown corporations. The Charter consists of 20 statements of principle that, together, guide how we fulfill our mandate in an ethical manner. The Board's six broad areas of responsibility, as well as highlights of Board activities in each area last year, follow.

Succession and Human Resources Planning

The Board maintains a profile of desirable skills and capabilities for upcoming vacancies for private sector Directors and recommends to the Minister of Finance candidates for appointment by the Governor in Council. The Board is also responsible for arranging for orientation and ongoing training of new Directors. In addition, the Board is responsible for recommending a candidate for the position of President and CEO, who is then appointed by the Governor in Council. The Board establishes the President and CEO's objectives for each year and conducts his performance evaluation. The Board also appoints corporate officers and oversees policies, strategies, processes and controls that are instituted for maintaining employee commitment to CDIC operations and a high degree of employee satisfaction. Highlights of last year's Board activity in this area include:

New President and CEO appointed: The Board's extensive work on succession planning came to fruition in 2005 with the appointment by the Governor in Council of CDIC's new President and CEO, Guy Saint-Pierre. After his appearance before the House Standing Committee on Finance, Mr. Saint-Pierre was appointed on May 9, 2005, for a period of five years. The importance of Mr. Saint-Pierre's transition from CDIC's Executive Vice-President and Chief Operating Officer to President and CEO was reflected in his 2005/2006 objectives. Similarly, in setting the 2006/2007 objectives, the Board and Mr. Saint-Pierre worked together to include activities that ensure a focus on the sound governance strategy.

Director training: the private sector Directors attended seminars during the year geared toward enriching their understanding of their responsibilities as directors of a Crown corporation.

Employee well-being: In the past year, under the oversight of the Board's Human Resources and Compensation Committee (HRCC), CDIC undertook a comprehensive employee survey which overall indicated that employees are satisfied with CDIC, although there are areas for improvement as described in the MD&A. The HRCC also reviewed management's new Human Resources Strategy and Plan (the "Plan"), which is dedicated to ensuring that CDIC remains as positive a workplace for employees as possible, thereby mitigating our "people risk." The Plan was further revised following the results of the employee survey and was reviewed by the HRCC at its May 2006 meeting. CDIC's long-standing succession plan for senior positions was revamped with a view to integrating it with employee career development and training and was presented to the HRCC for its consideration. 2005 also saw the implementation of a new policy for employee compensation—the success of which was canvassed in the employee survey, to generally positive reviews. Given the importance of CDIC's employees to the Corporation, the Board approved a new human resources principle in its revised Board Charter.

Looking ahead: In 2006, the Board will welcome a new Chairperson with the retirement of CDIC's longest-serving Chairman, Ronald N. Robertson. There are also two Directors whose terms have expired; this will be a matter for the new Chairperson and the Government to address.

To better support CDIC employees, management will be organizing a conference in the fall of 2006 to look at ways we can do better in creating a positive work environment.

Independent Decision Making

The very first principle in the Board Charter requires that the Board exercise independent judgment. This independence is very important and supports sound governance and effective accountability.

The Board establishes and adheres to high standards of business conduct and ethical behaviour as set out in its Code. The Board holds at least four meetings each year. In camera *sessions without management are held regularly at both Board and Committee meetings. Management provides the Board and its Committees with material designed to allow for independent decision making.*

Director Independence

Directors are responsible for adhering to the provisions of CDIC's *Conflicts of Interest Code*. Real, potential or apparent conflicts must be avoided. The Code also includes restrictions on ownership of shares in a member institution or its affiliates, and in the case of the Chairperson ownership is prohibited by the *Office of the Superintendent of Financial Institutions Act*.

No member of the CDIC management is, or can be, a member of the Board of Directors. Directors, officers and employees of a member institution are also prohibited from becoming a private sector Director or the Chairperson of CDIC.

In support of independent decision making, the Board distinguishes and documents the responsibilities and accountability of the Chairperson, and the President and CEO, and establishes and monitors standards of conduct and ethical behaviour of Board Committees, Directors, officers and other employees. The Board also ensures that adequate policies, strategies, processes and controls are instituted across the Corporation to maintain an organizational climate that fosters ethical behaviour. Highlights of last year's Board activity in this area include:

New annual report on compliance with codes: The Board's Audit Committee and HRCC received from management the Corporation's annual report on compliance with all of our policies and practices in the area of business and employee conduct. A summary of adherence with these policies and practices is attached as Appendix A.

Review and updating of corporate policies: Two major policies in the area of business conduct and ethical behaviour were reviewed by the HRCC to ensure that they continue to meet and exceed best practices. The *Policy for Internal Disclosure of Information concerning Wrongdoing in the Workplace*—CDIC's "whistleblower" policy—was revised to make it consistent with the proposed *Public Servants Disclosure Protection Act* and the proposed *Federal Accountability Act*. The CDIC *Harassment in the Workplace Policy*, which was originally approved in 1993, was completely updated and approved by the Board in December 2005.

> The Board devoted considerable time during the year to activities designed to confirm that CDIC complies with the applicable measures included in the TBS Report on governance in Crown corporations (February 2005).

TBS Report measures: The Board devoted considerable time during the year to activities designed to confirm that CDIC complies with the applicable measures included in the TBS Report on governance in Crown corporations (February 2005). A summary mapping of CDIC's practices as against these measures is set out in Appendix B.

Looking ahead: Management will continue to review CDIC's practices and policies to ensure that they remain effective and consistent with best practices, and will make appropriate recommendations to the Board as necessary.

Strategic and Financial Management, and Operating Results

The Board works closely with management to achieve assurance that CDIC has an effective strategic management process in place. To this end, annual strategic planning sessions are held between the Board and management to begin the process of planning for the next five-year period, followed by discussions at subsequent Board meetings about the draft Corporate Plan, and finally approval of the Plan itself. During this annual exercise, the Board also reviews premium rates, and recommends them to the Minister for approval by the Governor in Council.

The Board regularly reviews comprehensive corporate performance reports prepared for its consideration by management to ensure that the Board's approved plans and budgets are being achieved. The Board addresses any areas of performance that have not met plan. Highlights of last year's Board activity in this area include:

Streamlining review: The Committee of Independent Directors (CID) devoted its energies in the first three months of the past year to a review of administrative and corporate services to determine whether any opportunities for streamlining with OSFI existed. A joint OSFI-CDIC report was submitted to the Minister of Finance in July 2005.

Annual strategic planning session: The Board held its annual strategic planning session in June 2005. The session provided the Board with the opportunity to analyze CDIC's business environment and risks in light of its revised statutory objects following the 2005 Federal Budget. Directors provided strategic direction to management and subsequently approved CDIC's key initiatives. In its capacity as steward of the assets of the Corporation, the Board also approved supporting business plans, budgets and borrowing plans, as set out in the Corporate Plan.

Unusually this past year, the changes to CDIC's mandate—including the increase in the deposit insurance coverage limit to $100,000—necessitated amendments to the original Plan. An Amended Corporate Plan was therefore prepared and submitted to the Board and thereafter to the Minister of Finance in December 2005. The result of these changes to CDIC's legislation required thorough consideration of their impact on all areas of our work.

No change to member premium rates: The Board recommended that premium rates paid by member institutions remain the same for the 2006 premium year—a recommendation approved and now in effect. Following extensive consultations with member institutions, the Board approved further amendments to CDIC's *Differential Premiums By-law* to update the differential premiums system.

Target range for* ex ante *funding is maintained: Several years ago, the Board established a target range for its *ex ante* funding to cover possible deposit insurance losses. In light of the increase in the deposit insurance coverage limit to $100,000, the Board reviewed the amount of *ex ante* funding,[4] which was $1.4 billion as of March 31, 2006. The Board remained of the view that the existing target range continues to be at an appropriate level—namely, between 40 and 50 basis points of insured deposits—which translates into a range of approximately $1.7 billion to $2.2 billion, based on levels of insured deposits as at April 30, 2005.

Review of legislation: As part of the 2006 review of the *Bank Act* and related legislation, the Board considered possible amendments to the *CDIC Act* for recommendation to the Minister of Finance.

