



**CDIC**

Canada Deposit  
Insurance Corporation

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ANNUAL REPORT  
2007

**4** YEARS  
1967 - 2007

Canada 

# \$100,000 DEPOSIT INSURANCE COVERAGE

## WHAT'S COVERED?

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

- deposits held in one name
- deposits held in trust for someone else
- deposits held jointly, in the name of two or more people
- deposits in Registered Retirement Savings Plans (RRSPs)
- deposits in Registered Retirement Income Funds (RRIFs)
- realty taxes on mortgaged property

## WHAT'S AN ELIGIBLE DEPOSIT?

Eligible deposits include:

- savings accounts and chequing accounts
- Guaranteed Investment Certificates (GICs) and other term deposits that mature in five years or less
- money orders, certified cheques and bank drafts
- accounts that hold realty taxes on mortgaged properties

To be eligible for deposit insurance, deposits must be payable in Canada, in Canadian currency.

## WHAT'S NOT COVERED?

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

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## CDIC MISSION

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

## CDIC VALUES

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

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

### Head Office

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

### Toronto Office

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

### Toll-free telephone service:

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

## FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the Years Ending March 31	2007 <sup>a</sup>	2006 <sup>a</sup>	2005 <sup>a</sup>	2004	2003
<b>Selected Balance Sheet Items</b> (\$ millions)					
Cash and investments	1,554	1,447	1,325	1,195	1,066
Provision for insurance losses	600	600	550	550	550
Retained earnings	950	844	793	681	539
<b>Ex ante funding</b> (\$ billions)	1.55	1.44	1.34	1.23	1.09
<b>Selected Cash Flow Items</b> (\$ millions)					
Claims paid	—	—	—	—	—
Claims recovered	5	16	14	1	—
Loans recovered	—	—	—	—	—
Payment of guarantees	—	1	—	—	10
<b>Selected Income Statement Items</b> (\$ millions)					
Premiums	75	65	93	109	76
Interest on cash and investments	56	43	35	35	32
Operating expenses	22	23	23	22	26
Adjustment to allowance and provisions for loss	(1)	42	1	3	46
<b>Member Institutions</b> (Number)					
Domestic banks and subsidiaries	42	41	37	37	39
Domestic trust and loan companies and associations	19	20	21	24	25
Subsidiaries of foreign financial institutions	19	21	23	25	24
Total number of institutions	80	82	81	86	88
<b>Total insured deposits</b> (\$ billions)	455	437	376	363	347
Growth rate of insured deposits <sup>b</sup> (%)	4.1%	16.2%	3.4%	4.6%	2.4%
<b>Employees</b> (Number)					
Permanent employees <sup>c</sup>	79	79	79	86	92

a 2007, 2006 and 2005 financial figures are presented on a consolidated basis and include the results of CDIC and of Adelaide Capital Corporation (ACC), a variable interest entity. As described in Note 7 to the Financial Statements, effective April 1, 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities issued by the Canadian Institute of Chartered Accountants. This Guideline required that ACC be consolidated with CDIC.

b The increase in deposit insurance coverage from \$60,000 to \$100,000 in 2005 contributed to the majority of the 16% increase in insured deposits during CDIC's 2005/2006 fiscal year.

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

# HIGHLIGHTS OF 2006/2007

## As a corporation . . .

- celebrated its 40th year of operation in 2007
- undertook a broad range of activities to strengthen its core expertise and readiness to intervene—including enhancing intervention tools and conducting a full simulation of a payment of insured deposits
- continued to pursue governance best practices by implementing all Treasury Board measures for Crown corporations within its control and issuing its first Enterprise Risk Management Representation Letter
- updated its website and held its first Annual Public Meeting
- tightly managed expenditures for a fifth consecutive year—reducing its operating expenses in 2006/2007

## Its membership . . .

- experienced record net income and strong financial performance for the fourth consecutive year
- saw 98 percent of its members ranked in the best-rated premium categories

- was assessed premiums that are at an all-time low
- has not experienced a failure for the 11th consecutive year

## Looking ahead . . .

- will emphasize readiness as a key priority—to be fully prepared to intervene in the affairs of a failing member institution of any size
- will continue to focus on communicating with the public and other stakeholders through our website, ad campaign, 1-800 lines and other public awareness initiatives
- forecasts it will reach the bottom of its target range for *ex ante* funding in 2012/2013
- will continue to invest in information technology and systems, and to focus on the ongoing development of excellence in employees and of CDIC as an employer

## CDIC RECEIVES GOVERNMENT OF CANADA GOVERNMENT ON-LINE AND SERVICE IMPROVEMENT INITIATIVE AWARD

In January 2007, CDIC was awarded a Government of Canada Government On-Line and Service Improvement Initiative Award in the Financial Services category. This award recognizes the outstanding success of CDIC in achieving a minimum 10 percent improvement in client satisfaction with one or more client group.



## CANADA DEPOSIT INSURANCE CORPORATION SELECTED AS DEPOSIT INSURANCE ORGANIZATION OF THE YEAR FOR 2006

In recognition of its contribution to international deposit insurance during 2006, CDIC was awarded the Deposit Insurance Organization of the Year award by the International Association of Deposit Insurers (IADI). CDIC is a founding member of IADI. The Deposit Insurance Organization of the Year award is conferred on an IADI member in celebration of an important achievement and/or in recognition of the contribution that the member has made to the furtherance of IADI's objects.



IADI Chair J.P. Sabourin hands the 2006 Deposit Insurance Organization of the Year award to Guy L. Saint-Pierre, President and CEO of CDIC.

The award collectively recognizes the contribution of all the staff and management of the member and is not intended to single out the work of just one individual. The Central Deposit Insurance Corporation of Taiwan was the first-ever recipient of this prestigious award in 2005.



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## MESSAGE FROM THE CHAIR

**This is my first opportunity to contribute to CDIC's Annual Report as its Chair, having been appointed part way through the Corporation's fiscal year. I welcome this opportunity and, at the outset, wish to acknowledge the contribution and work of my immediate predecessor, Ronald N. Robertson, who helped guide the organization for many years as an advisor, Board member and, from 1999 until June of 2006, its Chair. Working with an exceptional group of Board colleagues, he ensured that CDIC exercised the highest levels of good corporate governance. I am committed to retaining those standards.**

April 17, 2007 marked the 40th anniversary of the founding of CDIC. Over that period, the Corporation has dealt with 43 member institution failures. That statistic tells only part of the story, however. Working with other participants in Canada's financial services safety net, CDIC helps contribute to the stability of the financial system in Canada, through its constant monitoring of member performance and its preparedness to address problems in their early stages—not just when matters reach crisis proportions. Thanks in part to these preventative efforts, CDIC has not had to address a member failure since 1996.

CDIC has been very busy in the intervening years, not only in pursuing its preventative activities, but also in keeping up with challenges that would be encountered in addressing a member institution failure. Further, it has worked diligently to inform Canadians about the coverage provided through CDIC. The Corporation has been at the forefront among Crown corporations in meeting the standards expected from entities entrusted with administering resources on behalf of the public.

I am pleased to report that, in the past year, CDIC was recognized by its peers around the globe as an exemplary institution of its type, being granted the *Deposit Insurance Organization of the Year* award by the International Association of Deposit Insurers. Our staff, systems, and procedures are acknowledged internationally as being leading-edge. CDIC is consulted frequently by other jurisdictions, with whom advice and counsel are shared.

CDIC is also recognized for its continuing commitment to high standards of accountability and internal governance. Recently, the Treasury Board Secretariat identified CDIC as one of a small number of Crown corporations that have implemented all measures within its control contained in the Treasury Board's 2005 document *Review of the Governance Framework for Canada's Crown Corporations—Meeting the Expectations of Canadians*. In recent years, CDIC has also received the Auditor General of Canada's *Award for Excellence in Annual Reporting by Crown Corporations* and, in January 2007, the Government of Canada's award for Excellence in Service Improvement. Our Board works diligently to ensure that CDIC keeps abreast of emerging best practices and believes strongly in the spirit and intent of full and open accountability processes.

In that regard, CDIC held its first Annual Public Meeting this past December. That event is described more fully elsewhere in this report, along with other outreach and communications initiatives pursued by CDIC in providing opportunities for stakeholders to provide input and enhance awareness of CDIC's services. In my first two months as Chair, I personally visited a number of member institutions and stakeholder representative groups. I can report that, in all cases, the feedback I received confirmed that CDIC is a very well-functioning and approachable organization. Our Board is committed to building on this performance.

This recognition of solid performance would not have been received without the dedicated professionalism of our staff. I want to acknowledge the excellent leadership provided by our President and Chief Executive Officer, Guy Saint-Pierre, and the commitment shown by every staff member of the organization. On a personal note, I want to thank everyone in CDIC for welcoming me so warmly in my first year, and being so patient and thorough in helping me become educated on the many complex issues with which they deal, day in and day out. The Corporation is well served by this dedicated staff.

External recognition of CDIC's solid performance is also a product of the guidance and oversight provided by our Directors. The past year witnessed an unusually large turnover in our Board complement, both as a result of changes in the occupants of our *ex officio* positions as well as the retirements of a number of our private sector members. In total, we said farewell to seven of our eleven-person Board—Ian Bennett, John Doran, Gar Emerson, Bill Knight, Nick Le Pan, Darryl Raymaker and Ronald Robertson. Again, I wish to acknowledge their extraordinary contributions, and to observe that the capacity of CDIC to handle such turnover is a direct result of the quality of the governance and oversight processes they helped put in place. I wish to welcome our new private sector Board member, Shelley Tratch of Vancouver, who joined the Board in December, and to formally welcome our new *ex officio* directors who have been serving over the course of much of the past year, Jim Callon, Julie Dickson, Ted Price and Rob Wright.

Finally, I would like to acknowledge the close and collaborative working relationship CDIC enjoys with other participants in the financial services safety net, and to acknowledge that these entities, too, play a key role in contributing to CDIC's well-recognized performance. Our colleagues in the Bank of Canada, the Department of Finance, the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions work closely with our organization to assist us in fulfilling our mandate for the benefit of Canadians.



Bryan P. Davies





## MESSAGE FROM THE PRESIDENT AND CEO

**CDIC's performance remained strong over the past fiscal year. We continued our emphasis on CDIC's core mandate of being ready in the event of a member institution failure, while remaining conscious of our own costs, which were reduced again this year. Our operating expenses were entirely met by our investment income.**

During the year, we conducted a detailed review of our investment strategy and related policies in order to maintain a sound approach to the financial management of our investment portfolio. We were gratified by the work done to date with respect to the internal controls surrounding our treasury function, which were deemed fully satisfactory with no deficiencies being reported.

Our financial position is strong and we are well equipped to meet our financial obligations in the event of a member failure. CDIC had a net income for the year of \$105.3 million, resulting in year-end retained earnings of \$949.8 million. *Ex ante* funding, representing the aggregate of our retained earnings and provision for insurance losses, increased to \$1.55 billion or 34 basis points of insured deposits, well on its way towards our target range of between 40 and 50 basis points.

CDIC's results are due in part to the continuing solid performance of its member institutions in 2006. There have been no failures among CDIC member institutions for the past 11 years. Their financial indicators continue to be positive in the current year. Overall, member institutions carry healthy capital levels, and have good risk management and governance practices, offering a significant measure of comfort about their ability to withstand potential market adjustments.

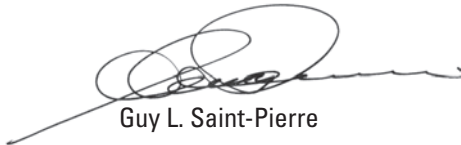
We are mindful of the need to find further ways of keeping our members' costs of deposit insurance down. This past year, in addition to lowering our own expenses, the premium rates paid by members remained at an all-time low. Further, we amended the *Deposit Insurance Information By-law* after consultations with our members in order to remove their obligation to maintain a deposit register, thus achieving the dual objective of reducing an element of regulatory burden, while permitting them greater flexibility in informing their clients about deposit insurance.

One of our primary focuses remains the emphasis we place at all times on maintaining our readiness to deal with a member institution failure. Last year, among the activities undertaken was a full payout simulation to assess how quickly depositors could gain access to their funds. We assessed our capacity to execute payouts for member institutions with a larger number of depositors and the effectiveness of various failure resolution approaches to member peer groups. More simulations are planned for this year and in the future. This proactive approach to training ensures that knowledge transfer from more experienced employees occurs, and also has the benefit of keeping our employees current and prepared to intervene and protect depositors.

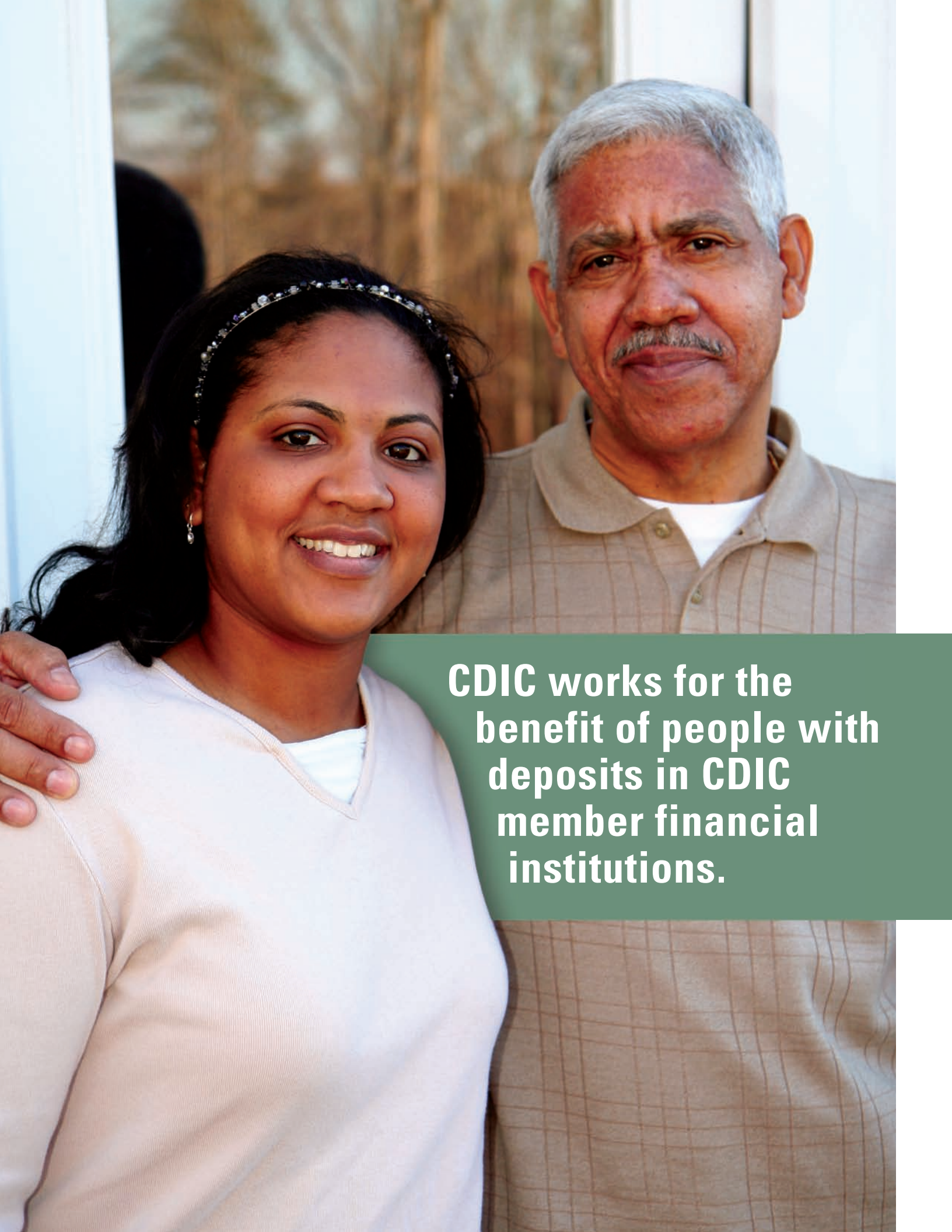
CDIC's mandate also calls for it to act for the benefit of depositors. One principal means of doing so is by keeping Canadians informed about deposit insurance. Highlights of our communications activities undertaken this past year, conducted in support of our long-term public awareness strategy, include a television advertising campaign during RRSP season and a newly designed and rewritten

website ([www.cdic.ca](http://www.cdic.ca)). Our survey results from the campaign have been positive—showing, for example, that more than four out of ten seniors now recognize the new \$100,000 deposit insurance coverage limit as the correct amount. There is still much work to be done, and this coming year our plans call for awareness activities that will build on the results achieved to date.

In closing, I want to express my appreciation to CDIC's employees, who are an extremely dedicated group of professionals and the source of much of CDIC's strength. I appreciate as well the advice and support that I continue to receive from CDIC's Board of Directors. In particular, I am grateful to our Board Chair, Bryan P. Davies, for his counsel over the past year.



