Canada Deposit Insurance Corporation

2004 Annual Report

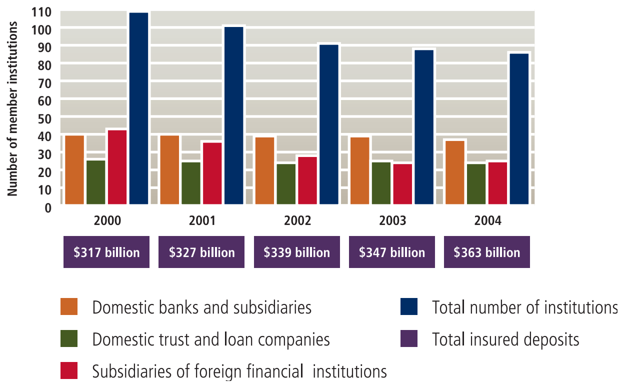
Contributing to Stability

Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

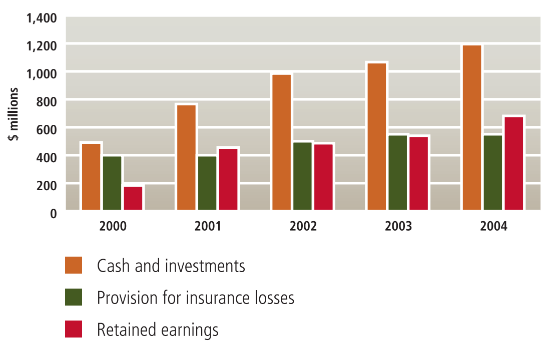
Canada

Five-Year Financial and Statistical Summary, 2000-2004

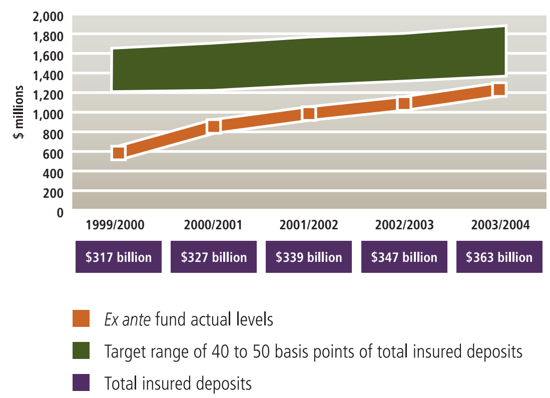
Member Institutions



Selected Balance Sheet Items



Progression of *Ex Ante* Fund[a]



Selected Cash Flow Items

($ millions)

For the Years Ending	2004	2003	2002	2001	2000
Claims paid	–	–	–	–	–
Claims recovered	1	–	18	62	35
Loans recovered	–	–	22	40	82
Payment of guarantees	–	10	10	10	515[b]

Selected Income Statement Items

($ millions)

For the Years Ending	2004	2003	2002	2001	2000
Premiums	109	76	155	140	134
Interest on cash and investments	35	32	36	35	32
Operating expenses	22	26	23	21	18
Adjustment to allowance and provisions for loss	3	46	86	(6)	(3)
Net income	142	53	32	157	157

Other

For the Years Ending	2004	2003	2002	2001	2000
Average yield on cash and investments	2.6%	3.2%	3.4%	5.5%	5.7%
Growth rate of insured deposits	4.6%	2.4%	3.7%	3.2%	2.7%

[a] CDIC's level of *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.

[b] In its 1999/2000 fiscal year, the Corporation was required to honour its guarantee in the amount of $500 million to investors of distress preferred shares issued by Adelaide Capital Corporation.

Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

Ronald N. Robertson, Q.C.

Chairman of the Board
Président du conseil d'administration

June 30, 2004

The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance
140 O'Connor Street
L'Esplanade Laurier
East Tower, 21st Floor
Ottawa, Ontario
K1A 0G5

Dear Minister:

I have the honour to submit to you and the Minister of State (Financial Institutions) the Annual Report of the Canada Deposit Insurance Corporation for the year ended March 31, 2004.

Yours sincerely,

50 O'Connor Street
17th Floor
P.O. Box 2340, Stn. D
Ottawa, Ontario
K1P 5W5

50, rue O'Connor
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Canada

CDIC's Vision, Mission and Values

Vision

A leader in deposit insurance

Mission

CDIC provides deposit insurance and contributes 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 provides an environment where employees are treated fairly and given opportunities and encouragement to develop their full potential.

Values

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

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About the cover:
Emily Carr, *Totem Pole at Hazelton*, 1912

Message from the Chairman

Too little … too much … or just right? This issue continues to bedevil the regulatory world. It requires a constant effort to try to ensure that the right balance is struck, in terms of both efficiency and effectiveness, in an environment that is in a continuous state of evolution. CDIC is not immune to this challenge — we face the same issue.

Parliamentary, judicial and governmental examinations of the multitude of failures that occurred in the 1980s, with net losses approaching $5 billion, all concluded that CDIC had been doing too little. Analysis of the failures pointed to a common element: weak management of risks and poor control and governance processes on the part of the failed institution. Compounding this was regulatory failure to act in a timely and effective manner. Accordingly, Parliament expanded CDIC's mandate — to promote standards of sound business and financial practices and to seek to minimize its exposure to loss.

In response, CDIC promulgated its *Standards of Sound Business and Financial Practices* for its members to follow and required reporting on adherence from senior management and boards of directors. The Standards were leading edge at the time they were introduced. Based on the industry's own best practices, they were not supposed to be burdensome — rather, they were intended to focus attention on what is expected from an institution. Well-run institutions would conform to the Standards as a matter of course, although mandating them was a novel idea.

Now everyone has climbed on board. Risk management and corporate governance have become a focus of attention of regulators everywhere who require our members, both in Canada and, for some members, abroad, to do many of the things called for by the Standards. The underlying premises of the Standards have become commonly accepted. It is timely to examine whether the gap filled by the Standards is now sufficiently addressed by those regulatory and other requirements.

Last year, I met with the chief executive officers of a number of our members to talk to them on a variety of issues related to CDIC and, in particular, about concerns that they now are faced with a plethora of different regulatory requirements more or less addressing the same issues. I also sought their views on how to improve other aspects of our operations. It was very clear that their principal concern is that the time and effort involved in compliance with the Standards — when they now have to do much the same to meet the requirements of the Office of the Superintendent of Financial Institutions (OSFI), in some cases Sarbanes-Oxley, securities commissions and others — adds to their regulatory burden and is no longer necessary. We intend to address this concern, along with other areas our members asked us to look at.

However, we do not want to "throw out the baby with the bath water." The costs of failures are by far the largest part of the cost of deposit insurance to members (and indirectly, in part, to Canadian taxpayers, because members' premiums are tax deductible). Since the mandate of CDIC was expanded in 1987, results with respect to failures have been good. The rate of loss from failures has been reduced from 52 cents on the dollar to 17 cents. There have been no failures for the last eight years. Premium rates are at the lowest level ever, two basis points for the majority of our members. This takes me back to the reference at the beginning of my remarks, where I spoke of the need to strike the right balance — in this instance, between the costs of compliance and the risks of costly failures.

Another matter raised by some of our members is our differential premiums system. Clearly, the system is working and no one disputed the concept. However, members have identified possible adjustments. In this area as well, CDIC was a leader and we will be reviewing the rating criteria to ensure that they avoid anomalous results and function as intended. A consultation paper on the first five-year comprehensive review of the *Differential Premiums By-law* will be issued shortly, incorporating many of the suggestions made by our members in my meetings with them.

As called for in the March 2004 Budget, we will be providing the Government with our views on how best to address any overlap in prudential, administrative and corporate services functions between OSFI and CDIC. While OSFI's mandate and focus are somewhat different than CDIC's, we welcome this initiative. As illustrated by CDIC's Standards and OSFI's more recent Corporate Governance Guideline, overlap can develop over time as each of us pursues our respective mandates. If regulatory burden is to be kept to a prudent minimum, as it should be, then identifying and getting rid of unnecessary overlap is highly desirable.

By definition, our work requires that we always have an eye to the future — scanning the horizon for changes in our operating environment and anticipating where and how we will need to change our processes or the requirements for member institutions. An important part of ensuring CDIC's overall preparedness is having adequate financial resources. As a matter of prudence, the Board of Directors last year established a measure of advance funding to be available for possible deposit insurance losses. Doing so should mitigate the risk of premiums having to be sharply increased when failures occur, possibly during an economic downturn. The target range is currently between 40 and 50 basis points of insured deposits — $1.4 to $1.8 billion. CDIC had $1.2 billion of funding (34 basis points of insured deposits) at the end of March 2004. The Corporation believes that it can reach the target range while maintaining the current low premium rates. As CDIC's investment income now more than covers its operating expenses, all of our premium income accrues to retained earnings, i.e., to the targeted funding.

This year, we welcomed a new member to CDIC's Board of Directors, Claude Huot, a consultant specializing in business and economic development. He replaces Board member Viateur Bergeron who served CDIC well during his seven years with us. On behalf of the Board, I thank Mr. Bergeron for his valued contribution.

I express my appreciation and that of the Board of Directors to CDIC's President and CEO, J.P. Sabourin, for his leadership, and to the employees whose professionalism and dedication is the foundation of our success. To all of our Directors who devote untold hours and effort to the work of CDIC, I thank them for their public service.

R.N. Robertson, Q.C.

Message from the President and CEO

This year CDIC's member institutions recorded outstanding results, with after-tax net profits rising to an all-time high of $12 billion in 2003. We also witnessed an increase in the level of deposits that CDIC insures — up 4.6 per cent from the previous year to $363 billion.

CDIC's performance was also noteworthy. We had a net income for the year of $142 million and, at the end of March 2004, the Corporation's combined balance of cash and investments was $1,195 million — up from the $1,066 million recorded in the previous year. Our operating expenses were $3 million lower than planned, resulting from our 2003 corporate reorganization, while virtually all of CDIC's key initiatives and activities were completed on time and on budget.

Although for the eighth straight year there were no failures of CDIC member institutions, contingency planning continued as a key focus of our activities. CDIC's mandate requires us to minimize our exposure to loss and to protect depositors from loss. It also requires us to pay depositors as soon as possible after a failure. This recognizes that the practical consequence of a failure is loss of access to money on deposit, which can leave many individuals and small businesses unable to pay their day-to-day expenses. To be ready to address such a situation, CDIC has made investments in developing methods of payment that would enable us to give depositors access to their insured funds quickly. Over the past year, we have ensured that our employees have ongoing training and that our systems, policies and practices are kept current and relevant. We have also been mindful of developments in the financial services sector, including rapidly evolving technological changes. Other activities we undertook in order to be ready included upgrading and testing payout and intervention systems and practices, as well as performing tests of our advance payment system, updating business continuity plans, and putting in place off-site emergency back-up facilities. A fundamental component of our contingency planning is the need to ensure that CDIC has an appropriate level of financial resources to meet its obligations when members fail. As our Chairman explains in his message, this level of funding and the policy developed to determine its target range were important aspects of CDIC's work in this past year.

Our system of deposit insurance is clearly world class — at the same time, the system can be truly effective only if and when it is well understood by the depositing public. This year, CDIC continued to meet its responsibility by actively informing the public of the benefits and limitations of deposit insurance. The results have been significant, with two-thirds of Canadians aware of deposit insurance and 32 per cent aware of the $60,000 deposit insurance limit — both figures at their highest ever. Monitoring public awareness has also provided us with feedback on how to best communicate with the public and, using this knowledge, over the next year we will adjust some of our current communication approaches and strategies.

CDIC continued to develop and put in place other systems and tools to ensure that we can do our job well. In keeping with our continuing focus on good governance practices, we laid the foundation to support the implementation of Enterprise Risk Management (ERM). We have already begun to build upon this strong base by updating our catalogue of corporate risks, clearly defining them and classifying them

into corporate risk categories, and conducting an initial assessment of each risk. While results are generally very positive, we will continue our work to better equip ourselves to actively manage our risk exposure and fully implement ERM over the next year.

Other highlights of the past year included moving forward with our plans for electronic filing and information exchange with member institutions, reviewing all aspects of data collection in conjunction with the Financial Information Committee comprised of the Office of the Superintendent of Financial Institutions, the Bank of Canada, the Department of Finance and CDIC. We are also continuing to work with our member institutions and other stakeholders to explore ways to reduce burden and promote the benefits of deposit insurance.

Further afield, CDIC continued to play an important role internationally. We are particularly proud of our contribution to the 2004 Asia-Pacific Economic Cooperation (APEC) Forum's Policy Dialogue on Deposit Insurance. This was the first time Canada was asked to lead an APEC Dialogue. As Chair of the Dialogue, I was honoured on behalf of Canada that CDIC's knowledge and experience were recognized and that the Canadian model was again showcased. CDIC also continued to participate actively in the International Association of Deposit Insurers (IADI), where I serve as Chairperson and President. Only two years old, IADI is recognized as the international voice of deposit insurers — for its role as a provider of support and guidance, as well as for the training and development it offers to those interested in deposit insurance.

As always, I thank CDIC's employees wholeheartedly for their effort and skill. I particularly want to recognize the leadership role taken on by Guy Saint-Pierre, our EVP and COO. Guy and our talented executive management team have done an excellent job in managing our resources and delivering quality work. I would also like to recognize our employees for the contribution they make so generously to the community through their fundraising efforts for local and national charities. Their spirit is also reflected in the energy and dedication they bring to CDIC every day. I look forward to continuing my work with this excellent organization, under the capable leadership of our Board of Directors and our Chairman, Ron Robertson.

J.P. Sabourin

Joyce Wieland, *Confedspread*, 1967

Performance
Overview 2003/2004

Following is an overview of CDIC's key activities during 2003/2004, organized under the four business strategies identified in its annual Corporate Plan. Closely linked to CDIC's statutory mandate and based on the current financial and economic environment, the Corporation's business strategies for 2003/2004 were:

- Proactive Readiness
- Investing in Technology to Leverage Information
- Following Sound Business and Financial Practices
- Public Awareness

Solid Performance in 2003/2004

Once again this year, CDIC performed well, completing virtually all key initiatives supporting the Corporation's business strategies on schedule and within budget. A small number of initiatives were deferred or rescheduled as a result of a reprioritization of resources during the year; these initiatives have been included in the business plans presented in CDIC's Summary of the Corporate Plan 2004/2005 to 2008/2009.