By-law changes approved: The 2005 Federal Budget eliminated CDIC's role in promoting standards of sound business and financial practices for our members which resulted in several by-law amendments. The Board approved the repeal of CDIC's *Standards of Sound Business and Financial Practices By-law* and made consequential amendments to other CDIC by-laws, namely, the *Deposit Insurance Policy By-law*, the *Differential Premiums By-law*, and the *Premium Surcharge By-law*. The Board also discontinued its practice of obtaining commitments from sponsors of new members.

Looking ahead: The Board will hold its first annual public meeting for stakeholders in December 2006, at which time we will discuss our operations and results and our future strategies, as well as soliciting feedback.

Enterprise Risk Management (ERM)

The Board's ERM responsibilities include obtaining an understanding of the significant risks to which CDIC is exposed. The Board establishes and regularly reviews appropriate and prudent risk management policies and obtains reasonable assurance that an effective ERM process is in place and is being adhered to. Highlights of last year's Board activity in this area are included in section II, as part of the MD&A of this report.

[4] *Ex ante* funding is represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements.

Audit Committee involvement: The Board's Audit Committee took an active interest in the evolution of CDIC's ERM framework, and received reports from management at every regular meeting of the Committee. Through the work of the Audit Committee, the Board approved several new ERM-related Board policies in the year.

Looking ahead: Work will continue on ERM with an annual report provided to the Board at fiscal year end and, for the first time, a management representation to the Board. As set out in its new Charter, the Audit Committee will obtain reasonable assurance that the Corporation's risk management policies for significant risks are being adhered to and will receive reports from the Audit and Consulting Services function validating management's assessments of CDIC's significant risks.

Effective Control Environment

The Board seeks to obtain assurance that CDIC is "in control." To this end, the Board monitors CDIC operations to ensure that they are supported by an appropriate and effective control environment, and that CDIC has in place policies and practices that assure the integrity of internal controls and management information systems. The Board also oversees the internal audit group by satisfying itself periodically that the Audit Committee establishes the mandate of and allocates sufficient resources for this group. Highlights of last year's Board activity in this area include:

Development of charters: In 2004 the Audit Committee began a benchmarking exercise to assess itself and its mandate against current best practices at the time. With that review well underway, the TBS Report was announced. As a result, working closely with the Audit Committee and the HRCC, the Governance Committee undertook a substantive review of all existing Board Committee mandates, and it also examined the Board Governance Policy. Following the Governance Committee's review, detailed charters were developed and approved by the Board for itself and for each of its Committees. With respect to the Charter of the Audit Committee in particular, the approved changes sought to improve the overall control environment of the Corporation. The new charters are consistent with and work toward strengthening the culture of ethical behaviour and business conduct that is so important to all of CDIC's work. The charters of the HRCC and the Audit Committee have been drafted to give each committee a unique but complementary role in overseeing ethics within CDIC.

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Internal audits completed: The Board's Audit Committee carried out its responsibility to oversee internal audits. Of note, there were four important audit reviews reported on by the Audit Committee to the Board during the year. The audit reviews included recommendations that management is committed to addressing. Progress will be monitored by Audit and Consulting Services and reported to the Audit Committee.

Strengthening the contracting policy: Under the oversight of the Audit Committee, the Board reviewed and approved a new Board contracting policy, with a view to ensuring continued control of work carried out by external suppliers. Internal contracting procedures were improved and training was provided to employees on the new policy and procedures.

Looking ahead: The Audit and Consulting Services Plan for 2006/2007 was approved by the Audit Committee. The Audit Committee will oversee its implementation during the coming year. One component will be the quality assurance review of the Audit and Consulting Services function.

Communication

The Board oversees the manner in which CDIC communicates with the Crown, depositors, member institutions and all relevant stakeholders in order to satisfy itself that CDIC is doing so effectively. Highlights of last year's Board activity in this area include:

Public awareness campaign stepped up: In 2005, the Board approved a new long-term public awareness strategy targeted at those most in need to know information about deposit insurance. Following the 2005 Federal Budget, the Board then approved an additional budget for public awareness to focus on the increase in the deposit insurance coverage limit to $100,000.

The increase in the coverage limit was the single most important news about deposit insurance for consumers in the past 23 years. Such a significant announcement deserved attention—planned awareness activities were enhanced and a television advertisement was developed and aired in the fall and winter. In addition, a new corporate visual identifier was developed, which was designed to assist in understanding the message about CDIC and deposit insurance.

Looking ahead: During the coming year, activities will continue on public awareness. We will continue to work with stakeholders, consumer groups and others to provide the public with information about deposit insurance.

Board of Directors

CDIC's Board of Directors consists of a Chairperson, five *ex officio* Directors and five private sector Directors, as provided for in the *CDIC Act*.

Chairperson
The Chairperson facilitates the functioning of the Board, which is run independently from CDIC management, and maintains and enhances the delivery and quality of CDIC's corporate governance. The Chairperson regularly interacts with the President and CEO on governance and operational issues and represents the Board in reporting directly to the Minister of Finance, through whom CDIC is ultimately accountable to Parliament.

Ex officio *Directors*
Ex officio Directors are appointed to the Board by virtue of their specialized knowledge from their primary roles within the public service. Their presence on the Board helps to coordinate policies across the Government agencies that make up the federal financial safety net.

Private sector Directors
Private sector Directors bring with them a level of skill and practical experience from a range of relevant fields outside the public sector that helps to inform the work and the decisions of the Board.

Over the course of 2005/2006, CDIC's Board held four regular and two special meetings.

CDIC Board of Directors

CDIC's Board of Directors as at March 31, 2006, is set out below. Biographical information about each Director in office is available on the CDIC website (www.cdic.ca).

Chairperson

Ronald N. Robertson
Chairman of the Board
Canada Deposit Insurance Corporation

Ex Officio Directors

David A. Dodge*
Governor of the Bank of Canada

Ian E. Bennett**
Deputy Minister of Finance

John Doran
Assistant Superintendent
Supervision Office of the Superintendent of Financial Institutions

Bill Knight
Commissioner
Financial Consumer Agency of Canada

Nicholas Le Pan***
Superintendent of Financial Institutions

Private Sector Directors

Tracey Bakkeli
Strategic Consultant
T. Bakkeli Consultants Inc.
Regina

H. Garfield Emerson
National Chairman and Senior Partner
Fasken Martineau DuMoulin LLP
Toronto

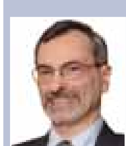
Claude Huot
Consultant in economic development
Le Groupe Stragesult
Montréal

Grant Morash
Financial Advisor
Halifax

Darryl J. Raymaker
Counsel
McNally Cuming Raymaker
Calgary

Alternates

** For the Governor of the Bank of Canada:*

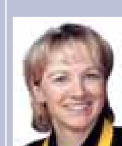


Pierre Duguay
Deputy Governor
Bank of Canada

*** For the Deputy Minister of Finance:*

Frank Swedlove
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance, Canada

**** For the Superintendent of Financial Institutions:*



Julie Dickson
Assistant Superintendent
Regulation Office of the Superintendent of Financial Institutions

Director remuneration
Private sector Directors are paid based on a fee structure recommended by the Government and approved by Order in Council. For 2005/2006, the total of their fees and expenses was $212,740. Directors who also serve as Committee chairs do not receive any additional compensation.

Board Committees

CDIC's Board had four standing committees in 2005/2006—the Executive Committee, the Audit Committee, the Human Resources and Compensation Committee, and the Governance Committee. A separate Nominating Committee which had been created on June 9, 2004, was combined with the Board's Governance Committee on March 8, 2006.

In addition to its standing committees, CDIC's Board has a Committee of Independent Directors, an *ad hoc* committee that meets as required. This Committee was established to review ways to improve the efficiency and effectiveness of the delivery of financial services regulations as they apply to CDIC.

Committee activities are summarized in the table on the next page.