Guy L. Saint-Pierre



**CDIC works for the benefit of people with deposits in CDIC member financial institutions.**



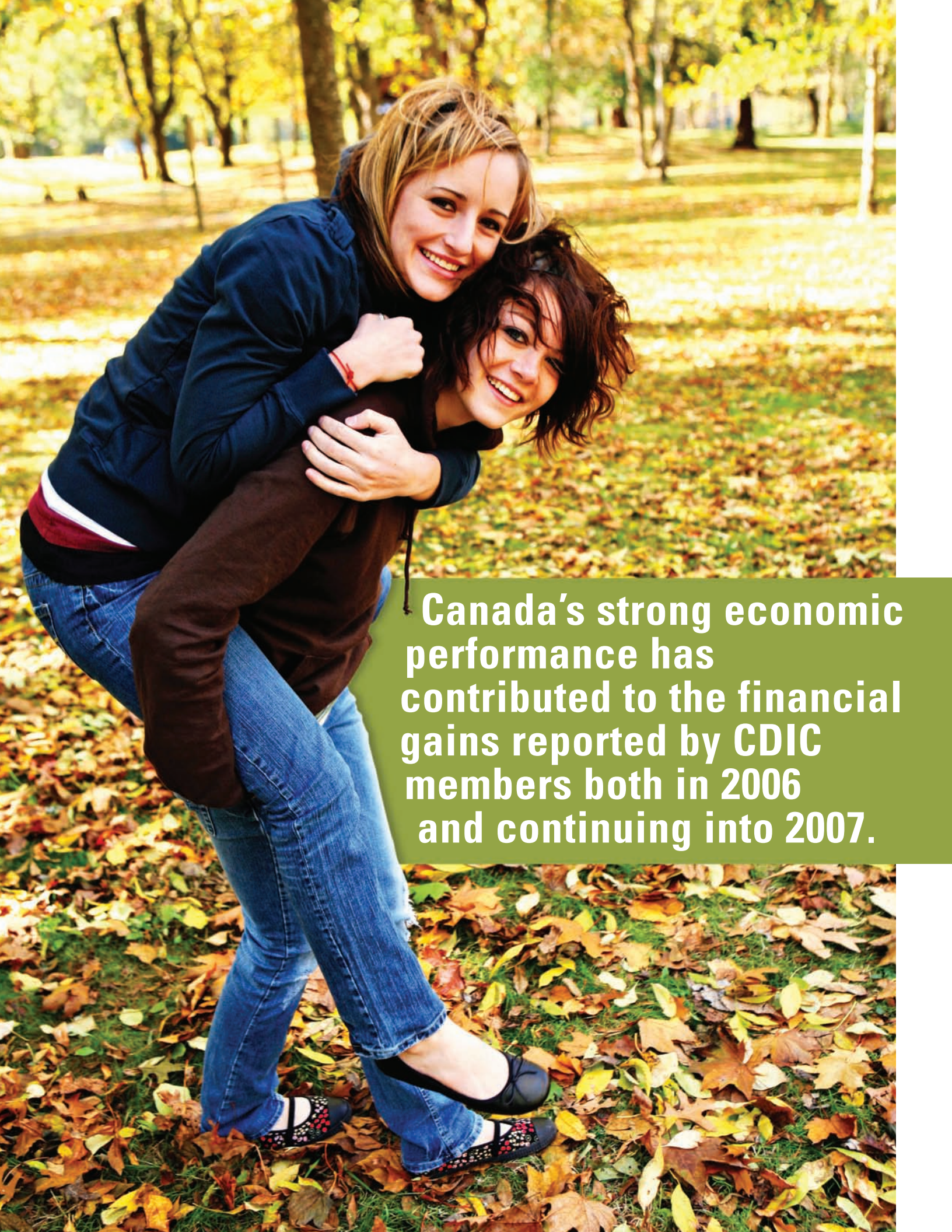
# 1 CDIC'S MANDATE

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

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

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

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



**Canada's strong economic performance has contributed to the financial gains reported by CDIC members both in 2006 and continuing into 2007.**

## 2 MANAGEMENT'S DISCUSSION AND ANALYSIS

### CDIC'S OPERATING ENVIRONMENT

CDIC fulfills its mandate within a complex and ever-changing environment. Relevant aspects of this environment are monitored on a continuous basis. These include Canada's economic circumstances, legislative and regulatory developments, and the performance of member institutions, among others.

### ECONOMIC ENVIRONMENT

Canada's economic performance remains strong. Its financial system is running smoothly and its economic outlook is bright. Risks on the horizon do exist; however, at present—and except for unforeseen circumstances—these risks appear unlikely to adversely affect CDIC's member institutions.

Throughout 2006, the Canadian economy performed well. Steady consumer spending and business investments contributed significantly to this positive outcome. Consumer prices rose modestly and fiscal balances in the public sector remained healthy. Nevertheless, economic growth slowed as a result of weaker U.S. demand for Canadian imports, the impact of a high Canadian dollar, and certain housing markets that cooled in Canada and in particular the United States.

Financial circumstances have varied in the corporate sector depending upon the industry. For example, substantial earnings in the oil and gas, mining and other natural resources industries are the result of increased international demand and high commodity prices. Non-residential construction posted strong gains in 2006 driven by government infrastructure spending and commodity investment. However, last year's appreciation of the Canadian dollar has had a detrimental effect on many manufacturers, particularly those in the wood and paper products, clothing and textile, and automotive industries.

While the consensus among forecasters is that the economy will continue to generate positive growth in 2007, there are a number of risks that could undermine this prediction. One is the possibility of a slowing of the U.S. economy. Other risks include a significant decline in the price of risky assets and a disorderly resolution of global imbalances. Vulnerable sectors of the Canadian economy are likely to be those that are export related.

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Nevertheless, Canada's financial system appears to be well placed to withstand the impact of such shocks and this country's economy remains sound. The likelihood that any of the risks cited above will have a significantly negative effect on CDIC's member institutions remains, at present, remote.

## MEMBER ENVIRONMENT

Canada's strong economic performance has contributed to the financial gains reported by CDIC members both in 2006 and continuing into 2007. Overall, the environment in which these institutions operate has been conducive to institutional growth and financial opportunity.

Member institutions remain well capitalized, possess good credit quality and continue to enjoy healthy earnings. Business lines related to the stronger sectors of the economy—such as loans to the energy sector, non-residential construction lending and consumer credit—continue to benefit from an economy performing well. Canadian mergers and acquisitions reached record levels during 2006, propelled by activity in areas such as the natural resources sector. Despite recent volatility in financial markets, equity markets continue to perform well.

The current favourable economic environment is also attracting competition from unregulated lenders. The growth of these lenders and the increased retail focus of large banks have contributed to tighter retail spreads and greater competition for CDIC member institutions. This has given rise to the increased availability of mortgage products and consumer lending including, among others, sub-prime mortgage products. The latter could be worrisome given the number of foreclosures and the slowdown witnessed in various housing markets in the United States. However, these developments should not detract from the overall positive environment in which member institutions operate and to which they contribute.

## LEGISLATIVE AND REGULATORY DEVELOPMENTS

During the spring of 2007, *Bill C-37: An Act to amend the law governing financial institutions* was passed by Parliament. This came about through the regularly scheduled review of financial sector statutes that occurs every five years. The three objectives of the Bill were to enhance the interests of consumers, to increase legislative and regulatory efficiency, and to better adapt the overall framework of Canada's financial institutions to new developments and changes.

A number of the Bill's provisions have a direct effect on CDIC. For example, the process by which newly incorporated deposit-taking institutions gain automatic entry into CDIC membership is now clarified. The framework for opting out of CDIC membership is being expanded to all types of federal member institutions. CDIC has also been given the power to streamline the calculation process for reporting the amount of insured deposits upon which member institutions make their annual premium calculations. Finally, greater flexibility has been given to CDIC to speed up payments of deposit insurance in certain situations.

## Member institutions remain well capitalized, possess good credit quality and continue to enjoy healthy earnings.

The Basel II Framework—issued by the Basel Committee on Banking Supervision to revise standards governing the capital adequacy of banks—will continue to affect CDIC member institutions. In particular, the Framework will affect the way member institutions calculate capital. It will contribute to overall improved risk management, and will also improve overall disclosure by institutions, through some increases in the amount of required information to be reported publicly and to regulators.

### CONSUMER ENVIRONMENT

Progress has been made through CDIC's efforts to inform the public about deposit insurance. Nonetheless, recent research indicates that public awareness of the benefits and limits of CDIC deposit insurance, although increasing, remains low among consumers. This is due in part to the consistently positive performance of the Canadian economy over the past decade and the absence of any member failures during the same period.

There are two leading developments taking place within the population of Canada's financial consumers. It is projected that by 2017 one in five Canadians will be a visible minority.<sup>2</sup> By 2011, those aged 65 or older will represent 15% of the total population.<sup>3</sup> With these changes come shifts in financial habits. For example, wealth transfer and management are becoming more prevalent financial strategies.

<sup>2</sup> *Annual Report on the Operation of The Canadian Multiculturalism Act, 2005–2006* (Canadian Heritage, 2007).

<sup>3</sup> *Canada Year Book 2006* (Statistics Canada).

Today's consumers also receive competing messages from an increasingly diverse range of media, resulting in financial decision making being more complex than ever before. It is important for CDIC to remain abreast of the evolving consumer environment. Financial consumers have a powerful and determining influence over financial institutions and the economy. Being aware of consumer trends provides greater awareness of what is occurring within Canada's financial system. It also affects how CDIC develops and manages its public awareness initiatives.

## MANAGING OUR RISKS

CDIC's management of its risks is governed by an Enterprise Risk Management (ERM) policy which sets out the Board's responsibilities to:

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

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

### INSURANCE RISK

Insurance risk is CDIC's most significant risk. The failure of a member institution—the worst scenario from the perspective of insurance risk can have a major impact on CDIC, given the high costs of resolving a failure and the potential need for resources to be diverted from other planned activities. CDIC considers the likelihood of a member failure in the near term to be low.

Board insurance risk policies are in place governing the management of each of the underlying insurance risks. Practices and controls are in place to ensure that these risks are managed in accordance with the Board's expectations. For example, CDIC has in place a process for regularly reviewing CDIC by-laws

directed at member institutions to ensure that each by-law remains appropriate. During the past fiscal year, the necessary amendments to CDIC's by-laws were finalized to reflect the 2005 legislative changes. A comprehensive review and amendment of the *Deposit Insurance Information By-law* has been completed.

Processes also are in place to identify member institutions that pose an unacceptable level of insurance risk. A new risk assessment framework is in place that focuses on higher risk members and better incorporates issues identified in peer group and membership assessments. A corporate-wide Operational Readiness Group is in place to coordinate CDIC's intervention preparedness activities. However, more work is required to solidify payout readiness and expand CDIC's capacity to intervene against a broader base of member institutions. Progress was made over the year in building our payout capabilities and documenting other resolution solutions, and initiatives are in place to further reduce our intervention risk.

## OPERATIONAL RISK

CDIC's operational risk potentially represents the Corporation's second most significant risk—with CDIC exposed to operational risks in every aspect of its operations. These risks are managed in accordance with a *Board Operational Risk Policy*, which aims at ensuring that CDIC has (and will continue to have) the operational resources, processes and systems in place to fulfill its mandate.

While most of its operational risks are acceptable, some work remains in the areas of people risk, legal/compliance risk, business continuity risk and technology risk.










**People risk** is CDIC's most significant operational risk. CDIC has capable and competent people in place to manage its affairs, and CDIC employees generally are of the view that CDIC is a good place to work. An effective human resources management program is in place and employees are continuing to receive intervention training through simulations. However, CDIC's approach of operating with a core level of employees, combined with employees performing multiple intervention roles, currently exposes CDIC to risk in the event of unexpected turnover in core positions—thereby resulting in a cautionary rating. Nonetheless, the risk trend remains stable reflecting CDIC's effective human resources management program and the continued intervention training provided to employees through simulations.

## Overview of CDIC's Assessment of Its Significant Risks






	2006/2007		2005/2006	
	Rating	Trend	Rating	Trend
<b>Insurance Risk:</b> CDIC's risk of loss, including costs incurred in the event of an intervention, associated with insuring deposits.				
<b>Insurance Powers Risk:</b> The risk that CDIC does not have the necessary powers to support the management of its insurance risk in accordance with CDIC's statutory objects.		—		—
<b>Assessment Risk:</b> The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.		—		—
<b>Intervention Risk:</b> The risk that CDIC cannot or does not take timely and effective action with respect to an unacceptable level of insurance risk posed by a member institution, or with respect to failed member institutions.		⬇️		⬇️
<b>CDIC's Operational Risk:</b> CDIC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.				
<b>Business Continuity Risk:</b> The risk that a disruption impacting CDIC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct its affairs.		⬇️		⬇️
<b>Information Risk:</b> The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.		—		—
<b>Legal/Compliance Risk:</b> The risk that CDIC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.		—		⬆️
<b>People Risk:</b> The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment of CDIC personnel.		—		—
<b>Process Risk:</b> The risk resulting from the incorrect execution of a breakdown in, or a gap in, a policy, practice or control respecting CDIC's processes.		—		—
<b>Security Risk:</b> The risk that CDIC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.		—		—
<b>Technology Risk:</b> The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.		⬆️		—



## Overview of CDIC's Assessment of Its Significant Risks

	2006/2007		2005/2006	
<b>CDIC's Reputation Risk:</b> The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.	Rating	Trend	Rating	Trend
<b>Reputation Risk:</b> The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.		—		
<b>CDIC's Financial Risk:</b> CDIC's risk associated with managing its assets and liabilities, including those that appear on and off the balance sheet.	Rating	Trend	Rating	Trend
<b>Liquidity Risk:</b> The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off-balance sheet) as they arise.		—		—
<b>Market Risk:</b> The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.		—		—
<b>Credit Risk:</b> The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off-balance sheet, to CDIC.		—		—

### LEGEND

Risk Rating:	 Acceptable	 Cautionary	 Serious Concern
Risk Trend:	 Decreasing	— Stable	 Increasing

A continued "cautionary" rating applies to **legal/compliance risk** due to the continued increase in statutory and compliance requirements faced by Crown corporations at a time when CDIC is implementing a formal corporate-level compliance management process.

As to CDIC's **business continuity risk**, progress is being made in developing plans to ensure the recovery of CDIC's key processes, train CDIC personnel and test their ability to implement the plans. Management is of the view that this risk will remain "cautionary" until CDIC's preparedness to fully implement its Business Continuity Plan has been tested—which is expected to be done in the 2008/2009 fiscal year.

CDIC's **technology risk**, although acceptable, has a potentially increasing trend. This reflects issues being faced primarily with CDIC's computer server room which, although not significantly affecting CDIC's operations, must receive (and are receiving) CDIC's attention given the Corporation's dependence on technology to support its operations.

## REPUTATION RISK

CDIC's reputation risk continues to represent CDIC's third most significant risk. CDIC's *Board Reputation Risk Policy* governs the management of this risk and is supported by processes considered essential to managing CDIC's reputation:

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

CDIC's reputation risk continues to warrant a "cautionary" rating; however, this risk has stabilized since the previous fiscal year. Although CDIC is well managed, has an internal process to identify and evaluate stakeholder expectation of, and perceptions about, CDIC and takes these matters into consideration in the conduct of its affairs, work remains in formalizing and testing the Corporation's ability to respond to unexpected reputation-related events, should they occur. Work is underway to address this issue.

## FINANCIAL RISK

CDIC's financial risks collectively represent CDIC's least significant risk, as these risks are governed by Board Financial Risk Policies. These policies direct the Corporation's financial assets to be managed conservatively—with financial assets invested in securities possessing characteristics of high liquidity with credit ratings that meet or exceed the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance and possessing characteristics of high liquidity.

The worst-case scenario related to this risk would be the requirement to liquidate the Corporation's entire investment portfolio to facilitate a CDIC intervention related to a failed member—with such a liquidation occurring at a point in time in which the book value of the portfolio exceeded the market value. As at March 31, 2007, the portfolio

showed an unrealized loss of approximately \$3 million (i.e., the book value exceeded market value). However, this compared favourably to the potential unrealized-loss position of \$8 million at March 31, 2006. CDIC's practice is to hold investments until maturity unless required for intervention purposes. Management currently does not foresee the need to sell the portfolio prior to its maturity.

CDIC has sufficient financial resources available to meet its day-to-day operating needs. During the past year, CDIC's level of *ex ante* funding as a percentage of insured deposits has increased to 34 basis points from 33 basis points, which is sufficient to pay the insured depositors of any but the 14 largest members. Although a member failure is not foreseen, additional funding could be available through borrowings from the Consolidated Revenue Fund or capital markets, should circumstances warrant.