Highlights of CDIC's performance against targets under each of its four business strategies for 2003/2004 are described briefly below.

Proactive Readiness

The Corporation met all of the major targets established to ensure its ongoing readiness to manage the risk posed by member institutions. These targets focused on:

- assessing all member institutions regularly, with more frequent assessment of higher risk members
- maintaining current contingency plans and supporting systems for possible member failures, and testing new plans
- committing appropriate resources to employee training and development

Investing in Technology to Leverage Information

Under this business strategy, CDIC realized the majority of targets set for fiscal year 2003/2004. In this regard, the Corporation undertook a number of initiatives aimed at:

- implementing the next phase of a system for sharing information electronically with member institutions
- enhancing CDIC's main web site
- supporting the Corporation's internal operations through expansion of its technology infrastructure

The creation of a web site to provide information to depositors in the event of a member institution failure was deferred to fiscal year 2004/2005.

Following Sound Business and Financial Practices

CDIC was successful in meeting one of two major targets identified for 2003/2004 under this business strategy. Specifically, the Corporation succeeded in maintaining its operating costs within 5 per cent of its operating expenditure budget (actual operating results are 2.6 per cent under revised budget for the year).

Although CDIC made significant progress in implementing a corporate-wide risk management program during the year, additional implementation work is required to ensure that the program is fully integrated into existing operations, strategic management and governance processes. This work will be a priority during the next fiscal year.

Public Awareness

CDIC was successful in achieving all of the key targets established under its public awareness business strategy. These commitments focus principally on enhancing awareness levels among the public about deposit insurance and the $60,000 insurance limit.

The scorecards that follow report in more detail on specific performance indicators, targets, performance levels and activities for each of the strategies.

Business Strategy:
Proactive Readiness

Key Performance Indicators	Targets	Performance Against Targets
▪ Ability to assess CDIC's exposure to member risk.	▪ Assess all member institutions at least annually; identify high risk members as early as possible.	▪ All member institutions assessed annually and higher risk members more frequently. ▲
▪ Ability to manage high risk members. ▪ Capacity to intervene/respond effectively to a failure or failures of member institutions of varying size, complexity and structure.	▪ Have in place a sound contingency plan and supporting systems. ▪ Prepare, test and implement contingency plans for failure of a member by March 31, 2004.	▪ Specific contingency and readiness initiatives completed as planned under the coordination of the Operational Readiness Group. ▲ ▪ PC payout refurbishment and enhancements completed; payout simulation tests completed in Q4. ▲
▪ Ability to retain employees with appropriate skills, qualifications and experience to match current job requirements.	▪ Maintain level of resources applied to training and development at 2.5% to 3% of salary budget.	▪ The level of resources applied to training and development reached the upper level of this range. ▲

Key Supporting Initiatives

- Review and update processes supporting ongoing risk assessment of all member institutions with a focus on integrating environmental factors ▲
- Closely monitor high risk member institutions and take appropriate risk management and intervention action ▲
- Work within the context of the CDIC/OSFI *Strategic Alliance Agreement* ▲
- Strengthen working relationships with examiners ▲
- Continue developing contingency plans that document approaches to intervention, insolvency and failure resolution for member institutions of varying size, complexity and structure ▲
- Ensure that adequate funding is available for the payout of insured deposits ▲
- Conduct ongoing research and development activities for a Deposit Insurance Fund ▲
- Maintain and administer a process for assessing the deposit insurance eligibility of member deposit products ▲
- Assess differential premiums system, including completion of an independent confirmation mechanism to ensure the classification system is appropriate[1] ▼
- Maintain and monitor member institutions' compliance with the Policy of Deposit Insurance, the insurance-related requirements of the *CDIC Act* and relevant By-laws (the *Standards of Sound Business and Financial Practices By-law, Joint and Trust Account Disclosure By-law, Application for Deposit Insurance By-law, Differential Premiums By-law, Opting-out By-law,* and the *Deposit Insurance Information By-law*) ▲
- Enhance risk assessment and reporting by developing processes that facilitate knowledge transfer between risk managers and senior management ▲
- Finish refurbishing the PC-based payout system to take advantage of newer technologies in order to support the payout process for small- and medium-sized institutions in the event of a failure ▲
- Through an Operational Readiness Group, conduct exercises supporting the Corporation's readiness to intervene with problem member institutions (e.g., small-scale simulations and testing of aspects of the payout process) ▲

▲ Planned progress is on schedule and within budget as per original plans.

▼ There is some slippage in terms of time to completion and/or budget variances.

● The initiative was cancelled.

⦸ The initiative was deferred to a future year.

[1] The assessment of the differential premiums system is under way; however, full implementation of the assessment results is not expected before the end of 2004/2005.

Business Strategy:
Investing in Technology to Leverage Information

Key Performance Indicators	Targets	Performance Against Targets
▪ Appropriate technology supports secure exchange of information with member institutions.	▪ Implement next phase of electronic exchange of information with member institutions by March 31, 2004.	▪ Study was conducted with OSFI to identify joint initiatives supporting the exchange of information with member institutions. Return of Insured Deposits e-filing was implemented in April 2003. ▲
▪ Availability of effective channels of delivery to provide access to current and relevant information to depositors and other stakeholders.	▪ Create a web site that provides information to depositors in the event of a member failure. ▪ Keep the CDIC main web site current at all times.	▪ This project has been deferred to 2004/2005. ⃠ ▪ The main web site is monitored on an ongoing basis and kept current. ▲
▪ Access to adequate systems by employees to support internal operations of CDIC.	▪ Expand technology infrastructure in accordance with CDIC's Information Systems Strategic Plan.	▪ Enhanced work and information exchange flexibility by implementing mobile computing system and ensuring desktop compatibility with this system. ▲

Key Supporting Initiatives

- Develop automated risk assessment and management tools ▲
- Further develop portal software to provide integrated view of and access to multiple data sources and analytical tools[2] ▼
- Implement the second phase of the Integrated Financial Information System (IFIS II) project ▲
- Further develop secure web modules and web-based technologies supporting electronic filing systems for Differential Premiums and Return of Insured Deposits ▲
- Migrate the MIDAS II data warehouse to a web environment to facilitate internal reporting and web page production ▲
- Upgrade and develop the electronic filing systems for Differential Premiums and Return of Insured Deposits ▲
- Review the Valuation Model and evaluate other possible intervention models ▲
- Review and upgrade infrastructure (as appropriate) to ensure secure information exchange with supervisors ▲

▲ Planned progress is on schedule and within budget as per original plans.

▼ There is some slippage in terms of time to completion and/or budget variances.

● The initiative was cancelled.

⃠ The initiative was deferred to a future year.

[2] Purchase of graphic software for trend analysis deferred pending further evaluation.

Business Strategy:
Following Sound Business and Financial Practices

Key Performance Indicators	Targets	Performance Against Targets
▪ A sound corporate-wide risk management system is in place and managed in accordance with ongoing, appropriate and effective management processes.	▪ Put in place a corporate-wide risk management system to identify deficiencies in all areas of the Corporation. ▪ Address deficiencies in an appropriate and timely manner.	▪ Management has completed an assessment of its corporate-level risks, including: - updating CDIC's Corporate Risk Framework and defining CDIC's key significant risks; - initially assessing CDIC's risk control culture profile supporting the management of its corporate risks; - confirming CDIC's risk management practices related to each significant corporate risk; - assessing the significance of specific risks; and - determining whether each risk is within an acceptable level of tolerance (and, if not, identifying high level action plans to address it). ▪ Action plans are being implemented to address risk issues in an appropriate and timely manner.[3] ▼
▪ Performance against the operating budget.	▪ Actual operating results are within ± 5% of operating expenditure budget.	▪ Actual operating results are 2.6% under revised budget for the year. ▲

Key Supporting Initiatives

- Implement an enterprise risk management system[3] ▼
- Provide professional development opportunities and emphasize knowledge management by: preparing competency profiles for key positions; providing appropriate professional development training; and implementing a knowledge management culture and processes ▲
- Conduct employee satisfaction surveys to ensure there are no impediments to a productive and motivated work force ⦸
- Implement Phase II of EDMS, including an integrated web-enabled portal and related business system applications, such as the contact database and document repository ▲
- Conduct a comprehensive review of all business processes to ensure that CDIC's business resumption plan is effective ▲
- Maintain close contact with other government organizations to share business resumption information and identify joint efficiencies ▲

▲ Planned progress is on schedule and within budget as per original plans.

▼ There is some slippage in terms of time to completion and/or budget variances.

● The initiative was cancelled.

⦸ The initiative was deferred to a future year.

[3] An Enterprise Risk Management (ERM) framework has been put in place in terms of assessing corporate-level risks; however, additional implementation work is required beyond the end of the current fiscal year. Progress on this work is being reported to the Audit Committee on a regular basis.

Business Strategy:
Public Awareness

Key Performance Indicators	Targets	Performance Against Targets
▪ Level of awareness of deposit insurance and CDIC.	▪ Attain a 70% awareness level of deposit insurance and CDIC by 2005/2006.	▪ Public survey conducted: awareness level stands at 64% as at March 2004. Awareness activities are ongoing. ▲
▪ Level of awareness of $60,000 limit.	▪ Attain a 50% awareness level of the $60,000 limit by 2005/2006.	▪ Public survey conducted: awareness level stands at 32% as at March 2004. Awareness activities are ongoing. ▲

Key Supporting Initiatives

- Provide advice and information to regulators, member institutions and their associations, and other interested parties about CDIC deposit insurance and membership ▲
- Conduct policy and financial research, and develop proposals to assist CDIC, the financial services sector and the international community in the provision of deposit insurance ▲
- Implement remaining year of the current five-year Public Awareness Program ▲
- Tailor annual media purchases to achieve optimum reach of target audiences ▲
- Work with member institutions to ensure compliance with the *Deposit Insurance Information By-law* and identify additional methods to provide financial consumers with useful information ▲
- Make CDIC representatives available to speak at/participate in relevant conferences, seminars and other events ▲
- Add interactive services to CDIC web site ▲
- Strengthen partnerships with consumer groups and associations ▲

▲ Planned progress is on schedule and within budget as per original plans.

▼ There is some slippage in terms of time to completion and/or budget variances.

● The initiative was cancelled.

⊘ The initiative was deferred to a future year.

Activities and Accomplishments

Proactive Readiness

CDIC's mandate as a deposit insurer requires that it be able to assess and address the risks posed by member institutions. For this reason, the Corporation must maintain ongoing operational readiness so that it can respond effectively if any problems arise with member institutions.

Assessing Risk

Experience has shown that CDIC can minimize its own exposure to loss through vigilant assessment of the risks inherent in member institutions' business strategies and operations. During 2003/2004, the Corporation undertook a number of activities designed to enhance its risk assessment function, including:

- using a peer group process to refine individual member assessments
- validating current assessment and scoring processes by applying them to failed institutions
- working with the Office of the Superintendent of Financial Institutions (OSFI) to monitor higher risk members
- providing CDIC's Board with a detailed risk profile of the Corporation's overall membership
- reviewing the financial results of CDIC's largest members on a quarterly basis
- developing a system to monitor key financial ratios for CDIC member institutions with the goal of identifying problem areas/concerns and poor performers
- supporting a mentoring program that requires senior risk managers to oversee member assessments and share knowledge with their colleagues

An Ongoing State of Readiness

CDIC readies itself for potential member failures by analyzing past experiences, employing best practices and testing its ability to make a payment. Again last year, the Corporation made

Jean-Paul Riopelle, *Pavane*, 1954

preparedness activities a priority, setting out detailed approaches for attaining optimal outcomes for special examinations, interventions, rehabilitation, payouts, failure resolution and liquidations. A major focus for these initiatives was on maintaining CDIC's capacity to intervene and respond effectively to a failure or failures of member institutions of varying size, complexity and structure. With this in mind, the Corporation established an Operational Readiness Group to coordinate plans for specific intervention and readiness initiatives. Under the Group's guidance, CDIC refurbished and enhanced its payout system and conducted payout simulation tests to ensure the system's viability and resources.

Promoting *Standards of Sound Business and Financial Practices*

As part of its statutory mandate, CDIC promotes standards for the business and financial practices of member institutions. The Corporation's *Standards of Sound Business and Financial Practices* (the Standards) describe what constitutes sound practices for CDIC member institutions, with particular emphasis on enterprise-wide governance and risk management. They stress that senior management has day-to-day responsibility for the quality of processes, policies, procedures, controls and internal reporting, while the institution's board of directors is ultimately responsible for the institution. By promoting sound practices among individual members, the Standards also assist CDIC in managing its own exposure as an insurer.

Each year, member institutions are required to report on their adherence to the Standards. Various sanctions may be applied to those found to be in breach — from higher deposit insurance premiums to terminating their deposit insurance policy, which prevents them from taking future deposits. During 2003/2004, CDIC notified institutions that did not comply with the Standards and monitored their correction efforts. Last year, the Corporation also implemented an ongoing process to regularly update the Standards and related materials.

A Strategic Alliance with OSFI

CDIC continued to work closely with OSFI within the framework of the *Strategic Alliance Agreement*. First signed in 1992 and revised during the 2002/2003 fiscal year, the Agreement sets out guidelines for coordinating the two organizations' activities, promoting consultation and encouraging an effective exchange of information. CDIC's access to, and ability to share, member information with OSFI assists the Corporation in assessing membership risk and increases its readiness to address problem situations.

Investing in Technology to Leverage Information

One of CDIC's priorities is to ensure that effective technology systems and processes are in place to deliver, receive and assess essential information, both internally and with stakeholders outside the organization.

Aiming for Higher Service Levels

During the past year, CDIC successfully undertook a number of technology initiatives designed to leverage information and enhance service levels to members and stakeholders. These included further development of secure web component modules and web-based technologies that support the electronic filing systems for Differential Premiums and Returns of Insured Deposits from member institutions.

Enhancing Internal Systems

CDIC also undertook several projects aimed at improving its operating and internal reporting systems. Specifically, the Corporation:

- completed refurbishing and undertook enhancement of its payout system
- continued to develop automated risk assessment and management tools
- adopted a new software that facilitates the production of *ad hoc* analytical reports
- completed the final phase of a new Integrated Financial Information System (IFIS II), which is now up and running

Centralized Information Repositories

CDIC's data warehouse is an essential tool that serves as a fully integrated, centralized repository for financial information in support of the Corporation's risk assessment function. Through the data warehouse, CDIC is able to access the Tri-Agency Data System (TDS), a repository of common regulatory information obtained from federally incorporated member institutions.