Other Committee Activity—Cooperation among Federal Financial Agencies

There are external committees that CDIC participates in:

Financial Institutions Supervisory Committee and Senior Advisory Committee
CDIC actively participates in two key committees that work to facilitate cooperation at the federal level, namely, the Financial Institutions Supervisory Committee (FISC) and the Senior Advisory Committee (SAC). FISC is chaired by the Superintendent of Financial Institutions and supports consultations and the exchange of supervisory information among its members regarding federal financial institutions. Chaired by the Deputy Minister of Finance, SAC provides a forum to discuss policy matters regarding the financial sector. Both committees consist of the same members (i.e., the Superintendent of Financial Institutions, the Chairperson of CDIC, the Governor of the Bank of Canada, the Commissioner of the Financial Consumer Agency of Canada and the Deputy Minister of Finance), all of whom are members of CDIC's Board of Directors.

OSFI/CDIC Liaison Committee
Created under the *CDIC/OSFI Strategic Alliance Agreement*, the OSFI/CDIC Liaison Committee is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. The Committee discusses issues of coordination between the two organizations, with the goals of avoiding unwarranted duplication and cost, and fostering close and effective working relationships between CDIC and OSFI.

Committee Name and Charter Mandate	Number of Meetings	Composition (March 31, 2006)	Highlights of Activities
Audit Committee—to oversee internal and external audits, advise the Board on financial issues and oversee risk management (including the review of the 2005/2006 consolidated financial statements and the OAG's attest audit)	5	T. Bakkeli (Chair) J. Doran G. Morash D.J. Raymaker	› recommended 2004/2005 financial statements including the MD&A › oversaw CDIC's ERM initiative › oversaw review of a Board contracting policy › oversaw comparative review of Audit Committee best practices and development and implementation of a new Committee Charter › in February 2006, the Audit Committee received and discussed a report from management about the impact of Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) issued by the Canadian Institute of Chartered Accountants (CICA)
Executive Committee—to meet, when required, at the request of the Board, the Chairperson, or the President and CEO	0	R.N. Robertson (Chair) D.A. Dodge H.G. Emerson	This Committee is principally reserved for extraordinary situations; there were no meetings held in 2005/2006
Governance and Nominating Committee—to ensure appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities and succession planning for the President and CEO and the private sector Directors	4	R.N. Robertson (Chair) T. Bakkeli C. Huot B. Knight D.J. Raymaker	› oversaw the succession process for the President and CEO, appointed May 9, 2005, by the Governor in Council, for a five-year period › oversaw review of Board and Board Committee charters, and Corporate By-law › provided recommendations for acting Chairperson › provided recommendations for Director re-appointments
Human Resources and Compensation Committee—to review and advise the Board on human resource issues (policies, succession planning, compliance with legal requirements, compensation and complaints)	4	H.G. Emerson (Chair) C. Huot N. Le Pan G. Morash	› conducted performance assessment of President and CEO (for 2004/2005) and reviewed CEO objectives for 2005/2006 › reviewed the Human Resources Strategy and Plan for employees › oversaw review of harassment policy and "whistleblowing" policy › oversaw employee satisfaction survey › oversaw development of a new Committee Charter
***Ad Hoc* Committee of Independent Directors**—to review ways to improve the efficiency and effectiveness of the delivery of financial services regulations as they apply to CDIC	2	R.N. Robertson (Chair) T. Bakkeli H.G. Emerson C. Huot G. Morash D.J. Raymaker	› delivered a joint CDIC-OSFI report to the Minister of Finance (July 2005) concerning opportunities for streamlining of corporate and administrative services

Board and Committee Meetings and Attendance[a]

(April 1, 2005 to March 31, 2006)

	Board of Directors	Board Committees: Executive Committee	Audit Committee	Governance and Nominating Committee	Human Resources and Compensation Committee	Committee of Independent Directors
Number of Meetings	6	0	5	4	4	2
Attendees (alternates)						
R.N. Robertson—Chairperson	6			4		2
T. Bakkeli	6		5	4		2
I. E. Bennett (F. Swedlove)	0 (4)					
D.A. Dodge (D. Longworth/ P. Duguay[b])	3 (2)					
J. Doran	3		5			
H.G. Emerson	5				4	2
C. Huot	6			4	4	2
W. Knight	6			4		
N. Le Pan (J. Dickson)	1 (1)				2	
G. Morash	6		5		4	2
D.J. Raymaker	4		5	3		2

Notes:

[a] Also includes special meetings and meetings attended by telephone.

[b] Pierre Duguay replaced D. Longworth as the alternate to the Governor of the Bank of Canada, effective September 1, 2005.

CDIC Management—Internal Accountability

The Board's commitment to the highest standards of ethical and professional conduct is reflected in the corporate policies and practices related to business and ethical behaviour in place for all employees at CDIC. The President and CEO shares this commitment.

In order to reinforce to employees the importance of maintaining an organizational climate that fosters ethical behaviour, the President and CEO held a mandatory information session for all employees concerning ethics and integrity. The objective was to elaborate for employees their rights and obligations, as well as those of the Corporation, as both have a role to play under the existing policies and practices for employees (see Appendix A for further details). In addition to emphasizing CDIC's policies and practices, the session focused on the importance of safeguarding individuals' privacy. The information session was also aimed at reinforcing the importance of integrity and ethics across the Corporation.

Salary ranges for CDIC's officers, as of March 31, 2006, are:

- for the position of President and Chief Executive Officer—$200,000 to $235,300
- for the position of Vice-President—$153,690 to $204,910

In addition to CDIC benefits, the President and CEO receives an annual car allowance. The travel and hospitality expenses of the four corporate officers are posted on the CDIC website (www.cdic.ca).

Statutory Requirements

As a Crown corporation, CDIC must comply with the provisions of Part X of the *Financial Administration Act*, which requires that the Corporation submit annually a five-year corporate plan (and a summary of the plan) and an annual report to the Minister, who then tables the summary and annual report in each House of Parliament. CDIC fulfilled these requirements over the course of the year—see Appendix A for further details.

<table>
<tr><th colspan="3">CDIC Officers</th></tr>
<tr><td colspan="3">Guy L. Saint-Pierre
President and Chief Executive Officer</td></tr>
<tr><td>Michèle Bourque
Vice-President
Insurance and Risk Assessment</td><td>M. Claudia Morrow
Vice-President, Corporate Affairs,
General Counsel and
Corporate Secretary</td><td>Thomas J. Vice
Vice-President, Finance and
Administration, and Chief
Financial Officer</td></tr>
</table>

V Membership Performance and Profile

This section provides a review of the financial performance of CDIC's member institutions for last year.

About Our Membership

As at March 31, 2006, the Corporation had 82 members. During the year, three institutions joined CDIC while two members had their policies of deposit insurance cancelled at their request (see *Membership Changes* on page 77). The membership consolidates to 56 distinct groups based on affiliation with a parent. To facilitate our membership analysis, we assign each member institution or affiliated group a peer group based on size, geographic scope of its operations and/or its primary business activities. Our largest members, which are included for analysis purposes in the National peer group, offer a full range of financial products and services and have business activities that extend across Canada and internationally. Our other members are either fairly large with business activities that are regionally focused or are product/service focused. For example, a number of our member institutions are engaged primarily in residential mortgage lending, in commercial lending or consumer lending.

CDIC Member Peer Groups

For analysis purposes, CDIC groups its membership according to the geographic scope of business activities and main business lines of its institutions.

The comparative member information is presented according to the six following peer groups:

National—business activities extend across Canada and include some international exposure.

Regional—business activities are regionally focused and include some exposure to other regions of Canada.

Residential—main business lines include a focus on residential mortgages.

Commercial—main business lines include a focus on commercial loans or non-residential mortgages.

Consumer—main business lines include a focus on individual loans.

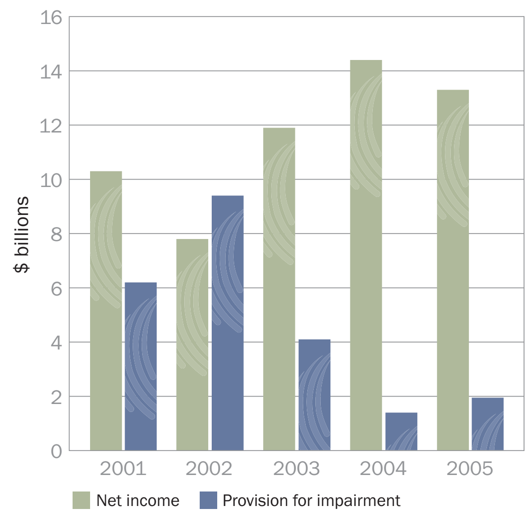
Other—main business lines tend to be fee oriented; these institutions are not classified or included in any of the above peer groups and do not necessarily share similar business lines with others within this group.

