

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.

Values

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

◀ FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY ▶

(\$ millions unless otherwise indicated)

For the Years Ending March 31	2005	2004	2003	2002	2001
SELECTED BALANCE SHEET ITEMS					
Cash and investments	1,323	1,195	1,066	985	766
Provision for insurance losses	550	550	550	500	400
Retained earnings	789	681	539	486	455
<i>Ex ante</i> funding (\$ billions)	1.3	1.2	1.1	1.0	0.9
SELECTED CASH FLOW ITEMS					
Claims paid	—	—	—	—	—
Claims recovered	14	1	—	18	62
Loans recovered	—	—	—	22	40
Payment of guarantees	—	—	10	10	10
SELECTED INCOME STATEMENT ITEMS					
Premiums	93	109	76	155	140
Interest on cash and investments	34	35	32	36	35
Operating expenses	21	22	26	23	21
Adjustment to allowance and provisions for loss	1	3	46	86	(6)
MEMBER INSTITUTIONS					
Domestic banks and subsidiaries	37	37	39	39	40
Domestic trust and loan companies	21	24	25	24	25
Subsidiaries of foreign financial institutions	23	25	24	28	36
Total number of institutions	81	86	88	91	101
Total insured deposits (\$ billions)	376	363	347	339	327
EMPLOYEES					
Number of permanent employees ^a	79	86	92	95	86
OTHER					
Average yield on cash and investments	2.99%	2.60%	3.21%	3.36%	5.46%
Growth rate of insured deposits	3.4 %	4.6 %	2.4 %	3.7 %	3.2 %

^a Represents the number of full-time, permanent employees at year-end. Vacant approved positions have not been included.

◀ THE YEAR AT A GLANCE ▶

2004/2005 was marked by positive change on a number of fronts. The year's "headlines" include:

FOR CONSUMERS ...

- ▶ *Consumers are better protected* — the Government of Canada raises the limit on insured deposits with member institutions to \$100,000 (up from \$60,000).

FOR MEMBER INSTITUTIONS ...

- ▶ *Member premiums are reduced by one third* — to their lowest levels ever.
- ▶ *Regulatory burden on members is eased* as CDIC's *Standards of Sound Business and Financial Practices* are repealed, leaving the Office of the Superintendent of Financial Institutions to assess institutions against their guidelines as well as legislative and regulatory measures, and to be the sole organization responsible for reviewing new entrants into the financial sector.
- ▶ *The financial sector had an excellent year* — CDIC members' profits reached record levels for the second year running.

FOR CDIC ...

- ▶ CDIC welcomes a *new President and CEO*, Guy L. Saint-Pierre.
- ▶ The Corporation continues to show *very strong financial health*.
- ▶ The *Special Examination by the Office of the Auditor General of Canada shows positive results*, noting CDIC's governance framework, risk activity and experienced management team.



◀ TABLE OF CONTENTS ▶

Message from the Chairman	4
Message from the President and CEO	9
I Introduction	12
II Management’s Discussion and Analysis	15
CDIC’s Operating Environment	15
Business Objectives, Strategies and Performance	19
Enterprise Risk Management (ERM)	29
Financial Overview	32
III Financial Statements	45
Management Responsibility for Financial Reporting	45
Auditor’s Report	46
Financial Statements and Notes	47
IV Corporate Governance	59
Treasury Board of Canada Secretariat Review of the Governance Framework for Canada’s Crown Corporations	59
Board of Directors	61
Board Governance Policy	69
CDIC Officers	70
Other Committees	70
Corporate Practices Related to Business and Employee Conduct	72
Statutory Requirements	73
V About Our Membership	75
Financial Performance	76
Comparative Financial Information	80
VI Reflections of the Past President and CEO	91
Appendices	95
Appendix A — CDIC Board Governance Policy	95
Appendix B — For More Information about CDIC	101
Appendix C — Glossary	102



◀ MESSAGE FROM THE CHAIRMAN ▶

At a time marked by particularly close scrutiny of federal Crown corporations, it is gratifying to have completed our fourth Special Examination with the following finding from the Office of the Auditor General:

“A good governance framework. We found that the Corporation has in place the key elements of a good governance framework. The Board assumes the stewardship of the Corporation and works closely with Management.”

— *Special Examination Report of the Office of the Auditor General of Canada, November 2004*

This independent confirmation of the Board’s diligent discharge of its duties is a reflection of the calibre of CDIC’s Board and the Management team that supports it. It also confirms what I have known about CDIC throughout the years I have been associated with it. My involvement with CDIC goes back a long way. I had the privilege of being one of its first private sector Directors from 1988 to 1993 and, more recently, its Chairman for the past six years. As I head into retirement this fall, I am naturally inclined to look back over how CDIC has changed.

Created in 1967 to assure depositors that their insured deposits will unquestionably be paid even if a member institution fails, CDIC plays a critical role in Canada’s financial safety net. For its first 15 years, CDIC had only a few failures to deal with and performed its role simply by being there to provide comfort to depositors and after the event cleaning up the affairs of those few failures. Then, in the 1980s, the Canadian financial sector was hit by waves of member failures. Those failures cost billions of dollars.

As a result, after extensive post-mortem reviews, it was decided that CDIC had to be transformed from being a passive deposit insurer to an active one. Its objects were changed to enable it to concern itself in the practices of its members before they failed, rather than after, and, not surprisingly, in view of the losses, the changes concluded with a provision that it was to pursue its enhanced objects “in such manner as will minimize the exposure of [CDIC] to loss”. In addition, CDIC was reoriented to have a more private sector ethos by adding to its Board of Directors an equal number of private sector directors to balance its existing public sector directors. More recent changes have made CDIC entirely responsible for making its own assessments of the risks with which it is faced.

The results since then have been good. Loss ratios on failures have fallen dramatically. Today, CDIC has no debt. It has no deficit. It has *ex ante* funding of approximately \$1.3 billion. The premiums it charges its members are the lowest they have ever been. As a result primarily of the remarkably good economic climate that Canada has enjoyed, coupled with an early intervention framework, none of our members has failed for 9 years.

Which brings me to the events of this past year or so. In his 2004 Budget, the Minister of Finance asked CDIC and OSFI to provide him with their views regarding overlap and duplication in their respective functions and operations.

To respond to the Minister’s request, our Board decided that a separate committee of the Board, the Committee of Independent Directors (“Committee”), should be established, comprised of all the independent private sector directors and me, to collaborate with Management in providing the Minister with CDIC’s views. Given their primary positions with other federal agencies, CDIC’s *ex officio* Directors did not consider it appropriate for them to be involved.

After a thorough review of all aspects of CDIC’s role in the federal financial safety net by the Committee and Management, and with the benefit of earlier consultations which I had previously initiated with the CEOs of a cross-section of our members, CDIC provided the Minister with a comprehensive report containing its views together with recommendations.

This year in his 2005 Budget, the Minister announced that he had decided that the key roles and responsibilities of CDIC will be maintained, while supervisory functions are to be streamlined within OSFI, which is to be solely responsible for certain matters in which CDIC also played a role.

The Minister decided that CDIC should repeal its *Standards of Sound Business and Financial Practices By-law*, as CDIC recommended. When that by-law was first introduced by CDIC, it was venturing into what was a new area for regulatory oversight, in effect the quality of corporate governance and risk management. However, once OSFI subsequently developed its own guidelines dealing with the same subject matter, and other regulatory authorities imposed comparable requirements, it was apparent that CDIC's by-law had become redundant. As a result of that decision, the one area of duplication and overlap which my own consultations with CEOs had lead me to believe was of most concern to our members has been eliminated.

The Minister also decided that OSFI is to be solely responsible for reviewing new federal entrants into the financial sector. That means that CDIC's responsibilities now start once an institution has been admitted to the sector rather than in advance of that occurring. CDIC's involvement in admission had been added to its mandate as a result of what occurred in the 1980s. Removing CDIC from having responsibility for admission will not affect CDIC's role as insurer of deposits at such institutions as are admitted. Thus, another area of duplication and overlap has been dealt with.

The decision that CDIC is to continue with its key roles and responsibilities confirms the continuation of the vital distinction between the role of OSFI, as the regulator and supervisor, and the role of CDIC, as the deposit insurer.

The completion of this review of the roles of CDIC and OSFI is to be welcomed. Relieving CDIC of responsibility in the areas mentioned does not affect CDIC's basic mandate. That remains clear: to act for the benefit of depositors and to promote the stability of the financial system in Canada. One of its principal challenges also remains clear, to ensure that, notwithstanding that it will have less direct interaction with its members in good standing, it continues to be able, as its Act requires, to minimize its exposure to loss. For CDIC to do that, it will remain very important that, while relying on OSFI as the primary regulator, CDIC continues to conduct its own analysis and evaluation of the state of its members and be ready and able to intervene early when it decides that the time has come to do so. It must never be caught by surprise.

The end result of these changes is that the checks and balances essential to having a system that is both effective and efficient remain in place. CDIC and OSFI will continue to work hand in glove with each other, while recognizing that they have different mandates and so may have different

interests and views. CDIC can move forward with confidence to meet its singular mandate of protecting the interests of depositors in the most cost efficient fashion thereby contributing to the stability of the financial system in Canada.

The foregoing are not the only changes at CDIC this year.