Housed at the Bank of Canada, the TDS databank is a joint shared cost initiative of CDIC, OSFI and the Bank of Canada that has resulted in significant savings for the three organizations and has simplified the process by which member institutions file their regulatory information.

Now that the system architecture is in place, CDIC is working to realize the full potential of the data warehouse systems and processes. During 2003/2004, the Corporation:

- continued development of a web-based portal system that offers a centralized point for searching and managing information
- migrated the internal data warehouse to a web environment to facilitate internal reporting and web page production

Collaboration is Key

Fiscal year 2003/2004 marked the third year since the creation of a joint CDIC/OSFI committee with a mandate to coordinate and build on each other's information technology strategies and initiatives. The committee provides a forum to work on joint initiatives for sharing information electronically and to identify opportunities for increasing the effective and efficient use of IT resources. Key committee initiatives to date include:

- sharing of IT strategic plans to support IT investments that have the potential for further cost savings
- coordinating the two organizations' respective Business Resumption Planning processes for addressing short-term business outages

- developing a process to electronically share protected information securely
- discussing the status of various applications currently under development
- establishing a cost-sharing arrangement for subscriptions to rating services

Solid Security Measures

During 2003/2004, CDIC continued to enhance the security of its information network, upgrading existing systems and adding new, more secure technology. In accordance with Treasury Board guidelines and the confidentiality provisions of the *CDIC Act*, the Corporation maintained a high level of vigilance regarding security issues, conducting vulnerability assessments to identify potential problem areas and measures to address them. In the five assessments CDIC has conducted in recent years, no serious vulnerabilities have been identified. However, the Corporation continues to put in place the security improvements indicated in the assessments, such as an enhanced PKI (Public Key Infrastructure) technology for secure remote access to CDIC's network.

This past year also saw CDIC upgrade its physical document and information storage facilities to conform to Government of Canada standards governing the protection and storage of Protected C information.

Following Sound Business and Financial Practices

Recognizing that it must maintain current and effective controls and governance practices, CDIC continues to take appropriate steps. The Corporation has developed and implemented a Board Governance Policy, setting out the Board's oversight responsibilities and management's related duties, as well as a strong strategic management process.

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A New Enterprise Risk Management Process

CDIC is in the process of implementing Enterprise Risk Management (ERM), a comprehensive system designed to identify, assess, manage, monitor and report on significant risks to the organization. This work is intended to enhance CDIC's existing practices, with the objective being to demonstrate that risk considerations are explicitly integrated into the Corporation's strategic and day-to-day decision making.

Over the past year, CDIC put in place the necessary foundation for supporting ERM and has now begun to build on it. The Corporation's initial efforts in this area involved formalizing a Board Governance Policy and establishing an internal enterprise risk management committee to validate the ERM implementation approach and ongoing results.

Building on these initiatives, CDIC conducted an initial assessment of the significance and exposure of its corporate risks. Specifically, management:

- updated CDIC's catalogue of corporate risks, including corporate risk categories, definitions and examples
- assessed the significance of each risk — i.e., the likelihood of an adverse occurrence and its possible impact
- classified each risk exposure into one of three categories — "reasonable," "cautionary" or "serious concern"

The assessment did not identify any of CDIC's risk exposures as a "serious concern," which would have indicated exposure that CDIC is not currently fully equipped to deal with, or exposures with significant risk management gaps. However, management did assess some risk exposures as "cautionary," indicating that the level of exposure warrants enhanced monitoring or that previously identified risk management initiatives have not been fully implemented. CDIC is monitoring these exposures closely and taking appropriate and timely action to manage them.

Overall, management is of the view that:

- it has a strong understanding of its risk management responsibilities, accountabilities and authorities
- it has adequate capabilities and capacity to fulfill its risk management responsibilities
- it is monitoring CDIC's risk environment and implementing changes, where required

Although progress has been made in this priority area, much remains to be done. Management is committed to completing the work required to fully implement ERM within CDIC.

A Sound Investment Portfolio

CDIC's investment policy reflects the nature of Canada's deposit insurance scheme, which borrows funds as needed from the Consolidated Revenue Fund (CRF) and the capital markets. Repayments of any such borrowings are funded from premium assessments on member institutions, loan repayments, recoveries of claims and revenue generated from the Corporation's investment portfolio.

Although CDIC is able to borrow for its intervention activities, it has taken the position that its investment portfolio should be the first source of liquidity in meeting its obligations.

CDIC would next borrow from the CRF, and then replace these borrowings with debt from the capital markets. Given this intended use of CDIC's investment portfolio, the primary objective of the Corporation's investment policies is to safeguard funds and liquidity.

Accordingly, CDIC's investment portfolio is limited to high quality securities that allow the Corporation to respond quickly to any liquidity needs. At the same time, CDIC's investment policy, which is approved annually by its Board of Directors, allows some leeway for higher yield opportunities, albeit with a relatively minor increase in the level of risk.

Championing Bilingualism in the Workplace

CDIC must comply with all aspects of Canada's official languages legislation. The Corporation does so, in both letter and spirit, by communicating with employees, and providing services and publications to the public in French and English. For CDIC employees who need to upgrade their language skills, the Corporation provides access to language training.

Each year, CDIC reviews the Corporation's investment policy to align it with corporate objectives and to take into account relevant guidance — specifically, from the *Minister of Finance Credit Policy Guidelines for Crown Corporations* and the *Financial Risk Management Guidelines for Crown Corporations*.

On the Human Resources Side

On April 1, 2003, two important new workplace policies came into effect. The *Code of Business Conduct and Ethical Behaviour* sets out standards supporting professional excellence and a positive work environment. A key tool, the Code addresses such issues as confidentiality, alignment with corporate values, conflict of interest and respect in the workplace. Employees are to be assessed annually on their adherence to the Code as part of the performance appraisal process.

An employee policy on reporting wrongdoing in the workplace is now in place as well. The *CDIC Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace* ensures that employees who disclose information when they believe CDIC's business has been conducted in an unethical, immoral or illegal manner will be treated fairly and protected from reprisal.

Last year, CDIC's Health and Safety Committee continued its work to ensure employee well-being in the workplace. For example, the Committee carefully monitored the Corporation's recent leasehold improvements and ensured that supervisors were equipped with guidelines for dealing with staff health and safety issues. In the interests of employees' ergonomic well-being, CDIC continued to address problem areas and make appropriate adjustments, as recommended.

A New Organizational Structure

At its meeting of March 5, 2003, the Board approved a new organizational structure for CDIC, as well as changes to its Corporate Officers. The new structure integrated some functions, eliminated others and created new permanent positions that had formerly been filled on a term basis. It also resulted in role changes for some employees — for example, changes in reporting relationships, new titles or additional responsibilities. During the year, sessions on organizational and individual change helped employees manage a successful transition.

The total cost of reorganization — including severance payments — was approximately $2.6 million, which is $400,000 less than budgeted. This amount was accrued and reflected in the 2002/2003 financial statements.

Demographically Speaking …

CDIC is committed to bilingualism and gender equality:

- four of the five corporate officers are bilingual, and the fifth is currently taking language training
- two of the five corporate officers are female
- 49 per cent of CDIC staff are female

Protecting the Environment

CDIC is actively involved in initiatives designed to safeguard the environment. For example, employees use video conferencing technology to reduce travel and associated environmental costs, recycle paper and printer toner cartridges, and use environmentally friendly and energy efficient products. Following the August 2003 power outage, CDIC contributed to the efforts to reduce the use of electricity as power was being restored throughout Ontario.

A Helping Hand

In 2003/2004, the Corporation and its employees continued their efforts in the community, donating to a number of worthy national and local organizations. Both the Ottawa and Toronto offices participated in a charity auction, one of a number of events that helped CDIC raise more than $32,000 for the United Way/Centraide campaign. As well, the Corporation's fundraising efforts on National Denim Day contributed to support breast cancer research. Other CDIC donations went to the YMCA, the University of Ottawa Heart Institute, the Snowsuit Fund, the York University Foundation, the Ottawa Regional Cancer Center, Sage Youth and the Canadian Cancer Society.

Nine CDIC employees braved the cool April weather to participate in the Microsoft Run for REACH (Research, Educational and Advocacy Centre for the Handicapped), a non-profit organization providing legal referral services to persons with disabilities, and educational programs about disability and human rights issues. CDIC employees took part in a variety of other fundraising activities, such as a CN Tower stair climb, donating gifts to the underprivileged through the Angel Tree program, and sponsoring hockey ticket and other merchandise raffles for a range of charitable organizations.

Public Awareness

CDIC put in place and pursued a number of initiatives to enhance public understanding and awareness of deposit insurance, including its benefits and challenges.

Communicating with Depositors

In 2003/2004, CDIC implemented Year 4 of its Public Awareness Program. Key activities included:

- conducting research to determine Canadians' understanding and expectations about deposit insurance coverage, as well as their ongoing banking practices and financial information sources
- delivering information through a television advertising campaign
- conducting public and media relations activities to increase awareness of deposit insurance and promote an understanding of CDIC's role and contribution within the financial system
- strengthening partnerships with consumer groups, financial associations and member institutions to increase and target relevant information to depositors

Working closely with member institutions, CDIC is currently undertaking a comprehensive review of the *Deposit Insurance Information By-law*.[4]

[4] The *Deposit Insurance Information By-law*, among other things, was introduced to govern statements made by financial institutions about deposit insurance. CDIC is currently reviewing the By-law to extend member institutions' ability to provide accurate and timely information to their customers. The goal is to raise public awareness about deposit insurance and help depositors to make better informed investment decisions.

The Corporation's aim is to ensure that member institutions receive relevant information and to maximize the benefits of deposit insurance for both member institutions and their depositors, while identifying opportunities to reduce members' costs.

To address the most common misconceptions about deposit insurance, CDIC collaborated with l'Autorité des marches financiers du Québec (Financial Markets Authority of Quebec) to develop a new television commercial focusing on products not covered by CDIC's deposit insurance, such as mutual funds, foreign currencies accounts and stocks. CDIC also worked with various national publications to produce and distribute a financial planning resource guide to help depositors better understand how CDIC protects their money, particularly related to Registered Retirement Savings Plans (RRSPs).

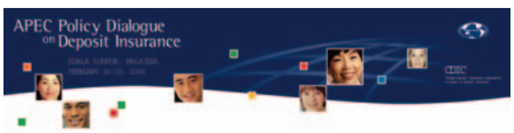
The Corporation increased its direct communications with the public by participating in trade shows and continued to focus on both CDIC and partner initiatives that increase its reach with target audiences. Specifically, the Corporation continued its collaboration with the Canadian Bankers' Association, the Federation of Canadian Independent Deposit Brokers, the Consumers Information Gateway at Industry Canada, and the Investors Program at Citizenship and Immigration Canada. A member of the Immigrant Canadian Financial Institution Insolvency Consumer Protection Forum, CDIC took part in the consumer group's November 2003 meeting, which included a discussion on consumer awareness issues.

Research shows that CDIC's awareness efforts are having an impact. Over the past four years (March 2000 to March 2004), awareness of deposit insurance among Canadians increased from 47 per cent to 64 per cent (CDIC's target is 70 per cent by 2005/2006), while knowledge of the $60,000 deposit insurance limit rose from 23 per cent to 32 per cent (CDIC's target is 50 per cent by 2005/2006). These statistics show that awareness of deposit insurance has reached its highest level since the last member institution failed in 1996.

… awareness of deposit insurance has reached its highest level since the last member institution failed in 1996.

CDIC in the World

Increasingly, Canada encourages the sharing of financial information and expertise with countries around the globe. The benefits are significant — state-of-the-art knowledge contributes to the stability of financial systems worldwide. For CDIC members with funds invested in foreign economies, this means reduced risk and a safer investment environment. For its part, CDIC continues to play an active role on the international front. Last year, the Corporation coordinated a full range of international activities, including providing assistance to countries wishing to establish or enhance their deposit insurance systems.



APEC Policy Dialogue

One of the year's highlights was the 2004 Asia-Pacific Economic Cooperation (APEC) Policy Dialogue on Deposit Insurance. This event marked the first time that Canada has been requested to chair an APEC Dialogue.

Held February 16-18, 2004, in Kuala Lumpur, Malaysia, the meeting was aimed at promoting greater understanding and cooperation on policies needed to strengthen financial systems in the APEC region. The Policy Dialogue brought together 61 senior policy makers and key government officials from 16 of the 21 APEC economies to share information and experiences. Representatives of the International Monetary Fund (IMF), the International Association of Deposit Insurers (IADI), academia and private firms also attended. In addition to attending seminars by international experts, participants took part in case study presentations and open discussion sessions focusing on three main areas:

- the need to provide legal protection for and indemnify individuals working for deposit insurers and other financial safety net participants
- techniques to promote sound governance measures and constructive interrelationships within financial safety nets
- arrangements to promote prompt corrective actions for dealing with troubled financial institutions

The Policy Dialogue was chaired by CDIC President and CEO J.P. Sabourin and hosted by Bank Negara Malaysia. Feedback from participants was extremely positive, focusing on the quality of the speakers and their material, the relevance of the subject matter, as well as the meeting's effectiveness in helping policy makers establish or improve their deposit protection arrangements.

A report on the Policy Dialogue will be presented to the APEC Finance Ministers for consideration at their meeting in September 2004 in Chile.

Open House at CDIC

CDIC hosted its first-ever international open house at its Ottawa offices from November 10-14, 2003. Thirty-two delegates from 19 countries took the opportunity to learn about Canada's deposit insurance system and to share their own experiences with CDIC staff and others. Among the practitioners attending this event were representatives from Barbados, Brazil, Indonesia, Jamaica, Japan, Jordan, South Korea, Sweden, Taiwan, and Trinidad and Tobago.

The program provided information about the major areas of CDIC's mandate, including insurance and risk assessment, funding issues, corporate governance and strategic management, enterprise risk management, communications and public awareness, and closure and liquidation procedures. Also included in the week's events was a visit to the Office of the Superintendent of Financial Institutions (OSFI).

Sharing Our Expertise

Last year, a representative from CDIC traveled to Trinidad and Tobago to assist that country in advancing its deposit insurance system. The week-long sessions focused on issues such as strategic planning and direction, as well as the important role that governance plays in a well-evolved financial system. Using CDIC's experience as a model, officials of the Deposit Insurance Corporation of Trinidad and Tobago are now devoting resources to enhance the country's deposit insurance system.