## CDIC's cooperative work with stakeholders is essential to CDIC effectively filling its mandate.

Management believes that appropriate practices and controls are in place to ensure adherence to the policies and to safeguard CDIC's financial assets. In addition to having the appropriate segregation of duties, oversight of the Corporation's treasury strategy is provided by a Risk Management Unit and an Asset/Liability Committee (which reflects a cross-section of CDIC's operations). Treasury positions are also reported regularly to the Board. No exceptions to policies were noted in the past year and CDIC did not experience any financial risk events.

In March 2007, CDIC's Board of Directors amended the *Board Credit Risk Policy* and the *Board Liquidity Risk Policy* to implement changes in CDIC's investment portfolio. Consistent with the portfolio objectives of low risk and high liquidity, the then existing corporate securities allocation was replaced with provincial securities as such securities carry very little risk and generate some incremental return over Government of Canada securities.

Overall, CDIC's exposure to its significant risks is acceptable. Initiatives are in place to address risks assessed as cautionary and to ensure that risks considered acceptable remain so.

## ERM REPRESENTATION

As noted in CDIC's previous Annual Report, CDIC's management committed (beginning with the 2006/2007 fiscal year end) to provide the Audit Committee and the Board of Directors with an annual ERM representation. The objective of the representation is to support the Board in fulfilling its responsibilities under the Board Charter and to enable the Audit Committee and the Board to be in a position to consider CDIC's risks, including any risk management issues, prior to approving CDIC's annual financial statements and considering CDIC's Annual Report. In this regard, it is intended to provide reasonable rather than absolute assurance.




Management is of the view that providing such representation is a proactive and prudent step in assuring the Audit Committee and the Board of Directors of the soundness of the risk management process at CDIC. It also demonstrates confidence that management has undertaken a thorough assessment of the risk environment in which it operates and is seriously addressing the important risks that face CDIC.

CDIC's representation letter for the 2006/2007 fiscal year is presented on page 45 at the end of the MD&A section.

## PERFORMANCE AGAINST PLAN

### FOUR CORPORATE STRATEGIES

CDIC's *Summary of the Corporate Plan 2006/2007 to 2010/2011* identified four corporate strategies to support CDIC's objects (see box) and guide its work for the planning period:

-  **STRENGTHENING CORE EXPERTISE AND READINESS**
-  **PROMOTING DEPOSITOR AWARENESS**
-  **SOLIDIFYING STAKEHOLDER RELATIONSHIPS**
-  **PURSUING SOUND GOVERNANCE**

An overview of CDIC's performance in the past year in carrying out these strategies is provided in the Corporate Scorecard (found at the end of this section) and is discussed in the following pages.

## CDIC'S OBJECTS

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

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

## STRENGTHENING CORE EXPERTISE AND READINESS

For CDIC, readiness means more than being prepared to intervene in the case of a member institution failure. In the first instance, it means having a sound corporate and technological infrastructure in place and an effective framework for identifying risk. It means having employees with the requisite skills and expertise to deal with the complex issues that arise in a failure situation. It encompasses a broad range of activities beginning with monitoring and early identification of institution problems, updating intervention tools, and building expertise in a variety of failure-resolution scenarios and payout methods.

During 2006/2007, technical amendments were completed to the *Differential Premiums By-law*. The *Application By-law* and *Application Fee By-law* were amended to reflect the discontinuation of the application process for new federal members. As well, risk assessments on individual member institutions were conducted, with a focus on those members that pose the most risk to CDIC.

## For CDIC, readiness means more than being prepared to intervene in the case of a member institution failure.

Throughout the past year, a number of enhancements were made to CDIC's payout system to increase its capacity and improve its overall functionality. The capacity to execute payment to a large number of depositors and the effectiveness of varied failure resolution approaches by member peer groups<sup>4</sup> were also assessed. A full payout simulation was conducted in 2006 to gauge how quickly depositors would gain access to their funds. The communications processes in a payout were also the subject of a limited scope simulation. More simulations are planned for the future.

This approach of hands-on simulation in conjunction with ongoing training programs is paramount to ensuring that employees remain current with emerging intervention tools and approaches.

CDIC also expanded its inventory of non-payout resolution methods based on past failure lessons learned. As well, a variety of new potential non-payout resolution methods were examined.

<sup>4</sup> Each CDIC member institution or affiliated group is assigned to a peer group based on its size, geographic scope of operations, primary business activities or area of highest risk in order to facilitate analysis. Alignment of members into similar peer groups also facilitates intervention planning.

## PROMOTING DEPOSITOR AWARENESS

Contributing to the stability of Canada's financial system is one of the main objectives of CDIC's mandate. One of the principal means of achieving this objective is to increase public awareness of the benefits and limits of deposit insurance.

Public awareness of CDIC and deposit insurance has increased in recent years. This is the result of previous efforts made by CDIC to inform the public about deposit insurance. Nevertheless, research indicates that an incorrect belief persists in the public that certain financial products, such as mutual funds and foreign currency accounts, are insured.

**Today's consumers also receive competing messages from an increasingly diverse range of media, resulting in financial decision making being more complex than ever before.**

During the year, CDIC continued to implement its current three-year Communications Plan, and it will carry on this work into 2007/2008. Among the Plan's objectives are making depositors more aware of products not covered by deposit insurance, as well as informing them more generally of the 2005 increase of deposit insurance from the previous \$60,000 limit to the current \$100,000 limit.

CDIC's communications activities consist mainly of television ads—during RRSP season—as well print and Internet ads. A 1-800 call line is also provided to answer questions that the public may have. In 2006/2007, CDIC redesigned and rewrote its website to ensure that those following up on CDIC's advertisements would find the information they were looking for quickly. Another reason was to provide the public with a plain language rendition of deposit insurance with a minimum of complex terminology.

## SOLIDIFYING STAKEHOLDER RELATIONSHIPS

CDIC does not operate in isolation. Its stakeholders encompass a variety of interested parties that include the depositing public, parliamentarians, CDIC member institutions, Canadian regulators and supervisors, various professional associations, and other deposit insurers in Canada and abroad. Cooperative relations with these stakeholders are essential to CDIC in effectively fulfilling its mandate.

In support of solidifying stakeholder relationships, CDIC held its first Annual Public Meeting in Toronto in December 2006 to provide stakeholders and the general public with the opportunity to hear more about the internal workings of the Corporation and its plans for the future. CDIC's annual public meetings will be held in other locations in upcoming years.

CDIC regularly consults with member institutions, as well as with other organizations making up Canada's financial safety net, in order to strengthen these relationships and to exchange information of common interest. An example of close ties among safety net organizations is the provision of call centre services by CDIC on a cost-recovery basis for the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Consumer Agency of Canada (FCAC).

Over the past year, CDIC employees have participated in a number of international meetings as speakers and discussion leaders. CDIC has also provided direct assistance to countries wishing to establish or enhance their deposit insurance systems. This activity included work with the People's Republic of China and the Malaysia Deposit Insurance Corporation, and receiving study groups from Colombia, Korea, the Dominican Republic and Tanzania.

As noted earlier in this report, in recognition of its contribution to international deposit insurance, CDIC was awarded the *Deposit Insurance Organization of the Year* award for 2006 by the International Association of Deposit Insurers.

## PURSUING SOUND GOVERNANCE

A fundamental element of Canada's financial system is sound governance. As a member of Canada's financial safety net concerned with the quality of financial and corporate management within member institutions, CDIC requires of itself to either meet or exceed best practices in governance and public accountability.<sup>5</sup>

In 2006, CDIC commenced an internal control certification initiative with a pilot project involving the Corporation's treasury process. Although the need for two minor improvements was identified and changes were made, the overall conclusion of the exercise was that CDIC's treasury controls are effective and functioning as intended. The next areas for assessment will be CDIC's internal controls around premium administration, payout realization (including the claims receivable process), financial reporting, and information systems security and change management practices.

<sup>5</sup> Further information on CDIC's governance can be found in Section 4 of this report and by consulting CDIC's website ([www.cdic.ca](http://www.cdic.ca)).

In the spring of 2007, CDIC's internal audit function issued for the first time a *Report on Overall Controls* based on its 2006/2007 review of the Corporation's internal controls. This was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The results of this initiative provide further support that the Corporation's internal controls and systems are appropriate to achieve effective and efficient operations, reliable financial reporting, compliance with applicable laws and regulations, and proper safeguarding of assets.

CDIC continued with its ERM efforts in 2006/2007, which are described more fully in *Managing Our Risks* (page 18).

CDIC also expanded its efforts under its Business Continuity Management Program during 2006/2007. This program will permit CDIC to maintain critical services at an alternate location in case of an emergency. Also during the year, a Pandemic Preparedness Plan was drafted and a series of tests involving the back-up site and employees working from home were conducted. The facility itself was upgraded and information and facilities sharing with other organizations tested from the site.

During the past year, there has been continued implementation of action items identified in the Human Resources Strategy and Plan of 2005. For example, a Training and Development Framework has been developed which specifies the type of training that each employee in the Corporation should receive.

Remaining current with best practices and the latest developments in technology and information management are essential to fulfilling CDIC's mandate. CDIC was very active in this area in 2006/2007, undertaking hardware and software upgrades and key initiatives as set out in its Information Systems (IS) Strategic Plan. A mass classification of historical paper records was completed, paper records were converted into electronic format, and a new records management system was implemented.



## CDIC CORPORATE SCORECARD—RESULTS AGAINST KEY INDICATORS, AS AT MARCH 31, 2007

CDIC's Corporate Scorecard, presented on the following pages, indicates that progress against the majority of key performance indicators proceeded as planned for the year ended March 31, 2007. Only four of CDIC's nineteen key performance indicators were not achieved. They are as follows:

- Integration of the payout system with the intervention website<sup>6</sup> has been delayed while secure access options are fully assessed.
- Work has been deferred on upgrading the computer application supporting CDIC's risk analysis until compatibility differences with existing applications are resolved.
- Work pertaining to internal control certification is proceeding at a measured pace until further guidance is received from the Treasury Board Secretariat.
- Some initiatives specified in the IS Strategic Plan have been delayed.

<sup>6</sup> An intervention website is in development with the objective of providing vital information to depositors and other concerned parties in the event of a member institution failure. The site will remain offline until such time as a failure occurs, at which point it would be activated and populated with information specific to the failed member.








## CORPORATE SCORECARD RESULTS—2006/2007

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

Corporate Strategy	Current/Ongoing Activities (in support of Corporate Strategies)
<p><b>Strengthening Core Expertise and Readiness</b>—<i>being alert to events affecting the Corporation and its members and having the ability to anticipate and react to events and manage risk. This will be achieved through solidifying CDIC's expertise in its core operations of risk monitoring, intervention and payout.</i></p>	<ul style="list-style-type: none"> <li>• Risk assessment of members and membership</li> <li>• Ongoing research of issues and trends affecting member institutions and CDIC activities</li> <li>• Close monitoring of higher risk members</li> <li>• Contingency Planning for intervention                             <ul style="list-style-type: none"> <li>◦ Ongoing simulations of payout process/related training and mini-simulations of pre-failure intervention activities</li> <li>◦ Research on alternative failure resolutions</li> <li>◦ Documentation</li> <li>◦ E-training</li> <li>◦ Maintaining key supplier relationships</li> </ul> </li> <li>• Maintaining funding plans</li> <li>• Administering the differential premiums system</li> </ul>
<p><b>Promoting Depositor Awareness</b>—<i>increasing depositor awareness by explaining the benefits and limitations of deposit insurance through a targeted, long-term approach to public awareness. CDIC can make use of the need to inform depositors about the increase in the deposit insurance coverage limit to \$100,000, to inform them more generally about the federal deposit insurance program.</i></p>	<ul style="list-style-type: none"> <li>• Public awareness activities continuing focus on new \$100,000 deposit insurance coverage limit:                             <ul style="list-style-type: none"> <li>◦ Advertising in selected newspapers, magazines and publications, as well as public relations</li> <li>◦ 1-800 lines</li> <li>◦ CDIC website</li> <li>◦ Updating and disseminating CDIC information through other stakeholders</li> <li>◦ Annual public awareness surveys</li> </ul> </li> <li>• Distribution of information to associations of deposit brokers, financial advisors, consumer groups and community leaders to inform their membership about deposit insurance, to assist them in responding to inquiries on deposit insurance</li> <li>• Target audience advertising in newspapers, other print media, web advertising (seniors, Canadian adults without completed high school education, ethnocultural communities)</li> <li>• Presentations for target groups at trade shows and other appropriate venues</li> </ul>

### STATUS

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

Planned Key Initiatives 2006/2007 to 2010/2011 (in support of Corporate Strategies)	Key Performance Indicators (Measure/Target)
<ul style="list-style-type: none"> <li>Ongoing enhancements to intervention tools: ROADMAP II (payout application); updating special examination methodology and preparatory examination processes and documentation</li> </ul>	<ul style="list-style-type: none"> <li>ROADMAP II data load enhancement and integration with intervention website completed by Y/E March 2007 </li> <li>Documentation of special examination processes validated by Y/E March 2007 </li> </ul>
<ul style="list-style-type: none"> <li>Upgrade e-filing systems</li> </ul>	<ul style="list-style-type: none"> <li>Upgraded premium e-filing systems in place for 2007 premium year </li> </ul>
<ul style="list-style-type: none"> <li>Upgrade enterprise business intelligence application supporting CDIC's risk analysis and monitoring of its member institutions</li> </ul>	<ul style="list-style-type: none"> <li>Upgraded application in place and tested by Y/E March 2007 </li> </ul>
<ul style="list-style-type: none"> <li>Prepare and document CDIC readiness to intervene by peer group of member institutions</li> </ul>	<ul style="list-style-type: none"> <li>Readiness by peer group documented by Y/E March 2008 </li> </ul>
<ul style="list-style-type: none"> <li>Implement years two and three of the current three-year communications and public awareness strategy and plan</li> </ul>	<ul style="list-style-type: none"> <li>Years two and three of current strategy successfully implemented by Y/E March 2007 and Y/E March 2008, respectively </li> </ul>
<ul style="list-style-type: none"> <li>Develop financial awareness tools</li> </ul>	<ul style="list-style-type: none"> <li>Tools available on CDIC website and through other channels commencing in 2006 and fully in place by Y/E March 2007 </li> </ul>


## CORPORATE SCORECARD RESULTS—2006/2007

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

Corporate Strategy	Current/Ongoing Activities (in support of Corporate Strategies)
<p><b>Solidifying Stakeholder Relationships</b>—<i>actively working with all stakeholders to better achieve the Corporation's mandate. CDIC defines its stakeholders as member institutions, the depositing public, employees, parliamentarians, regulators, supervisors, and other deposit insurers in Canada and around the world.</i></p>	<ul style="list-style-type: none"> <li>• Work with CDIC members to identify opportunities to reduce regulatory burden and maximize the benefits of deposit insurance for member institutions</li> <li>• Maintain existing relationships (OSFI, Bank of Canada, FCAC, Autorité des marchés financiers, Communications Canada)</li> <li>• Improve communications tools with OSFI and other strategic partners and increase efficiency of information flow</li> <li>• Complying with the <i>CDIC/OSFI Strategic Alliance Agreement</i></li> <li>• Continue to work closely with OSFI on risk assessment issues (problem members, sharing of information)</li> <li>• Administration of the <i>Deposit Insurance Information By-law</i></li> <li>• Participation in joint external committees (Senior Advisory Committee (SAC), sub-SAC, Financial Institutions Supervisory Committee (FISC), sub-FISC)</li> <li>• International participation (e.g., International Association of Deposit Insurers and various other international organizations)</li> <li>• Continue call-centre facility sharing arrangements with OSFI and FCAC</li> <li>• Continue participation in the Canadian Financial Services Insolvency Protection Forum</li> <li>• Continue to examine outsourcing and co-sourcing opportunities and to strengthen partnership relationships with key external resources</li> <li>• Annual reporting of CDIC plans and progress to parliamentarians and all interested stakeholders</li> </ul>
<p><b>Pursuing Sound Governance</b>—<i>in order for CDIC to continue to earn public trust, its operations must be supported by comprehensive policies, such that the Corporation can demonstrate that it is well managed, has taken account of its significant risks, can fulfill its mandate in an effective and efficient manner, and is demonstrating leadership in governance.</i></p>	<ul style="list-style-type: none"> <li>• Board of Directors and Standing Committee meetings</li> <li>• Strategic Management</li> <li>• Enterprise Risk Management (ERM)</li> <li>• Corporate Project Management</li> <li>• Internal Audit</li> <li>• Regular review of CDIC by-laws</li> <li>• Examining opportunities for increasing CDIC's efficiency and effectiveness</li> <li>• Ensuring compliance with best practices for boards and committees</li> <li>• Continue to enhance corporate governance practices through benchmarking and self-assessments</li> <li>• Enhance information technology (IT) management practices by identifying IT best-practice benchmarks against which IT activities can be assessed</li> <li>• Implementation of enterprise information portal system throughout CDIC</li> <li>• Transition from existing records management application to an upgraded system that can manage all formats of information and fully integrate into the enterprise information portal</li> <li>• Business Continuity Management</li> </ul>