Turning first to the members, I am pleased to state that for the 2005 premium year, members will benefit from a one-third reduction in premium rates. This is the second reduction of premium rates since I was appointed Chairman in September 1999 — in fact, rates are down by as much as two-thirds since then. An additional significant change affecting members and depositors is the increase of CDIC's deposit insurance coverage from \$60 thousand to \$100 thousand. In that regard, I refer you to the message from our new President and CEO.

Another important change this year is that my comrade in arms throughout much of my time, Mr. Jean Pierre Sabourin, has retired as our President and CEO after 14 years in that office. He retired on April 1, 2005. He made a tremendous contribution to CDIC and to Canada, and is devoted to both. I encourage you to read his reflections included later in this report on the evolution of deposit insurance in Canada during the past two decades. He was a major force in that evolution.

CDIC is now in the very capable hands of our new President and CEO, Guy Saint-Pierre, who steps into the position with the support of the Minister of Finance based on the unanimous recommendation of the Board of Directors, following an open, competitive process which it conducted. His appointment was approved unanimously by the House of Commons Standing Committee on Finance. Our Board has seen first-hand what Mr. Saint-Pierre can do and we are very confident that he will embrace the challenges of the future.

The Board has had a very busy year on numerous other fronts as well, and I refer you to the Corporate Governance section of the report for further details in this regard. There has been one change in the composition of our Board of Directors this past year. It was with great pleasure that we welcomed Ian Bennett back to our Board, in his new capacity as Deputy Minister of Finance. Mr. Bennett served on CDIC's Board as the Alternate for the then Deputy Minister of Finance from 1997 to 2001.

CDIC is most fortunate to have such a good complement of Directors — both from the private sector who bring a very practical bent to our decision-making process as well as our *ex officio* Directors who bring a comprehensive knowledge of the Canadian financial regulatory and supervisory system. I would like to express my sincerest gratitude to each and every one of our Board members for their support throughout my term. I have very much appreciated their candour, dialogue and hard work. We simply could not find a better combination of practical skills, knowledge and experience that an organization like CDIC needs at its helm. I especially want to note how much the Committee of Independent Directors contributed this past year to our report to the Minister. They gave unstintingly of their time and were unanimous in their support of CDIC. I thank as well all of the CDIC employees who continue to demonstrate their professionalism and desire at all times to do what is best, not just for CDIC, but also for the millions of Canadians who rely on its deposit insurance. Finally, it would be remiss of me not to acknowledge the Ministers under whom I have served. I could not have been more fortunate.

I wish CDIC the best in the future. I know that I leave it in good hands, and am confident that it will continue to serve our country well.

R.N. Robertson, Q.C.



◀ MESSAGE FROM THE PRESIDENT AND CEO ▶

As I begin my term as CDIC's new President and CEO, I am pleased to report that CDIC's financial position continues to be very strong. CDIC's *ex ante* fund, which is the aggregate of the retained earnings and the provision for insurance losses, was \$1.3 billion as at March 31, 2005. Net income of \$108 million was down from last year's \$142 million as a result of reduced premium revenue from CDIC's member institutions, despite the fact that the level of deposits CDIC insures rose by 3.4% in 2004/2005 to \$375.2 billion. On the operational front, CDIC's operating expenses decreased by 4.2% over the previous year, mainly due to lower salary costs and operating efficiencies.

For the ninth consecutive year, there were no failures among CDIC's members, reflecting both their continuing solid performance and a positive economic cycle. The membership's after-tax profits surged by \$2.4 billion in fiscal year 2004 to an historical high of \$14.4 billion. Most member institutions are reporting excellent asset quality measures, strong capital levels (the BIS ratio reached 13.4%), and improved governance and risk management processes.

During the year, CDIC carried out its four business strategies and related initiatives: readiness, sound governance, strong partnerships and deposit insurance awareness. These strategies were developed to ensure that CDIC fulfills its statutory mandate. CDIC's major initiatives for each strategy were achieved on time and on budget. The key readiness initiatives consisted of active contingency planning for an intervention including a payout of insured deposits. This coupled with a strong risk assessment function

will ensure that CDIC will be ready in the event that CDIC is called upon to deal with a failing member institution. CDIC also pursued a number of governance-related initiatives, which included implementation of an enterprise risk management framework to ensure that CDIC has a sound process to manage all of its significant corporate risks.

In delivering on its mandate, CDIC relies on its relationships with a number of partners. The single most important partner for CDIC on a day-to-day basis is the Office of the Superintendent of Financial Institutions (OSFI). Last year, both organizations continued to regularly exchange information and to work together on issues related to the membership. Another key partner and with whom CDIC collaborated on a number of awareness activities is the Financial Consumer Agency of Canada. There are a number of others with whom CDIC carried out joint activities, such as financial advisors and deposit broker associations, which allowed CDIC to successfully increase Canadians' awareness of deposit insurance. A recent review of the program combined with discussions with consumer groups highlighted the necessity of a shift in focus in order to reach certain segments of the population most in need of information about deposit insurance. Accordingly, CDIC's public awareness program going forward will target a range of consumers such as seniors, through a mix of media and information vehicles.

Several announcements in the February 2005 Federal Budget will have an important impact on CDIC's business plans going forward. Undoubtedly, the most significant announcement for Canadians about deposit insurance was the increase in the deposit insurance coverage limit to \$100,000 from the current \$60,000. This will have a beneficial impact on depositors. It will also have an impact on CDIC's operations as it will affect when CDIC reaches the bottom of its target *ex ante* funding range (between 40 and 50 basis points of insured deposits).

Other Budget announcements relate to the Government of Canada's continuing initiative to streamline financial services regulation, and to reduce the regulatory burden and any unnecessary overlap of activity between CDIC and OSFI. Therefore, CDIC will no longer be required to approve new members at the federal level. Furthermore, as recommended by CDIC last year, its *Standards of Sound Business and Financial Practices* for member institutions have been repealed.

On May 9th of this year, I was handed the honour of becoming CDIC's third ever President and CEO. Fresh from serving in the position of Executive Vice-President and Chief Operating Officer, I feel very well equipped to meet

the many challenges of this work. I appreciate the full support that I received from CDIC's Board of Directors in recommending me for this position. I have already begun to look at ways CDIC can deliver on its mandate as cost-effectively as possible, while recognizing the need to constantly invest in employees' skills sets and upgrade technology tools in preparation for an intervention. I am also mindful of the regulatory burden carried by the members. I intend to continue CDIC's practice of seeking their views throughout any process that would result in a change to CDIC's requirements of them.

Recently, all Crown corporations have been challenged by the Government to strengthen governance practices. It was stated that Crown corporations should be leaders as opposed to followers in adopting new and innovative best practices for effective governance, transparency, and accountability suited to the challenges of the 21st century. This is an opportunity that I readily embrace to ensure that CDIC continues to earn the confidence of Canadians through its strong governance practices and indeed in all areas of its endeavour. I sincerely hope that my knowledge of the financial services sector and my commitment to the protection of consumers will also help me and my team at CDIC to earn the trust and respect of all of CDIC's stakeholders.

Guy L. Saint-Pierre



◀ I INTRODUCTION ▶

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

CDIC plays a unique role within Canada's financial system. There are five federal government agencies including CDIC that create a "safety net" to protect the financial system, each with its own distinct mandate. The five agencies are: the Office of the Superintendent of Financial Institutions, the Bank of Canada, the Financial Consumer Agency of Canada and the Department of Finance and, of course, CDIC.

CDIC's mandate has several facets: it provides deposit insurance against the loss of eligible deposits should a member institution fail, it contributes to the stability of the financial system in Canada, it must carry out its work in a way that minimizes CDIC's exposure to loss in the event that a member institution fails and it does so for the benefit of depositors.

The CDIC protection for eligible deposits is currently \$100,000 per depositor in each member institution. CDIC is funded by premiums assessed on its member institutions and does not receive federal tax dollars.

This year's Annual Report includes the following sections:

MANAGEMENT'S DISCUSSION AND ANALYSIS (SECTION II), AND FINANCIAL STATEMENTS (SECTION III)

The Canadian Institute of Chartered Accountants guideline entitled *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*, requires detailed information on a corporation's performance against plan and its current environment, its risks, and how its future activities are expected to affect the corporation's business results. CDIC's 2005 Management's Discussion and Analysis (MD&A) has been expanded to meet the requirements of the guideline.

For the first time this year, and also consistent with Treasury Board's recently released *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises*, the MD&A was reviewed by CDIC's Audit Committee and then approved by the Board of Directors, along with the Financial Statements.

CORPORATE GOVERNANCE (SECTION IV)

For the past several years "sound governance" has been one of CDIC's four business strategies. CDIC has long recognized the fundamental importance of governance to successful business operations and has sought ways to enhance its own practices in this area. In February 2005, the President of the Treasury Board of Canada Secretariat introduced in the House of Commons a report entitled *Review of the Governance Framework for Canada's Crown Corporations — Meeting the Expectations of Canadians*, with a view to strengthening Crown corporation governance. CDIC summarizes its status in respect of the principal measures set out in that report in the Corporate Governance section.