Financial Performance

CDIC's insurance risk is tied closely to the financial health of its membership. Overall, CDIC members continue to pose relatively low short-term risk to the Corporation due to their performance and financial condition as demonstrated throughout 2005, with strong profitability, good asset quality and robust levels of capital. Despite the expectation of a modest deterioration in the credit environment, CDIC is expecting 2006 to be another favourable year for its members. However, over the longer term, some risks warrant monitoring: high consumer leverage; the impact of continued rises in interest rates on consumer and corporate credit worthiness; possible real estate or capital market corrections; and the riskier profile of some member institutions.

Profits are strong for a third consecutive year
Following historic high earnings in 2004, membership after-tax profits decreased by $1.1 billion to $13.3 billion in fiscal year 2005. Membership earnings were on target to reach another record high, but did not do so as a result of over $3.2 billion of Enron-related charges recorded by some of CDIC's largest members. Earnings for all peer groups were strong with few members reporting losses. Overall, good credit quality and relatively low levels of provisions for credit losses were largely responsible for the strong membership performance. Solid growth in residential mortgage and consumer lending, along with robust wealth management and capital markets activity, were only partially offset by a declining interest rate spread in 2005.

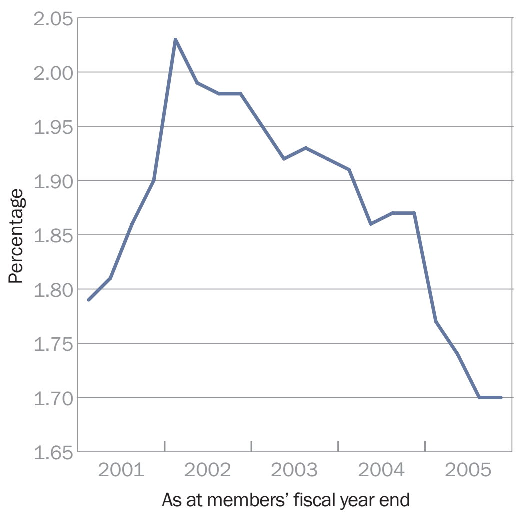
Net Income and Provisions of CDIC Members*



*For members' fiscal year end

Flat net interest income and declining membership spreads
Net interest income remained flat for the third consecutive year at approximately $33 billion despite a solid 11% increase in loans outstanding. While a number of peer groups, led by the Residential peer group, reported strong net interest income growth associated with a rapid expansion of their loan portfolio, others reported more modest growth or even a slight decline. The low absolute level of interest rates, the relatively flat yield curve and the shift from commercial to retail loans combined to put pressure on net interest income. Since reaching a peak in early 2002, the membership's average interest spread has steadily declined to 1.70% of average assets with a 17-basis-point drop in 2005. The rising short-term interest rate environment also contributed to declining spreads as, for most institutions, deposit liabilities have a shorter maturity than do assets and, therefore, an institution's interest costs rise faster than does the income earned on its assets.

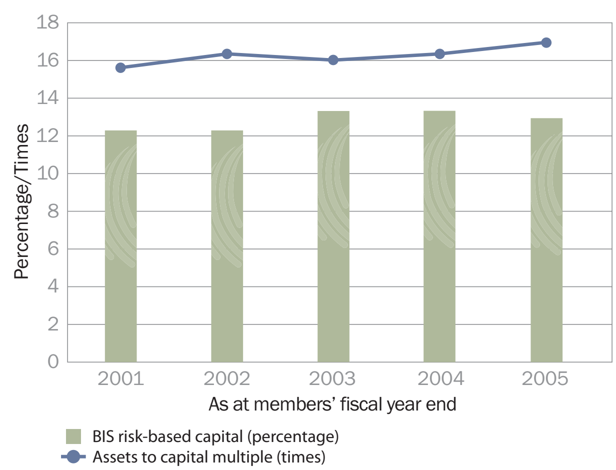
Average Membership Spread (gross of provisions)



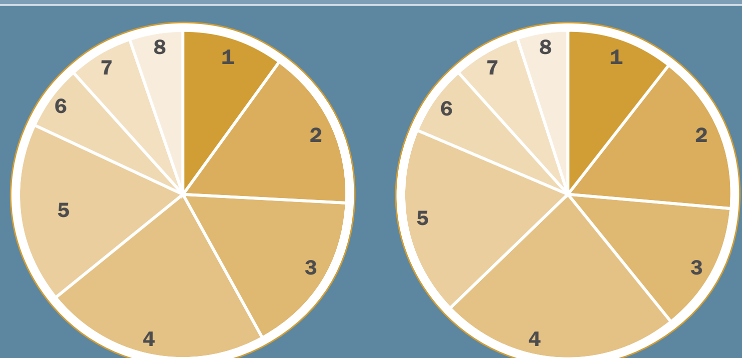
Solid non-interest income growth
Non-interest income rose a strong 11% to about $37 billion in fiscal year 2005 and now represents over 53% of total membership revenues. Non-interest income was supported by a favourable capital markets environment. Income from trading and non-trading instruments increased the most with 34% growth, while investment management and custodial services, service charges, income from securitization of assets, credit and debit card fees and other income reported a range of 7% to 11% growth.

Capital ratios and leverage remain strong
The average total risk-weighted capital ratio for the membership dropped slightly to 12.9% from 13.3%, while the assets to capital multiple—a measure of leverage—rose slightly to 17.0 times from 16.4 times in the prior year as assets, and particularly loans, rose faster than capital. The decline was most apparent at the larger institutions including those in the National and Regional peer groups. Even so, capital ratios for all members were above the Office of the Superintendent of Financial Institution's (OSFI's) well-capitalized guidelines of 7% for Tier 1 members and 10% for total risk-based capital ratios. These strong capital ratios should allow institutions to weather unexpected economic shocks.

Capitalization, 2001–2005



Components of Non-Interest Income*



2004 ($33.8 billion)

2005 ($37.4 billion)

	2004* (%)	2005* (%)	
1	10.6	10.2	Service charges
2	15.8	15.9	Investment management and custodial services
3	12.8	15.6	Income from trading and non-trading instruments
4	23.8	22.3	Securities commissions and underwriting fees
5	18.4	17.9	Other
6	7.1	6.5	Loan, guarantee and bankers' acceptances (BAs) fees
7	6.5	6.5	Credit and debit cards fees
8	5.0	5.1	Income from securitization of assets

* As a percentage of total non-interest income for members' fiscal year end.

Strong asset growth

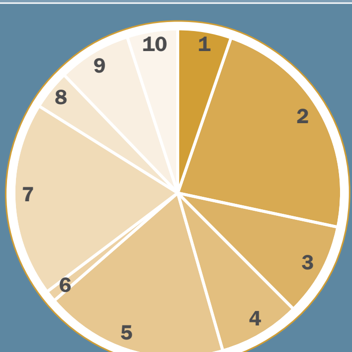
Member institutions displayed strong growth of over 11% of total assets to almost $2 trillion in fiscal 2005. Continuing the trend from the previous year, several members experienced asset increases of over 25%. Growth was strong across most peer groups, with the Residential group achieving almost 30%—a reflection of the robust housing sector.

Loans continued to be the dominant asset class, making up over 54% of total assets. There was exceptionally strong growth in residential mortgages and personal loans driven by the low interest rate environment, strong employment and a tendency for consumers to shoulder higher debt levels. While the rise in non-residential mortgages outstanding originates in the National peer group, selected small members operating in niche markets appear to have increased their exposure to that higher risk real estate market.