**STATUS**

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

Planned Key Initiatives 2006/2007 to 2010/2011 (in support of Corporate Strategies)	Key Performance Indicators (Measure/Target)
<ul style="list-style-type: none"> <li>Participate in final stages of Financial Information Committee (FIC) data rationalization project</li> </ul>	<ul style="list-style-type: none"> <li>CDIC requirements re: data collection and sharing reflected in final FIC filing requirements by Y/E March 2008 </li> </ul>
<ul style="list-style-type: none"> <li>Hold annual public meetings for all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Begin holding CDIC annual public meetings in fiscal year 2006/2007 </li> </ul>
<ul style="list-style-type: none"> <li>Revisions to the <i>Deposit Insurance Information By-law</i></li> </ul>	<ul style="list-style-type: none"> <li>Revisions to the <i>Deposit Insurance Information By-law</i> completed by March 2007 </li> </ul>
<ul style="list-style-type: none"> <li>Work with the Department of Finance and other Ottawa agencies to implement necessary changes to the <i>CDIC Act</i></li> </ul>	<ul style="list-style-type: none"> <li>Amendments to the CDIC Act arising from the 2006 review reflected in CDIC plans and operations </li> </ul>
<ul style="list-style-type: none"> <li>Develop a CDIC <i>Corporate Communications Policy</i></li> </ul>	<ul style="list-style-type: none"> <li><i>Corporate Communications Policy</i> approved by CDIC's Board of Directors by Y/E March 2007 </li> </ul>
<ul style="list-style-type: none"> <li>Implement Treasury Board Secretariat (TBS) governance measures for Crown corporations as applicable, including assessing the implications of Treasury Board "certification" initiatives—annual internal controls attestations/certifications</li> </ul>	<ul style="list-style-type: none"> <li>Timely implementation of 31 TBS governance measures for Crown corporations—as applicable to CDIC </li> <li>Annual internal controls attestation/certification in place by Y/E March 2008 </li> </ul>
<ul style="list-style-type: none"> <li>Implement revised Human Resources (HR) Strategy and Plan</li> </ul>	<ul style="list-style-type: none"> <li>Initiatives specified in the HR Strategy and Plan successfully implemented in accordance with timelines set out in that Plan </li> </ul>
<ul style="list-style-type: none"> <li>Annual ERM representation supported by a corporate-wide self-assessment and risk management program</li> </ul>	<ul style="list-style-type: none"> <li>Annual ERM representation in place by Y/E March 2007 </li> </ul>
<ul style="list-style-type: none"> <li>Implementation of the initiatives included in the Information Systems (IS) Business Plan supporting the IS Strategic Plan</li> </ul>	<ul style="list-style-type: none"> <li>Initiatives specified in the IS Strategic Plan successfully implemented in accordance with timelines set out in that Plan </li> </ul>
<ul style="list-style-type: none"> <li>Implement a corporate-wide process to identify and assess CDIC's compliance with applicable statutes, regulations, guidelines and other requirements to which CDIC is subject</li> </ul>	<ul style="list-style-type: none"> <li>Corporate-wide compliance process in place by Y/E March 2008 </li> </ul>
<ul style="list-style-type: none"> <li>Business Continuity Management activities—conduct testing and implement necessary enhancements to CDIC's systems at the recovery site</li> </ul>	<ul style="list-style-type: none"> <li>Initial testing of business continuity plans and appropriate enhancements in place by Y/E March 2007 </li> </ul>

## FINANCIAL OVERVIEW

### ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS

Effective April 1, 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) issued by the Canadian Institute of Chartered Accountants. The Guideline requires the consolidation of variable interest entities (VIEs) that are subject to control on a basis other than through ownership of a majority of voting interest. As a result, CDIC's consolidated financial statements include both the Corporation's results and those of Adelaide Capital Corporation (ACC), a VIE for which CDIC is considered the primary beneficiary.

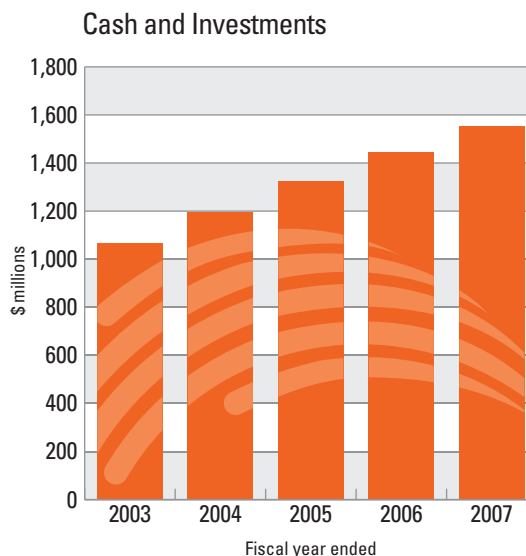
The impact of the consolidation of ACC on CDIC's financial statements is an increase in assets of \$1.5 million (2006: \$3.0 million) and an increase in liabilities of \$24 thousand (2006: \$1.8 million), as well as an increase in total revenue of \$569 thousand (2006: \$800 thousand), and an increase in total expenses of \$283 thousand (2006: \$3.7 million). As a result, the impact on the Corporation's retained earnings is \$1.5 million (2006: \$1.2 million).

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

## CONSOLIDATED BALANCE SHEET HIGHLIGHTS

### *Cash and Investments*

As at March 31, 2007, the combined balance of CDIC's cash and investments was \$1.554 billion, made up of cash and short-term investments of \$214 million and investments of \$1.340 billion. The combined cash and investments balance increased by \$107 million from March 31, 2006, when the combined balance of cash and investments was \$1.447 billion, consisting of cash and short-term investments of \$131 million and investments of \$1.316 billion. The weighted average yield as at March 31, 2007, was 4.01% compared to 3.43% as at March 31, 2006. The sources and uses of cash are described fully in the Statement of Cash Flows.



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

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

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

During the year, CDIC conducted a review of its Board Financial Risk Policies. Revisions were made to these policies to limit the Corporation's investments to Government of Canada or provincially guaranteed securities. Counterparties for investments of less than three years must have a minimum credit rating of A. The Corporation's investments of more than three years consist solely of Government of Canada securities.

### *Net Claims Receivable and Future Recoveries*

Claims receivable decreased by \$4.4 million to \$1.0 million. During the year, CDIC received \$5 million in recoveries on its claims receivable and reversed its \$600 thousand allowance on claims receivable.

The liquidators of failed member institutions currently have approximately \$18 million of remaining assets. In addition to its net claims receivable, CDIC projects possible further recoveries from these estates of approximately \$16 million. This would result in total future recoveries of approximately \$17 million. These potential additional recoveries relate primarily to recoveries of amounts that were previously written off by CDIC and are not reflected on CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. There is considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to this uncertainty include creditor disputes, lawsuits against the estates 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, 2007	CDIC's Projected Future Recoveries	CDIC's Projected Loss/(Gain) as a % of:	
				Claims and Loans— Nominal Basis	Claims and Loans—NPV <sup>a</sup> Basis
	(\$ millions)	(\$ millions)	(\$ millions)		
Standard Trust Co. (Formal Liquidation—1991)	1,164	967	14	16%	33%
Adelaide Capital Corp. (Loan and Management Agreement—1992)	1,588	1,484	2	6%	15%
Security Home Mortgage Corp. (Formal Liquidation—1996)	42	43	1	(5%)	18%

<sup>a</sup> All cash flows are discounted on an annual basis to the year of failure to arrive at the net present value.



### *Income Taxes*

CDIC is subject to federal income tax. The Corporation's primary source of taxable income is its interest on cash and investments. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act*, the Corporation's premium revenue is not taxable. As at March 31, 2007, CDIC's income tax expense was \$10.8 million and its income taxes payable (after taking into account instalments made during the year) were \$7.1 million.

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

The future benefits of income tax assets are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such benefits will be realized. In accordance with Canadian Institute of Chartered Accountants recommendations, the related asset is revalued each year. As at March 31, 2007, the future income tax asset was \$1.7 million, representing a decrease of \$525 thousand from March 31, 2006.

### *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, 2007, the provision was \$600 million, unchanged from March 31, 2006.

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

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

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

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

In 2006/2007, there was an overall decrease in the default statistics utilized for estimating the provision for insurance losses. However, such reductions were offset by the growth in the level of deposits insured by CDIC.

### *Ex Ante Funding*

CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was further determined that this amount of *ex ante* funding would be represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits—which translates into a range of approximately \$1.8 to \$2.3 billion based on insured deposits as at April 30, 2006. The reported amount as at March 31, 2007 was \$1.55 billion, representing 34 basis points of insured deposits.

Under current forecasts, as set out in CDIC's *Corporate Plan 2007/2008 to 2011/2012*, the bottom of the range will be achieved in CDIC's 2012/2013 fiscal year.

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS—HIGHLIGHTS

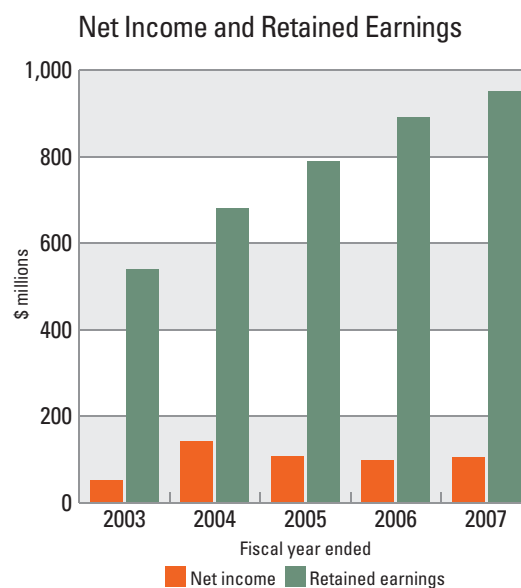
CDIC ended 2006/2007 with **retained earnings** of \$949.8 million. For the year ended March 31, 2007, CDIC's **revenues** totalled \$131.7 million, offset by operating expenses of \$22.1 million and other adjustments of \$4.3 million, resulting in a **net income** for the year of \$105.3 million.

**Premiums** for the fiscal year were \$74.8 million, compared to \$64.6 million for 2005/2006.

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

Classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2006 premium year, unchanged from 2005, were as follows:

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



2

The table below illustrates the distribution of members among premium categories in the 2006 premium year as well as the preceding four premium years.

### Percentage Distribution of Member Institutions by Premium Category and Premium Year, 2002 to 2006

Premium Category	Premium Year				
	2002 (%)	2003 (%)	2004 (%)	2005 (%)	2006 (%)
1	78	63	78	81	84
2	14	33	18	18	14
3	7	3	3	0	2
4	1	1	1	1	0

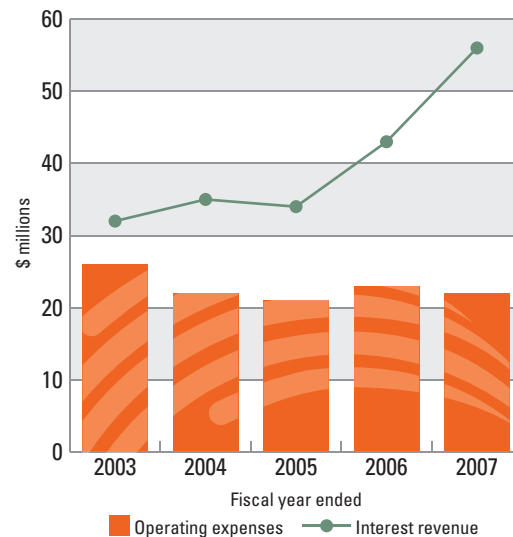
CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations.

**Interest revenue from cash and investments** was \$55.9 million in 2006/2007, an increase of \$12.8 million from the previous fiscal year due primarily to higher cash balances and higher average yields earned during the year.

**Operating expenses** for the year ended March 31, 2007, totalled \$22.1 million (\$22.9 million in 2005/2006). The decrease in operating expenses is attributed primarily to lower salaries and other personnel costs and lower professional and other fees combined with higher expense recoveries than in 2005/2006.

CDIC's operating expenses are net of cost recoveries received from other organizations. CDIC provides call centre services to FCAC and OSFI on a cost-recovery basis. L'Autorité des marchés financiers in Québec contributes to CDIC's public awareness campaign. The total recoveries recorded in 2006/2007 were \$878 thousand (2005/2006: \$618 thousand).

Interest Revenue vs. Operating Expenses



## COMPARISON WITH 2006/2007 CORPORATE PLAN

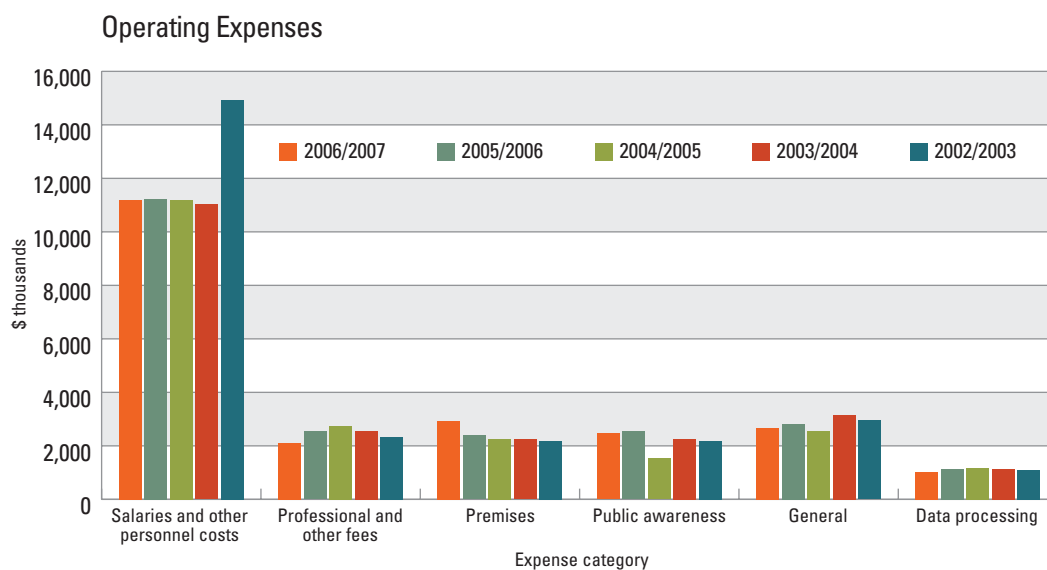
### Balance Sheet

**Total assets** as at March 31, 2007, were \$1.560 billion, compared to the planned amount of \$1.563 billion. The negative variance of \$3 million was primarily the result of lower-than-planned cash and investments.

### Statement of Income and Retained Earnings

**Total revenue** during the year was \$132 million, or \$12 million higher than budgeted. The variance was the result of higher-than-planned premium revenue combined with higher-than-planned interest revenue on cash and investments and other revenue.

**Net income** for the year ended March 31, 2007, was \$3 million higher than planned. The primary cause for this positive variance is the higher-than-planned total revenue combined with lower-than-planned operating expenses offset by the 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 \$23 million. This positive variance is the result of lower-than-planned spending in areas such as professional fees, general expenses and data processing.

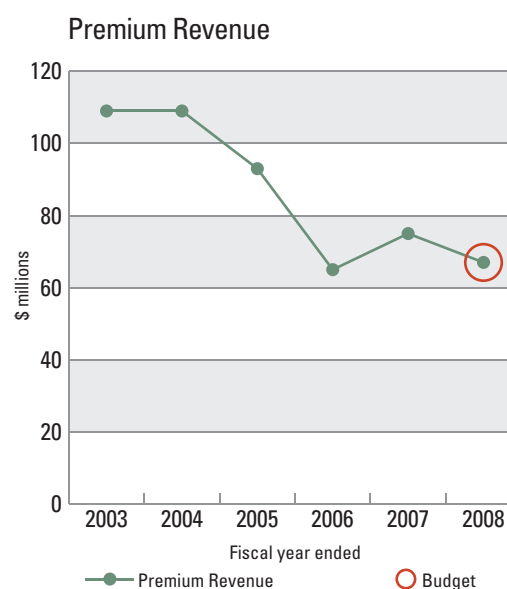
The year-end **retained earnings** of \$950 million were \$55 million higher-than-planned. This variance reflects a higher-than-planned opening balance in this account. The opening retained earnings were \$52 million higher than planned due to a lower-than-planned adjustment to the provision for insurance losses in 2005/2006. It was anticipated at the time the Plan was developed that CDIC's provision for insurance losses would be \$650 million. The actual provision was \$600 million, thus creating a positive variance in retained earnings.

### 2007/2008 to 2011/2012 Corporate Plan

Given CDIC's strong financial position and the relatively stable state of overall membership risk, premium rates are planned to remain at their current levels. This is expected to result in \$67 million in premium revenue for the 2007/2008 fiscal year. Combined with a planned \$63 million in interest on cash and investments and other revenue, CDIC's total revenues are expected to be \$130 million. Operating expenses, net of recoveries of amounts previously written-off, are planned to be \$10 million, resulting in a projected net income before income taxes of \$120 million.