ABOUT OUR MEMBERSHIP (SECTION V)

Section V includes CDIC's review of the financial performance of its member institutions for the past year. CDIC maintains a solid understanding of its member institutions, and particularly higher risk members. CDIC manages and minimizes its exposure to loss through vigilant monitoring of the risks inherent in members' strategies and operations. Failures of institutions are costly and achieving the least cost resolution of a member's failure can only be done through identification of warning signs and early intervention.

REFLECTIONS OF CDIC'S PAST PRESIDENT AND CEO (SECTION VI)

On April 1st of this year, CDIC's former President and CEO, J.P. Sabourin, retired after over 28 years with CDIC, almost 15 of those as its CEO. Mr. Sabourin's extensive experience in the field of deposit insurance is reflected in his thoughts on the evolution of the federal deposit insurance system over the course of his career with CDIC.



◀ II MANAGEMENT'S DISCUSSION AND ANALYSIS ▶

The following discussion and analysis is the responsibility of CDIC management. The Corporation's Board of Directors carries out its responsibility to review this disclosure principally through the Audit Committee. The Audit Committee reviews this disclosure and recommends its approval to the Board of Directors.

The discussion addresses the Corporation's operating environment, provides an analysis of CDIC's performance against business strategies (and includes a Corporate Scorecard); as well, it presents a financial overview and a description of the Corporation's risk management activities.

CDIC's OPERATING ENVIRONMENT

CDIC plays an important and unique role in Canada's financial sector. To successfully fulfill its mandate, the Corporation must stay alert to potential risks it faces, as well as risks that may have an impact on its members. CDIC constantly monitors and reviews all aspects of its broad operating environment, including the Canadian economy, the financial services sector, financial trends and developments, the legislative and regulatory environments, international events, and the impact of the evolution of information technology on the financial sector.



A stable economic environment — with issues to watch

Canada's economy continues to demonstrate signs of strength and is coping well with powerful global forces. Inflation is low and stable, economic growth is firming, interest rates are relatively low, and the Federal Government surplus remains healthy. Moreover, world economic growth has slowly rebounded after a period of weakness — a trend that is expected to continue and one that will support the healthy performance of the CDIC membership. At the same time, there are a number of areas of potential risk that may have an impact on CDIC's member institutions, including the possibility of higher interest rates, the impact of a strengthening Canadian dollar, the effect of higher energy prices, adjustments to real estate markets, instability arising from the risks associated with international terrorism activities and implications of the current rapid economic growth in China on the world economy.

Consumer spending continues to play a significant role in sustaining North American economic growth and in the performance of financial institutions. Household borrowing relative to income is at an historical high and personal savings rates have declined, although household debt-to-total-household-assets has remained stable — perhaps reflecting that many households are borrowing against increased home equity and taking advantage of low interest rates. There is a risk that consumer confidence may be dampened by rising interest rates, continued high energy prices, potential declines in residential real estate values, or other external shocks that could have an impact on CDIC members.

Membership environment — characterized by strong performance and focus on risk management and corporate governance

In recent years, the financial performance of CDIC member institutions has been very strong. This strength has been driven by growth in earnings, a strong capital base, good corporate creditworthiness, a continuing focus on non-interest income, as well as by a surge in retail lending — mortgages, in particular.

The environment for the membership is also characterized by strategic change. Some members are increasingly active on the international scene, while others are retrenching to domestic or niche markets. Certainly, member institutions are facing some competitive challenges. As a result, some are seeking out new lines of business or are turning to new distribution channels.


Investors and regulators continue to signal a degree of nervousness about accounting and corporate governance issues and how such issues impact the risk profile of financial institutions. A variety of fraud-related issues (debit and credit card fraud, money laundering, Internet fraud) represent increasing risks to member institutions, as do potential technology-related problems that can have a significant impact on the reputation of affected institutions. As financial institutions continue to leverage innovations in technology, risk-management issues will become more challenging.

The evolving legislative and regulatory environment

Ongoing regulatory and accounting changes have added to the complexity of operations of CDIC member institutions, and will continue to do so. Members are facing increased work arising from the *Sarbanes Oxley Act* and other, similar requirements (e.g., TSX Guidelines) that are having an impact on resources and challenging the capacities of existing systems. The new Basel Capital framework will encourage larger banks to use more disciplined enterprise-wide indicators of risk to manage their business and develop internal assessments of capital needs. Some CDIC members may adjust their business mix to balance their portfolios and reduce capital under the new rules.

Other recent and current changes that affect CDIC and its membership include:

- ▶ The increased focus on corporate governance, including new rules and guidelines aimed at strengthening accountability, places new demands on corporations and their boards of directors, as well as on their accounting and control resources. Comprehensive governance review and assessment should enable boards to meet these rising expectations and assist them in performing their expanding responsibilities.

- 
- ▶ Protection of consumer information is a challenge that has surfaced as a result of financial modernization and technological developments. The ease and speed with which information about individuals can be electronically compiled, transmitted, and modified has required the development of innovative technology solutions to safeguarding and keeping such information private.

The Government of Canada is seeking ways to improve the efficiency and effectiveness of the delivery of financial services regulation, to reduce regulatory burden and, more specifically, to eliminate any unproductive overlap and duplication of role and function between CDIC and the Office of the Superintendent of Financial Institutions (OSFI). In support of this initiative, CDIC conducted its own review and submitted recommendations in July 2004 to the Minister of Finance to address these concerns. The Government announced, in its February 2005 Budget, a number of initiatives encompassing some of the recommendations made by CDIC. While CDIC's key roles and responsibilities will be maintained, the Corporation's future business plans will reflect these legislative changes and initiatives, which include: clarifying the roles and responsibilities of CDIC and OSFI and eliminating unnecessary overlap and duplication between the two agencies; OSFI becoming the sole organization responsible for reviewing new entrants into the federal financial sector and for developing prudential rules and guidelines; and increasing the deposit insurance coverage limit for insurable deposits from \$60,000 to \$100,000.

The importance of CDIC keeping pace

CDIC must continue to be well informed and knowledgeable about individual member and overall membership risks — a major component of its readiness strategy. As the complexity of members' business activities continues to expand, it is possible that the nature of information provided by member institutions to federal agencies will also need to change accordingly. CDIC will continue to collaborate with OSFI and will maintain strategic partnerships and relationships with other financial safety net agencies as part of its ongoing work.

A challenge for the Corporation is to keep pace with technology used by member institutions. New technologies available to financial consumers may raise depositors' expectations of CDIC for faster payout in the event of a failure.

Overall, CDIC's focus on increasing efficiency, coupled with the ongoing scrutiny of regulatory costs in Canada, requires that the Corporation look regularly at its premium rates and other requirements that have an impact on its membership.

BUSINESS OBJECTIVES, STRATEGIES AND PERFORMANCE


CDIC's Summary of the Corporate Plan (2004/2005 to 2008/2009) set out the Corporation's business objectives and strategies for 2004/2005. The current Annual Report presents CDIC's progress against those objectives and strategies.

CDIC's public policy role, as set out in section 7 of the *CDIC Act*, forms the Corporation's business objectives:

- (a) to provide insurance against the loss of part or all of deposits;
- (b) to be instrumental in the promotion of standards of sound business and financial practices for member institutions* and to promote and otherwise contribute to the stability of the financial system in Canada; 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.

CDIC follows four long-term business strategies to achieve these objectives — readiness, sound governance, strong partnerships and deposit insurance awareness. The strategies are updated each year to ensure that they support and reflect CDIC's mandate and are still relevant in the context of the operating environment, current risks and the state of the Corporation's membership. Similarly, existing CDIC initiatives are regularly examined

* Although "to be instrumental in the promotion of standards of sound business and financial practices for member institutions" was repealed in June 2005, it was in effect throughout 2004/2005.



to ensure that they continue to support the Corporation's business strategies and help to mitigate the associated risks. Throughout this process, considerable emphasis is placed on managing CDIC's significant risks, which are:

- ▶ **Insurance Risk:** CDIC's risk of loss associated with insuring deposits, including costs incurred in the event of an intervention.
- ▶ **Financial Risk:** The risk associated with managing CDIC's assets and liabilities, both on- and off-balance sheet.
- ▶ **Operational Risk:** The risk of loss to which CDIC is exposed, and that is attributable to the possibility of disruptions in its operations caused by human performance, the inadequacy or failure of processes or technology, and external events.
- ▶ **Reputation Risk:** The risk of impairment of the credibility of, and confidence in, CDIC.

CDIC's performance during 2004/2005 against the above four strategies is reported in the Corporate Scorecard and summarized in the highlights that follow.

The Scorecard shows that progress against the majority of key performance indicators proceeded as planned, with the exception of delays or cancellation of initiatives (described below) related to the March 2004 and February 2005 Budget announcements:*

- ▶ Substantial progress was made with respect to Enterprise Risk Management (ERM); detailed assessments of all individual risks should be completed in 2005/2006, and the annual sign-off process implemented thereafter.
- ▶ Business Continuity Plans are being developed and testing of plans in each area of the Corporation has commenced.

* The Federal Government announced in its March 2004 and February 2005 Budgets that it is considering ways to improve the efficiency and effectiveness of the delivery of financial services regulation in Canada. The Government's primary focus of the review is on reducing the regulatory burden on member institutions. CDIC has closely examined its role as the federal deposit insurer and an integral part of the financial safety net, as it relates to activities undertaken by OSFI, and participated in the review by providing a report to the Minister of Finance in July 2004. CDIC and OSFI are currently working together to ensure streamlined administrative and corporate service functions, and will present a plan to the Minister of Finance for streamlining administrative functions by June 30, 2005.