Keith Adam, who facilitated the working sessions on behalf of CDIC, as well as the representatives of the Deposit Insurance Corporation of Trinidad and Tobago, praised the sessions as mutually rewarding. Not only did they make a difference in how Trinidad and Tobago handle their deposit insurance challenges in the future, the sessions allowed CDIC to bring back some important lessons about how other countries approach deposit insurance.

IADI — A Global Network

As a recognized international leader in deposit insurance, CDIC was a founding member of the International Association of Deposit Insurers (IADI), the international voice of deposit insurers and a global forum for exchanging views and experiences, and conducting research on deposit insurance issues. The Corporation continues to support IADI's work in promoting leading-edge practices for enhancing deposit insurance effectiveness and contributing to the stability of financial systems worldwide. Last year, CDIC took an active part in the IADI Second Annual Conference in Seoul, South Korea, and the Corporation's David Walker chaired a sub-committee on developing general guidance for differential premium systems. The first draft of the guidance was completed in March 2004. The Corporation also participated in various IADI regional conferences and meetings, including the Caribbean and Asian Regional Committee Meetings and a seminar in Basel, Switzerland, for the western Balkans. CDIC's President and CEO, J.P. Sabourin, serves as IADI's Chairman.

Other International Activities

CDIC works with Canadian and international deposit insurers and supervisory authorities to share information, conduct economic and policy research, and develop proposals for supporting effective deposit insurance arrangements. Last year, for example, CDIC worked with IADI on developing detailed guidance for the IMF and World Bank Financial Stability Assessment Program and with the Inter-American Development Bank (IADB) on deposit insurance and financial sector development.

CDIC continues to respond to requests for assistance from countries that are considering adopting or enhancing their deposit insurance systems. During 2003/2004, CDIC provided assistance to Malaysia and investigated new projects with Indonesia, Jamaica, the Philippines, Trinidad and Tobago (see box), Uruguay and the Russian Federation.

CDIC's Ray Labrosse and J.P. Sabourin

Tom Thomson, *Poplars by a Lake*, 1916

Membership Performance and Profile

Membership Performance

Changes in CDIC Membership

Over the past decade, mergers, acquisitions, opt-outs and wind-ups have contributed to a significant decline in CDIC membership. As at March 31, 2004, CDIC had 86 members, 2 less than the previous year and 45 fewer than 10 years ago. However, this downward trend is expected to stabilize over the next few years.

During fiscal year 2003/2004, policies were cancelled for four members after they stopped accepting deposits: Standard Life Trust Company, Citizens Trust Company, Services Hypothécaires CIBC Inc. and President's Choice Bank. Two new banks were approved for deposit insurance: ICICI Bank Canada, a wholly-owned subsidiary of ICICI Bank Limited, the second largest commercial bank in India; and Ubiquity Bank of Canada, a wholly-owned subsidiary of Prospera Credit Union, the fourth largest credit union in British Columbia.

Financial Performance

Last year was a positive one for members, despite such challenges as Severe Acute Respiratory Syndrome (SARS), bovine spongiform encephalopathy ("mad cow disease"), forest fires in the west, a power outage in Ontario and the impact of the rising dollar on exports. The level of insured deposits increased to $363.2 billion in 2003/2004, up 4.5 per cent from the previous year. The outlook for next fiscal year is positive as well, with improving economic growth conditions.

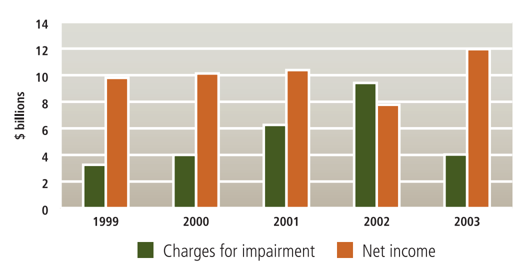
Over the longer term, however, high corporate and consumer leverage and potential capital and real estate market corrections may remain potential sources of risk for financial institutions.

Profitability rebounded to a record $12 billion, with improvements at most member institutions …

After-tax net profits for the membership[5] rose from $7.8 billion in 2002 to $12 billion in 2003, surpassing the previous high of $10.4 billion in fiscal 2001. The major contributing factor was the dramatically lower provisions at larger banks. Charges for impairment for CDIC members declined from $9 billion in 2002 to $4 billion in fiscal 2003 — levels consistent with those in 1999 and 2000.

Although most members experienced improvements, performance varied among the three member groups. Domestic banks and subsidiaries reported 59 per cent higher net profits than in fiscal 2002, while domestic trust and loan companies achieved a 29 per cent increase in net income. Subsidiaries of foreign financial institutions trailed these two groups, with a more modest rise in profits of 11 per cent.

Net Income and Provisions of CDIC Members*



*For members' fiscal year end.

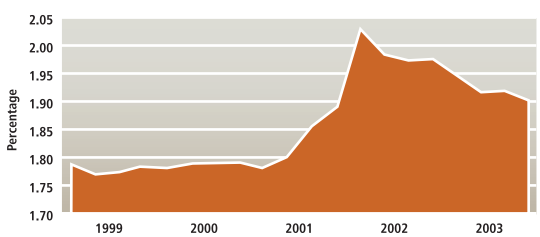
[5] Unless otherwise specified in this section, year-end references are to member institutions' fiscal year ends.

Net interest income remained flat as spreads fell from recent highs …

Due to weak loan growth and falling interest rate spreads, net interest income remained essentially flat at approximately $33.2 billion. Spreads peaked in early 2002 and have been declining since then.

Canada's large banks reduced their exposure to American corporate syndicated loans in fiscal years 2002 and 2003. In contrast, lower yielding domestic retail loans rose significantly over the same period and competition for the best retail borrowers intensified. Reduced spreads were also the product of the low absolute level of interest rates. This made it difficult for members to pass the interest rate cuts on to depositors, leading to margin compression.

Average Membership Spreads (gross of provision)



The average membership spread fell by eight basis points to 1.9 per cent during fiscal 2003, with the largest declines in domestic banks and subsidiaries.

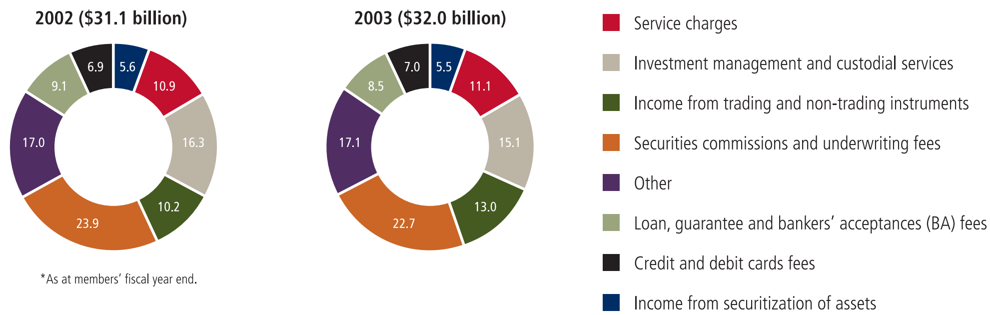
A substantial component of CDIC's membership was able to withstand the trend of falling spreads through changes in asset mix, better pricing and/or assuming higher credit risk. Only a full business cycle, including more challenging economic circumstances, will test certain risk-return trade-offs.

Continued rate declines in early 2004 have led to further tightening of margins. Potential rises in interest rates in late 2004 or 2005 may provide some relief from margin compression (i.e., yields will rise but some cost of funds on retail deposits will not) and spark mortgage activity as customers try to lock into historically low rates. On the other hand, a substantial rise in interest rates could prove detrimental to the debt-servicing capacity of both corporate and retail borrowers, and to those institutions carrying large mismatches between the balances of assets and liabilities maturing in the short term.

Non-interest income shows promise for the first half of 2004 …

Non-interest (other) income for 2003 represented almost half of total revenues and rose 3 per cent to $32.0 billion, mainly as a result of a sharp jump in gains on the sale of securities (from trading and non-trading instruments). Other components of market-related revenues (such as trading revenue, securities commissions, underwriting fees, investment management and custodial fees) posted very modest increases or declines. However, these activities improved in the latter

Components of Other Income, 2002 vs. 2003 ($ billions)*



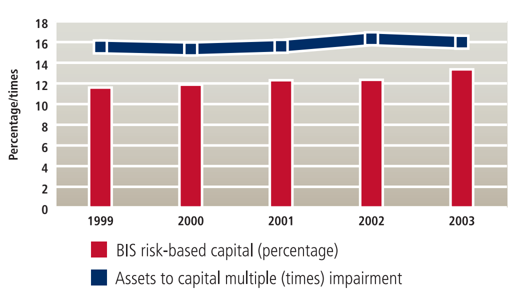
*As at members' fiscal year end.

part of the year as a result of improved capital markets and should provide more favourable contributions in 2004.

Capital ratios rose to historic highs …

The BIS (Bank for International Settlements) total risk-based ratio rose to 13.4 per cent in 2003 compared to 12.4 per cent in 2002. All members held capital ratios well above OSFI's well-capitalized guidelines of 7 per cent for Tier 1 and 10 per cent for BIS risk-based capital ratios. The degree of leverage used by the membership — as outlined by the ACM (assets to capital multiple) — fell from 16.3 times in fiscal 2002 to 16.0 times in fiscal 2003. These strong capital ratios should allow the membership to weather unexpected economic shocks.

Capitalization, 1999-2003*



*As at members' fiscal year end.

Modest asset growth masked strong growth by several small- and medium-sized members …

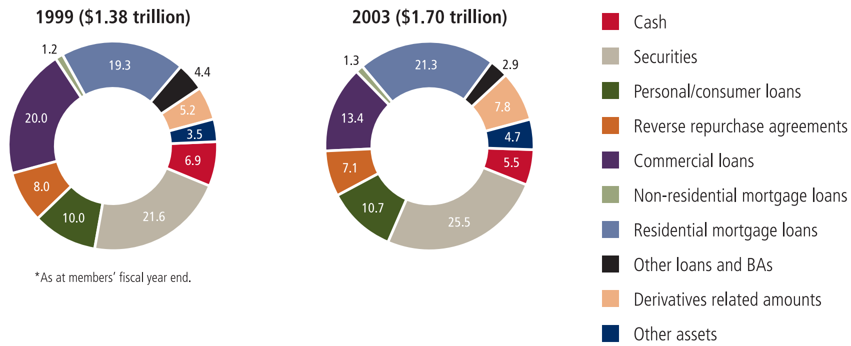
Although assets grew by a modest 2 per cent in fiscal 2003 to $1.70 trillion, several members experienced more than 20 per cent growth. Asset growth in domestic banks and subsidiaries was less than 2 per cent, while assets at subsidiaries of foreign financial institutions rose by 7 per cent, and domestic trust and loan companies had increases of almost 13 per cent.

While competition in the retail market continued to be fierce in 2003, many small member institutions succeeded in increasing their volume of mortgage loans by capitalizing on the growing popularity of independent mortgage brokers.

Asset mix shifted slowly to higher retail concentration …

Commercial loans fell by $48 billion or 17 per cent in fiscal 2003, after falling $24 billion in fiscal 2002. In contrast, retail lending (includes residential mortgages and personal loans) grew by 8 per cent or $40 billion in fiscal 2003, after almost 10 per cent growth in fiscal 2002. Retail

Asset Mix, 1999 vs. 2003 ($ trillions)*



*As at members' fiscal year end.

loans represented 32 per cent of balance sheet assets compared to 30 per cent as at fiscal 2002 and 29 per cent at fiscal year end 2001. Credit card receivables (part of personal loans) have surged by more than 50 per cent over the last three years. This rapid increase points to the growing acceptance of credit cards for making purchases and the resulting increased levels of debt carried. However, it may also signal rising exposure to less credit-worthy borrowers. For the time being, arrears on retail loans — except credit cards — remain near historic lows. Arrears and other asset quality measures for credit cards are also favourable but appear to be deteriorating slowly.

Commercial loan quality improved, but the trend depends on continued economic growth …

Despite some improvements in profits and cash flows in the last year, corporate borrowers remain highly leveraged and sensitive to interest rate increases. Moody's Investor Services worldwide downgrades-to-upgrades ratio continued to improve, moving from 4:1 in 2002 to 2:1 in 2003. However, continued improvements in credit quality depend on a sustained economic recovery in North America.

Canadian industries — such as the forestry sector — that rely on export volumes to the United States, face significant challenges due to a higher Canadian dollar. Other sectors may have to deal with an influx of more competitive American imports.

Canadian banks were successful in selling riskier, non-performing corporate loans in 2003, such as those to American power traders in the secondary loan market, as that source of liquidity bounced back to life during the second half of the year. The quality of corporate loans, as measured by provisioning levels and impaired loan ratios, improved dramatically over the previous year and should continue to do so in the coming year.

In large measure, commercial loans to small- and medium-size enterprises (SMEs) escaped the deterioration experienced by corporate exposures in 2002, prompting the large Canadian banks to announce greater emphasis on SME lending. This trend may result in greater competition in this segment for 2004.

Some members had substantial exposures to commercial real estate loans …

While commercial real estate lending in 2003 (including non-residential mortgages, interim construction loans and commercial loans to the real estate sector) did not increase for the membership as a whole (and has not done so since 1996), several members have assumed rising exposures as a percentage of equity. However, the proportion of members with a significant exposure to this type of lending remains relatively small and the real estate markets in Canada remain healthy, with no evidence of deterioration at this time.

In summary, CDIC's members recorded a very strong performance in fiscal 2003 and indications are that 2004 will be another stellar year. Although asset quality measures remain excellent, longer term risks associated with higher risk real estate loans, rising consumer leverage, interest rate increases and potential capital market corrections provide some cause for concern. However, robust and rising regulatory capital levels offer a significant measure of comfort for withstanding potential market shocks.

Adherence to *Standards of Sound Business and Financial Practices*

Under the modernized *Standards of Sound Business and Financial Practices By-law*, each member must attest annually as to whether it is conducting its operations according to the Standards. By July 14, 2003, all member institutions had made attestations to CDIC in the form of a representation letter by senior management and a resolution by their board of directors. At least once every five years, members must also submit a more detailed Standards Report — the specific frequency is determined by how members are categorized under the *Differential Premiums By-law*. In the first year of reporting, which concluded on July 14, 2003, 84 member institutions filed attestations and 7 member institutions filed a Standards Report.