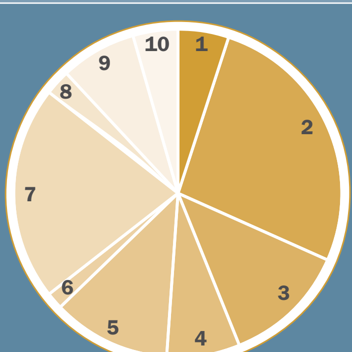
Loan quality remains strong

Overall provisions for credit losses increased to $2.0 billion in fiscal year 2005 from $1.3 billion in the previous year. While the increase may appear to be indicative of a deterioration in loan quality, it is instead due largely to fewer credit allowance reversals in 2005. In fact, this year's strength in credit quality is reflected in the historically low level of impaired loan formation. Impaired loans, as well as impaired loans net of allowances relative to total loans were also at very low levels. Although impaired loans across the membership are well provided for, general allowances as a percentage of risk-weighted assets have declined from the peak in 2002.

Asset Mix 2001 vs. 2005*



2001
($1.63 trillion)



2005
($1.98 trillion)

	2001 (%)	2005 (%)	
1	5.3	5.2	Cash
2	23.1	26.6	Securities
3	9.3	12.1	Personal/Consumer loans
4	7.9	7.4	Reverse repurchase agreements
5	18.2	11.5	Commercial loans
6	1.2	1.6	Non-residential mortgage loans
7	18.9	21.1	Residential mortgage loans
8	3.9	2.5	Other loans and BAs
9	7.4	7.5	Derivatives related amounts
10	4.8	4.4	Other assets

* As at members' fiscal year end.

On the horizon
CDIC members had another strong year in 2005, although performance may have peaked. A number of factors provide some cause for concern over the medium to longer term: high levels of consumer indebtedness, a rising interest rate environment, and a decline in economic activity and the related impact on employment levels. However, membership continues to have robust capital levels, which offer a significant measure of comfort for withstanding potential market downturns.

Real estate markets in 2005 have continued to contribute to the strong performance of most members—particularly those involved in residential mortgage lending. A small percentage of members continued to hold significant exposure to higher risk real estate categories, including non-residential mortgages, interim construction loans and commercial loans to the real estate sector. While there are currently no signs of deterioration in real estate markets, these loan categories are typically very sensitive to a downturn.

Member institutions reported strong growth in both residential mortgages and personal loans at a time when household debt is at record levels and in a rising interest rate environment. The average consumer household debt to disposable income ratio stood at 125% at the end of 2005 according to Bank of Canada. Potential economic shocks such as a fall in real estate prices, decline in employment and disposable income, or significant increases to interest rates hold the potential for affecting consumers' ability to manage debt.

Comparative Membership Information

The comparative membership information from the last five fiscal years has been prepared from financial information supplied by the members through the Tri-Agency Data Sharing System[5] maintained at the Bank of Canada, as well as from financial information received directly by CDIC.

This section begins with the current (at March 31, 2006) CDIC membership and a brief description of membership changes that occurred during 2005/2006. The comparative membership information tables that follow illustrate trends since 2001 based on membership balance sheets, as well as performance measures in the areas of deposit liability, profitability, capitalization and asset quality. The financial information is presented as aggregates and averages—for this reason, financial information for individual members can vary significantly from these amounts.

In its five-year tables, CDIC restates the peer group results of prior years to reflect the current year's membership. Accordingly, the following tables exclude the financial information of institutions that were no longer members as of March 31, 2006.

[5] TDS was developed and financed jointly by the Bank of Canada, OSFI and CDIC in 1999. Information collected by way of the TDS system is distributed to each of the three agencies for use in their respective systems.

CDIC Members as at March 31, 2006*

Domestic Banks and Subsidiaries

Member Institution	Peer Group
Bank of Montreal Bank of Montreal Mortgage Corporation BMO Trust Company	National
Bank of Nova Scotia (The) Bank of Nova Scotia Trust Company (The) Maple Trust Company Montreal Trust Company of Canada National Bank of Greece (Canada) National Trust Company Scotia Mortgage Corporation	National
Bank West	Consumer
Bridgewater Bank	Residential
Canadian Imperial Bank of Commerce Amicus Bank CIBC Mortgages Inc. CIBC Trust Corporation	National
Canadian Western Bank Canadian Western Trust Company	Regional
Citizens Bank of Canada	Residential
CS Alterna Bank	Residential
Dundee Wealth Bank	Other
General Bank of Canada	Consumer
Laurentian Bank of Canada B2B Trust Laurentian Trust of Canada Inc. LBC Trust	Regional
Manulife Bank of Canada	Residential
National Bank of Canada Natcan Trust Company National Bank Trust Inc.	Regional
Pacific & Western Bank of Canada	Commercial
Royal Bank of Canada Royal Bank Mortgage Corporation Royal Trust Company (The) Royal Trust Corporation of Canada	National
Toronto-Dominion Bank (The) Canada Trust Company (The)	National
First Nations Bank of Canada TD Mortgage Corporation TD Pacific Mortgage Corporation	Commercial
Ubiquity Bank of Canada	Residential
Total: 41	

Domestic Trust and Loan Companies and Associations

Member Institution	Peer Group
AGF Trust Company	Consumer
CIBC Mellon Trust Company	Other
Community Trust Company	Residential
Concentra Financial Services Association Concentra Trust	Residential
Desjardins Trust Inc.	Other
Effort Trust Company (The)	Residential
Equitable Trust Company (The)	Residential
Home Trust Company	Residential
Industrial Alliance Trust Inc.	Other
League Savings & Mortgage Company	Residential
MCAP Inc.	Residential
M.R.S. Trust Company	Consumer
Investors Group Trust Co. Ltd.	Residential
Peace Hills Trust Company	Commercial
Peoples Trust Company	Residential
RBC Dexia Investor Services Trust	Other
ResMor Trust Company	Residential
Sun Life Financial Trust Inc.	Residential
Trimark Trust	Other
Total: 20	

Subsidiaries of Foreign Institutions

Member Institution	Peer Group
Amex Bank of Canada	Consumer
Bank of China (Canada)	Commercial
Bank of East Asia (Canada) (The)	Commercial
BCPBank Canada	Residential
Citibank Canada	Other
Computershare Trust Company of Canada	Other
CTC Bank of Canada	Commercial
First Data Loan Company, Canada	Other
Habib Canadian Bank	Commercial
HSBC Bank Canada Household Trust Company HSBC Mortgage Corporation (Canada) HSBC Trust Company (Canada)	Regional Residential
ICICI Bank Canada	Commercial
ING Bank of Canada	Residential
International Commercial Bank of Cathay (Canada)	Commercial
Korea Exchange Bank of Canada	Consumer
MBNA Canada Bank	Consumer
Northern Trust Company, Canada (The)	Other
State Bank of India (Canada)	Commercial
UBS Bank (Canada)	Other
Total: 21	

Total: 82 members

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

Membership Changes:
April 1, 2005–March 31, 2006

New Members

June 8, 2005: General Bank of Canada, a wholly-owned subsidiary of Firstcan Management Inc.

January 3, 2006: RBC Dexia Investor Services Trust, owned by a joint venture between Royal Bank of Canada and Dexia Banque Internationale à Luxembourg S.A.