- ▶ Updated succession plans were reviewed, and compensation and performance management policies were approved during 2004/2005, but updating the Human Resource Strategy was deferred to 2005/2006.
- ▶ The development and distribution of membership profile information has been cancelled.
- ▶ Work on the E-Business Shared Services (ESIS) joint project with OSFI is on hold pending the outcome of the work now under way with OSFI to prepare a plan for streamlining of administrative and corporate services.
- ▶ Revisions to the *Deposit Insurance Information By-law*, including those reflecting the new communications and public awareness strategy, have been deferred with consultation work scheduled to commence in 2005/2006.

**CDIC Corporate Scorecard
as at March 31**

Mandate	Business Strategy	Ongoing Activities
<p>For the Benefit of Depositors:</p> <ul style="list-style-type: none"> ▶ Provide Deposit Insurance ▶ Promote Standards* ▶ Contribute to the Stability of the Financial System <p>... while minimizing exposure to loss.</p>	<p>Readiness</p> <p><i>Be prepared to fulfill CDIC's role of deposit insurer by being ready and alert to events affecting CDIC members and having the ability to anticipate, react and manage risk.</i></p>	<ul style="list-style-type: none"> ▶ Risk assessment of members and membership ▶ Watch list of higher risk members ▶ <i>Standards of Sound Business and Financial Practices</i> ▶ Contingency Planning ▶ Funding plans ▶ Differential Premiums System ▶ Technological Infrastructure
	<p>Sound Governance</p> <p><i>Ensure that policies, procedures and reporting are in place such that the Corporation can fulfill its mandate in a controlled, effective and efficient manner.</i></p>	<ul style="list-style-type: none"> ▶ Board & Committees (Audit, Executive, Governance, Human Resources & Compensation) ▶ Strategic Management Process ▶ Enterprise Risk Management (ERM) ▶ Internal Audit process ▶ Annual review of CDIC By-laws
	<p>Strong Partnerships</p> <p><i>Enhance relationships with our partners (members, regulators, supervisors and suppliers) to better achieve CDIC's mandate.</i></p>	<ul style="list-style-type: none"> ▶ Consultation with membership ▶ <i>CDIC/OSFI Strategic Alliance Agreement</i> ▶ Joint external committees (SAC, sub-SAC, FISC, sub-FISC) ▶ Existing partnership arrangements (OSFI, Bank of Canada, FCAC, Communications Canada) ▶ International participation ▶ Key suppliers inventory and relationships
	<p>Deposit Insurance Awareness</p> <p><i>Increase depositor awareness and explain the benefits and limitations of deposit insurance.</i></p>	<ul style="list-style-type: none"> ▶ Television advertising ▶ 1-800 lines ▶ Register of insured deposits ▶ Updating and dissemination of information brochures ▶ Public speaking engagements

Legend:

▲ Planned progress on schedule and within budget.

▼ Slippage in terms of time to completion, and/or budget variances.

⊗ Cancelled.

● Deferred to a future year.

*Repealed pursuant to 2005 Budget Bill.

	Planned Key Supporting Initiatives 2004/2005 to 2008/2009	Key Performance Indicators (Measure/Target)	Status ▲▼⊙●
	▶ Simulation of a member failure	▶ Successful simulation by Y/E March 2005	▲
	▶ Assessment of impact of environmental changes on members/membership (Basel II, accounting principles, SOX)	▶ Analysis of implications of environmental issues (e.g., Basel II) for CDIC is performed on a regular basis	▲
	▶ Investments in technology (intervention tools, quantitative monitoring tools, portal applications)	▶ Successful implementation of I.S. Strategic Plan (Portal technology deployed on schedule; enhancements to ROADMAP and Valuation Model in place by Y/E March 2005 and 2006, respectively)	▲
	▶ ERM, Strategic and Performance Management systems and reporting	▶ ERM framework, annual sign-off and reporting regime in place by Y/E March 2005	▼
	▶ Business Continuity/Resumption Plans (BCP)	▶ BCP in place and tested by Y/E March 2005	▼
	▶ HR Strategy, succession planning, training and compensation scheme	▶ Approval of succession plans, compensation and performance management policies in place by Y/E March 2005	▲
		▶ Updated HR Strategy in place by Y/E March 2005	⊙
	▶ Internal audit as a strategic/risk management tool	▶ Annual achievement of all Internal Audit strategic and operational plans	▲
	▶ 2004 OAG Special Examination	▶ No significant deficiencies resulting from Special Examination	▲
	▶ Corporate governance policy	▶ Policies in place and regularly reviewed by Board of Directors	▲
	▶ Annual reviews of CDIC By-laws	▶ Annual Review conducted and any required revisions addressed	▲
	▶ Enhancing/leveraging information to members	▶ Membership profile information available to members by Y/E March 2006	●
	▶ Improve communications tools with OSFI and other strategic partners and increase efficiency for risk assessment	▶ Progress made in regard to E-Business Shared Services (ESIS) project, improvements to communications infrastructure with strategic partners	▼
	▶ Proactive analysis of regulatory burden issues including a focused review of the overall cost of providing deposit insurance	▶ Issues pertaining to CDIC identified and action plans in place by Y/E March 2005	▲
	▶ Undertake research of specific deposit insurance issues in support of potential amendments to the <i>CDIC Act</i> and other related legislation towards the 2006 review of the <i>Bank Act</i> and related financial system legislation	▶ Issues papers developed by Y/E March 2005	▲
	▶ Bridge from the existing to a new communications and deposit insurance awareness strategy and plan	▶ Revised communications and deposit insurance awareness strategy and plan in place by Y/E March 2005	▲
	▶ Finalize revisions and implement revised <i>Deposit Insurance Information By-law</i>	▶ Implications of new communications and deposit insurance awareness strategy and plan to be reflected in revised by-law by Y/E March 2005	▼

Readiness

CDIC must be prepared to fulfill its role as deposit insurer — including staying alert to events affecting the Corporation and its members, and having the ability and capacity to anticipate, react to and manage its principal risks.

Although the current financial system in Canada is strong, the Corporation's mandate requires that it be prepared to intervene in the event of a failure of a member institution. Over the course of 2004/2005, CDIC's principal activities in support of readiness focused on monitoring risk posed by member institutions and ensuring that CDIC maintains the ability to quickly and effectively respond should problems with member institutions arise.

Staying on top of the issues

Each year, CDIC conducts comprehensive reviews and thorough analyses of its membership to assess both the risk of individual members as well as that of the overall membership. The information derived from this work serves several important functions. It assists CDIC in identifying institutions for closer examination, provides the Corporation with more information in preparation for an intervention, and helps assess the level of *ex ante* funding and the Corporation's provision. CDIC's understanding of member institutions' strategies, operations and emerging risks also assists the Corporation in setting its own corporate business strategies.

Tools in place, ready to act, and keeping current

CDIC worked throughout the year to implement its Enterprise Information Portal and improve its ROADMAP payout application — internal systems that support its ongoing readiness.

The Corporation completed a full, end-to-end simulation of a payout in June 2004, as well as smaller, focused simulations over the course of the year to test some specific payout processes, such as the data load and interest calculation. Others are planned for 2005/2006, including a full-scale simulation to be conducted in the summer of 2005. During 2004/2005, CDIC updated the valuation model used to estimate the cost of an imminent failure of a member institution under a variety of failure resolution methods. The model is now more user-friendly and more relevant to the diversity of today's financial institutions.

CDIC is also updating its preparatory examination processes and documentation, with a focus on a staged approach that effectively reduces the time and effort needed to perform a payout. The Corporation continues to assess

the impact of emerging issues affecting the membership, and to develop and implement innovative payout processes, such as the electronic delivery of insurance payments.

Communication readiness activities

As part of its deposit insurance payment readiness, CDIC simulated 15,000 letters to depositors to assess the Corporation's ability to react quickly and communicate with depositors promptly in the case of a financial institution's failure. The simulation was very successful, but it also pointed to areas where CDIC can refine its communication processes.

Sound Governance

CDIC must ensure that policies, procedures and reporting processes are in place so that the Corporation can demonstrate sound management in fulfilling its mandate effectively and efficiently.

CDIC prides itself on being a well-governed, well-managed organization with a strong oversight regime, a Board Governance Policy, and a Code of Business Conduct and Ethical Behaviour for both its Board of Directors and its employees (adherence to which is confirmed in writing each year). Nonetheless, the Corporation continues to solidify its sound governance by identifying ways to increase overall efficiency and effectiveness.


Ongoing review of CDIC by-laws and policies ensures that these documents are current and supportive of sound governance. The Office of the Auditor General's (OAG's) 2004 Special Examination Report on CDIC was very supportive of the Corporation's governance initiatives, noting that CDIC has in place the key elements of a good governance framework.

Enterprise Risk Management — important and ongoing

In 2004/2005, progress was made towards implementing CDIC's Enterprise Risk Management (ERM) framework as part of a broader initiative to fully integrate risk management with CDIC's strategic management and reporting processes. CDIC responded to ERM opportunities raised by the OAG's 2004 Special Examination of the Corporation by stepping up plans for full implementation of its ERM by the end of the 2005/2006 fiscal year.