During fiscal year 2003/2004, CDIC continued to monitor adherence to the Standards, including deficiencies identified and carried over under CDIC's previous Standards regime. In 2002/2003 standards year, 73 deficiencies (14 of which were carried over from previous years) were recorded in a total of 23 institutions.

As would be expected for financial institutions, a majority of the deficiencies (66 per cent) related to risk management. Fewer deficiencies were identified with respect to corporate governance (18 per cent) and the process to ensure control (11 per cent).

There is a direct relationship between the Standards and CDIC's differential premiums system — 10 out of a possible 100 marks under the differential premiums system are allocated for adhering to the Standards (see box).

Deficiency Identification/Differential Premiums System

As set out in Schedule 5 of the *Differential Premiums By-law*, members' scores (out of 10) depend on how their deficiencies are identified and whether they are corrected:

- self-identified/corrected — 10
- self-identified/uncorrected — 9
- examiner or otherwise identified/corrected — 9
- examiner or otherwise identified/uncorrected — 6

For uncorrected deficiencies carried year over year — three additional marks are deducted.

Differential Premiums By-law — Premium Categories of Member Institutions

CDIC's principal source of revenue is member premiums that are based on the total amount of insured deposits held by the member as of April 30th each year. Premiums are calculated in accordance with the *CDIC Act* and its *Differential Premiums By-law*. The system, which classifies member institutions into one of four premium categories, is intended to help the Corporation manage its insurance risk by reflecting the risk that individual member institutions pose.

Except in the special circumstances set out in the By-law (for example, related to new member institutions, subsidiaries of member institutions and certain amalgamation scenarios), classification is based on a mix of quantitative and qualitative factors. Quantitative factors account for 60 marks and include capital adequacy, earnings, asset quality and asset concentration measures. Qualitative factors, which include the examiner's rating and adherence to CDIC Standards, account for 40 marks. Premium rates for each category remained unchanged from premium year 2002 to 2003. As such, the premium categories (from best-rated Category 1 to worst-rated Category 4) were:

- Category 1 — 1/48th of 1 per cent of insured deposits
- Category 2 — 1/24th of 1 per cent of insured deposits
- Category 3 — 1/12th of 1 per cent of insured deposits
- Category 4 — 1/6th of 1 per cent of insured deposits

As the chart that follows shows, more than 90 per cent of CDIC members were classified in either Category 1 or 2 from 2000 to 2003. In the 2003 premium year, 63 per cent of member institutions ranked in the best premium category, a 15 per cent decrease from the previous year.

Distribution of Member Institution by Premium Category and Premium Year

(percentage)

Premium Category	Premium Year 2003	Premium Year 2002	Premium Year 2001	Premium Year 2000
1	63	78	66	74
2	32	14	24	20
3	4	7	9	5
4	1	1	1	1
Total	100	100	100	100

Passed in 1999, the By-law has now been in place for five years. CDIC is undertaking a comprehensive review of the differential premiums system that will include extensive consultation with members and their associations, supervisors and other interested parties.

Membership Profile

The following profile, which provides comparative information about CDIC's membership, is not intended to comment on risk to CDIC. It has been prepared from financial information supplied by the members through the Bank of Canada, the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario, and from financial information received directly by CDIC. Every effort has been made to ensure that this information is correct; however, because it comes from varied sources, CDIC does not guarantee its accuracy.

CDIC is also limited by the availability of relevant information in a readily accessible format and by confidentiality requirements. Please note that the financial information is presented as aggregates and averages; for this reason, financial information for individual members can vary significantly from these amounts. It should also be noted that off-balance sheet activities, including estate, trust and agency business, are not included.

The financial information, which is based on CDIC membership as of March 31, 2004, has been classified into three major peer groups: domestic banks and their subsidiaries; domestic trust and loan companies; and subsidiaries of foreign institutions.

The membership profile includes:

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

Note: In its five-year tables, CDIC re-states 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, 2004.

Membership Information

CDIC Members as at March 31, 2004[6]

Domestic Banks and Subsidiaries	Domestic Trust and Loan Companies	Subsidiaries of Foreign Institutions
Bank of Montreal	AGF Trust Company	Amex Bank of Canada
Bank of Montreal Mortgage Corporation	Canada Life Trust Company	Bank of China (Canada)
BMO Trust Company	CIBC Mellon Trust Company	Bank of East Asia (Canada) (The)
Bank of Nova Scotia (The)	Clarica Trust Company	BCPBank Canada
Bank of Nova Scotia Trust Company (The)	Community Trust Company Ltd.	BNP Paribas (Canada)
Montreal Trust Company of Canada	Co-operative Trust Company of Canada	Citibank Canada
National Trust Company	Desjardins Trust Inc.	Computershare Trust Company of Canada
Scotia Mortgage Corporation	Effort Trust Company (The)	CTC Bank of Canada
Bank West	Equitable Trust Company (The)	First Data Loan Company, Canada
Canadian Imperial Bank of Commerce	Home Trust Company	Habib Canadian Bank
Amicus Bank	Household Trust Company	HSBC Bank Canada
CIBC Mortgages Inc.	Industrial-Alliance Trust Company	HSBC Mortgage Corporation (Canada)
CIBC Trust Corporation	League Savings & Mortgage Company	HSBC Trust Company (Canada)
Canadian Western Bank	Maple Trust Company	ICICI Bank Canada
Canadian Western Trust Company	MCAP Inc.	ING Bank of Canada
Citizens Bank of Canada	MD Private Trust Company	International Commercial Bank of Cathay (Canada)
CS Alterna Bank	M.R.S. Trust Company	Intesa Bank Canada
Laurentian Bank of Canada	Investors Group Trust Co. Ltd.	Korea Exchange Bank of Canada
B2B Trust	Trust Company of London Life (The)	MBNA Canada Bank
Laurentian Trust of Canada Inc.	Peace Hills Trust Company	National Bank of Greece (Canada)
LBC Trust	Peoples Trust Company	Northern Trust Company, Canada (The)
Manulife Bank of Canada	ResMor Trust Company	Société Générale (Canada)
National Bank of Canada	Sun Life Financial Trust Inc.	State Bank of India (Canada)
Natcan Trust Company	Trimark Trust	UBS Bank (Canada)
National Bank Trust Inc.		UBS Trust (Canada)
Pacific & Western Bank of Canada		
Royal Bank of Canada		
Royal Bank Mortgage Corporation		
Royal Trust Company (The)		
Royal Trust Corporation of Canada		
Toronto-Dominion Bank (The)		
Canada Trust Company (The)		
Canada Trustco Mortgage Company		
First Nations Bank of Canada		
TD Mortgage Corporation		
TD Pacific Mortgage Corporation		
Ubiquity Bank of Canada		
Total: 37	*Total: 24*	*Total: 25*
TOTAL: 86 members		

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

Membership Changes:
April 1, 2003-March 31, 2004

New Members

September 24, 2003: ICICI Bank Canada

December 3, 2003: Ubiquity Bank of Canada

Other Membership Changes

April 4, 2003: Standard Life Trust Company ceased to accept deposits — policy cancelled.

May 1, 2003: IntesaBci Canada changed its name to Intesa Bank Canada.

May 2, 2003: Equisure Trust Company changed its name to ResMor Trust Company.

July 15, 2003: Citizens Trust Company ceased to accept deposits — policy cancelled.

October 24, 2003: President's Choice Bank ceased to accept deposits — policy cancelled.

January 1, 2004: The Effort Trust Company was continued as a federal trust company.

January 5, 2004: Services Hypothécaires CIBC Inc. ceased to accept deposits — policy cancelled.

Marc-Aurèle de Foy Suzor-Coté, *Return from the Harvest Field*, 1903
Photo © National Gallery of Canada, Ottawa

Summary Financial Information — Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2003		2002		2001		2000		1999	
	$	%	$	%	$	%	$	%	$	%
Assets										
Cash resources	94.2	5.5	95.0	5.7	87.3	5.3	85.7	5.8	94.9	6.9
Securities	432.7	25.5	383.0	23.0	377.2	23.0	329.8	22.4	298.1	21.6
Loans	924.1	54.3	930.4	55.8	921.3	56.3	856.7	58.1	818.3	59.2
Other assets	249.1	14.7	259.3	15.5	251.8	15.4	201.2	13.7	169.9	12.3
Total assets	**1,700.1**	**100.0**	**1,667.7**	**100.0**	**1,637.6**	**100.0**	**1,473.4**	**100.0**	**1,381.2**	**100.0**
Liabilities										
Deposits	1,135.0	66.8	1,123.9	67.4	1,089.9	66.5	1,015.0	68.9	948.1	68.6
Other liabilities	481.2	28.3	462.1	27.7	468.0	28.6	386.4	26.2	365.4	26.5
Total liabilities	**1,616.2**	**95.1**	**1,586.0**	**95.1**	**1,557.9**	**95.1**	**1,401.4**	**95.1**	**1,313.5**	**95.1**
Shareholders' equity	83.9	4.9	81.7	4.9	79.7	4.9	72.0	4.9	67.7	4.9
Total liabilities and shareholders' equity	**1,700.1**	**100.0**	**1,667.7**	**100.0**	**1,637.6**	**100.0**	**1,473.4**	**100.0**	**1,381.2**	**100.0**

Income Statement ($ millions)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Interest income	66,955	69,099	85,829	83,917	76,970
Interest expense	33,769	35,790	56,093	58,234	51,580
Net interest income	**33,186**	**33,309**	**29,736**	**25,683**	**25,390**
Provision for impairment	4,041	9,418	6,260	4,003	3,260
Net interest income after provision for impairment	**29,145**	**23,891**	**23,476**	**21,680**	**22,130**
Other income	31,993	31,194	33,838	32,873	27,511
Net interest income and other income	**61,138**	**55,085**	**57,314**	**54,553**	**49,641**
Non-interest expenses	44,170	44,439	43,154	39,151	35,043
Net income before provision for income taxes	**16,968**	**10,646**	**14,160**	**15,402**	**14,598**
Provision for income taxes	4,334	2,375	3,341	4,988	4,649
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**12,634**	**8,271**	**10,819**	**10,414**	**9,949**
Non-controlling interest in net income of subsidiaries and extraordinary items	612	497	434	286	150
Net income	**12,022**	**7,774**	**10,385**	**10,128**	**9,799**

Asset Size and Quality Measures

Total Assets ($ billions and percentage)

As at members' fiscal year end	2003		2002		2001		2000		1999	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	1,604.7	94.4	1,579.0	94.7	1,559.1	95.2	1,405.9	95.4	1,325.1	95.9
Subsidiaries of foreign institutions	81.5	4.8	76.4	4.6	68.8	4.2	58.8	4.0	48.6	3.5
Domestic trust and loan companies	13.9	0.8	12.3	0.7	9.7	0.6	8.7	0.6	7.5	0.6
Total	**1,700.1**	**100.0**	**1,667.7**	**100.0**	**1,637.6**	**100.0**	**1,473.4**	**100.0**	**1,381.2**	**100.0**

Impaired Loans to Total Assets (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	0.6	0.9	0.8	0.7	0.6
Subsidiaries of foreign institutions	0.7	0.9	0.9	1.1	1.2
Domestic trust and loan companies	0.6	0.8	0.9	0.5	0.6

Impaired loans (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	1.2	1.6	1.4	1.2	1.1
Subsidiaries of foreign institutions	1.2	1.6	1.7	1.9	2.1
Domestic trust and loan companies	1.0	1.3	1.3	0.8	0.8

Impaired loans (gross)/total loans (gross)

Impaired Loans Unprovided For (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	-15.4	-0.1	-2.1	-12.5	-17.5
Subsidiaries of foreign institutions	-24.8	-16.5	-1.8	3.5	-7.2
Domestic trust and loan companies	-20.3	10.8	31.9	-15.4	-17.9

1 - (Allowance for loan impairment/impaired loans (gross))

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	-2.1	0.0	-0.4	-1.8	-2.4
Subsidiaries of foreign institutions	-2.9	-2.3	-0.3	0.6	-1.5
Domestic trust and loan companies	-1.6	1.1	3.5	-1.0	-1.2

Impaired loans (net)/average shareholders' equity

Deposit Liabilities in Canada

Total Deposits ($ billions and percentage)

As at April 30	2003		2002		2001		2000		1999	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	971.2	93.7	954.6	94.2	900.3	94.7	851.8	95.2	800.8	95.4
Subsidiaries of foreign institutions	54.9	5.3	50.2	5.0	44.1	4.6	37.4	4.2	33.6	4.0
Domestic trust and loan companies	10.5	1.0	8.0	0.8	6.9	0.7	5.6	0.6	5.0	0.6
Total	**1,036.6**	**100.0**	**1,012.8**	**100.0**	**951.3**	**100.0**	**894.8**	**100.0**	**839.4**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits of each peer group)

As at April 30	2003		2002		2001		2000		1999	
	$	%	$	%	$	%	$	%	$	%
Domestic banks and subsidiaries	339.6	35.0	328.3	34.4	315.8	35.1	304.3	35.7	294.3	36.8
Subsidiaries of foreign institutions	16.0	29.1	12.5	24.9	10.3	23.4	8.6	23.0	8.1	24.1
Domestic trust and loan companies	7.6	72.4	6.7	83.8	5.9	85.5	4.9	87.5	4.3	86.0
All peer groups	**363.2**	**35.0**	**347.5**	**34.3**	**332.0**	**34.9**	**317.8**	**35.5**	**306.7**	**36.5**

Capitalization Measures

Capitalization (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	4.7	4.7	4.7	4.8	4.5
Subsidiaries of foreign institutions	6.0	6.6	6.9	6.6	5.9
Domestic trust and loan companies	8.0	8.4	9.0	9.3	9.1

Average shareholders' equity/average assets

BIS Risk-Based Capital (percentage)

As at members' fiscal year end	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	13.3	12.2	12.2	11.8	11.5
Subsidiaries of foreign institutions	14.5	13.7	13.3	12.9	12.8
Federal trust and loan companies*	18.7	19.0	19.5	19.6	23.2

*BIS (Bank for International Settlements): Provincial trusts have to meet capital adequacy requirements that are calculated under a different basis.