As at March 31, 2008, cash and investments, and retained earnings are projected to be \$1.666 billion and \$1.053 billion, respectively. Also as at March 31, 2008, CDIC's level of *ex ante* funding is projected to be \$1.653 billion, representing 35 basis points of insured deposits as at March 31, 2008. Under current assumptions, CDIC expects that the bottom of the target range (i.e., 40 basis points of total insured deposits) will be reached in its 2012/2013 fiscal year.

Over CDIC's current five-year planning period, premium revenue is expected to total \$359 million and interest income on cash and investments is forecast to total \$359 million. Over this same period, CDIC expects to incur total operating expenses of \$123 million.



At the end of the planning period (March 31, 2012), cash and investments are projected to be \$2.097 billion and CDIC's retained earnings are expected to grow to \$1.477 billion.

The projections included in CDIC's *Corporate Plan 2007/2008 to 2011/2012* are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan.

Key financial assumptions include the following:

- Premium revenue is projected assuming that premium rates remain unchanged from their current levels through the Corporation's 2011/2012 fiscal year. For planning purposes, the distribution of member institutions across premium categories has been forecast to reflect our estimate of the categorization of member institutions for the 2007 premium year (CDIC's 2007/2008 fiscal year). The annual growth in insured deposits is forecast to be 3%. Premium rates are fixed annually and take into consideration CDIC's financial condition, the economic and financial environment, the risk profile of CDIC's membership, and the actual and projected level of *ex ante* funding relative to the target range.
- Interest revenue on cash and investments is based on an assumed average yield of 4%.
- It is assumed that there are no member institution failures during the planning period, and that CDIC's provision for insurance losses remains unchanged at \$600 million.

### *Future Accounting Changes*

As described in Note 2 to CDIC's Financial Statements, the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) became effective for the Corporation on April 1, 2007: Section 3855, *Financial Instruments—Recognition and Measurement*; Section 3861, *Financial Instruments—Presentation and Disclosure*; and Section 1530, *Comprehensive Income*.

Furthermore, on December 1, 2006, the CICA issued new standards: Section 3862, *Financial Instruments—Disclosures*, and Section 3863, *Financial Instruments—Presentation*. These standards become effective on April 1, 2008. Their impact is being assessed. Section 3861 will be followed for the Corporation's 2007/2008 fiscal year until the new standards are adopted.

CDIC is in the process of determining the impact these standards will have on its financial reporting.

	<b>\$ Millions</b>		
	<b>2007/2008 Corporate Plan</b>	<b>2006/2007 Actual Results<sup>a</sup></b>	<b>2006/2007 Corporate Plan<sup>a</sup></b>
<b>Consolidated Balance Sheet (as at March 31)</b>			
<b>Assets</b>			
Cash and investments	1,666	1,554	1,558
Accounts receivable	1	2	1
	1,667	1,556	1,559
Capital assets	2	2	2
Claims receivable	–	1	–
	1,669	1,559	1,561
Future income tax asset	1	1	2
<b>Total assets</b>	<b>1,670</b>	<b>1,560</b>	<b>1,563</b>
<b>Liabilities</b>			
Accounts payable	5	3	8
Income taxes payable	12	7	10
Provision for insurance losses	600	600	650
	617	610	668
Retained earnings	1,053	950	895
<b>Total liabilities and retained earnings</b>	<b>1,670</b>	<b>1,560</b>	<b>1,563</b>
<b>Consolidated Statement of Income and Retained Earnings (for the year ended March 31)</b>			
<b>Revenue</b>			
Premiums	67	75	67
Interest on cash and investments	63	56	53
Other revenue	–	1	–
	130	132	120
<b>Expenses</b>			
Net operating expenses	23	22	23
Adjustment to allowance and provision for loss	–	(1)	–
Recovery of amounts previously written-off	(13)	(6)	(16)
	10	15	7
Net income before reduction in future income tax asset/income tax expense	120	117	113
Reduction in future income tax asset/income tax expense	13	11	10
<b>Net income</b>	<b>107</b>	<b>106</b>	<b>103</b>
Retained earnings, beginning of year	946	844	792
<b>Retained earnings, end of year</b>	<b>1,053</b>	<b>950</b>	<b>895</b>

<sup>a</sup> As noted earlier, effective April 1, 2005, the Corporation adopted Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) issued by the Canadian Institute of Chartered Accountants. AcG-15 required that Adelaide Capital Corporation (a variable interest entity) be consolidated with CDIC. The actual results as well as the 2007/2008 Corporate Plan figures presented above reflect the Corporation's change in accounting policy. For comparability, the 2006/2007 Corporate Plan figures above have been restated to also reflect this change.



## MANAGEMENT ERM REPRESENTATION TO THE CDIC BOARD OF DIRECTORS

June 6, 2007

This representation is provided to support the Board of Directors in fulfilling its responsibilities under Principle 16 of the Board Charter.

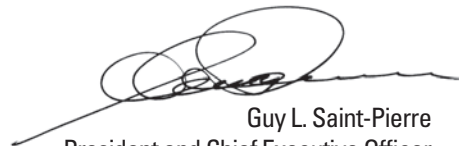
During CDIC's fiscal year 2006/2007, Management has, using an enterprise risk management process:

- identified and assessed the significant risks to which CDIC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports designed to enable them to understand these risks;
- reviewed CDIC's policies governing each significant risk to ensure that they continue to be appropriate and prudent and, where required, recommended new policies or amendments to existing policies for the consideration of the Audit Committee and approval of the Board of Directors; and
- identified initiatives to enhance the management of each significant risk and monitored the progress in completing each initiative.


Based on the work undertaken by Management during CDIC's 2006/2007 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2007, we represent that:

- CDIC has appropriate and prudent risk management policies governing the management of its risks, and these policies are being adhered to. The Board of Directors approved, in conjunction with its amendment of the Board Credit Risk Policy on March 7, 2007, a transition plan to permit CDIC to hold pre-existing positions in corporate paper until maturity, the last of which matured on April 19, 2007; and
- CDIC has an effective enterprise risk management process.

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



Guy L. Saint-Pierre  
President and Chief Executive Officer



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



**CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations.**

## 3 FINANCIAL STATEMENTS

### MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

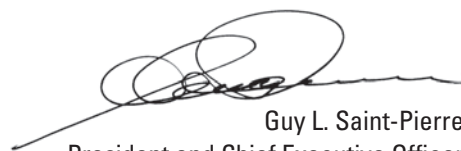
June 6, 2007

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

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

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

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



Guy L. Saint-Pierre  
President and Chief Executive Officer



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



## AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Canada Deposit Insurance Corporation as at March 31, 2007 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 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 consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Act* and the by-laws of the Corporation.

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

Ottawa, Canada  
May 4, 2007

## FINANCIAL STATEMENTS AND NOTES

### CANADA DEPOSIT INSURANCE CORPORATION CONSOLIDATED BALANCE SHEET

as at March 31  
(in thousands of dollars)

	Notes	2007	2006
<b>ASSETS</b>			
Cash and short-term investments	3	\$ 213,646	\$ 131,381
Investments	4	1,340,457	1,315,928
Accounts and other receivables		1,881	1,818
		1,555,984	1,449,127
Capital assets		1,613	1,822
Net claims receivable	5, 6	1,008	5,366
Future income tax asset	9	1,719	2,244
		<b>\$1,560,324</b>	<b>\$1,458,559</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities		\$ 3,446	\$ 10,290
Income taxes payable	9	7,080	3,766
Provision for insurance losses	6	600,000	600,000
		610,526	614,056
<b>RETAINED EARNINGS</b>			
		949,798	844,503
		<b>\$1,560,324</b>	<b>\$1,458,559</b>
<i>Contingent liabilities and commitments</i>	13, 14		
<i>(See accompanying notes)</i>			

Approved by the Board: \_\_\_\_\_



Director



Director

CANADA DEPOSIT INSURANCE CORPORATION  
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS  
for the year ended March 31  
(in thousands of dollars)

	Notes	2007	2006
<b>REVENUE</b>			
Premium	10	\$ 74,832	\$ 64,568
Interest on cash and investments		55,860	43,055
Other		1,064	1,997
		131,756	109,620
<b>EXPENSES</b>			
Operating	11	22,081	22,910
Increase/(decrease) to allowance and provisions for loss	6	(742)	41,640
Recovery of amounts previously written-off		(6,249)	(13,148)
		15,090	51,402
Net income before income taxes		116,666	58,218
Income tax expense	9	10,846	3,766
Decrease in future income tax asset	9	525	2,549
		11,371	6,315
Net income		105,295	51,903
Retained earnings, beginning of year		844,503	792,600
<b>Retained earnings, end of year</b>		<b>\$949,798</b>	<b>\$844,503</b>

(See accompanying notes)

CANADA DEPOSIT INSURANCE CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended March 31  
*(in thousands of dollars)*

	2007	2006
<b>OPERATING ACTIVITIES</b>		
Premium revenue received	\$ 74,832	\$ 64,568
Claims recovered	4,958	15,678
Interest revenue received	53,102	40,204
Recovery of amounts previously written-off	6,249	13,148
Other amounts received	1,412	8,891
Income taxes paid	(7,532)	—
Payments under guarantee agreements	(158)	(802)
Payments to suppliers and employees	(28,826)	(22,176)
Cash flows from operating activities	104,037	119,511
<b>INVESTING ACTIVITIES</b>		
Purchase of securities and term deposits	(1,350,748)	(923,661)
Maturities of securities and term deposits	1,328,976	705,011
Cash flows used in investing activities	(21,772)	(218,650)
<b>CASH AND SHORT-TERM INVESTMENTS</b>		
Increase/(decrease) during the year	82,265	(99,139)
Balance, beginning of year	131,381	230,520
<b>Balance, end of year</b>	<b>\$213,646</b>	<b>\$131,381</b>

*(See accompanying notes)*

3

CANADA DEPOSIT INSURANCE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007

*1 – Authority and Objective*

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

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

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

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

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

*2 – Significant Accounting Policies*

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

**Basis of Consolidation.** These consolidated financial statements include the financial statements of the Corporation and, as required by Accounting Guideline 15—Consolidation of Variable Interest Entities (AcG-15) (see Note 7),



the financial statements of ACC, a variable interest entity (VIE) for which the Corporation is considered to be the primary beneficiary. Inter-company balances and transactions have been eliminated.

**Use of Estimates.** Financial statements prepared in accordance with Canadian generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant area requiring the use of estimates is the provision for insurance losses.

The Corporation reviews its estimates annually. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from the estimates depending upon certain events and uncertainties including the timing and extent of losses the Corporation incurs as a result of future failures of member institutions.

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

**Cash, Short-Term Investments and Investments.** The Corporation classifies investments with a remaining term to maturity of less than 90 days as short-term investments. Those with a remaining term to maturity of 90 days or greater are classified as investments.

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

Short-term investments and investments, consisting of marketable securities and term deposits, are carried at amortized cost as they are intended to be held to maturity. In the case of a significant and other than temporary loss in the value of an investment, the investment would be written down in value at the time of impairment. Interest income is accrued in the accounts in the period earned. Premiums or discounts on investments are amortized to income on a straight-line basis.

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

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

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

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

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

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

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

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

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

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

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

**Pension Plan.** All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is

not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

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

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

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

The standards require that all financial assets be classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities must be classified as held for trading or other financial liabilities. On initial recognition, all financial instruments are to be measured at fair value on the Consolidated Balance Sheet. Subsequent to initial recognition, the standards require that financial instruments classified as loans and receivables, held to maturity or other financial liabilities be measured at amortized cost using the effective interest method. Financial instruments classified as available for sale and held for trading will continue to be measured at fair value. Changes in the fair value of held for trading financial instruments will be recognized in Consolidated Net Income, while changes in the fair value of assets classified as available for sale will be recognized as Other Comprehensive Income until the financial asset is disposed of or becomes other than temporarily impaired. Comprehensive Income will comprise the Corporation's Consolidated Net Income and Other Comprehensive Income. Accumulated Other Comprehensive Income will be presented on the Consolidated Balance Sheet, net of income taxes as a new component of equity.

Derivatives must be recognized on the Consolidated Balance Sheet at fair value, including derivatives that are embedded in financial instruments or other contracts, but are not closely related to the host contract.

Transaction costs related to held for trading financial instruments must be immediately expensed to Consolidated Net Income. For financial instruments that are not classified as held for trading, the transaction costs can either be deferred and amortized using the effective interest method or immediately expensed to Consolidated Net Income.

As required by the new standards, prior periods will not be restated. Transition adjustments resulting from the adoption of these new standards will be reflected in the opening balances for Retained Earnings and Accumulated Other Comprehensive Income on April 1, 2007. The determination of these transition adjustments is in process.

Furthermore, on December 1, 2006, the CICA issued new standards: Section 3862, *Financial Instruments—Disclosures*; and Section 3863, *Financial Instruments—Presentation*. These standards become effective for the Corporation on April 1, 2008. The impact of these standards is being assessed. Section 3861 will be followed for the Corporation's 2007/2008 fiscal year until the new standards are adopted.

### 3 – Cash and Short-Term Investments

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

	March 31, 2007			March 31, 2006		
	(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	\$ 94,632	4.28%	46	\$ 19,697	3.10%	6
Bonds	9,216	3.03%	31	82,572	2.46%	62
Commercial paper	105,987	4.21%	58	26,741	3.87%	71
Cash	64			1,193		
Sub-total	209,899			130,203		
Accrued interest	3,747			1,178		
<b>Total</b>	<b>\$213,646</b>	<b>4.19%</b>	<b>51</b>	<b>\$131,381</b>	<b>2.85%</b>	<b>55</b>

#### 4 – Investments

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

	March 31, 2007			March 31, 2006		
(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	\$ 787,176	4.20%	212	\$ 745,319	3.51%	214
Bonds	514,249	3.64%	542	526,549	3.45%	733
Promissory notes	22,535	4.16%	223	30,321	4.02%	156
Sub-total	1,323,960			1,302,189		
Accrued interest	16,497			13,739		
<b>Total</b>	<b>\$1,340,457</b>	<b>3.98%</b>	<b>341</b>	<b>\$1,315,928</b>	<b>3.49%</b>	<b>427</b>

#### 5 – Net Claims Receivable

	March 31, 2007	March 31, 2006
(in thousands of dollars)		
Claims receivable	\$1,008	\$5,966
Allowance for loss	–	(600)
<b>Net claims receivable</b>	<b>\$1,008</b>	<b>\$5,366</b>

#### 6 – 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, 2007, with corresponding totals as at March 31, 2006.

	March 31, 2007			March 31, 2006	
(in thousands of dollars)					
	Allowance for Claims Receivable	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	\$600	\$300	\$600,000	\$600,900	\$561,100
Payments	–	(158)	–	(158)	(802)
Write-offs	–	–	–	–	(1,038)
Adjustment to allowance and provisions for loss	(600)	(142)	–	(742)	41,640
<b>End of period</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$600,000</b>	<b>\$600,000</b>	<b>\$600,900</b>

The provision for guarantees balance is included in accounts payable and accrued liabilities on the Consolidated Balance Sheet.

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

### *7 – Variable Interest Entities*

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

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

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

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of \$1.5 million (2006: \$3.0 million) and an increase in liabilities of \$24,000 (2006: \$1.8 million), as well as an increase in total revenue of \$569,000 (2006: \$800,000), and an increase in total expenses of \$283,000 (2006: \$3.7 million). As a result, the impact on the Corporation's retained earnings is \$1.5 million (2006: \$1.2 million).

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## 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 *Financial Risk Management Guidelines for Crown Corporations*, issued by the Minister of Finance, by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

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

**Fair Value.** Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgments regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2007, and involve uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

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

The Corporation's investments in bonds, including those with a term to maturity of less than 90 days, consist of Government of Canada, provincial government and Crown corporation obligations. As at March 31, 2007, the fair value of these investments, based on observable market prices, is \$526 million (2006: \$609 million), which compares to the book value of \$528 million (2006: \$614 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 provision for insurance losses approximates fair value as it represents the Corporation's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions.



### 9 – Income Taxes

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

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

	March 31, 2007	March 31, 2006
(in thousands of dollars)		
Statutory tax rate	32%	32%
Income tax expense at the federal statutory rate	\$37,333	\$18,630
Increase/(decrease) resulting from:		
Non-taxable premium revenue	(23,946)	(20,662)
Recovery of amounts previously written-off	(2,000)	(4,207)
Increase/(decrease) to allowance and provision for loss	(237)	13,325
Capital cost allowance in excess of amortization	(513)	(2,509)
Other, net	209	(811)
<b>Income tax expense</b>	<b>\$10,846</b>	<b>\$ 3,766</b>

Future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. As at March 31, 2007, \$5.3 million of undepreciated capital cost (2006: \$7 million) has been applied in calculating the future income tax asset of \$1.7 million (2006: \$2.2 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, 2006, were \$455 billion (2005: \$437 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 2006, unchanged from 2005, are 1/72nd of 1% of insured deposits for members in Category 1, 1/36th of 1% for Category 2, 1/18th of 1% for Category 3 and 1/9th of 1% for members in Category 4. 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.