March 29, 2006: Bridgewater Bank, a subsidiary of the Alberta Motor Association

Other Membership Changes

May 9, 2005: BNP Paribas (Canada)'s application for authorization to accept deposits that are greater than $150,000 and payable in Canada without being a CDIC member institution was approved—policy cancelled

June 20, 2005: Société Générale (Canada)'s application for authorization to accept deposits that are greater than $150,000 and payable in Canada without being a CDIC member institution was approved—policy cancelled

June 30, 2005: Laurentian Trust of Canada Inc. was continued as a federal trust company

July 1, 2005: Desjardins Trust Inc. was continued as a federal trust company

Summary Financial Information—Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2005		2004		2003		2002		2001	
	$	%	$	%	$	%	$	%	$	%
ASSETS										
Cash resources	103.1	5.2	84.0	4.7	93.9	5.6	94.0	5.7	86.9	5.3
Securities	527.2	26.6	453.4	25.5	430.0	25.4	380.3	22.9	375.5	23.1
Loans	1,075.5	54.3	970.5	54.6	917.4	54.3	925.8	55.8	915.7	56.2
Other assets	275.1	13.9	271.2	15.2	247.6	14.7	258.0	15.6	250.5	15.4
Total assets	**1,980.9**	**100.0**	**1,779.1**	**100.0**	**1,688.9**	**100.0**	**1,658.1**	**100.0**	**1,628.6**	**100.0**
LIABILITIES										
Deposits	1,330.6	67.2	1,188.3	66.8	1,130.1	66.9	1,118.7	67.5	1,084.7	66.6
Other liabilities	559.4	28.2	504.5	28.4	475.5	28.2	458.2	27.6	464.8	28.5
Total liabilities	**1,890.0**	**95.4**	**1,692.8**	**95.2**	**1,605.6**	**95.1**	**1,576.9**	**95.1**	**1,549.5**	**95.1**
Shareholders' equity	90.9	4.6	86.3	4.8	83.3	4.9	81.2	4.9	79.1	4.9
Total liabilities and shareholders' equity	**1,980.9**	**100.0**	**1,779.1**	**100.0**	**1,688.9**	**100.0**	**1,658.1**	**100.0**	**1,628.6**	**100.0**

Income Statement ($ millions)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
Interest income	74,151	63,792	66,600	68,749	85,344
Interest expense	41,296	30,852	33,522	35,567	55,723
Net interest income	**32,855**	**32,940**	**33,078**	**33,182**	**29,621**
Provision for impairment	1,983	1,309	4,020	9,310	6,230
Net interest income after provision for impairment	**30,872**	**31,631**	**29,058**	**23,872**	**23,391**
Other income	37,388	33,814	31,896	31,087	33,720
Net interest income and other income	**68,260**	**65,445**	**60,954**	**54,959**	**57,111**
Non-interest expenses	49,112	45,078	44,060	44,309	43,021
Net income before provision for income taxes	**19,148**	**20,367**	**16,894**	**10,650**	**14,090**
Provision for income taxes	5,389	5,450	4,314	2,369	3,312
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**13,759**	**14,917**	**12,580**	**8,281**	**10,778**
Non-controlling interest in net income of subsidiaries and extraordinary items	507	575	611	505	434
Net income	**13,252**	**14,342**	**11,969**	**7,776**	**10,344**

Deposit Liabilities in Canada, by Peer Group

Total Deposits ($ billions and percentage)

As at April 30	2005		2004		2003		2002		2001	
	$	%	$	%	$	%	$	%	$	%
National	1,007.6	86.4	955.0	87.7	905.2	87.9	888.0	88.2	833.8	88.2
Regional	112.2	9.6	95.7	8.8	92.7	9.0	93.1	9.3	90.7	9.6
Residential	30.2	2.6	23.5	2.2	18.6	1.8	13.1	1.3	9.5	1.0
Commercial	2.7	0.2	2.4	0.2	2.2	0.2	2.3	0.2	2.1	0.2
Consumer	3.6	0.3	3.5	0.3	3.5	0.3	2.5	0.3	1.8	0.2
Other	10.3	0.9	8.3	0.8	8.1	0.8	7.3	0.7	7.0	0.8
Membership	**1,166.6**	**100.0**	**1,088.4**	**100.0**	**1,030.3**	**100.0**	**1,006.3**	**100.0**	**944.9**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits)

As at April 30	2005		2004		2003		2002		2001	
	$	%	$	%	$	%	$	%	$	%
National	362.6	36.0	315.9	33.1	306.3	33.8	296.3	33.4	283.3	34.0
Regional	46.5	41.4	39.5	41.3	40.1	43.3	38.1	40.9	37.8	41.7
Residential	22.8	75.5	16.5	70.2	13.4	72.0	10.0	76.3	8.0	84.2
Commercial	1.5	55.6	1.2	50.0	1.1	50.0	1.2	52.2	1.1	52.4
Consumer	2.4	66.7	1.8	51.4	1.6	45.7	1.2	48.0	0.9	50.0
Other	1.0	9.7	0.4	4.8	0.3	3.7	0.3	4.1	0.4	5.7
Membership	**436.8**	**37.4**	**375.3**	**34.5**	**362.8**	**35.2**	**347.1**	**34.5**	**331.5**	**35.1**

Profitability Measures, by Peer Group

Efficiency Ratio (percentage)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
National	71.0	68.1	68.4	69.7	68.2
Regional	63.6	64.8	64.7	62.7	63.7
Residential	58.4	57.0	56.6	62.8	64.7
Commercial	84.3	82.5	78.9	84.2	75.3
Consumer	61.9	62.2	61.6	60.6	72.7
Other	59.5	66.0	68.1	68.7	67.7
Membership	**69.9**	**67.5**	**67.8**	**68.9**	**67.9**

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

Non-Interest Income (percentage)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
National	53.0	50.0	48.3	47.7	53.0
Regional	51.2	52.3	51.6	47.0	48.8
Residential	22.9	27.0	30.2	30.1	31.5
Commercial	28.6	25.3	27.6	31.9	28.1
Consumer	70.7	69.4	66.3	70.4	71.8
Other	102.2	96.8	77.0	80.5	78.3
Membership	**53.2**	**50.7**	**49.1**	**48.4**	**53.2**

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

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
National	0.7	0.8	0.7	0.4	0.7
Regional	0.9	0.8	0.8	0.6	0.7
Residential	0.7	0.8	0.8	0.7	0.6
Commercial	0.3	0.4	0.0	-0.1	0.2
Consumer	2.3	3.1	3.4	4.3	2.4
Other	0.8	0.8	0.5	0.8	1.0
Membership	**0.7**	**0.8**	**0.7**	**0.5**	**0.7**

ROAA: net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
National	14.9	17.2	14.6	9.4	13.9
Regional	17.8	15.8	15.3	11.4	14.0
Residential	10.8	13.6	14.8	11.3	8.3
Commercial	3.2	3.8	0.4	-0.7	2.6
Consumer	13.3	16.5	19.4	26.4	15.3
Other	13.0	12.5	7.7	8.8	9.7
Membership	**15.0**	**16.9**	**14.6**	**9.7**	**13.7**

ROAE: net income/average shareholders' equity

Membership Performance and Profile

Cost of Funds (percentage)

For the members' fiscal year ending in	2005	2004	2003	2002	2001
National	3.2	2.5	2.8	3.1	5.2
Regional	2.6	2.4	2.6	2.5	4.2
Residential	3.2	3.1	3.6	3.9	5.2
Commercial	3.3	3.2	3.5	4.0	5.3
Consumer	4.9	4.0	3.7	3.7	6.0
Other	2.6	2.0	2.7	2.8	4.8
Membership	**3.1**	**2.5**	**2.8**	**3.1**	**5.1**

Cost of funds: interest expense/average interest bearing liabilities

Capitalization Measures, by Peer Group

Leverage Ratio (times)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	22.5	21.4	21.4	21.5	21.4
Regional	21.0	19.6	19.8	19.6	19.8
Residential	16.2	17.4	18.9	16.9	14.2
Commercial	10.1	9.8	9.8	12.4	12.6
Consumer	5.7	5.3	5.7	6.1	6.3
Other	15.3	16.2	15.8	11.2	10.2
Membership	**21.8**	**20.8**	**20.9**	**20.9**	**20.8**

Leverage: average assets/average shareholders' equity

BIS Risk-Based Capital (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	12.8	13.2	13.2	12.2	12.2
Regional	11.6	12.3	12.9	12.8	12.5
Residential	19.4	17.9	16.6	16.9	16.1
Commercial	15.0	15.9	17.0	15.8	17.5
Consumer	20.1	20.4	21.1	18.8	17.4
Other	21.0	20.1	17.2	15.0	14.8
Membership	**12.9**	**13.3**	**13.3**	**12.3**	**12.3**

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

Asset Quality Measures, by Peer Group

Asset Growth (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	11.5	4.6	1.3	0.6	9.6
Regional	17.9	8.5	5.0	0.2	5.0
Residential	28.8	36.3	33.3	41.6	27.6
Commercial	27.1	14.9	1.9	31.2	5.7
Consumer	13.9	15.3	18.2	29.6	32.1
Other	5.3	10.0	-13.7	2.5	21.6
Membership	**12.3**	**5.5**	**1.8**	**1.0**	**9.5**