Income and Profitability Measures

Net Income ($ millions)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	11,212	7,061	9,809	9,769	9,499
Subsidiaries of foreign institutions	690	620	490	280	220
Domestic trust and loan companies	120	93	86	79	80
Total	**12,022**	**7,774**	**10,385**	**10,128**	**9,799**

Interest Income (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	51.1	52.1	47.0	43.8	48.1
Subsidiaries of foreign institutions	48.2	44.9	42.8	44.4	45.4
Domestic trust and loan companies	44.6	44.7	45.5	42.7	42.9

Interest income: net interest income/total revenue

Interest Spread (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	1.9	2.0	1.9	1.8	1.8
Subsidiaries of foreign institutions	2.2	2.3	2.2	2.2	2.0
Domestic trust and loan companies	2.0	2.1	2.4	2.4	2.3

Interest spread: net interest income/average assets

Non-Interest Income (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	1.8	1.8	2.1	2.3	1.9
Subsidiaries of foreign institutions	2.4	2.8	2.9	2.7	2.4
Domestic trust and loan companies	2.5	2.6	2.9	3.3	3.0

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

Total Non-Interest Expenses (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	3.0	3.3	3.3	3.3	3.0
Subsidiaries of foreign institutions	3.8	4.1	4.3	4.3	3.9
Domestic trust and loan companies	3.6	4.0	4.4	4.8	4.3

Total non-interest expenses: (non-interest expenses + provision for income taxes + minority interest in subsidiaries + provision for impairment)/average assets

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	0.7	0.4	0.7	0.7	0.7
Subsidiaries of foreign institutions	0.9	0.9	0.7	0.5	0.4
Domestic trust and loan companies	0.9	0.8	0.9	1.0	1.1

ROAA: net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	14.6	9.4	13.9	14.9	15.6
Subsidiaries of foreign institutions	14.2	12.9	10.9	7.5	7.5
Domestic trust and loan companies	11.3	10.0	10.3	10.6	11.8

ROAE: net income/average shareholders' equity

Efficiency (percentage)

For the members' fiscal year ending in	2003	2002	2001	2000	1999
Domestic banks and subsidiaries	68.3	69.4	68.0	66.7	65.8
Subsidiaries of foreign institutions	59.5	60.6	65.3	70.3	75.9
Domestic trust and loan companies	66.8	65.2	67.6	70.0	67.1

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

Corporate Governance

CDIC's work is guided by two major statutes — the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) and the *Financial Administration Act*. The *CDIC Act* sets out the Corporation's objects, powers and duties, as well as general terms for deposit insurance and other aspects of its role. The Corporation reports to Parliament through the Minister of Finance.

Board of Directors

The *CDIC Act* provides that the Corporation's affairs are administered by a Board of Directors, made up of a Chairperson, five private sector directors, and five *ex officio* Directors: the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions, the Deputy Superintendent of Financial Institutions or an officer of OSFI, and the Commissioner of the Financial Consumer Agency of Canada.

Board of Directors — as at March 31, 2004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1 **Ronald N. Robertson**
Chairman of the Board
Canada Deposit Insurance Corporation

2 **Tracey Bakkeli**
T. Bakkeli Consultants Inc.
Regina

3 **Claude Huot**
Consultant in economic development
Le Groupe Stragesult
Montréal

4 **David A. Dodge**
Governor of the Bank of Canada
(ex officio)

5 **John Doran**
Assistant Superintendent, Supervision
Office of the Superintendent of Financial Institutions
(ex officio)

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

7 **Bill Knight**
Commissioner
Financial Consumer Agency of Canada
(ex officio)

8 **Nicholas Le Pan**
Superintendent of Financial Institutions
(ex officio)

9 **Kevin G. Lynch**
Deputy Minister of Finance
(ex officio)

10 **Grant Morash**
Financial Advisor
Halifax

11 **Darryl J. Raymaker**
Partner
McNally Cuming Raymaker
Calgary

12 **Julie Dickson**
Assistant Superintendent Regulation
Office of the Superintendent of Financial Institutions
(alternate)

13 **David Longworth**
Deputy Governor
Bank of Canada
(alternate for the Governor of the Bank of Canada)

14 **Frank Swedlove**
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance, Canada
(alternate for the Deputy Minister of Finance)

Board Committees

- Board of Directors
- Executive Committee
- Audit Committee
- Governance Committee
- HRC Committee

During 2003/2004, the Board of Directors focused its attention on a number of key activities, including keeping pace with developments in contingency planning work for the Corporation, monitoring the implementation and impact of the 2003 corporate restructuring initiative, succession planning and discussing the results of an external review of CDIC's Board by Patrick O'Callaghan and Associates. The results of the review were extremely positive, demonstrating that the Board is operating effectively and has taken significant steps to address the recommendations made in a similar review conducted in 2000. The Board's rating of its overall performance increased from 7.86 out of 10 (in 2003) to 8.27 out of 10 (2004). Board members rated the performance of the Chairman very highly, demonstrating their clear support and confidence.

Working together with CDIC management, the Board continued its involvement in the Corporation's annual strategic planning process, taking an active role in a day-long planning session in June 2003. The Board also held a retreat in March to discuss strategic and other issues. As well, the Board engaged in discussions about CDIC's level of *ex ante* funding, adoption of a Board Governance Policy, discussions on the health of member institutions, and a review of applications from potential member institutions.

Private sector Directors are paid based on a fee structure recommended by the government and approved by Order-in-Council. For 2003/2004, the total remuneration paid to these Directors was $252,560.

CDIC Board Governance Policy

Approved by the Board of Directors at its meeting on December 3, 2003, CDIC's new Board Governance Policy sets out the Board's understanding of its governance responsibilities and how these responsibilities should be fulfilled. The Policy consists of 19 statements of principle that call for the Board's involvement in a variety of oversight and leadership activities including, for example:

- arrange for the orientation and ongoing training of new Directors
- maintain a profile of desirable skills and capabilities for Directors
- establish the responsibilities, authority and accountability requirements of Board committees and management, as well as those for the Chairperson and President and CEO
- establish and monitor adherence to standards of conduct and ethical behaviour by Board members and CDIC employees
- plan for the succession of the CDIC executive
- establish objectives for the President and CEO and evaluate their performance
- periodically assess CDIC's objects
- approve annual operating objectives, strategies and budgets, and evaluate CDIC's performance in implementing its plans
- review CDIC's risk environment and establish and monitor risk management policies

Board Committees

Much of the work that comes before the CDIC Board of Directors is initially addressed by its committees. As at March 31, 2004, CDIC's Board had four standing committees; their mandates and highlights of their 2003/2004 activities are summarized below:

Overview of CDIC Board Committees — Mandate, Meetings, Composition and Highlights of Activity in 2003/2004[a]

Committee Name and Mandate	Number of Meetings	Composition (March 31, 2004)	Highlights of Activity
Executive Committee — *to manage emerging issues and sensitive matters referred by the Board, Chairperson or CEO*	0	R.N. Robertson (Chair) D.A. Dodge H.G. Emerson	N/A
Audit Committee[b] — *to oversee audits, advise the Board on financial issues and oversee risk management*	3	T. Bakkeli (Chair) J. Doran G. Morash D. Raymaker	▪ reviewed 2002/2003 financial statements ▪ reviewed qualitative adjustment impact on provision for insurance losses ▪ assessed information in preparation for *ex ante* funding decision ▪ oversaw preparations for the 2004 Office of the Auditor General Special Examination of CDIC ▪ oversaw CDIC's ERM initiatives
Governance Committee — *to ensure appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities, including review of Board membership, recommending future appointments and review of the Board's mandate*	3	R.N. Robertson (Chair) T. Bakkeli C. Huot B. Knight D. Raymaker	▪ reviewed process for finding and proposing Board nominees ▪ developed succession plan for President and CEO ▪ reviewed mandates of all CDIC Board committees ▪ developed a response to the Office of the Auditor General's *Report on the Governance of Crown Corporations* (the *Chapter 18 Report*), outlining CDIC's consideration of the Report and action taken to meet the recommendations on governance issues
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 2002/2003) ▪ reviewed and recommended President and CEO's 2004/2005 objectives to Board ▪ considered 2004/2005 objectives for Executive Vice-President and Chief Operating Officer ▪ monitored effects of CDIC restructuring of March 2003

[a] A list of Committee members' attendance (including *ex officio* members and alternates) at meetings is included on page 36.

[b] The Audit Committee continued to use the services of an accounting professional, Graeme Rutledge, who was previously the partner in charge of auditing several large financial institutions. Mr. Rutledge provided the Committee with sound financial advice and assistance throughout the year and will continue to provide these services, as required by the Committee.

A **Committee of Independent Directors** was established in March 2004 for the express purpose of working with management in support of improvements to the delivery of financial sector regulation. Having raised the issue in his March 2004 budget, the Minister of Finance is seeking views on how best to eliminate any overlap and duplication in the functions and operations of CDIC and OSFI, in order to lower the regulatory burden on the industry. CDIC's review also continues to explore opportunities for further efficiencies in the administrative and corporate service functions of CDIC and OSFI. On March 31, 2004, Ronald N. Robertson chaired the separate Committee of Independent Directors; the Committee's other members were Tracey Bakkeli, Garfield Emerson, Claude Huot, Grant Morash and Darryl J. Raymaker.

Meetings and Attendance[a]

(April 1, 2003 to March 31, 2004)

		Board Committees[b]			
	Board of Directors	Executive Committee	Audit Committee	Governance Committee	HRC Committee
Number of Meetings	8[c]	[d]	3	4	3[e]
Attendance:					
R.N. Robertson — Chairperson	8		3	4	3
V. Bergeron[f]	3		1		
H.G. Emerson	7				3
T. Bakkeli	8		3	4	
D. Raymaker	8			4	2
G. Morash	8		3		3
C. Huot[g]	5				1
***Ex officio* members (alternates):**					
D.A. Dodge (C. Freedman) (D. Longworth)[h]	5 (5)				
N. Le Pan (J. Dickson)	7				3
J. Doran	3		3		
K. Lynch (M. Horgan) (R. Hamilton) (F. Swedlove)[i]	2 (6)				
B. Knight	8			4	

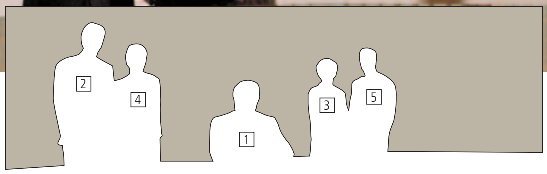
[a] Also includes meetings attended by phone.
[b] A Committee of Independent Directors of the Board was created at the end of the fiscal year.
[c] Also includes strategic planning session, information session, retreat and a special meeting of the Board.
[d] There were no meetings of the Executive Committee in 2003/2004.
[e] Also includes a Human Resource Centres of Canada (HRCC) information session.
[f] V. Bergeron's term as a member of the Board of Directors ended on October 28, 2003.
[g] C. Huot was appointed to the Board of Directors on October 28, 2003.
[h] D. Longworth replaced C. Freedman as the alternate to the Governor of the Bank of Canada as at June 24, 2003. C. Goodlet attended a strategic planning session of the Board of Directors as an observer from the Bank of Canada.
[i] R. Hamilton replaced M. Horgan as the alternate to the Deputy Minister of Finance as at May 26, 2003. F. Swedlove replaced R. Hamilton as the alternate to the Deputy Minister of Finance as at October 30, 2003.

CDIC Officers

CDIC's officers include the President and CEO, and officers appointed by the Board of Directors under the *Corporate By-law* established under the *Canada Deposit Insurance Corporation Act*. The President and CEO is appointed by the Governor in Council for a five-year term.

Salary ranges for CDIC's officers are set out below:

- the position of President and Chief Executive Officer: $182,500 to $214,700
- the position of Executive Vice President and Chief Operating Officer: $152,625 to $203,500
- the position of Vice President: $146,280 to $195,035



CDIC's officers are:

1 **Jean Pierre Sabourin**
President and Chief Executive Officer

2 **Guy L. Saint-Pierre**
Executive Vice-President and
Chief Operating Officer

3 **Michèle Bourque**
Vice-President
Insurance and Risk Assessment

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

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

Inter-Agency Committees

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 coordinates the activities of the two organizations, with a view to avoiding unwarranted duplication and cost, and fostering close and effective working relationships. On March 31, 2004, the members of the Liaison Committee were as follows:

Co-Chair

Nicholas Le Pan
Superintendent of Financial Institutions
OSFI

Co-Chair

Ronald N. Robertson
Chairperson of the Board
CDIC

Members

Jean Pierre Sabourin
President and Chief Executive Officer
CDIC

Guy L. Saint-Pierre
Executive Vice-President
and Chief Operating Officer
CDIC

Michèle Bourque
Vice-President
Insurance and Risk Assessment
CDIC

John Doran
Assistant Superintendent
Supervision
OSFI

Pamela Hopkins
Managing Director
OSFI

CDIC Committees

The **Real Estate Advisory Panel** (REAP) was established in 1993 to provide advice to CDIC management on maximizing recoveries on the Corporation's major real estate assets. In recent years, REAP has also brought its members' broad business and management experience to bear on general recovery strategies and organizing liquidations. On March 31, 2004, the members of REAP were as follows:

Chair

Daniel F. Sullivan
Deputy Chairman
Industrial Products and
Real Estate
Scotia Capital Inc.

Members

J. Lorne Braithwaite
Chairman and CEO
Park Avenue Ventures

Randy M. Grimes
Director
IBI Group

Stephen E. Johnson
President and CEO
Canadian Real Estate Investment Trust

Alvin G. Poettcker
President and CEO
UBC Properties Trust

Kenneth Rotenberg
President
Kenair Apartments Limited

E. John Latimer
Director
Talisker Corporation

CDIC Executive Management Committee

The CDIC **Executive Management Committee** plays a major role in all of the Corporation's activities. Its team members — working both independently and as a group — are responsible for day-to-day internal functions, as well as for working in partnership with federal and provincial counterparts and international organizations on a wide range of issues.

1 Jean Pierre Sabourin
2 Michèle Bourque
3 Margaret Saxon-Kopke
4 Guy L. Saint-Pierre
5 M. Claudia Morrow
6 Keith Adam
7 Ken Mylrea
8 Thomas J. Vice
9 Patricia Griffin-Dobson
10 Jacques Hudon

Statutory Requirements

As a Crown corporation, CDIC is required to comply with various statutes, including the *Financial Administration Act*, which requires that the Corporation submit an annual 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.