Business continuity planning

CDIC's business continuity planning process supports the Corporation's sound governance and is also an important aspect of its readiness strategy. Business Continuity Plans are being developed and testing of plans in each area of the Corporation, while not fully completed at March 31, 2005, has commenced.


Sound governance, from the inside out

CDIC pursued a number of internal activities in support of sound governance, which include implementing a new Records Management Application to improve corporate document management practices and improving the information technology infrastructure, with the overall goal of enhancing data integrity, integrating systems and improving effectiveness and efficiency of operations.

Human resources commitments met and policies in place

CDIC met its obligations under all the Government of Canada human resources related programs with which it is required to comply, such as the Health and Safety Program, the Official Languages Program and the Multiculturalism Program. With fewer than 100 employees, CDIC is exempt from reporting under the Employment Equity Program although it continues to follow its own Employment Equity Policy.

Succession plans for all key positions were reviewed, and new compensation and performance management policies were approved by the end of 2004/2005. With the retirement of CDIC's President and CEO on April 1, 2005, activity in the latter part of the year focused on identifying candidates for President and CEO.

Strong Partnerships

CDIC builds and maintains relationships with members, regulators, supervisors and suppliers to better achieve its mandate. The Corporation works with its members to identify opportunities to reduce costs and to maximize the benefits of deposit insurance for both depositors and member institutions.

By working collaboratively with others, including member institutions and other organizations in the financial safety net, and by potentially sharing resources — in particular, information and technology resources — CDIC can contribute to the reduction of regulatory burden on member institutions.

Liaising with members on important issues

During the year, the Corporation solicited the views of its member institutions and industry associations (for example, the Canadian Bankers Association) on a number of important deposit insurance matters. Of note, CDIC received input on and discussed ways to ease regulatory burden imposed by CDIC's *Standards of Sound Business and Financial Practices*, the mechanics of calculating differential premiums and potential amendments to certain CDIC by-laws.

CDIC/OSFI strategic sharing through information technology

CDIC continued to work with OSFI under the *Strategic Alliance Agreement*. In spite of their separate mandates, both organizations are committed to the strategic sharing of information through secure information technology (IT) processes. Joint efforts in this area will continue between CDIC and OSFI.

Multi-agency data rationalization initiative

Collecting and maintaining the right information about its members is central to CDIC's insurance risk monitoring process. Collaboration with other federal agencies — through the Financial Information Committee — helps to reduce the costs of collecting and maintaining data while reducing member institutions' burden associated with filing regulatory information. Led by OSFI, the Committee includes CDIC, the Bank of Canada, the Department of Finance and Statistics Canada (which has observer status). Significant progress was made during 2004/2005 in identifying all of the agencies' information requirements and in identifying opportunities to reduce overall filing requirements.

Deposit Insurance Awareness

CDIC must increase depositor awareness and explain the benefits and limitations of deposit insurance.

One of CDIC's major ongoing initiatives is to increase public awareness about deposit insurance and to improve public understanding of its benefits and limitations. To this end, CDIC completed a five-year public awareness program in 2004/2005. During this program, public awareness of CDIC and the deposit insurance limit rose to their highest levels since 1996.

The Corporation devoted considerable effort to advertising by placing advertisements in 31 major daily newspapers and 45 weekly publications, providing information to a wide audience across the country. In addition, CDIC published advertising supplements in major news, financial and consumer magazines, providing detailed information about deposit insurance.

In addition to print materials, CDIC made presentations to diverse audiences. For example, the Corporation's past President and CEO was a keynote speaker at the annual general meeting of the Federation of Canadian Independent Deposit Brokers, held in Winnipeg in September 2004. Mr. Sabourin also presented a paper on the role of deposit insurers in maintaining financial stability to the Federal Reserve Bank of Chicago's seventh annual international conference held in Chicago.

CDIC made presentations and participated in a variety of conferences and events, including annual meetings of the Credit Union/Caisse Populaire Stabilization Funds of Canada and the Canadian Financial Services Insolvency Protection Forum (CFSIPF). In collaboration with the CFSIPF, CDIC participated in the launch in December 2004 of a web portal (<http://www.financeprotection.ca>) to provide a one-stop source of information regarding consumer protection in case of the insolvency of a financial institution in Canada.

As part of the MarketSense speaker series with the TSX, designed to raise consumers' awareness of financial matters, CDIC made 12 presentations on deposit insurance over the course of the fall and winter, reaching Canadian consumers with factual information about deposit insurance.

Informing financial advisors

CDIC also reached consumers by participating in two financial forums for consumers, held in Vancouver and Toronto in conjunction with the Financial Consumer Association of Canada. Thousands of financial advisors also had the opportunity to increase their understanding and knowledge of deposit insurance through CDIC displays set up at five regional conferences of Advocis, Canada's largest association of financial advisors.

To provide better information on deposit insurance matters, the Corporation began the work of developing an interactive CD on deposit insurance for delivery to member institutions, financial advisors and deposit brokers, with a view to assisting them to respond accurately to inquiries on deposit insurance.

Targeted long-term strategy

During the year, CDIC developed a new long-term public awareness strategy and plan with a three-year horizon. Initial steps of the plan will focus on gathering information about targeted segments of the consumer market — with emphasis on those with lower literacy levels — to ensure that future awareness efforts target those most in need of information. Discussions with a variety of consumers associations over the past year have provided CDIC with useful information about the best approaches to reach specific audiences. The Corporation will build awareness plans and activities with these findings in mind.

CDIC traffic is on the rise

Both CDIC's website and its 1-800 information lines have seen an increase in traffic this year. Inquiries to the 1-800 information lines numbered 12,379 (representing a 5% increase over last year), while the website registered 281,710 visits (representing a 25% increase over 2003/2004).

ENTERPRISE RISK MANAGEMENT (ERM)

ERM — Integral to CDIC

CDIC's Board of Directors has put in place a Board Governance Policy which recognizes the Board's responsibility to establish appropriate and prudent risk management policies. CDIC's President and Chief Executive Officer is accountable to the Board for management's responsibilities in this area. CDIC has in place a committee to assist with the implementation of ERM.

CDIC's objective is to demonstrate that the Corporation's significant risks are being identified, managed and reported on, and that risks are explicitly taken into account in CDIC's strategic and day-to-day decision making, using a framework and assessment process that is consistently applied throughout the Corporation.

2004/2005: Focus on Insurance Risks and Financial Risks

Over the course of 2004/2005, CDIC focused its ERM efforts on carrying out detailed assessments of its insurance and financial risks, as well as of the Corporation's exposure to these risks. Work included continuing to document CDIC's understanding of the risks, and its practices, controls and oversight mechanisms in place to successfully manage these risks. CDIC also worked to improve its risk reporting processes.

The Nature of CDIC's Insurance and Financial Risks

CDIC is exposed to four **insurance risks**:

1. **Insurance Powers Risk** — the risk that CDIC does not have the necessary powers to support the management of its insurance risk in accordance with its statutory objects.
2. **Underwriting Risk** — the risk that CDIC approves a new member institution for deposit insurance with an unacceptable level of insurance risk.
3. **Assessment Risk** — the risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.
4. **Intervention Risk** — the risk that CDIC does not take appropriate action with respect to an unacceptable level of insurance risk posed by a member institution, or with respect to failed member institutions.

The Corporation's **financial risks** are **liquidity risk**, **market risk** and **credit risk**. These risks arise from the conduct of CDIC's day-to-day business and as a result of its intervention activities.

CDIC management has concluded that its **insurance risks** are well managed. CDIC has the necessary insurance powers to support the achievement of its statutory objects. It monitors the risks posed by member institutions on a regular and systematic basis, including the regular exchange of information with the Office of the Superintendent of Financial Institutions and the Autorité des marchés financiers. Areas of concern are regularly reported to the Board of Directors. Over the past several years, CDIC has taken steps to improve its capacity to manage insurance risk, including the formation of a corporate-wide Operational Readiness Group, updating intervention tools and conducting payout simulations.

CDIC management also considers its **financial risks** to be well managed, as the Corporation is positioned to fully meet its day-to-day operating needs and to effectively deal with requirements in the event of a member institution failure. The Corporation's investments are conservatively managed, with financial assets invested in securities selected to minimize market and credit risks and that possess characteristics of high liquidity, in the event they need to be accessed quickly.

Management’s assessment of the state of its underlying insurance and financial risks is depicted in the following table and related commentary, below.