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

Impaired Assets to Total Assets (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	0.3	0.4	0.6	0.9	0.8
Regional	0.3	0.5	0.7	0.9	1.1
Residential	0.2	0.2	0.2	0.3	0.4
Commercial	0.8	1.5	2.2	2.1	1.3
Consumer	1.2	1.2	1.3	1.2	1.4
Other	0.0	0.0	0.1	0.4	0.4
Membership	**0.3**	**0.4**	**0.6**	**0.9**	**0.8**

Impaired assets (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	0.5	0.7	1.2	1.6	1.4
Regional	0.5	0.8	1.0	1.3	1.6
Residential	0.2	0.3	0.3	0.5	0.6
Commercial	1.1	2.3	3.1	2.9	2.3
Consumer	1.4	1.5	1.7	1.6	1.8
Other	0.4	0.4	0.8	1.8	1.3
Membership	**0.5**	**0.7**	**1.1**	**1.6**	**1.4**

Impaired loans (gross)/total loans (gross)

General Allowance to Risk-Weighted Assets (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	0.6	0.7	0.9	1.0	0.9
Regional	0.7	0.9	1.0	1.0	1.1
Residential	0.6	0.6	0.8	0.8	0.8
Commercial	0.7	0.8	0.8	0.7	0.7
Consumer	2.1	2.2	2.3	1.8	2.1
Other	0.2	0.3	0.4	0.7	0.7
Membership	**0.6**	**0.7**	**0.9**	**1.0**	**0.9**

General allowance/risk-weighted assets

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2005	2004	2003	2002	2001
National	-4.4	-3.3	-2.0	0.0	-0.5
Regional	-5.3	-5.2	-3.7	-1.8	0.4
Residential	-1.8	-2.2	-3.6	-2.5	-2.5
Commercial	-2.6	0.9	4.7	7.4	8.1
Consumer	-3.3	-3.8	-3.4	-1.9	-1.1
Other	-1.5	-1.6	-1.2	-2.1	-1.4
Membership	**-4.3**	**-3.4**	**-2.1**	**-0.2**	**-0.4**

Impaired loans (net)/average shareholders' equity

Appendices

Appendix A

Summary of Adherence to Key Statutory Requirements, Corporate Policies and Practices (2005/2006)

Statutory Requirements, Corporate Policies or Practices	Application	Annual Reporting
CDIC's Mission and Corporate Values	Employees	Reported to Human Resources and Compensation Committee (HRCC)
Oath of Fidelity and Secrecy Statutory requirement—sections 44(2) and 45.2 of the *CDIC Act*.	Employees and Directors	Employees—reported to HRCC Directors—reported to Board
Code of Business Conduct and Ethical Behaviour for Employees To maintain professionalism and excellence at CDIC while supporting a positive work environment.	Employees and Directors	Employees—reported to HRCC Directors—reported to Board
Conflicts of Interest Code To maintain and promote public confidence and trust in the integrity objectivity and impartiality of CDIC.	Employees and Directors	Employees—reported to HRCC Directors—reported to Board
Policy on Internal Disclosure of Information Concerning Wrongdoing in the Workplace (Whistleblowing) To provide an effective process so that employees who have concerns or information about wrongdoing can bring them to the attention of their supervisors for review and resolution.	Employees	Reported to HRCC
Harassment in the Workplace Policy To maintain a working environment that is free from harassment and in which all persons treat each other with mutual respect.	Employees	Reported to HRCC
Employment Equity Policy To foster a work force with equitable representation and distribution of women, Aboriginal people, persons with disabilities, and visible minorities. (As at March 31, 2006, CDIC had fewer than 100 employees; therefore, the *Employment Equity Act* is not applicable.)	Employees	Reported to HRCC

Statutory Requirements, Corporate Policies or Practices	Application	Annual Reporting
***Financial Administration Act* (FAA)** Annual Report—section 150 of the FAA	Corporation	Filed within statutory timeframe
Corporate Plan 2006/2007 to 2010/2011—section 122 of the FAA	Corporation	Filed within statutory timeframe
Summary of Corporate Plan 2006/2007 to 2010/2011—section 125 of the FAA	Corporation	Filed within statutory timeframe
Health and Safety (Part II of the *Canada Labour Code*) To provide a healthy and safe workplace for employees.	Corporation	Reports provided to HRCC and filed within statutory timeframe
Official Languages Act To ensure the respect of the official languages of Canada.	Corporation	Reports provided to HRCC and filed within statutory timeframe
Canadian Multiculturalism Act To provide an environment for employees where they can experience the full cultural and racial diversity of Canadian society.	Corporation	Reports provided to HRCC and filed within statutory timeframe
Access to Information Act* and *Privacy Act	Corporation	Responded to three Access requests; no Privacy requests received. Annual Reports filed within statutory timeframes
TBS Privacy Impact Assessment Policy	Corporation	One PIA initiated Three PPIAs initiated
TBS Request re: *U.S.A. Patriot Act*	Corporation	Risk management strategy put in place per TBS request

Appendix B

Summary Mapping of CDIC Practices as against TBS Report Measures

The Treasury Board of Canada Secretariat (TBS) Report contains 31 measures in all. Appendix B sets out CDIC's progress as against the 13 measures that require CDIC's action. Other measures in the TBS Report already apply to CDIC. For example, CDIC is subject to the *Access to Information Act* and the Auditor General of Canada is CDIC's external auditor and conducts the CDIC special examination.

TBS Measure	Established Practice	New in 2005/06	CDIC Status
Annual Public Meetings (APM) (TBS Measure #8)—To ensure that the Board may deliberate freely, and exercise the challenge function expected of Directors, Board proceedings should remain confidential. The Government will require that Boards of Directors of Crown corporations hold **annual public meetings** at which stakeholders could express their views and seek information about the activities of the corporations. Corporations are also encouraged to develop **outreach activities** to solicit input and feedback from stakeholders on an ongoing basis. [emphasis added]	✓	✓	CDIC began planning during the year for its first annual public meeting (APM) scheduled for December 5, 2006, in Toronto. CDIC views its upcoming APM as an opportunity to further public awareness initiatives, provide information about its operations and results, and future strategies, and to solicit feedback. CDIC has been conducting outreach programs for years, including: Board meetings held across the country once a year to meet local business communities; a toll-free call line for the public; a website; participation in financial consumer trade shows; television and print advertising; and other public awareness initiatives.
Board & Committee Charters (TBS Measure #10)—To strengthen the corporate governance of Crown corporations, the Government will work with Boards to adopt a charter that would define clearly the roles and responsibilities of the Board.	✓	✓	The Board approved Charters for itself and its Committees in March 2006. The new Charters were based on best practices and the pre-existing Board Governance Policy and mandates for each Committee.
Director Training (TBS Measure #11)—To further enhance the skills and performance of Boards of Directors and building on current orientation programs, the Canada School of Public Service will establish additional training and professional development programs on public sector management and Crown corporations.	✓	✓	Although TBS is reviewing what formal training might be offered to Directors, opportunities for training are made available by CDIC to its Directors. Several Directors took specific training related to their Board governance responsibilities and duties.
Board Self-assessment (TBS Measure #12)—Consistent with good governance practices, the Government will ask Boards of Directors to establish regular assessments of their effectiveness and contribution of individual Directors as a self-development tool. The assessment of the Board as a whole will be communicated by the Chair of the Board to the appropriate Minister.	✓	✓	All Board and Board Committee Charters now include a mandatory requirement for regular self-assessments. The Board has conducted self-assessments in the past and has plans to do so again in the near future.