In 2003/2004, CDIC submitted its corporate plan and summary, and its annual report to the Minister within the statutory time frames required by the *Financial Administration Act*.

During the year, CDIC was required to report on the status of the following:

Access to Information Act and *Privacy Act* Annual Reports

Last year, the Corporation received 12 requests under the provisions of the *Access to Information Act*. No outstanding requests were carried forward from the previous reporting period, and six requests were completed during the reporting period. For two of the six requests, CDIC disclosed the relevant records within 30 days. For one request, CDIC disclosed the relevant documents in severed form, also within 30 days. Two requests could not be processed because the records did not exist at CDIC; and one request was abandoned by the applicant. Six requests have been carried forward into the 2004/2005 fiscal year.

During fiscal year 2003/2004, CDIC did not receive any requests under the *Privacy Act*.

Policy on Internal Disclosure

The objectives of the *CDIC Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace* are to:

- provide an effective process so that employees with concerns about wrongdoing can bring them forward
- ensure that employees who bring forward information or concerns in good faith are treated fairly and protected from reprisal
- ensure that these concerns are dealt with in a responsible and timely fashion, and in a way that is internally consistent and consistent with CDIC's *Conflict of Interest Code* and *Code of Business Conduct and Ethical Behaviour*

Health and Safety

CDIC is subject to Part II of the *Canada Labour Code* and its regulations regarding health and safety. As required by the Code, the Corporation maintains a Health and Safety Committee comprised of both employees and management representatives. The Committee held 11 meetings in 2003/2004.

As well, CDIC is required by the *Canadian Occupational Health and Safety Regulations* to report each year to Human Resources Development Canada on incidents, injuries and action taken on health and safety during the previous calendar year. As reported by the Corporation on March 1, 2004, there were no injuries, accidents or deficiencies to address in calendar year 2003.

Code of Business Conduct and Ethical Behaviour

CDIC's Code of Business Conduct and Ethical Behaviour is designed to help employees understand the standard of conduct that is expected of them. It aims to support a positive work environment, while also maintaining and enhancing the Corporation's tradition of professionalism and excellence.

The Code outlines CDIC's expectations for employee conduct that aligns with corporate values of professionalism and excellence; integrity and trustworthiness; communication and teamwork; and respect and fairness. It also sets out standards regarding such issues as professionalism, personal and family relationships in the workplace, and punctuality and absenteeism.

Adherence to the Code is a condition of employment at CDIC and every employee must confirm their commitment to it. An assessment is conducted each year as part of an employee's performance appraisal.

Official Languages

On May 23, 2003, CDIC filed its 2002/2003 annual assessment on official languages with Treasury Board Secretariat (TBS). TBS confirmed that CDIC met its obligations during the fiscal year.

Employment Equity

CDIC's mission statement commits the organization to "provide an environment wherein employees are treated fairly and given opportunities and encouragement to develop their maximum potential." The Corporation continues to make progress in employment equity though various initiatives such as the campaign against racial discrimination, encouraging diversity in hiring decisions and ensuring equal access to training opportunities. CDIC's Employment Equity Plan, which is part of the Corporation's overall Human Resource Strategic Plan, is currently being revised to reflect the recent operational review and restructuring. CDIC submitted its 2002 annual report on employment equity on May 23, 2003.

Multiculturalism

CDIC's ongoing involvement in international activities offers a range of opportunities for enhancing cross-cultural awareness. Many of the Corporation's initiatives in this area are captured in its annual report to the Minister of Canadian Heritage on activities under the Multiculturalism Program. The Corporation submitted its 2002/2003 annual report on multiculturalism on October 16, 2003.

Robert C. Todd, *The Timber and Shipbuilding Yards of Allan Gilmour and Company at Wolfe's Cove, Quebec, Viewed from the South,* 1840

For More Information About CDIC

CDIC is committed to promoting awareness and education about deposit insurance and the services provided by the Corporation. Following is key contact information for CDIC.

Head Office

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

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

Toronto Office

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

Financial Review

Management's Discussion and Analysis

Balance Sheet Highlights

Cash and Investments

As at March 31, 2004, the combined balance of cash and investments was $1,195 million, made up of cash and short-term investments of $629 million and investments of $566 million. The weighted average yield was 2.60 per cent. The sources and uses of cash are described fully in the Statement of Cash Flows.

CDIC's Investment Strategy

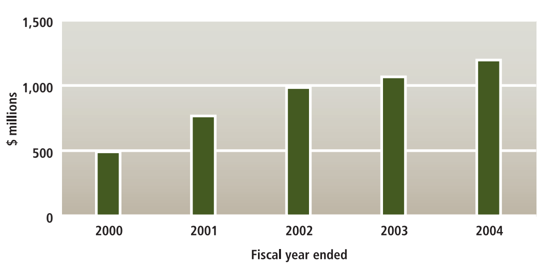
CDIC's investment strategy is based on two key underlying principles:

(i) limiting credit and market risk to preserve capital

(ii) 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* (the Guidelines) issued by the Minister of Finance. CDIC's investment policy requires that investments be limited to only those that meet or exceed the credit quality criteria mandated by the Guidelines. CDIC's investment policy further limits risk by setting a maximum amount and term that can be invested in each qualifying instrument.

Cash and Investments



Net Claims Receivable and Future Recoveries

Net claims receivable increased by $14.6 million to $28.5 million. During the year, CDIC recorded additional claims of $20.8 million offset by recoveries of $600 thousand and an increase in the allowance for loss on claims receivable of $5.6 million. The additional claims receivable reflect post-liquidation interest receivable of $16 million from the estates of Confederation Trust Company ($14 million) and Security Home Mortgage Corporation ($2 million), and an additional claim relating to the estate of Central Guaranty Trust of $4.8 million. As at March 31, 2004, the allowance for loss on claims receivable was $9.6 million.

The liquidators of the failed institutions currently have approximately $102 million of remaining assets. In addition to its net claims receivable, CDIC projects possible further recoveries from these estates of approximately $24 million which would result in total future recoveries of approximately $53 million. These 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, 2004	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	1	10%	18%
Standard Loan Co./Standard Trust Co. (Formal Liquidation — 1991)	1,321	1,124	11	14%	25%
Shoppers Trust Co. (Formal Liquidation — 1992)	492	464	3	5%	15%
Adelaide Capital Corp. (Loan and Management Agreement — 1992)	1,588	1,477	13	6%	12%
Central Guaranty Trust Co. (Formal Liquidation — 1992)	500[b]	0	5	[b]	[b]
Confederation Trust Co. (Formal Liquidation — 1994)	680	700	14	(5%)	2%
Income Trust Co. (Formal Liquidation — 1995)	193	174	3	8%	15%
Security Home Mortgage Corp. (Formal Liquidation — 1996)	42	41	3	(5%)	17%

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

[b] This claim approximates the loss associated with the failure of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. 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 made by CDIC to Adelaide Capital Corporation. The loss associated with this failure, net of projected future recoveries, is approximately 5 per cent of the insured deposits totalling $9.8 billion of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation in 1992.

Future Income Tax Asset

CDIC is subject to federal income tax and is required to pay income taxes on its taxable income. Under the provisions of the *Income Tax Act*, CDIC's premium revenue is not taxable. As such, CDIC's primary source of taxable income is its interest revenue on cash and investments. From this amount allowable expenditures are deducted in order to arrive at CDIC's taxable income. CDIC has losses totalling $28 million that can be carried forward to reduce future years' earnings for tax purposes. These tax loss carry-forwards expire on March 31, 2005.

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 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.

In accordance with Canadian Institute of Chartered Accountants (CICA) recommendations, the related asset is re-valued each year. As at March 31, 2004, the future income tax asset was $11.7 million, representing a decrease of $4 million from March 31, 2003.

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 to the Toronto Dominion Bank.

As at March 31, 2004, the provision for guarantees was $2.5 million, a decrease of $2.8 million from $5.3 million as at March 31, 2003. During 2003/2004, CDIC received $81 thousand in recoveries (net of payments by CDIC) from the Toronto Dominion Bank under the DCAs and also reduced its provision estimate on this guarantee by $2.9 million. As mentioned in Note 6 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 capped at $2.49 billion. Since 1992, CDIC has incurred net guarantee costs under these guarantees totalling $172 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, 2004, the provision was $550 million, unchanged from March 31, 2003.

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 and 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 un-weighted average loss sustained by CDIC in member failures since 1987 when CDIC's legislation was changed to require that it pursue its objects in a manner so as to minimize its exposure to loss.

Ex Ante Funding

CDIC recognizes the importance of 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. During the year, CDIC conducted an analysis in order to develop an understanding of the appropriateness of maintaining *ex ante* funding and also to determine what level of such funding may be appropriate for CDIC. Such funding is considered a best practice among international deposit insurers.

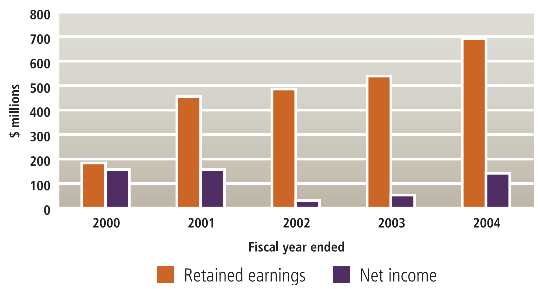
The analysis focused on two separate approaches. The first approach was based on an assessment of characteristics specific to CDIC's current membership, including level of insured deposits and regulatory capital. The second approach utilized a Monte Carlo simulation technique, a statistical modelling process that has been used by a number of other deposit insurance schemes internationally to assist in developing *ex ante* funding policy. The technique draws on the characteristics of CDIC's membership, including probability of default estimates using statistics developed by credit rating agencies, the level of insured deposits outstanding and an estimate of the loss given default in the event of failure based on CDIC's historical loss experience. Using such information as the basis for a Monte Carlo simulation, an insurance loss distribution was developed and an assessment of the appropriate level of *ex ante* funding given CDIC's circumstances was determined.

Based on the work performed, 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 $1.4 billion to $1.8 billion based on levels of insured deposits as at April 30, 2003. The reported amount, as at March 31, 2004, was $1.2 billion representing 34 basis points of insured deposits, and under current forecasts in CDIC's 2004/2005 to 2008/2009 Corporate Plan the range will be attained within CDIC's five-year planning period.

Statement of Income and Retained Earnings Highlights

CDIC ended 2003/2004 with retained earnings of $681 million, an increase of $142 million over 2003. For the year ended March 31, 2004, CDIC's revenues totalled $160 million offset by total expenses and adjustments of $18 million, resulting in a net income for the year of $142 million.

Net Income and Retained Earnings

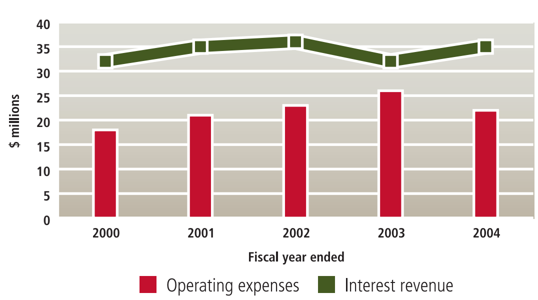


Premiums for the fiscal year were $109 million compared to $76 million for 2002/2003. The $33 million increase reflects the growth in insured deposits and the movement of members between CDIC premium categories.

CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations. Interest revenue from cash and investments was $35 million in 2003/2004, an increase of $3 million from the previous fiscal year.

During the year, CDIC recorded other revenue of $16 million relating almost entirely to post-liquidation interest to be received from the estates of Confederation Trust Company and Security Home Mortgage Corporation.

Interest Revenue vs. Operating Expenses



Operating expenses for the year ended March 31, 2004, totalled $22 million ($26 million in 2002/2003). The reduction in operating expenses is attributed to the corporate reorganization that was completed in 2002/2003 and reflects actual salary and other personnel cost savings of almost $4 million from 2002/2003.

Comparison with 2003/2004 Corporate Plan

Balance Sheet

Total assets as at March 31, 2004, were $1,243 million, compared to the planned amount of $1,197 million. This positive variance of $46 million was the result of higher than planned cash and investments ($15 million) and net claims receivable balances ($29 million). The positive variance in cash and investments was mainly the result of higher than planned premium revenue of $31 million combined with operating expenses being $3 million lower than planned, offset by lower than planned cash receipts of amounts previously written off and lower than planned interest on cash and investments. The higher than planned net claims receivable is due to timing differences between the planned and actual receipts from the estates, as well as new claims receivable being recorded. During the year, CDIC recorded additional claims of $20.8 million offset by recoveries of $600 thousand and an increase in the allowance for loss on claims receivable of $5.6 million. The additional claims receivable reflect post-liquidation interest receivable of $16 million from the estates of Confederation Trust Company ($14 million) and Security Home Mortgage Corporation ($2 million), and an additional claim relating to the estate of Central Guaranty Trust of $4.8 million.

Statement of Income and Retained Earnings

Total revenue during the year was $160 million or $43 million higher than planned, due to higher than planned premiums and other revenue offset by lower than planned interest on cash and investments. Premium revenue of $109 million was $31 million higher than planned, due to a combination of higher than planned growth in insured deposits and the movement of members between premium categories. Other revenue was $16 million higher than planned reflecting the post-liquidation interest recorded during the year. Interest on cash and investments for the year ended March 31, 2004, was $35 million or $4 million lower than planned. This negative variance reflects lower than planned yields on investments during the year.

Net income for the year ended March 31, 2004, was $142 million or $38 million higher than planned. This is primarily the result of higher than planned premiums and other revenue offset by lower than planned interest income on cash and investments and lower than planned recoveries of amounts previously written off.

During the year, CDIC had total operating expenses of $22 million compared to a planned amount of $25 million. The variance is primarily the result of CDIC completing an organizational restructuring in 2002/2003 that resulted in 2003/2004 salary and other personnel costs being $2 million lower than planned.

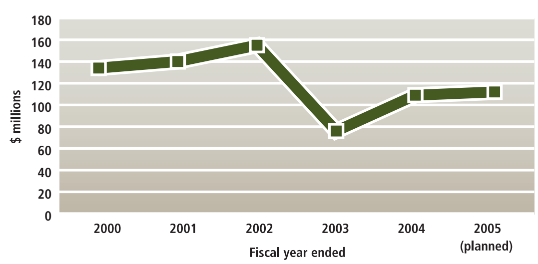
The year-end retained earnings of $681 million was $9 million lower than planned. This variance reflects a $47 million lower than planned opening surplus balance offset by higher than planned net income for the year ended March 31, 2004.