CDIC Corporate Risk Exposure, by Risk Category			
Risk Category	Underlying Risk	Risk Exposure	Exposure Risk Trend
Insurance Risk	Insurance Powers Risk		▲
	Underwriting Risk		▲
	Assessment Risk		—
	Intervention Risk		—
Financial Risk	Liquidity Risk		—
	Market Risk		—
	Credit Risk		—

Legend

<div style="background-color: green; width: 20px; height: 10px; margin-bottom: 5px;"></div> <p>Acceptable — meaning that the risk exposure, giving consideration to all aspects of the management of the risk and its related risks, is acceptable and that appropriate risk management practices are in place to manage the risk.</p>	<div style="background-color: yellow; width: 20px; height: 10px; margin-bottom: 5px;"></div> <p>Cautionary — meaning that the risk exposure warrants close monitoring and/or that previously identified initiatives to enhance the management of the risk need to be implemented. CDIC can state that appropriate and timely action is being taken to address the risk.</p>	<div style="background-color: red; width: 20px; height: 10px; margin-bottom: 5px;"></div> <p>Serious Concern — meaning that significant gaps may exist in risk management practices, controls or oversight, and that CDIC is not currently equipped to fully deal with the risk exposure.</p>
		<p>▼ Decreasing risk exposure</p> <p>— Stable</p> <p>▲ Increasing risk exposure</p>

Commentary on selected risks (those with a cautionary or increasing risk exposure)

Insurance Powers Risk has been assessed as cautionary, with a trend toward higher risk exposure. This reflects that, although CDIC currently has the powers necessary to support the management of insurance risks in accordance with its statutory objects, these powers need to be constantly updated or amended to reflect the ongoing changes in the risk profiles of CDIC members and of the Canadian financial system. The Corporation is in the process of further reviewing its statutory powers in preparation for the Department of Finance review of the federal financial institutions legislation, scheduled for completion by October 2006.

CDIC’s **Underwriting Risk** has been assessed as acceptable, with a trend toward higher risk. This reflects the current trend to smaller new entrants with different profiles which could increase CDIC’s insurance risk exposure.

Intervention Risk has been assessed as cautionary and stable. This reflects that the Corporation has not been faced with an intervention since 1996, and that intervention personnel have changed and intervention systems have evolved since that time. Although there is no foreseen member failure, and despite the significant enhancements to CDIC’s risk assessment and monitoring processes, the recent updating of intervention tools and the lack

of practical experience for almost 10 years, means that more work (in the form of various simulations, testing and training of personnel) is needed. Nevertheless, the trend in CDIC's Intervention Risk exposure is stable, reflecting the general sound financial condition of CDIC's membership and the Corporation's efforts devoted to intervention readiness activities.

Next Steps: Focus on Operational Risks and Reputation Risks

ERM plans for 2005/2006 will see CDIC management carrying out detailed assessments of its operational and reputation risks, as well as the Corporation's exposure to these risks. Board policies, namely those pertaining to the management of CDIC financial risks and insurance risks if required, will be reviewed prior to the end of 2005/2006.

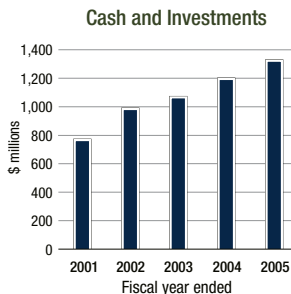
Beginning in 2006/2007, CDIC management plans to prepare a comprehensive annual ERM report, supported by an annual management representation. These will assist the Audit Committee and the Board in formally considering CDIC's significant risks, including any risk management issues, prior to approving CDIC's annual financial statements in its annual report.

As of 2006/2007, the Board also will obtain independent and objective assessment of CDIC's ERM implementation, as well as a validation of management's risk assessments, from CDIC's Audit and Consulting Services Department.

FINANCIAL OVERVIEW

Balance Sheet Highlights

Cash and Investments



As at March 31, 2005, the combined balance of cash and investments was \$1.323 billion, made up of cash and short-term investments of \$231 million and investments of \$1.092 billion. The combined cash and investments balance increased by \$128 million from March 31, 2004, when the combined balance of cash and investments was \$1.195 billion, consisting of cash and short-term investments of \$629 million and investments of \$566 million. The weighted average yield as at March 31, 2005, was 2.99% compared to 2.60% as at March 31, 2004. The sources and uses of cash are described fully in the Statement of Cash Flows.

CDIC's investment strategy

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

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

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

Net Claims Receivable and Future Recoveries

Net claims receivable decreased by \$15.7 million to \$12.8 million. During the year, CDIC received \$14 million in recoveries on its claims receivable. In addition, the Corporation wrote off \$1.4 million in claims determined to be uncollectible from the estate of Confederation Trust Company and increased its allowance for loss on its claims receivable by \$300,000, bringing the total allowance to \$9.9 million as at March 31, 2005.

The liquidators of the failed institutions currently have approximately \$73 million of remaining assets. In addition to its net claims receivable, CDIC projects possible further recoveries from these estates of approximately \$40 million — this would result in total future recoveries of approximately \$53 million. These potential additional recoveries primarily relate to recoveries of amounts that were previously written off by CDIC and are not reflected on CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. There is considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to this uncertainty include creditor disputes, lawsuits against the estates or specific assets, and the quality of the remaining non-cash assets.

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

Name of Institution (Method of Failure Resolution and Year of Failure)	CDIC's Total Claims and Loans (\$ millions)	CDIC's Recoveries to March 31, 2005 (\$ millions)	CDIC's Projected Future Recoveries (\$ millions)	CDIC's Projected Loss/(Gain) as a % of:	
				Claims and Loans — Nominal Basis	Claims and Loans — NPV ^a Basis
Saskatchewan Trust Co. (Formal Liquidation — 1991)	64	56	1	9%	19%
Standard Loan Co./Standard Trust Co. (Formal Liquidation — 1991)	1,321	1,124	13	14%	26%
Shoppers Trust Co. (Formal Liquidation — 1992)	492	464	9	5%	17%
Adelaide Capital Corp. (Loan and Management Agreement — 1992)	1,588	1,483	6	6%	15%
Central Guaranty Trust Co. (Formal Liquidation — 1992)	500 ^b	0	19	b	b
Confederation Trust Co. (Formal Liquidation — 1994)	680	712	1	(5%)	4%
Income Trust Co. (Formal Liquidation — 1995)	193	174	3	8%	19%
Security Home Mortgage Corp. (Formal Liquidation — 1996)	42	43	1	(5%)	17%

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

^b This claim approximates the loss associated with the failure of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. CDIC supported the transfer of assets valued at \$9.8 billion from these institutions to the Toronto Dominion Bank with a package of income and capital recovery guarantees. The resolution of the failure was also facilitated through a loan made by CDIC to Adelaide Capital Corporation. The loss associated with this failure, net of projected future recoveries, is approximately 5% of the insured deposits totalling \$9.7 billion of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation in 1992.

Future Income Tax Asset

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. The Corporation has \$28 million in tax losses from prior years available to reduce the current year's earnings for tax purposes. CDIC applied \$15 million of its tax losses to reduce 2004/2005 taxable income. The remaining \$13 million expired on March 31, 2005.

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

The future benefits of income tax assets (including unused tax losses carried forward) are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such benefits will be realized. In accordance with Canadian Institute of Chartered Accountants recommendations, the related asset is revalued each year. As at March 31, 2005, the future income tax asset was \$5 million, representing a decrease of \$7 million from March 31, 2004.

Provision for Guarantees

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

As at March 31, 2005, the provision for guarantees was \$1.2 million, a decrease of \$1.3 million from \$2.5 million as at March 31, 2004. During 2004/2005, CDIC's net payments to the Toronto Dominion Bank totalled \$166,000. CDIC also reduced its provision estimate on this guarantee by \$1.1 million. As mentioned in Note 6 to the financial statements (Provision for Guarantees), the guarantees remained in force until December 31, 2002, although under the terms of the guarantees claims for losses incurred during the coverage period can be filed with CDIC subsequent to that date.

When the DCAs were initiated, \$2 billion in commercial loans, \$4.26 billion in residential mortgage loans and \$840 million in personal loans were eligible for claims coverage against losses; however, total claims under the agreements were capped at \$2.49 billion. Since 1992, CDIC has incurred net guarantee costs under these agreements totalling \$172 million.

Provision for Insurance Losses

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. As at March 31, 2005, the provision was \$550 million, unchanged from March 31, 2004.

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 pre-1987 and are more indicative of the losses the Corporation can expect to incur in the future.

In 2004/2005, there was an overall decrease in the default statistics utilized for estimating the provision for insurance losses. However, such reductions were offset by a 3.4% increase in the level of deposits insured by CDIC thereby leaving the overall provision for insurance losses unchanged from March 31, 2004.

The provision for insurance losses estimate may potentially be impacted by the 2005 Federal Budget announcement. The Minister of Finance announced in the February 23, 2005 Federal Budget that the Government of Canada was increasing the deposit insurance coverage limit from \$60,000 for insurable deposits to \$100,000, effective that day. The amount of deposits insured by the Corporation is a key input into management's estimate of the Corporation's provision for insurance losses and any change may materially impact the estimate.

To reflect the potential impact of an increase to the coverage limit on its provision for insurance losses, CDIC has identified a contingent liability in the notes to the financial statements as described in Note 11 — Contingent Liabilities.

CDIC's member institutions are currently not in a position to determine the impact of this announcement on their insured deposit base. As such, the Corporation cannot currently reasonably estimate the related impact

on the provision for insurance losses. CDIC has performed a preliminary analysis on the provision for insurance losses estimate to assess the sensitivity of the estimate to changes in the level of insured deposits. In this regard, CDIC has determined that an increase in insured deposits of between 4% and 14% would result in an increase to the provision for insurance losses of \$50 million as at March 31, 2005. Alternatively, an increase of between 14% and 23% will cause the estimate to increase by \$100 million.