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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, 2007, is \$1.55 billion (2006: \$1.45 billion) representing 34 basis points of insured deposits (2006: 33 basis points).

### 11 – Operating Expenses

	March 31, 2007	March 31, 2006
(in thousands of dollars)		
Salaries and other personnel costs	\$11,438	\$11,790
Professional and other fees	2,329	2,707
General expenses	3,001	2,975
Premises	2,487	2,387
Public awareness	2,674	2,538
Data processing	1,030	1,131
	22,959	23,528
Expense recoveries	(878)	(618)
<b>Operating expenses</b>	<b>\$22,081</b>	<b>\$22,910</b>

The Corporation provides call centre services to the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions on a cost recovery basis. In addition, l'Autorité des marchés financiers in Québec contributes to the Corporation's public awareness campaign. The associated costs are included in the relevant expense categories.

### 12 – Related Party Transactions

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

There are no material related party transactions and balances that are not already disclosed in the notes.

### 13 – Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2007, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

### 14 – Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2007, are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2008	\$1,085
2009	1,085
2010	1,085
2011	757
2012	250
<b>Total</b>	<b>\$4,262</b>

### 15 – Pension Plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. As required under present legislation the contributions made by the Corporation to the Plan are 2.14 times the employees' contribution on amounts of salaries below \$126,500 and 7.0 times the employees' contribution on amounts of salaries in excess of \$126,500. The contributions during the year were as follows:

	2007	2006
	(in thousands of dollars)	
Employer	\$1,545	\$1,327
Employee	\$ 571	\$ 447

### 16 – Comparative Figures

Certain of the 2006 figures have been reclassified to conform to the presentation adopted for 2007.



**Sound governance has been a priority for CDIC for many years and remained one of CDIC's corporate strategies this past year.**

## 4 CORPORATE GOVERNANCE

This section provides a description of CDIC's corporate governance activities over the past year, highlighting those focused on communicating with the public and CDIC's other stakeholders about deposit insurance.

### GOOD GOVERNANCE

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

### COMMUNICATING WITH STAKEHOLDERS

Good governance requires transparency and accountability. One of the ways of meeting these expectations is to communicate information and decisions to stakeholders.

CDIC's Board of Directors is mindful of the importance of effectively communicating with stakeholders, enshrining this importance by including a governance principle to this effect in its Board Charter, which provides that:

*The Board will oversee the manner in which CDIC communicates with the Crown, depositors, member institutions, financial institution regulators and supervisors and other relevant parties in order to satisfy themselves that CDIC is doing so effectively.*

CDIC regularly communicates with and keeps its stakeholders informed about deposit insurance and other related matters.

### MAINTAINING PUBLIC AWARENESS

As CDIC undertakes a public awareness campaign every year, it measures regularly the effectiveness of activities that it undertakes to promote depositor awareness. Reports on the activities and survey results are provided to the Board.

The objectives for the current public awareness program are to maintain awareness among Canadians of CDIC and deposit insurance above 50% and to maintain awareness of the deposit insurance limit above 25%.

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A survey conducted in March 2007 after the end of the winter advertising campaign indicated awareness of CDIC had reached 60% among the general population. Awareness of the existence of deposit insurance remained above 70%. Awareness of the deposit insurance coverage limit increased in 2007 to 15%, up from 10% the year before. In addition, the survey showed that 35% of the general population agreed with the statement, "Most savings are now protected up to \$100,000 by CDIC." Activities this year will continue to focus on informing Canadians about CDIC deposit insurance and the \$100,000 limit.

## COMMUNICATIONS ACTIVITIES

Key communication activities undertaken during the year include the following:

Communication Activities in 2006/2007	Target Stakeholders
<p><b>Annual Public Meeting:</b> Board of Directors hosted CDIC's inaugural Annual Public Meeting in December 2006, in Toronto, Ontario  <i>Planned for 2007/2008:</i> 2007 Annual Public Meeting, scheduled for September 25, 2007, in Vancouver, British Columbia</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Member institutions</li> <li>• Crown</li> <li>• Regulators and supervisors</li> </ul>
<p><b>Website:</b> Redesign of CDIC website, with an emphasis on plain language and ease of use and access  <i>Planned for 2007/2008:</i> Test ease of use and navigation features of the website</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Member institutions</li> </ul>
<p><b>Board Communications Policy:</b> Board of Directors approved a new Board Communications Policy  <i>Planned for 2007/2008:</i> Approval of CDIC's next long-term public awareness strategy and plan to commence April 1, 2008</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Crown</li> <li>• Member institutions</li> <li>• Regulators and supervisors</li> </ul>
<p><b>Public Awareness Campaign:</b> As noted earlier, completed second of three-year public awareness campaign, with focus on the increase in the deposit insurance coverage limit to \$100,000  <i>Planned for 2007/2008:</i> Year 3 of public awareness campaign</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Member institutions</li> </ul>
<p><b>CDIC Information By-law:</b> Increased information about CDIC deposit insurance through member institutions, by consultations with members on, and revisions to, the <i>Deposit Insurance Information By-law</i>  <i>Planned for 2007/2008:</i> Plain language brochures to be developed about CDIC deposit insurance and distributed to member institutions for use by their depositors</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Member institutions</li> </ul>
<p><b>CDIC Act:</b> CDIC was consulted on amendments to the <i>CDIC Act</i>. Amendments were proclaimed into force in April 2007  <i>Planned for 2007/2008:</i> Implementation of amendments</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Crown</li> <li>• Regulators and supervisors</li> <li>• Member institutions</li> </ul>

Communication Activities in 2006/2007	Target Stakeholders
<p><b>Conferences:</b> CDIC's President and CEO was a guest speaker at conferences held by the Federation of Canadian Independent Deposit Brokers, the International Association of Deposit Insurers (IADI), and several other organizations, and attended conferences involving the provincial credit union deposit insurance corporation, and stabilization funds</p> <p><i>Planned for 2007/2008:</i> Co-hosting with OSFI annual conference of the Credit Union/Caisses Populaires Stabilization Funds of Canada and Credit Union Regulators in June 2007</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Member institutions</li> <li>• Regulators and supervisors</li> </ul>
<p><b>Cooperation with AMF:</b> Completed a co-branded public awareness campaign with l'Autorité des marchés financiers (AMF) to raise awareness of deposit insurance in Québec</p> <p><i>Planned for 2007/2008:</i> Increase activities with AMF to improve public awareness in Québec</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Regulators and supervisors</li> </ul>
<p><b>Work with CFSIPF:</b> Continued work with the Canadian Financial Services Insolvency Protection Forum (CFSIPF) (involving also AMF, Deposit Insurance Corporation of Ontario, Credit Union Deposit Insurance Corporation of British Columbia, Canadian Investor Protection Fund, and the Property and Casualty Insurance Compensation Corporation) to disseminate information about insolvency protection regimes</p> <p><i>Planned for 2007/2008:</i> Hosting annual meeting of the CFSIPF in fall 2007</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> </ul>
Ongoing Communication Activities in 2006/2007	Target Stakeholders
<p><b>Trade Shows:</b> Attended financial consumer shows in Toronto, Vancouver and Calgary to meet the public and provide first-hand information about deposit insurance</p> <p><i>Planned for 2007/2008:</i> Continuing financial consumer show participation</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> </ul>
<p><b>Call Centre:</b> Operated CDIC's 1-800 call centre, as well as inquiry lines for OSFI and FCAC</p> <p><i>Planned for 2007/2008:</i> Improved training for call centre inquiries officers</p>	<ul style="list-style-type: none"> <li>• Depositors/public</li> <li>• Regulators and supervisors</li> </ul>
<p><b>Regular Reporting:</b> Tabled <i>Annual Report 2006</i> and <i>Summary of Corporate Plan 2006/2007 to 2011/2012</i> with Parliament (and distributed to parliamentarians, member institutions and others). Delivered reports under the <i>Access to Information Act</i>, <i>Privacy Act</i>, <i>Official Languages Act</i>, and all other required reports within statutory timeframes</p> <p><i>Planned for 2007/2008:</i> CDIC will table or deliver all statutory reports within required statutory timeframes</p>	<ul style="list-style-type: none"> <li>• Crown</li> <li>• Depositors/public</li> <li>• Member institutions</li> <li>• Regulators and supervisors</li> </ul>

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Ongoing Communication Activities in 2006/2007	Target Stakeholders
<p><b>Communications with Member Institutions:</b> Consulted CDIC member institutions directly, or through pre-publication in the <i>Canada Gazette</i>, on amendments to the <i>Deposit Insurance Information By-law</i>, <i>Application for Deposit Insurance By-law</i>, <i>Deposit Insurance Application Fee By-law</i>, and <i>Differential Premiums By-law</i>  <i>Planned for 2007/2008:</i> Continued communications with members on issues affecting them</p>	<ul style="list-style-type: none"> <li>• Member institutions</li> </ul>
<p><b>Communications with Minister:</b> CDIC's Chair met with the Minister of Finance to discuss ongoing matters  <i>Planned for 2007/2008:</i> Continued ongoing dialogue with the Minister of Finance on key CDIC matters</p>	<ul style="list-style-type: none"> <li>• Minister of Finance/Crown</li> </ul>
<p><b>Communications with TBS:</b> Participated in ongoing discussions with the Treasury Board of Canada Secretariat (TBS) and attended meetings regarding Crown corporation governance  <i>Planned for 2007/2008:</i> Refinements to governance practices implemented pursuant to TBS measures regarding corporate governance</p>	<ul style="list-style-type: none"> <li>• Crown</li> <li>• Depositors/public</li> </ul>
<p><b>Cooperation with Other Deposit Insurers:</b> Conferred with the U.S. Federal Deposit Insurance Corporation (FDIC) on advanced failure resolution techniques and cross-border issues  <i>Planned for 2007/2008:</i> Continued discussions with FDIC</p> <p>Provided assistance to deposit insurers and received study groups from other countries  <i>Planned for 2007/2008:</i> Continued provision of assistance (e.g., to China, Russia, Japan, Kenya, Malaysia and others)</p> <p>CDIC's President and CEO presented a paper to IADI on Governance of Deposit Insurance Systems  <i>Planned for 2007/2008:</i> Presentations at IADI conferences by the Chair and President and CEO to continue. Finalizing CDIC-led research on international coverage and funding issues for IADI</p>	<ul style="list-style-type: none"> <li>• Regulators and supervisors</li> </ul>



## BOARD OF DIRECTORS

CDIC's Board of Directors consists of a Chairperson, five *ex officio* Directors and five private sector Directors, as provided for in the *CDIC Act*. Biographical information about each Director is available on the CDIC website ([www.cdic.ca](http://www.cdic.ca)).

### CHAIRPERSON

The Chair is primarily responsible for the effective operation of the Board and for representing the Board. The Chair ensures that the relationship between the Board, management and Parliament facilitates CDIC fulfilling its mandate. In performing this role, the Chair works closely with the President and CEO to ensure effective relations with Parliament, the public and other stakeholders.

### EX OFFICIO DIRECTORS

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

### PRIVATE SECTOR DIRECTORS

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

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## Board of Directors Mandate and Composition (March 31, 2007)

## Highlights of Board Activities

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

### Chairperson



**Bryan P. Davies**  
Chair of the Board  
Canada Deposit Insurance Corporation  
Joined Board:  
June 2006

### Private Sector Directors



**Tracey Bakkeli**  
President of T. Bakkeli  
Consultants Inc.  
Regina  
Joined Board:  
March 2001



**Claude Huot**  
Consultant in economic  
development  
Le Groupe Stragesult  
Montréal  
Joined Board: October 2003



**Grant Morash**  
Financial Advisor  
Halifax  
Joined Board:  
November 2002



**Shelley M. Tratch**  
Lawyer  
Vancouver  
Joined Board:  
December 2006

### Ex Officio Directors



**David A. Dodge**  
Governor of the Bank  
of Canada  
Joined Board:  
February 2001



**Rob Wright**  
Deputy Minister of  
Finance  
Joined Board:  
June 2006



**Julie Dickson**  
Acting Superintendent of  
Financial Institutions  
Joined Board:  
October 2006  
(although Alternate for  
the Superintendent of  
Financial Institutions  
from February 2002 to  
October 2006)



**Ted Price**  
Assistant Superintendent  
Supervision Sector  
Office of the  
Superintendent of  
Financial Institutions  
Joined Board:  
January 2007



**Jim Callon**  
Acting Commissioner  
Financial Consumer  
Agency of Canada  
Joined Board:  
November 2006

### Alternates (for Ex Officio Directors)



**Pierre Duguay**  
Deputy Governor  
Bank of Canada  
Appointed Alternate:  
September 2005



**Serge Dupont**  
Assistant Deputy Minister  
Financial Sector Policy  
Branch  
Department of Finance  
Appointed Alternate:  
July 2006

- Review and approval of CDIC's five-year Corporate Plan, Operating and Capital Budget, and Borrowing Plan (with recommendations on premium rates to the Minister of Finance)
- Review and approval of CDIC Management's Discussion and Analysis and financial statements
- Approval of a Board *Communications Policy* to ensure that CDIC communicates effectively with its stakeholders
- Approval of amendments to the *CDIC Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace* to reflect obligations pursuant to the *Public Servants Disclosure Protection Act*, which came into force in April 2007
- Monitoring CDIC's readiness activities and public awareness plans
- Monitoring the financial health of CDIC's member institutions based on risk assessment information received from management, which itself is provided much information from OSFI's examinations and reporting as required by statute
- Reviewing annual reports on CDIC's significant corporate risks (and amendments to the Board Risk Policies, as required)

## BOARD COMMITTEES

CDIC's Board had four standing committees in 2006/2007—the Audit Committee, the Human Resources and Compensation (HRC) Committee, the Governance and Nominating Committee, and the Executive Committee. The mandate of each Committee is summarized below and outlined in detail in each Board Committee's Charter, which are available on CDIC's website ([www.cdic.ca](http://www.cdic.ca)) under "CDIC Board Committee Responsibilities."

An overview of each of the Board Committee's activities during 2006/2007 is outlined below.

### AUDIT COMMITTEE

Audit Committee Mandate and Composition (March 31, 2007)	Highlights of Activities
<p><b>Audit Committee</b>—to oversee internal and external audits, advise the Board on financial issues and oversee risk management (including the review of the consolidated financial statements and the OAG's attest audit)</p> <p>T. Bakkeli (Chair) G. Morash T. Price</p>	<ul style="list-style-type: none"> <li>• recommended MD&amp;A and consolidated financial statements</li> <li>• oversaw review of CDIC Investment Policies and amendments to Financial Risk Policies</li> <li>• reviewed internal audit report on internal controls</li> <li>• approved internal audit's 2007/2008 plan and oversaw Quality Assessment Review of internal audit department</li> <li>• reviewed Enterprise Risk Management Annual Report and Management Representation letter, and Board Risk Policies</li> </ul>

### HUMAN RESOURCES AND COMPENSATION COMMITTEE

HRC Committee Mandate and Composition (March 31, 2007)	Highlights of Activities
<p><b>Human Resources and Compensation Committee</b>—to review and advise the Board on human resource issues (policies, succession planning, compliance with legal requirements, compensation and complaints)</p> <p>B.P. Davies (Chair) C. Huot G. Morash S. Tratch</p>	<ul style="list-style-type: none"> <li>• reviewed President and CEO objectives and conducted annual performance assessment of President and CEO</li> <li>• reviewed HR Strategy and Plan for employees</li> <li>• oversaw revision of "whistleblowing" policy</li> <li>• reviewed annual report on employee compliance with codes/policies concerning ethical behaviour</li> <li>• reviewed employee salary compensation</li> </ul>

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## GOVERNANCE AND NOMINATING COMMITTEE

Governance and Nominating Committee Mandate and Composition (March 31, 2007)	Highlights of Activities
<p><b>Governance and Nominating Committee</b>—to ensure appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities and succession planning for the President and CEO and the private sector Directors</p> <p>B.P. Davies (Chair) T. Bakkeli C. Huot S. Tratch</p>	<ul style="list-style-type: none"> <li>oversaw planning of inaugural Annual Public Meeting</li> <li>reviewed Board Charter and recommended a Board <i>Communications Policy</i></li> <li>oversaw revisions to Chair and CEO Accountability Profiles</li> <li>launched process for Board and Director self-assessments</li> <li>considered impact of <i>Federal Accountability Act</i></li> <li>placed greater emphasis on Director training opportunities</li> </ul>

## EXECUTIVE COMMITTEE

Executive Committee Mandate and Composition (March 31, 2007)	Highlights of Activities
<p><b>Executive Committee</b>—to meet, when required, at the request of the Board, the Chairperson or the President and CEO</p> <p>B.P. Davies (Chair) D.A. Dodge T. Bakkeli</p>	<p>There were no meetings held in 2006/2007</p>

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

## BOARD AND COMMITTEE MEETINGS AND ATTENDANCE<sup>a</sup>

(April 1, 2006 to March 31, 2007)

	Board of Directors	Executive Committee	Audit Committee	Governance and Nominating Committee	HRC Committee
<b>Number of Meetings</b>	4	0	4	2	2
Attendance:					
<b>Current Directors</b>					
B.P. Davies—Chair	3		3	2	1
T. Bakkeli	4		4	2	
G. Morash	4		4		2
C. Huot	4			2	2
S. Tratch	0			1	1
<b>Directors who departed during the year</b>					
R.N. Robertson—Chair	1		1	0	1
H.G. Emerson	1				1
D. Raymaker	3		3	1	
<i>Ex officio</i> members (alternates) <sup>b</sup>					
Bank of Canada <sup>c</sup>	3 (3)				
OSFI <sup>d</sup>	4				1
OSFI—second Director <sup>e</sup>	3		2		
Department of Finance <sup>f</sup>	0 (4)				
FCAC <sup>g</sup>	4			1	

<sup>a</sup> Also includes meetings attended by telephone.