2004/2005 Corporate Plan[7]

Premium rates will remain unchanged for the 2004 premium year. This is expected to result in $112 million in premium revenue for the 2004/2005 fiscal year. Combined with a planned $43 million in interest on cash and investments and other revenue, CDIC's total income is expected to be $155 million, offset by net expenses of $13 million, for a projected net income before reduction in future income tax asset of $142 million.

As at March 31, 2005, cash and investments and retained earnings are planned to be $1,342 million and $793 million, respectively.

Premium Revenue



[7] The 2004/2005 Corporate Plan figures have been taken from the Corporation's Corporate Plan 2004/2005 to 2008/2009 and are based on certain planning assumptions contained in the Plan including, among others, assumptions relating to premium revenue, investment yields, member institution failures and human resource levels. Actual results may vary materially from Plan.

Balance Sheet
(as at March 31)

	$ Millions		
	2004/2005 Corporate Plan	2003/2004 Actual Results	2003/2004 Corporate Plan
Assets			
Cash and investments	1,342	1,195	1,180
Accounts receivable	5	5	5
	1,347	1,200	1,185
Capital assets	2	2	1
Claims receivable	–	38	–
Allowance for loss on claims receivable	–	(9)	–
	1,349	1,231	1,186
Future income tax asset	4	12	11
Total assets	1,353	1,243	1,197
Liabilities			
Accounts payable	7	9	7
Provision for guarantees	3	3	–
Provision for insurance losses	550	550	500
	560	562	507
Retained earnings	793	681	690
Total liabilities and retained earnings	1,353	1,243	1,197

Statement of Income and Retained Earnings
(for the year ended March 31)

	2004/2005 Corporate Plan	2003/2004 Actual Results	2003/2004 Corporate Plan
Revenue			
Premiums	112	109	78
Interest on cash and investments	41	35	39
Other revenue	2	16	–
	155	160	117
Expenses			
Operating expenses	24	22	25
Adjustment to allowance and provision for loss	3	3	2
Recovery of amounts previously written-off	(14)	(11)	(19)
	13	14	8
Net income before reduction in future income tax asset	142	146	109
Reduction in future income tax asset	(10)	(4)	(5)
Net income	132	142	104
Retained earnings, beginning of year	661	539	586
Retained earnings, end of year	793	681	690

Enterprise Risk Management:

The comprehensive system designed to identify, assess, manage, monitor and report on, at any point in time, the significant risks inherent in objectives, strategies, plans and operations of an organization.

Risk Management

CDIC is cognizant of its responsibility to ensure that it is effectively governed and well managed. With this in mind, CDIC is in the process of implementing Enterprise Risk Management (ERM). This work is intended to enhance CDIC's existing practices, with the objective being to demonstrate that the Corporation's risks are subject to effective ERM and governance, that risk considerations are explicitly integrated into CDIC's strategic and day-to-day decision making and that risk management is supported by an effective risk management culture.

Over the past year, CDIC put in place the necessary foundation for supporting ERM and has now begun to build on it. As part of CDIC's 2003 reorganization, a separate Corporate Risk function was created to coordinate and facilitate CDIC's approach to ERM. CDIC's initial efforts in this area involved approving a formal Board Governance Policy (one component sets out the Board's ERM responsibilities, as well as management's support role) and establishing an executive-level Enterprise Risk Management Committee (ERM Committee) to validate the ERM implementation approach and ongoing results.

CDIC Corporate Risk Categories

Insurance Risk: CDIC's risk of loss (or costs incurred in the event of an intervention) associated with insuring deposits.

Financial Risk: The risk associated with managing CDIC's assets and liabilities, both on and off-balance sheet.

Operational Risk: The risk of loss, to which CDIC is exposed, that is attributable to the possibility of disruptions in its operation caused by human performance, the inadequacy or failure of processes or technology, and external events.

Reputation Risk: The risk of impairment of the credibility of, and confidence in, CDIC.

Building on these initiatives, CDIC conducted an initial assessment of the significance and exposure of its corporate risks. Specifically, management:

- updated CDIC's catalogue of corporate risks which is made up of the corporate risk categories, the 18 specific risks that make up these categories, their definitions and potential examples
- assessed the significance of each risk (i.e., the likelihood of an adverse occurrence and its possible impact) and
- classified each risk exposure into one of three categories: "reasonable," "cautionary" or "serious concern"

The assessment did not identify any of CDIC's risk exposures as a "serious concern," which would have indicated exposure that CDIC is not currently fully equipped to deal with, or exposures with significant risk management gaps. However, management did assess some risk exposures as "cautionary," indicating that the level of exposure warrants enhanced monitoring or that previously identified risk management initiatives have not been fully implemented. CDIC is monitoring these exposures closely and taking appropriate and timely action to manage them.

Management also performed a corporate-level self-assessment of CDIC's risk management culture. The goal of the study was to evaluate management's views on whether CDIC's corporate culture supports or impedes risk management. The results indicate a strong risk management culture at CDIC.

Although a great deal has been accomplished in this priority area, much remains to be done. Management is committed to completing the work required to fully implement ERM within CDIC.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

June 9, 2004

The accompanying 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The 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 judgement.

The 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 financial statements.

In discharging its responsibility for the integrity and fairness of the 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 financial statements to the Board of Directors.

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

Jean Pierre Sabourin
President and Chief Executive Officer

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

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Canada Deposit Insurance Corporation as at March 31, 2004 and the 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 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 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 financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
April 30, 2004

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Canada Deposit Insurance Corporation
Balance Sheet as at March 31
(in thousands of dollars)

	Note	2004	2003
ASSETS			
Cash and short-term investments	3	$ 629,193	$ 353,271
Investments	4	566,207	712,799
Accounts receivable		4,964	5,348
		1,200,364	1,071,418
Capital assets		1,974	1,248
Net claims receivable	5, 7	28,522	13,881
Future income tax asset	9	11,731	15,777
		$1,242,591	**$1,102,324**
LIABILITIES			
Accounts payable		$ 9,478	$ 7,905
Provision for guarantees	6, 7	2,500	5,300
Provision for insurance losses	7	550,000	550,000
		561,978	563,205
RETAINED EARNINGS		680,613	539,119
		$1,242,591	**$1,102,324**
Contingent Liabilities and Commitments	11, 12		

(See accompanying notes)

Approved by the Board: ______________________
Director

____
Director

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

(in thousands of dollars)

	Note	2004	2003
REVENUE			
Premiums	10	$ 108,678	$ 75,679
Interest on cash and investments		35,123	32,378
Other revenue		16,205	309
		160,006	108,366
EXPENSES			
Operating expenses		22,369	25,662
Adjustment to allowance and provisions for loss	7	2,719	46,221
Recovery of amounts previously written-off		(10,622)	(7,440)
		14,466	64,443
Net income before increase/(reduction) in future income tax asset		145,540	43,923
Increase/(reduction) in future income tax asset	9	(4,046)	8,737
Net Income		141,494	52,660
Retained earnings, beginning of year		539,119	486,459
Retained earnings, end of year		**$680,613**	**$539,119**

(See accompanying notes)

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

(in thousands of dollars)

	2004	2003
OPERATING ACTIVITIES		
Premium revenue received	$ 108,893	$ 75,379
Claims recovered	591	344
Interest revenue received	37,235	35,113
Recovery of amounts previously written-off	5,790	7,440
Other amounts received	374	341
Receipt/(Payment) of guarantees	81	(9,855)
Payments to suppliers and employees	(21,522)	(24,822)
Cash flows from operating activities	131,442	83,940
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(966,216)	(1,135,655)
Maturities of securities and term deposits	1,110,696	1,079,315
Cash flows from/(used) in investing activities	144,480	(56,340)
CASH AND SHORT-TERM INVESTMENTS		
Increase during the year	275,922	27,600
Balance, beginning of year	353,271	325,671
Balance, end of year	**$629,193**	**$353,271**

(See accompanying notes)

Canada Deposit Insurance Corporation

Notes to Financial Statements
March 31, 2004

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 objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions, to be instrumental in the promotion of standards of sound business and financial practices for 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, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

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

2. Significant Accounting Policies

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

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 tax loss carry-forwards; 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. 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.

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. Premiums are recorded annually based on 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 Superannuation 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.

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.

3. 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, 2004			March 31, 2003		
	(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	$ 629,184	2.38%	40	$ 352,823	3.06%	36
Cash	9			448		
Total	**$629,193**			**$353,271**		

4. Investments

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

	March 31, 2004			March 31, 2003		
	(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	$ 184,406	2.76%	189	$ 501,881	3.22%	246
Bonds	351,098	2.92%	788	183,118	3.49%	330
Bankers' Acceptances	–	–	–	11,177	3.16%	181
Commercial Paper	25,883	2.25%	149	4,846	3.21%	203
Bearer Deposit Notes	–	–	–	4,845	3.18%	182
Sub Total	**561,387**			**705,867**		
Accrued Interest	4,820			6,932		
Total	**$566,207**	**2.84%**	**564**	**$712,799**	**3.29%**	**267**

5. Net Claims Receivable

	March 31, 2004	March 31, 2003
	(in thousands of dollars)	
Claims receivable	$ 38,122	$ 17,881
Allowance for loss	(9,600)	(4,000)
Net claims receivable	**$28,522**	**$13,881**

During the year the Corporation recorded $16 million in post-liquidation interest (2003: nil).

6. 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 provide 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, 2004 is $2.5 million (2003: $5.3 million) and represents the maximum exposure for the Corporation under these guarantees (2003: $34 million).

7. 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, 2004 with corresponding totals as at March 31, 2003.

	March 31, 2004				March 31, 2003
	(in thousands of dollars)				
	Allowance for Claims Receivable	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	$ 4,000	$ 5,300	$ 550,000	**$559,300**	**$525,000**
Receipts/(Payments)	–	81	–	**81**	**(9,855)**
Write-offs	–	–	–	**–**	**(2,066)**
Adjustment to allowance and provisions for loss	5,600	(2,881)	–	**2,719**	**46,221**
End of period	**$9,600**	**$2,500**	**$550,000**	**$562,100**	**$559,300**

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

8. 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 judgements 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, 2004 and involve uncertainties and matters of significant judgement. 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 consist of Government of Canada and provincial government obligations. As at March 31, 2004 the fair value of these investments, based on observable market prices, is $402 million, which compares to the book value of $397 million.

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.

9. Income Taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years’ earnings for tax purposes.

Such losses carried forward as at March 31, 2004 total $28 million and expire March 31, 2005.

Some $14.9 million of undepreciated capital cost (2003: $11.7 million) and $20 million (2003: $33 million) of the total $28 million losses carried forward (2003: $93 million) have been applied in calculating the future income tax asset of $11.7 million (2003: $15.8 million).

10. Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2003 were $363 billion (2002: $347 billion).

Under CDIC’s Differential Premiums By-law, members are classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for 2003, unchanged from 2002, are 1/48 of 1% of insured deposits for members in category 1, 1/24 of 1% for category 2, 1/12 of 1% for category 3 and 1/6 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, 2004 is $1.231 billion (2003: $1.089 billion) representing 34 basis points of insured deposits (2003: 31 basis points).

11. 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, 2004 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

12. Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2004 are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2005	$ 983
2006	1,024
2007	1,074
2008	1,085
2009	1,085
2010-2013	2,092
Total	**$7,343**

13. Pension Plan

The contributions to the Public Service Superannuation Plan during the year were as follows:

	2004	2003
	(in thousands of dollars)	
Employer	$1,715	$1,983
Employee	$ 454	$ 535

Glossary

Basic Coverage: CDIC insures eligible deposits in the name of the same person at a member institution up to $60,000, including principal and interest. Separate coverage is provided for other eligible deposits in joint and trust accounts, RRSPs, RRIFs and mortgage tax accounts. (“Couverture de base”)

Brokered Deposits: Retail deposits raised through brokers or agents, who receive a fee or a commission for their services. (“Dépôts de courtier”)

CDIC Membership Sign: A red and white sign that CDIC members must display at all their branches or places of business, indicating that the institution is a member and displaying the toll-free number for CDIC’s information line. (“Signe d’adhésion à la SADC”)

Credit Enhancement Fee: A special fee CDIC may be required to pay to the government pursuant to the *Canada Deposit Insurance Corporation Act* should CDIC have to borrow funds from either the private capital markets or government. (“Droits de renforcement du crédit”)

Demand Deposit: A deposit that can be withdrawn at any time, and which has no fixed maturity date. Contrast with a “term deposit.” (“Dépôt à vue”)

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”)

Deposit Register: A list of deposit products offered by a member institution that have been confirmed by CDIC as being eligible for CDIC deposit insurance. Member institutions must provide a copy of this register to consumers, if requested. (“Répertoire des dépôts assurables”)

Deposits Held in Registered Plans: Eligible deposits held in Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs) are insured separately from other eligible deposits held in the name of the same person at a member institution. Eligible deposits in Registered Education Savings Plans (RESPs) will only receive separate insurance protection if they qualify as trust deposits. (“Dépôts placés dans des régimes enregistrés”)

Eligible Deposits: Deposits that are eligible for CDIC insurance under the *Canada Deposit Insurance Corporation Act*. Also called “insurable deposits.” (“Dépôts assurables”)

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")

Federal Member: A federally incorporated financial institution that is a member of CDIC. See "provincial member." ("Institution membre fédérale")

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 *Co-operative Credit Associations Act* that has applied for and been granted CDIC membership. ("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")

Premium: 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")

Provincial Member: A provincially incorporated financial institution that is a member of CDIC. See "federal member." ("Institution membre provinciale")

Provision: An estimated expense; a charge for a diminution in value of an asset for an estimated or accrued liability. ("Provision")

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 per cent but OSFI has established a target level of 10 per cent for federally regulated deposit-taking institutions. ("Capital réglementaire")

Retail Deposit: For CDIC purposes, deposits of less than $150,000. ("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")

Standards Year: The period beginning on July 15 in one year and ending on July 14 in the next year. ("Année de déclaration")

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

Wholesale Deposit: For CDIC purposes, deposits of $150,000 or more. ("Dépôts de gros")