Ex Ante Funding

CDIC recognizes the importance of appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. Such funding is considered a best practice among international deposit insurers. 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 \$1.5 billion to \$1.9 billion based on levels of insured deposits as at April 30, 2004. The reported amount as at March 31, 2005, was \$1.3 billion, representing 36 basis points of insured deposits. Under current forecasts (set out in CDIC's 2005/2006 to 2009/2010 Corporate Plan), the range will be attained in CDIC's 2008/2009 fiscal year. Current financial forecasts contained in CDIC's Corporate Plan do not consider the 2005 Federal Budget announcement and the proposed increase in the deposit insurance coverage limit to \$100,000.

As is the case with the provision for insurance losses, CDIC's *ex ante* funding may be affected by the increase in the deposit insurance coverage limit to \$100,000. The target level of *ex ante* funding is expressed in terms of basis points of insured deposits and represents the ratio of funding to the amount of total insured deposits. The associated growth in insured deposits could cause the level of *ex ante* funding (as a percentage of insured deposits) to decrease, having an impact on the timing for CDIC to attain its target funding range.

CDIC carried out a preliminary analysis of the potential impact that the change in the coverage limit may have on its current level of *ex ante* funding, as well as the potential impact on the anticipated timing for attaining its

target range (between 40 and 50 basis points of insured deposits). In essence, an increase in insured deposits would reduce the ratio of *ex ante* funding to insured deposits and, depending on the magnitude of the increase, would extend the attainment of the target range. For example, CDIC's preliminary analysis indicates that:

- ▶ A 5% increase in the amount of insured deposits would reduce the current level of *ex ante* funding from 36 basis points of insured deposits to 34 basis points of insured deposits, pushing the attainment of the target range out two years to 2010/2011.
- ▶ An increase in insured deposits of 10% would result in the current level of *ex ante* funding being reduced by 4 basis points to 32 basis points of insured deposits, and would extend the attainment of the target range to the Corporation's 2012/2013 fiscal year.
- ▶ An increase of 15% would result in the *ex ante* funding level being 31 basis points of insured deposits and the target range not being achieved until 2014/2015.

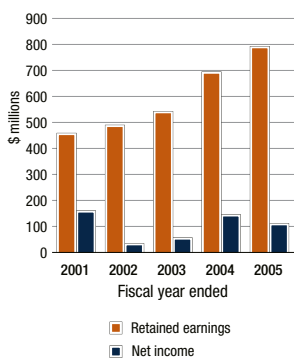
The above analysis is based on assumptions contained in CDIC's 2005/2006 to 2009/2010 Corporate Plan including, among others, assumptions relating to insured deposit growth, premium revenue, investment yields, member institution failures and human resource levels. This analysis assumes a one-third reduction in premium rates from those charged in 2004/2005 and an annual growth in insured deposits of 3% after the initial assumed increase. This analysis also assumes a 3% investment yield and that no member institution fails during the planning period.

CDIC will more fully assess the impact of the change in the deposit insurance coverage limit on its *ex ante* funding levels once the outcome of the change and related impact can be determined with greater certainty.

Statement of Income and Retained Earnings — Highlights

CDIC ended 2004/2005 with **retained earnings** of \$789 million, an increase of \$108 million over 2004. For the year ended March 31, 2005, CDIC's **revenues** totalled \$127 million, offset by total expenses and adjustments of \$19 million, resulting in a **net income** for the year of \$108 million.

Net Income and Retained Earnings



Premiums for the fiscal year were \$93 million, compared to \$109 million for 2003/2004. The \$16 million decrease reflects lower premiums paid by certain members due to their movement between CDIC premium categories.

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.

Except in the special circumstances set out in the by-law, classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2004 premium year were unchanged from the 2003 premium year and were as follows:

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

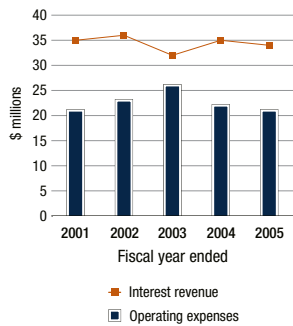
The table below illustrates the distribution of members among premium categories in the 2004 premium year as well as the preceding three premium years.

Distribution of Member Institutions by Premium Category and Premium Year, 2001 to 2004

(percentage)

Premium Category	Premium Year			
	2001	2002	2003	2004
1	67	78	63	78
2	23	14	33	18
3	9	7	3	3
4	1	1	1	1

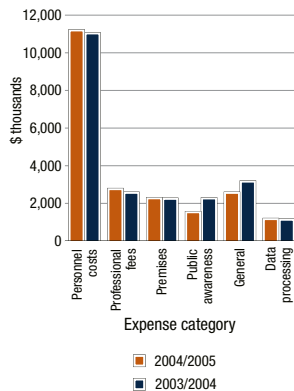
Interest Revenue vs. Operating Expenses



CDIC continues to generate sufficient interest revenue on its cash and investments to support its operations. **Interest revenue from cash and investments** was \$34 million in 2004/2005, a decrease of \$1 million from the previous fiscal year due to lower average yields earned during the year compared to 2003/2004.

Operating expenses for the year ended March 31, 2005, totalled \$21 million (\$22 million in 2003/2004). The reduction in operating expenses is primarily attributed to lower expenditures on public awareness activities. During 2004/2005, CDIC's public awareness activities were somewhat reduced and did not include television advertising which resulted in overall savings of approximately \$800,000.

Operating Expenses



During the year it was determined that bonuses paid to employees by the Corporation are to be treated as salary for the purposes of the *Public Service Superannuation Act* and are therefore considered pensionable. As a result, the Corporation may be required to make contributions to the Public Service Pension Plan with respect to bonuses paid to employees in prior years and, in this regard, has recorded a pension expense of \$700,000 to recognize potential contributions to the Plan in relation to bonuses paid to employees during the period 1985 to 2004. These additional costs were offset by overall lower personnel costs resulting from staff vacancies, as well as by a substantial reduction in CDIC's required contribution rate to the Public Service Pension Plan (keeping overall personnel costs in line with those incurred in 2003/2004).

Comparison with 2004/2005 Corporate Plan

Balance Sheet

Total assets as at March 31, 2005, were \$1.348 billion, compared to the planned amount of \$1.353 billion. This negative variance of \$5 million was primarily the result of lower-than-planned cash and investments (\$19 million), offset by net claims receivable balances being \$13 million higher than planned. The negative variance in cash and investments is the result of reduced premium revenue of \$19 million, combined with lower-than-planned receipts of amounts previously written off and lower-than-planned interest on cash and investments — offset by operating expenses being \$3 million lower than planned, and by a positive opening variance in CDIC's cash and investments of \$15 million (due to events occurring in CDIC's 2003/2004 fiscal year). The higher-than-planned net claims receivable is due to timing differences between the planned and actual receipts from the estates, as well as from additional unplanned claims receivables being recorded in CDIC's 2003/2004 fiscal year.

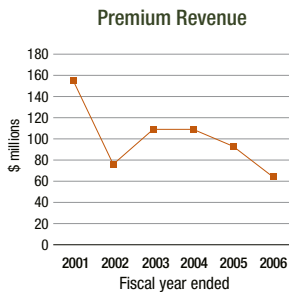
Statement of Income and Retained Earnings

Total revenue during the year was \$127 million, or \$28 million lower than planned. The variance was due primarily to lower premium revenue and lower interest on cash and investments. **Premium revenue** of \$93 million was \$19 million lower than planned, due mainly to the movement of members between premium categories. **Interest on cash and investments** for the year ended March 31, 2005, was \$34 million — \$7 million lower than planned. This negative variance reflects lower-than-planned yields on investments during the year.

Net income for the year ended March 31, 2005, was \$24 million lower than planned. This is primarily the result of lower premium revenue, lower interest income on cash and investments and lower recoveries of amounts previously written off (offset by lower operating expenses).

During the year, CDIC had total operating expenses of \$21 million, compared to a planned amount of \$24 million. This positive variance is the result of lower spending in areas such as personnel costs, general expenses, public awareness and data processing.

The year-end **retained earnings** of \$789 million was \$4 million lower than planned. This variance reflects a \$20 million higher opening surplus balance, offset by lower net income for the year ended March 31, 2005.




2005/2006 to 2009/2010 Corporate Plan

Given CDIC's strong financial position and the relatively stable state of overall membership risk, premium rates paid by members will be reduced by one third. This is expected to result in \$64 million in premium revenue for the 2005/2006 fiscal year. Combined with a planned \$41 million in interest on cash and investments and other revenue, CDIC's total revenues are expected to be \$105 million. Recoveries of amounts previously written off are planned to equal CDIC's operating expenses of \$23 million, resulting in a projected net income before income taxes of \$105 million.

As at March 31, 2006, cash and investments and retained earnings are projected to be \$1.439 billion and \$881 million, respectively. Also as at March 31, 2006, CDIC's level of *ex ante* funding is projected to be \$1.43 billion, representing 37 basis points of insured deposits. Under current assumptions, CDIC expects to reach the target range in its 2008/2009 fiscal year.

Over CDIC's current five-year planning period, premium revenue is expected to total \$340 million and interest income on cash and investments is forecast to total \$232 million. Over this same period, CDIC expects to incur total operating expenses of \$119 million.



At the end of the planning period (March 31, 2010), cash and investments are projected to be \$1.783 billion and CDIC's retained earnings are expected to grow to \$1.220 billion.

The projections included in CDIC's 2005/2006 to 2009/2010 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan.