TBS Measure	Established Practice	New in 2005/06	CDIC Status
Audit Committee (TBS Measure #13)—The Government will require that the Boards of Directors for all Crown corporations establish an Audit Committee › The committee would consist of a minimum of three members and would have the authority to engage independent counsel and expertise, as it deems necessary to carry out its duties.	✓		CDIC's Audit Committee has four members. Its Charter now explicitly includes the authority to engage independent counsel and expertise (which existed in a Board policy) and is now also enshrined in the Charters for all Board committees.
› The mandate of the committee should include the requirement to set up a process to investigate complaints related to issues of integrity and behaviour and to establish a risk assessment and management mechanism as well as adequate controls and protocols to mitigate those risks.	✓	✓	The Charter also includes other provisions to mitigate corporate risks and to investigate complaints related to accounting, internal controls and auditing matters. Matters related to ethics and integrity are shared jointly with the Human Resources and Compensation Committee of the Board, and through the formal "whistleblowing" policy, which was approved in 2003. A revised policy has been reviewed [and approved by the Board in June 2006]. A requirement to establish this policy is also included in the Audit Committee Charter. The Audit Committee Charter also now provides that the Committee will review expenses of the Chairperson, Directors and Officers.
› The Audit Committee would also adopt an audit plan that would be communicated to the Board of Directors.	✓		The Audit Committee has an audit plan of which the Board is kept informed.
Audit Committee Independence (TBS Measure #14)—All Directors on the Audit Committee must be independent of management and have financial literacy. An individual with financial expertise must chair the activities of the committee. The Government will be mindful of this requirement in the context of the selection and appointment process of Directors.	✓	✓	All Directors on CDIC's Audit Committee are independent of management and have the requisite financial literacy. The Audit Committee Charter now includes a mandatory requirement that members have financial literacy and that at least one member have financial expertise.
Internal Audit (TBS Measure #15)—In order to enhance and protect the independence of the audit function, internal and external auditors will report directly to the Audit Committee	✓ ✓		CDIC's internal auditor reports directly to the Audit Committee and the President and CEO. The internal auditor's mandate was updated to reflect changes to the new Audit Committee Charter. CDIC's external auditor, the OAG, is invited to attend all meetings of the Audit Committee, and the Audit Committee holds separate *in camera* sessions with the OAG and CDIC's internal auditor.
Board and CEO Selection (TBS Measure #16)—Selection criteria for chairs and Board profiles will be made public by the Government. Similarly, Crown corporations will make CEO selection criteria available to the public.	✓		The selection criteria for the President and CEO was made publicly available during the selection process for this position in 2005.

TBS Measure	Established Practice	New in 2005/06	CDIC Status
CEO Selection Process (TBS Measure #18)—The selection process for the CEO will be determined by the Board of Directors and will include, at minimum, advertising in either or both the *Canada Gazette* and the corporation's website	✓		The selection process for the President and CEO was determined in advance by the Board and was advertised in the *Canada Gazette* and national newspapers and CDIC's website.
Board and CEO References (TBS Measure #19)—The Government will obtain references on all candidates for appointment as Director or chair. In the case of CEOs, the Board's nominating committee will be required to do the same for any candidate it submits to the Government for appointment. In addition, the Government will continue to conduct background checks and ensure that candidates are not in a conflict of interest, prior to making any appointments.	✓		The Governance and Nominating Committee obtained and verified references for the CEO position. The President and CEO reported to the Office of the Ethics Commissioner as required and was found to be in compliance.
Appointment Process Review (TBS Measure #20)—The Government will work closely with parliamentary committees to ensure a workable appointment review process that will not unduly delay necessary appointments.	✓		The recommended CEO appeared before the House of Commons Standing Committee on Finance on May 5, 2005.
Annual Reports (TBS Measure #22)—To respond to public interest in non-financial issues, the Treasury Board of Canada Secretariat will produce a guidance document for Crown corporations on annual report specifications, including the Management's Discussion and Analysis section and issues pertaining to values and ethics.	✓		The OAG awarded CDIC the Award for Excellence in Annual Reporting by Crown Corporations in 2005 and named it as a finalist for this award for the last 11 years. It was also the winner in 1996.
CEO/CFO Certification (TBS Measure #24)—In principle, the Government supports the use of a certification regime adapted to the reality of public institutions. The Treasury Board of Canada Secretariat will examine, in consultation with Crown corporations, the development of a certification regime that would be applicable to all Crown corporations.		✓	Management presented a plan (through a scoping exercise) to the Audit Committee designed to determine what CEO/CFO certification would mean to CDIC (including resource implications).

Appendix C

Glossary

Additional Coverage: CDIC provides separate coverage (up to a maximum of $100,000, including principal and interest) for each of the following types of eligible deposits—those held: jointly, in the name of two or more persons, in trust, in registered retirement savings plans (RRSPs), in registered retirement income funds (RRIFs) and in mortgage tax accounts. (“Couverture additionnelle”)

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

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

(a) is obliged to give credit to that person’s account or is required to issue an instrument for which the member is primarily liable,

(b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person. (“Dépôt”)

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

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

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

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

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

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

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

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

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

Regulatory Capital: Capital designed to provide a cushion to absorb unexpected losses and thus offer a measure of protection to depositors and other creditors in the event of the failure of a financial institution. The 1988 Basel Capital Accord, agreed to by the G-10 supervisory authorities, sets out a framework for measuring capital adequacy and the minimum capital ratios to be achieved, which were implemented at the individual supervisory level. The Accord maintains a minimum risk-based requirement of 8% but OSFI has established a target level of 10% for federally regulated deposit-taking institutions. ("Capital réglementaire")

Retail Deposit: Small- or medium-size deposits that may include Guaranteed Investment Certificates, other term deposits, or demand deposits like savings or chequing accounts. Retail deposits are usually made by depositors who are not professional money managers. ("Dépôt de détail")

Separate Coverage: The insurance protection that is available to eligible deposits held jointly or in trust, or in RRSPs, RRIFs or mortgage tax accounts. See "basic coverage." ("Assurance distincte")

Term Deposit: A deposit for a fixed length of time. Contrast with "demand deposit." ("Dépôt à terme")

CDIC Mission

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

CDIC Values

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

CDIC is committed to promoting awareness about deposit insurance and the services provided by the Corporation. You can reach us by phone, e-mail, fax or letter:

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

Toronto Office
Canada Deposit Insurance Corporation
1200-79 Wellington St. W.
P.O. Box 156
Toronto, Ontario M5K 1H1

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

Five-Year Financial and Statistical Summary

For the Years Ending March 31	2006[a]	2005[a]	2004	2003	2002
Selected Balance Sheet Items ($ millions)					
Cash and investments	1,447	1,325	1,195	1,066	985
Provision for insurance losses	600	550	550	550	500
Retained earnings	844	793	681	539	486
***Ex ante* funding** ($ billions)	1.4	1.3	1.2	1.1	1.0
Selected Cash Flow Items ($ millions)					
Claims paid	—	—	—	—	—
Claims recovered	16	14	1	—	18
Loans recovered	—	—	—	—	22
Payment of guarantees	1	—	—	10	10
Selected Income Statement Items ($ millions)					
Premiums	65	93	109	76	155
Interest on cash and investments	43	35	35	32	36
Operating expenses	23	23	22	26	23
Adjustment to allowance and provisions for loss	42	1	3	46	86
Member Institutions (Number)					
Domestic banks and subsidiaries	41	37	37	39	39
Domestic trust and loan companies and associations	20	21	24	25	24
Subsidiaries of foreign financial institutions	21	23	25	24	28
Total number of institutions	82	81	86	88	91
Total insured deposits ($ billions)	437	376	363	347	339
Growth rate of insured deposits[b] (%)	16.2	3.4	4.6	2.4	3.7
Employees (Number)					
Permanent employees[c]	79	79	86	92	95

a 2006 and 2005 financial figures are presented on a consolidated basis and include the results of CDIC and of Adelaide Capital Corporation (ACC), a variable interest entity. As described in Note 3 to the Financial Statements, effective April 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities issued by the Canadian Institute of Chartered Accountants. This guideline required that ACC be consolidated with CDIC.

b The increase in deposit insurance coverage from $60,000 to $100,000 in 2005 contributed to the majority of the 16.2% increase in insured deposits during CDIC's 2005/2006 fiscal year.

c Represents the number of full-time, permanent employees at year-end. CDIC provides call centre services to the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions on a cost recovery basis—these employees are included in this total.