<sup>b</sup> The names of the *ex officio* Directors who served on the Board during the year are listed below.

<sup>c</sup> **Bank of Canada**

No change—D.A. Dodge  
Pierre Duguay attended one meeting as Alternate in David Dodge's absence and two as an observer.

<sup>d</sup> **OSFI**

Nick Le Pan resigned from OSFI effective October 13, 2006.  
Julie Dickson ceased to be the Alternate to the Superintendent, OSFI, on October 13, 2006.  
Julie Dickson was appointed as Acting Superintendent, OSFI, effective October 14, 2006.

<sup>e</sup> **OSFI**

John Doran retired from OSFI as at June 5, 2006.  
Carl Hiralal was appointed as a Director for OSFI on September 11, 2006, and ceased to be a Director as at December 31, 2006.  
Ted Price was appointed as a Director for OSFI effective January 1, 2007.

<sup>f</sup> **Department of Finance**

Ian Bennett ceased to be Deputy Minister of Finance on June 12, 2006.  
Robert Wright was appointed Deputy Minister of Finance effective June 12, 2006.  
Frank Swedlove ceased to be Alternate to the Deputy Minister on April 21, 2006.  
Serge Dupont was designated Alternate to the Deputy Minister on July 31, 2006.  
Serge Dupont attended three meetings as Alternate in Rob Wright's absence and one as an observer.

<sup>g</sup> **FCAC**

Bill Knight ceased to be Commissioner, FCAC, on October 31, 2006.  
Jim Callon was appointed as Acting Commissioner, FCAC, commencing November 1, 2006.

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## ADDRESSING PUBLIC SERVICE EXPECTATIONS

CDIC is mindful of and committed to meeting Canadians' public service expectations in areas such as codes of conduct, whistleblowing, ethical behaviour and proactive disclosure.

For example, CDIC has had a "whistleblowing" policy on disclosure of wrongdoing in place since 2003—four years before recent increased demands for greater transparency and accountability in the public sector. In 2006/2007, the Board approved revisions to the *Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace* to reflect anticipated obligations under the *Public Servants Disclosure Protection Act*, which later came into force. CDIC also provided training to its employees regarding their rights and expectations regarding the revised whistleblowing policy and other business conduct and ethical matters. Further training is planned for 2008.

CDIC's *Code of Business Conduct and Ethical Behaviour for Directors*, its *Code of Business Conduct and Ethical Behaviour for Employees* and *Conflicts of Interest Code* reflect the commitment of CDIC and its Directors, officers and employees to continue to live up to CDIC's reputation as an organization with high ethical standards. Directors and employees annually confirm their commitment to continue to adhere to these codes. The Board of Directors monitors compliance with the codes and other corporate practices related to business and employee conduct through the receipt of annual reports to its Audit Committee and HRC Committee.

The two *Codes of Business Conduct and Ethical Behaviour*, the *Conflicts of Interest Code* and the *Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace* are all available on the CDIC website.

In 2006/2007, CDIC also planned and instituted a legal compliance review and will continue to provide regular reports to the Board of Directors to confirm that CDIC meets all of its statutory obligations.

## CDIC'S OFFICERS

CDIC's officers as of March 31, 2007, are set out below. Biographical information about each officer is available on the CDIC website ([www.cdic.ca](http://www.cdic.ca)).

**Guy L. Saint-Pierre**

President and Chief Executive Officer

**Michèle Bourque**

Vice-President, Insurance and Risk Assessment

**M. Claudia Morrow**

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

**Thomas J. Vice**

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

Salary ranges for CDIC's officers, as of March 31, 2007, are:

- for the position of President and Chief Executive Officer—\$212,300 to \$249,700
- for the position of Vice-President—\$158,305 to \$211,060

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

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**Net income for CDIC members reached a record \$20.7 billion in 2006 compared to \$13.3 billion in the previous year.**



# 5 MEMBERSHIP PROFILE AND PERFORMANCE

## MEMBERSHIP PROFILE

There were 80 CDIC member institutions at the end of the 2006/2007 fiscal year—two less than the year before. Canadian Tire Bank became a member while Trimark Trust, Amicus Bank and Northern Trust Company, Canada ceased taking deposits. For a full list of CDIC members, see the CDIC website ([www.cdic.ca](http://www.cdic.ca)).

## FINANCIAL PERFORMANCE

Overall, CDIC member institutions continue to pose relatively low short-term risk to the Corporation due to their strong performance in 2006 with stellar profitability, favourable asset quality and sound capital levels. While credit quality may decline over the coming year and the current financial performance of members may have reached a near-term peak, CDIC members should nevertheless continue to record good financial results. Some members are experiencing fast asset growth and are moving toward higher risk real estate loans. Others are facing challenges with market penetration, which may provide cause for concern over the medium term. Emerging risks affecting member institutions include increasing consumer leverage, more liberal lending standards for personal loans and residential mortgages, and potential economic, real estate or capital market corrections.

### *Record net income and strong financial performance for a fourth consecutive year*

Net income for CDIC members reached a record \$20.7 billion in 2006 compared to \$13.3 billion in the previous year. This represents a 56% increase. This strong financial performance was driven by growth in loan volumes, near record low provisions for loan losses, robust wealth management and capital market activities. The membership's net income in 2006 would have grown by a more moderate, but still healthy, 15% except for two developments—a one-time gain on a TD Waterhouse transaction<sup>8</sup> and the previous year's Enron-related charges booked by several of the largest members.

## CDIC MEMBER PEER GROUPS<sup>7</sup>

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

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

**Residential**—main business line is residential mortgages

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

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

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

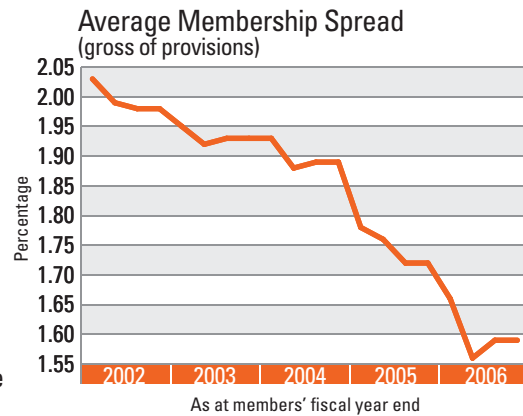
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<sup>7</sup> CDIC has 53 distinct groups of member institutions based on affiliation with a parent institution. To facilitate analysis, it assigns each member institution to a peer group based on similar size, geographic reach of its operations and/or its primary business activities.

<sup>8</sup> TD sold its TD Waterhouse U.S. subsidiary for a 33% share in the larger brokerage Ameritrade Holding Corporation.

**Declining membership spreads resulted in flat net interest income**

Despite a solid 12% rise in loans outstanding, net interest income remained essentially unchanged at \$33.6 billion in 2006 compared to \$33.2 billion in 2005. The Residential and Commercial peer groups recorded appreciable growth in net interest income mostly related to significant increases in residential and commercial mortgages. Average membership interest-rate spread continued to decline, dropping to 1.59% compared to 1.72% the year before. As a result, net interest income increased by only 1% in 2006 and has been essentially flat in the last five years.

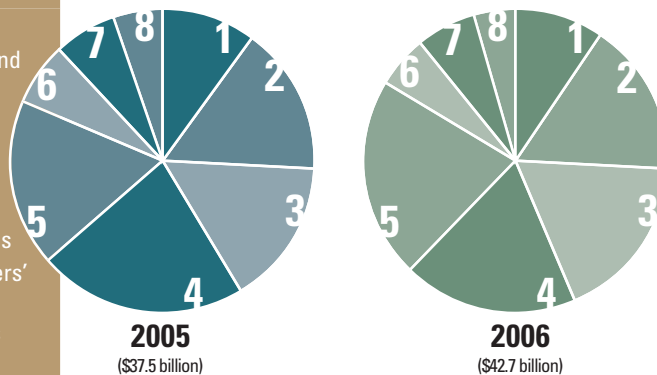


**Solid non-interest income growth and contribution levels last seen in 2000**

Non-interest income rose a strong 14% to about \$43 billion in fiscal 2006, which represented almost 56% of total membership revenues—their highest level since 2000. Non-interest income was supported by a favourable capital market environment and growth in fee-generating activities. Insurance and all other fee income surged by more than one third compared to the 2005 fiscal year. This was due to a near doubling of unspecified fees and improved contributions from insurance-related activities in the National Banks peer group. Income from trading and investment securities rose 30% year over year to surpass the last high recorded in 2000, while fees from investment management and custodial services gained 19%.

	2005 %	2006 %	
1	10.2	9.5	Service charges
2	15.8	16.5	Investment management and custodial services
3	15.5	17.8	Income from trading and investment securities
4	22.2	18.5	Securities commissions and underwriting fees
5	17.9	21.5	Insurance and all other fees
6	6.5	5.6	Loan, guarantee and bankers' acceptances fees
7	6.8	6.3	Credit and debit cards fees
8	5.1	4.3	Income from securitization of assets

Components of Non-Interest Income\*

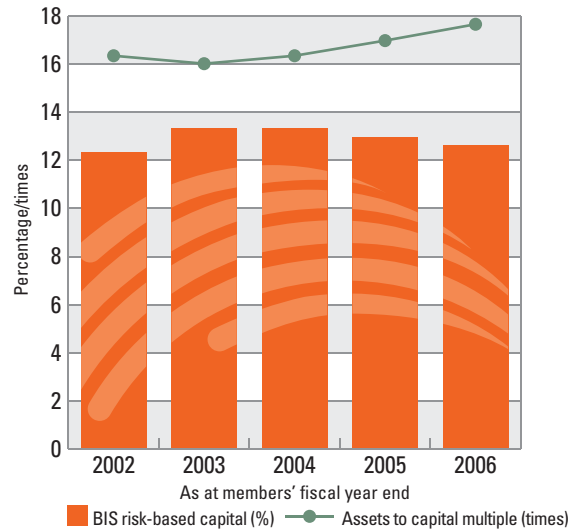


\*For members' fiscal year end

### Capital ratios and leverage remain sound

Capital measures have been on a slight decline in the past two years. Although Tier 1 Capital<sup>9</sup> ratio rose slightly in 2006, the average Bank for International Settlements (BIS) total capital ratio for CDIC members dropped slightly to 12.6% in 2006 from 12.9% the previous year. The assets to capital multiple (ACM—a measure of capital leverage)—rose slightly to 17.7 times from 17.0 the year before. The higher ACM was most noticeable in the National, Residential, and Commercial peer groups. Despite the slight drop in BIS capital ratio, all members were above the Office of the Superintendent of Financial Institution’s (OSFI’s) well-capitalized guidelines of 7% for Tier 1 and 10% for total risk-based capital ratios. Capital ratios remain high on a historical basis.

Capitalization, 2002–2006

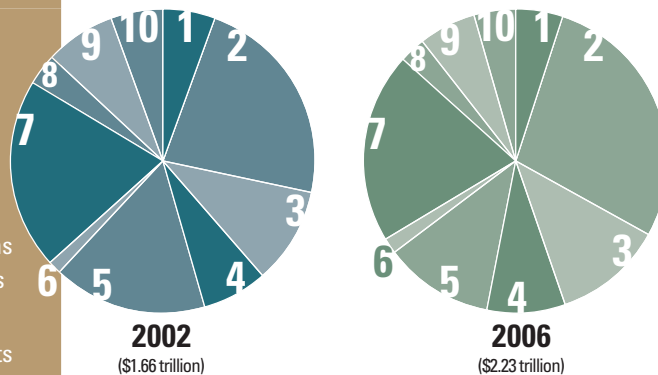


### Strong asset growth

CDIC member institutions displayed buoyant asset growth of approximately 12% in each of the last two years to surpass \$2.2 trillion in the 2006 fiscal year. Continuing with the trend from the previous year, several members experienced asset growth of over 25%. Asset growth was strong across most peer groups, with growth for the Fee Income peer group reaching 63%, and growth for the Commercial peer group at 37%.

	2002 %	2006 %	
1	5.7	5.1	Cash
2	22.9	28.2	Securities
3	10.1	11.5	Personal/consumer loans
4	7.0	8.5	Reverse repurchase agreements
5	16.5	11.6	Commercial loans
6	1.2	1.6	Commercial mortgage loans
7	20.3	20.2	Residential mortgage loans
8	3.4	2.9	Other loans and BAs
9	7.6	6.2	Derivatives related amounts
10	5.3	4.2	Other assets

Asset Mix\* 2002 vs. 2006



\* As at members' fiscal year end

<sup>9</sup> Tier 1 Capital is meant as a measure of the amount of higher quality capital held by financial institutions. It consists mainly of shareholders' equity.

Loans continue to be the dominant asset class, making up over 56% of total assets. There was strong growth in both retail and corporate and commercial loans with the overall loan portfolio increasing by over 12% in 2006. Corporate and commercial loans reached \$549 billion and retail loans rose to \$706 billion.

*Strong membership results but caution may be in order*

Booming real estate markets in 2006 have continued to contribute to the strong performance of most CDIC member institutions, particularly those involved in residential and commercial mortgage lending. However, a small percentage of members continue to hold significant exposure to higher risk real estate categories, such as commercial mortgages, interim construction loans and commercial loans to the real estate sector. While there are currently no signs of deterioration in Canadian real estate markets, these loan categories are typically sensitive to a downturn in economic conditions. Other developing real estate-related risks include a rise in residential mortgages to individuals with weak credit scores and limited proof of adequate income, as well as the recent introduction of longer amortization periods of up to 40 years.

Low interest rates, strong employment, easy access to credit and changing consumer attitudes toward debt have resulted in unprecedented levels of consumer debt both in absolute terms and relative to gross annual incomes. Potential economic shocks—such as a fall in real estate prices, a decline in employment or substantial increases in interest rates—could result in a minority of households with difficulty managing debt. This, in turn, could place financial strain on some of our member institutions exposed to higher risk borrowers.

On the whole, however, CDIC member institutions functioned extremely well in 2006, and their current financial performance continues to be strong.

## COMPARATIVE MEMBERSHIP INFORMATION

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

The membership profile includes:

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

It should be noted that, in its five-year tables, CDIC restates the peer groups 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, 2007.

## CDIC Members as at March 31, 2007<sup>10</sup>

Domestic Banks and Subsidiaries		Domestic Trust and Loan Companies and Associations		Subsidiaries of Foreign Institutions	
Member Institutions	Peer Group	Member Institutions	Peer Group	Member Institutions	Peer Group
Bank of Montreal Bank of Montreal Mortgage Corporation BCP Bank Canada BMO Trust Company	National	AGF Trust Company	Consumer	Amex Bank of Canada	Consumer
		CIBC Mellon Trust Company	Fee Income	Bank of China (Canada)	Commercial
		Community Trust Company	Residential	Bank of East Asia (Canada) (The)	Commercial
Bank of Nova Scotia (The) Bank of Nova Scotia Trust Company (The) Maple Trust Company Montreal Trust Company of Canada National Bank of Greece (Canada) National Trust Company Scotia Mortgage Corporation	National	Concentra Financial Services Association Concentra Trust	Residential	Citibank Canada	Fee Income
		Desjardins Trust Inc.	Fee Income	Computershare Trust Company of Canada	Fee Income
		Effort Trust Company (The)	Residential	CTC Bank of Canada	Commercial
		Equitable Trust Company (The)	Residential	First Data Loan Company, Canada	Fee Income
		Home Trust Company	Residential	Habib Canadian Bank	Commercial
Bank West	Consumer	Industrial Alliance Trust Inc.	Fee Income	HSBC Bank Canada Household Trust Company HSBC Mortgage Corporation (Canada) HSBC Trust Company (Canada)	Regional Residential
Bridgewater Bank	Residential	League Savings & Mortgage Company	Residential	ICICI Bank Canada	Commercial
Canadian Imperial Bank of Commerce CIBC Mortgages Inc. CIBC Trust Corporation	National	MCAN Mortgage Corporation	Residential	ING Bank of Canada	Residential
		M.R.S. Trust Company Investors Group Trust Co. Ltd.	Consumer Residential	Korea Exchange Bank of Canada	Consumer
Canadian Tire Bank	Consumer	Peace Hills Trust Company	Commercial	MBNA Canada Bank	Consumer
Canadian Western Bank Canadian Western Trust Company	Regional	Peoples Trust Company	Residential	Mega International Commercial Bank (Canada)	Commercial
Citizens Bank of Canada	Residential	RBC Dexia Investor Services Trust	Fee Income	State Bank of India (Canada)	Commercial
CS Alterna Bank	Residential	ResMor Trust Company	Residential	UBS Bank (Canada)	Fee Income
Dundee Bank of Canada	Fee Income	Sun Life Financial Trust Inc.	Residential		
General Bank of Canada	Consumer				
Laurentian Bank of Canada B2B Trust Laurentian Trust of Canada Inc. LBC Trust	Regional				
Manulife Bank of Canada	Residential				
National Bank of Canada Natcan Trust Company National Bank Trust Inc.	Regional				
Pacific & Western Bank of Canada	Commercial				
Royal Bank of Canada Royal Bank Mortgage Corporation Royal Trust Company (The) Royal Trust Corporation of Canada	National				
Toronto-Dominion Bank (The) Canada Trust Company (The) First Nations Bank of Canada TD Mortgage Corporation TD Pacific Mortgage Corporation	National				
	Commercial				
Ubiquity Bank of Canada	Residential				
<b>Total: 42</b>		<b>Total: 19</b>		<b>Total: 19</b>	

**Total: 80 members**

<sup>10</sup> Member institutions with common affiliation have been grouped together, starting with the member having the largest assets and following in alphabetical order.

**MEMBERSHIP CHANGES:  
APRIL 1, 2006–MARCH 31, 2007**

*New Members*

*October 4, 2006:* Canadian Tire Bank

*Other Membership Changes*

*September 15, 2006:* MCAP Inc. changed its name to MCAN Mortgage Corporation.

*September 18, 2006:* Dundee Wealth Bank changed its name to Dundee Bank of Canada

*September 21, 2006:* International Commercial Bank of Cathay (Canada) changed its name to Mega International Commercial Bank (Canada)

*October 31, 2006:* Amicus Bank ceased to accept deposits—policy cancelled

*December 31, 2006:* Trimark Trust ceased to accept deposits—policy cancelled

*January 7, 2007:* Northern Trust Company, Canada ceased to accept deposits—policy cancelled

## Summary Financial Information—Total CDIC Membership

### Balance Sheet (\$ billions and percentage)

As at members' fiscal year end	2006		2005		2004		2003		2002	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>ASSETS</b>										
Cash resources	112.8	5.1	102.9	5.2	83.8	4.7	93.8	5.6	93.7	5.7
Securities	627.3	28.2	527.1	26.6	453.4	25.5	429.9	25.4	380.0	22.9
Loans and acceptances	1,254.8	56.3	1,115.4	56.3	1,007.0	56.6	954.9	56.5	969.0	58.5
Other assets	232.5	10.4	236.1	11.9	235.4	13.2	210.6	12.5	214.3	12.9
<b>Total assets</b>	<b>2,227.4</b>	<b>100.0</b>	<b>1,981.5</b>	<b>100.0</b>	<b>1,779.6</b>	<b>100.0</b>	<b>1,689.2</b>	<b>100.0</b>	<b>1,657.0</b>	<b>100.0</b>
<b>LIABILITIES</b>										
Deposits	1,480.0	66.4	1,330.4	67.1	1,188.1	66.8	1,129.9	66.9	1,117.9	67.5
Other liabilities	644.1	28.9	560.0	28.3	505.0	28.4	475.9	28.2	458.1	27.6
<b>Total liabilities</b>	<b>2,124.1</b>	<b>95.3</b>	<b>1,890.4</b>	<b>95.4</b>	<b>1,693.1</b>	<b>95.2</b>	<b>1,605.8</b>	<b>95.1</b>	<b>1,576.0</b>	<b>95.1</b>
<b>Shareholders' equity</b>	<b>103.3</b>	<b>4.7</b>	<b>91.1</b>	<b>4.6</b>	<b>86.5</b>	<b>4.8</b>	<b>83.4</b>	<b>4.9</b>	<b>81.0</b>	<b>4.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,227.4</b>	<b>100.0</b>	<b>1,981.5</b>	<b>100.0</b>	<b>1,779.6</b>	<b>100.0</b>	<b>1,689.2</b>	<b>100.0</b>	<b>1,657.0</b>	<b>100.0</b>

### Income Statement (\$ millions)

For the members' fiscal year ending in	2006	2005	2004	2003	2002
Interest income	93,734	74,533	64,121	66,736	68,698
Interest expense	60,183	41,311	30,861	33,524	35,523
<b>Net interest income</b>	<b>33,551</b>	<b>33,222</b>	<b>33,260</b>	<b>33,212</b>	<b>33,175</b>
Provision for impairment	2,409	2,189	1,478	4,089	9,309
<b>Net interest income after provision for impairment</b>	<b>31,142</b>	<b>31,033</b>	<b>31,782</b>	<b>29,123</b>	<b>23,866</b>
Non-interest income	42,692	37,530	33,943	31,957	31,082
<b>Net interest income and non-interest income</b>	<b>73,834</b>	<b>68,563</b>	<b>65,725</b>	<b>61,080</b>	<b>54,948</b>
Non-interest expenses	47,187	49,357	45,296	44,158	44,295
<b>Net income before provision for income taxes</b>	<b>26,647</b>	<b>19,206</b>	<b>20,429</b>	<b>16,922</b>	<b>10,653</b>
Provision for income taxes	5,618	5,410	5,472	4,323	2,370
<b>Net income before non-controlling interest in net income of subsidiaries and extraordinary items</b>	<b>21,029</b>	<b>13,796</b>	<b>14,957</b>	<b>12,599</b>	<b>8,283</b>
Non-controlling interest in net income of subsidiaries and extraordinary items	373	506	575	611	505
<b>Net income</b>	<b>20,656</b>	<b>13,290</b>	<b>14,382</b>	<b>11,988</b>	<b>7,778</b>



## Deposit Liabilities in Canada, by Peer Group

### Total Deposits (\$ billions and percentage)

As at April 30	2006		2005		2004		2003		2002	
	\$	%	\$	%	\$	%	\$	%	\$	%
National	1,073.8	85.0	1,003.0	85.9	950.7	87.8	901.6	87.9	885.2	88.3
Regional	127.9	10.1	112.2	9.6	95.7	8.8	92.7	9.0	93.1	9.3
Residential	36.0	2.8	29.9	2.6	23.2	2.1	18.3	1.8	12.9	1.3
Commercial	3.6	0.3	2.7	0.2	2.4	0.2	2.2	0.2	2.3	0.2
Consumer	5.0	0.4	3.6	0.3	3.5	0.3	3.5	0.3	2.5	0.2
Fee Income	17.1	1.4	16.8	1.4	8.1	0.8	7.9	0.8	6.9	0.7
<b>Membership</b>	<b>1,263.4</b>	<b>100.0</b>	<b>1,168.2</b>	<b>100.0</b>	<b>1,083.6</b>	<b>100.0</b>	<b>1,026.2</b>	<b>100.0</b>	<b>1,002.9</b>	<b>100.0</b>

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

As at April 30	2006		2005		2004		2003		2002	
	\$	%	\$	%	\$	%	\$	%	\$	%
National	370.9	34.5	358.3	35.7	312.1	32.8	303.1	33.6	293.8	33.2
Regional	50.5	39.5	46.5	41.4	39.5	41.3	40.1	43.3	38.1	40.9
Residential	27.0	75.0	22.6	75.6	16.3	70.3	13.3	72.7	9.8	76.0
Commercial	2.3	63.9	1.5	55.6	1.2	50.0	1.1	50.0	1.2	52.2
Consumer	3.1	62.0	2.4	66.7	1.8	51.4	1.6	45.7	1.2	48.0
Fee Income	1.5	8.8	1.3	7.7	0.3	3.7	0.2	2.5	0.1	1.4
<b>Membership</b>	<b>455.3</b>	<b>36.0</b>	<b>432.6</b>	<b>37.0</b>	<b>371.2</b>	<b>34.3</b>	<b>359.4</b>	<b>35.0</b>	<b>344.2</b>	<b>34.3</b>

## Profitability Measures, by Peer Group

### Efficiency (percentage)

For the members' fiscal year ending in	2006	2005	2004	2003	2002
National	62.0	71.0	68.1	68.4	69.7
Regional	62.9	63.6	64.8	64.7	62.7
Residential	55.7	58.1	56.4	56.0	62.0
Commercial	61.2	84.3	82.5	78.9	79.2
Consumer	59.4	58.4	59.0	60.4	60.6
Fee Income	61.5	58.9	65.3	67.7	68.5
<b>Membership</b>	<b>61.9</b>	<b>69.8</b>	<b>67.4</b>	<b>67.8</b>	<b>68.9</b>

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

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**Non-Interest Income (percentage)**

For the members' fiscal year ending in	2006	2005	2004	2003	2002
National	56.0	53.0	50.0	48.3	47.7
Regional	53.9	51.2	52.3	51.6	47.0
Residential	22.2	22.7	26.9	30.3	30.3
Commercial	31.0	28.6	25.3	27.6	32.2
Consumer	58.7	59.6	59.4	61.9	70.4
Fee Income	90.6	102.7	97.0	77.1	80.9
<b>Membership</b>	<b>56.0</b>	<b>53.0</b>	<b>50.5</b>	<b>49.0</b>	<b>48.4</b>

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

**Return on Average Assets (ROAA) (percentage)**

For the members' fiscal year ending in	2006	2005	2004	2003	2002
National	1.0	0.7	0.8	0.7	0.4
Regional	0.8	0.9	0.8	0.8	0.6
Residential	0.7	0.7	0.8	0.8	0.7
Commercial	0.8	0.3	0.4	0.0	0.0
Consumer	2.4	2.5	3.3	3.3	4.3
Fee Income	1.1	0.9	0.8	0.5	0.8
<b>Membership</b>	<b>1.0</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.5</b>

ROAA: Net income/average assets

**Return on Average Equity (ROAE) (percentage)**

For the members' fiscal year ending in	2006	2005	2004	2003	2002
National	22.3	14.9	17.2	14.6	9.4
Regional	17.3	17.8	15.8	15.3	11.4
Residential	11.9	10.8	13.8	15.0	11.7
Commercial	9.4	3.2	3.8	0.4	0.1
Consumer	13.1	13.6	17.0	19.3	26.4
Fee Income	17.0	13.3	13.0	8.3	9.1
<b>Membership</b>	<b>21.3</b>	<b>15.0</b>	<b>16.9</b>	<b>14.6</b>	<b>9.7</b>

ROAE: Net income/average shareholders' equity

### Cost of Funds (percentage)

For the members' fiscal year ending in	2006	2005	2004	2003	2002
National	4.2	3.2	2.5	2.8	3.1
Regional	3.6	2.6	2.4	2.6	2.5
Residential	3.9	3.3	3.1	3.6	3.9
Commercial	3.9	3.3	3.2	3.5	3.6
Consumer	6.4	5.3	4.4	3.9	3.7
Fee Income	3.5	2.6	2.0	2.7	2.8
<b>Membership</b>	<b>4.2</b>	<b>3.1</b>	<b>2.5</b>	<b>2.8</b>	<b>3.1</b>

Cost of funds: Interest expense/average interest bearing liabilities

### Capitalization Measures, by Peer Group

#### Leverage (times)

As at members' fiscal year end	2006	2005	2004	2003	2002
National	22.6	22.5	21.4	21.4	21.5
Regional	21.2	21.0	19.6	19.8	19.6
Residential	17.6	16.3	17.5	19.1	17.0
Commercial	11.2	10.1	9.8	9.8	10.5
Consumer	5.5	5.4	5.1	5.8	6.1
Fee Income	15.9	15.5	16.5	16.2	11.3
<b>Membership</b>	<b>21.8</b>	<b>21.7</b>	<b>20.8</b>	<b>20.9</b>	<b>20.9</b>

Leverage: Average assets/average shareholders' equity

#### BIS Risk-Based Capital (percentage)

As at members' fiscal year end	2006	2005	2004	2003	2002
National	12.4	12.8	13.2	13.2	12.2
Regional	12.3	11.6	12.3	12.9	12.8
Residential	16.2	19.5	18.0	16.5	16.8
Commercial	15.1	15.0	15.9	17.0	16.0
Consumer	19.6	19.7	20.1	20.6	18.8
Fee Income	24.2	20.5	19.7	16.4	14.4
<b>Membership</b>	<b>12.6</b>	<b>12.9</b>	<b>13.3</b>	<b>13.3</b>	<b>12.3</b>

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

## Asset Quality Measures, by Peer Group

### Asset Growth (percentage)

As at members' fiscal year end	2006	2005	2004	2003	2002
National	11.2	11.5	4.6	1.3	0.6
Regional	10.8	17.9	8.5	5.0	0.2
Residential	18.8	29.0	36.4	33.6	42.1
Commercial	36.7	27.1	14.9	1.9	3.3
Consumer	18.4	14.7	15.9	47.0	29.6
Fee Income	63.2	5.4	10.3	-13.6	3.4
<b>Membership</b>	<b>12.0</b>	<b>12.3</b>	<b>5.6</b>	<b>2.0</b>	<b>1.0</b>

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

### Impaired Assets to Total Assets (percentage)

As at members' fiscal year end	2006	2005	2004	2003	2002
National	0.2	0.3	0.4	0.6	0.9
Regional	0.3	0.3	0.5	0.7	0.9
Residential	0.2	0.2	0.2	0.2	0.3
Commercial	0.6	0.8	1.5	2.2	2.4
Consumer	0.8	1.1	1.1	1.1	1.2
Fee Income	0.0	0.0	0.0	0.1	0.3
<b>Membership</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.9</b>

Impaired assets (gross)/total assets (gross)

### Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2006	2005	2004	2003	2002
National	0.4	0.5	0.7	1.2	1.6
Regional	0.5	0.5	0.8	1.0	1.3
Residential	0.2	0.2	0.3	0.3	0.5
Commercial	0.9	1.1	2.3	3.1	3.6
Consumer	1.0	1.3	1.3	1.5	1.6
Fee Income	0.1	0.4	0.4	0.8	1.8
<b>Membership</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>	<b>1.1</b>	<b>1.6</b>

Impaired loans (gross)/total loans (gross)

**General Allowance to Risk-Weighted Assets (percentage)**

As at members' fiscal year end	2006	2005	2004	2003	2002
National	0.5	0.6	0.7	0.9	1.0
Regional	0.6	0.7	0.9	1.0	1.0
Residential	0.5	0.6	0.6	0.8	0.8
Commercial	0.6	0.7	0.8	0.8	0.8
Consumer	2.0	2.3	2.4	2.6	1.8
Fee Income	0.1	0.2	0.3	0.4	0.7
<b>Membership</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>

General allowance/risk-weighted assets

**Net Impaired Loans to Total Shareholders' Equity (percentage)**

As at members' fiscal year end	2006	2005	2004	2003	2002
National	-4.2	-4.4	-3.3	-2.0	0.0
Regional	-4.5	-5.3	-5.2	-3.7	-1.8
Residential	-1.9	-1.9	-2.2	-3.5	-2.4
Commercial	-1.5	-2.6	0.9	4.7	8.0
Consumer	-4.7	-4.7	-5.2	-5.5	-1.9
Fee Income	-0.9	-1.5	-1.7	-1.2	-2.2
<b>Membership</b>	<b>-4.1</b>	<b>-4.4</b>	<b>-3.4</b>	<b>-2.2</b>	<b>-0.2</b>

Impaired loans (net)/average shareholders' equity



**April 17, 2007,  
marked the 40<sup>th</sup>  
anniversary of the  
founding of CDIC.**



## 6 GLOSSARY

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

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

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

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

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

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

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

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

**Guide to Intervention for Federal Financial Institutions:** This document, developed by the Office of the Superintendent of Financial Institutions (OSFI) and CDIC, outlines the intervention steps that may be taken when a federally regulated financial institution or CDIC member is experiencing problems. It describes the coordination mechanisms in place between OSFI and CDIC, summarizes the

circumstances under which certain intervention measures may be taken, and defines a graduated and progressive set of responses, based on the institution's particular circumstances. ("Guide en matière d'intervention à l'intention des institutions financières fédérales")

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

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

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

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

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

**Regulatory Capital:** Capital designed to provide a cushion to absorb unexpected losses and thus offer a measure of protection to depositors and other creditors in the event of the failure of a financial institution. The 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%; however, OSFI has established a target level of 10% for federally regulated deposit-taking institutions. ("Capital réglementaire")

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

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

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