Key financial assumptions include the following:

- ▶ Premium revenue is projected assuming premium rates are reduced by one third from those assessed in 2004/2005 for all four premium categories. For planning purposes, the distribution of member institution ratings across premium categories is assumed to be the same as in the year ended March 31, 2005, and the annual growth in insured deposits is forecast to be 3%. Premium rates are fixed annually and take into consideration CDIC's financial condition, the economic and financial environment, the risk profile of CDIC's membership, and the actual and projected level of *ex ante* funding relative to the target range.
- ▶ Interest revenue on cash and investments is based on an assumed average yield of 3%.
- ▶ 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 \$550 million.

CDIC's 2005/2006 to 2009/2010 Corporate Plan also does not consider the potential impact of the 2005 Federal Budget.

Balance Sheet as at March 31

	\$ Millions		
	2005/2006 Corporate Plan	2004/2005 Actual Results	2004/2005 Corporate Plan
ASSETS			
Cash and investments	1,439	1,323	1,342
Accounts receivable	—	5	5
	1,439	1,328	1,347
Capital assets	2	2	2
Claims receivable	—	23	—
Allowance for loss on claims receivable	—	(10)	—
	1,441	1,343	1,349
Future income tax asset	1	5	4
Total assets	1,442	1,348	1,353
LIABILITIES			
Accounts payable	11	8	7
Provision for guarantees	—	1	3
Provision for insurance losses	550	550	550
	561	559	560
Retained earnings	881	789	793
Total liabilities and retained earnings	1,442	1,348	1,353

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

REVENUE			
Premiums	64	93	112
Interest on cash and investments	41	34	41
Other revenue	—	—	2
	105	127	155
EXPENSES			
Operating expenses	23	21	24
Adjustment to allowance and provision for loss	—	1	3
Recovery of amounts previously written off	(23)	(10)	(14)
	—	12	13
Net income before reduction in future income tax asset/income tax expense	105	115	142
Reduction in future income tax asset/income tax expense	9	7	10
Net income	96	108	132
Retained earnings, beginning of year	785	681	661
Retained earnings, end of year	881	789	793



Future Accounting Changes

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

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

◀ III FINANCIAL STATEMENTS ▶

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

June 8, 2005

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

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

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

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

Guy L. Saint-Pierre
President and Chief Executive Officer

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



AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Canada Deposit Insurance Corporation as at March 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

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

Ottawa, Canada
April 25, 2005

FINANCIAL STATEMENTS AND NOTES

Canada Deposit Insurance Corporation Balance Sheet as at March 31

(in thousands of dollars)

	Note	2005	2004
ASSETS			
Cash and short-term investments	3	\$ 230,510	\$ 629,193
Investments	4	1,092,350	566,207
Accounts receivable		5,144	4,964
		1,328,004	1,200,364
Capital assets		1,938	1,974
Net claims receivable	5, 7	12,782	28,522
Future income tax asset	9	4,793	11,731
		\$1,347,517	\$1,242,591
LIABILITIES			
Accounts payable		\$ 7,827	\$ 9,478
Provision for guarantees	6, 7	1,200	2,500
Provision for insurance losses	7	550,000	550,000
		559,027	561,978
RETAINED EARNINGS		788,490	680,613
		\$1,347,517	\$1,242,591
<i>Contingent liabilities and commitments</i>	11, 12		
<i>(See accompanying notes.)</i>			

Approved by the Board: _____
Director

Director

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

(in thousands of dollars)

	Note	2005	2004
REVENUE			
Premiums	10	\$ 93,080	\$108,678
Interest on cash and investments		33,654	35,123
Other revenue		121	16,205
		126,855	160,006
EXPENSES			
Operating expenses		21,419	22,369
Increase to allowance and provisions for loss	7	566	2,719
Recovery of amounts previously written off		(9,945)	(10,622)
		12,040	14,466
Net income before decrease in future income tax asset		114,815	145,540
Decrease in future income tax asset	9	(6,938)	(4,046)
Net income		107,877	141,494
Retained earnings, beginning of year		680,613	539,119
Retained earnings, end of year		\$788,490	\$680,613

(See accompanying notes.)

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

(in thousands of dollars)

	2005	2004
OPERATING ACTIVITIES		
Premium revenue received	\$ 93,080	\$ 108,893
Claims recovered	14,040	591
Interest revenue received	27,586	37,235
Recovery of amounts previously written off	9,945	5,790
Other amounts received/(paid)	(31)	374
Recoveries/(Payments) under guarantee agreements	(166)	81
Payments to suppliers and employees	(23,062)	(21,522)
Cash flows from operating activities	121,392	131,442
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(1,576,744)	(966,216)
Maturities of securities and term deposits	1,056,669	1,110,696
Cash flows from/(used) in investing activities	(520,075)	144,480
CASH AND SHORT-TERM INVESTMENTS		
Increase/(Decrease) during the year	(398,683)	275,922
Balance, beginning of year	629,193	353,271
Balance, end of year	\$ 230,510	\$ 629,193

(See accompanying notes.)



Canada Deposit Insurance Corporation
Notes to Financial Statements
March 31, 2005

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, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

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

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

2. Significant Accounting Policies

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

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

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

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


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

Cash and Short-Term Investments and Investments. 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 unweighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

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

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

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

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

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

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

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

Financial Instruments — Recognition and Measurement — This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorize its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. The related accounting treatment will be dependent on the classification. Financial assets categorized as held for trading or available for sale are to be measured at fair value while financial assets held to maturity, loans and receivables are measured at amortized cost.

Comprehensive Income — This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in other comprehensive income until such time as it is considered appropriate for them to be recognized in net income. The Corporation may be required to present a new financial statement titled Comprehensive Income to record such amounts until they are realized.

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

3. Cash and Short-Term Investments

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

	March 31, 2005			March 31, 2004		
(in thousands of dollars)						
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-term investments	\$230,196	2.53%	42	\$629,184	2.38%	40
Cash	314			9		
Total	\$230,510			\$629,193		

4. Investments

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

	March 31, 2005			March 31, 2004		
(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	\$ 466,187	2.82%	184	\$184,406	2.76%	189
Bonds	615,275	3.30%	1,008	351,098	2.92%	788
Commercial paper	—	—	—	25,883	2.25%	149
Sub-total	1,081,462			561,387		
Accrued interest	10,888			4,820		
Total	\$1,092,350	3.09%	653	\$566,207	2.84%	564

5. Net Claims Receivable

	March 31, 2005	March 31, 2004
(in thousands of dollars)		
Claims receivable	\$22,682	\$38,122
Allowance for loss	(9,900)	(9,600)
Net claims receivable	\$12,782	\$28,522

6. Provision for Guarantees

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

The provision for guarantees as at March 31, 2005 is \$1.2 million (2004: \$2.5 million) and represents the maximum exposure for the Corporation under these guarantees (2004: \$2.5 million).

7. Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2005 with corresponding totals as at March 31, 2004.

	March 31, 2005			March 31, 2004	
	(in thousands of dollars)				
	Allowance for Claims Receivable	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	\$9,600	\$2,500	\$550,000	\$562,100	\$559,300
Receipts/(Payments)	—	(166)	—	(166)	81
Write-offs	(1,400)	—	—	(1,400)	—
Adjustment to allowance and provisions for loss	1,700	(1,134)	—	566	2,719
End of period	\$9,900	\$1,200	\$550,000	\$561,100	\$562,100


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

8. Financial Instruments and Risk Management

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

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

Fair Value. Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on 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, 2005 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 consist of Government of Canada and provincial government obligations. As at March 31, 2005 the fair value of these investments, based on observable market prices, is \$634 million, which compares to the book value of \$635 million.

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

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

9. Income Taxes

The Corporation is subject to federal income tax. 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.

The Corporation has losses from prior years available to reduce the current year's earnings for tax purposes. Any remaining tax loss carryforwards expired March 31, 2005.

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, 2005 \$14.3 million of undepreciated capital cost (2004: \$14.9 million) has been applied in calculating the future income tax asset of \$4.8 million (2004: \$11.7 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, 2004 were \$376 billion (2003: \$363 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 2004, unchanged from 2003, are 1/48th of 1% of insured deposits for members in Category 1, 1/24th of 1% for Category 2, 1/12th of 1% for Category 3 and 1/6th of 1% for members in Category 4.

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

As a matter of prudence, the Corporation maintains an amount of advance or *ex ante* funding. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses as reported in its financial statements. The target range for the funding is set at between 40 and 50 basis points of insured deposits. The reported amount as at March 31, 2005 is \$1.339 billion (2004: \$1.231 billion) representing 36 basis points of insured deposits (2004: 34 basis points).

11. Contingent Liabilities

- a) 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, 2005 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.
- b) The Minister of Finance announced in his February 23, 2005 Federal Budget that the Government of Canada was increasing the deposit insurance coverage limit from \$60,000 for insurable deposits to \$100,000, effective that day. The increase in the coverage limit is contingent on the Budget Implementation Bill receiving Royal Assent.

The amount of deposits insured by the Corporation is a key input into management's estimate of the Corporation's provision for insurance losses and any change to this amount resulting from the coverage limit increase may materially impact the estimate. The Corporation's member institutions are currently not in a position to determine the impact of this announcement on their insured deposit base. As such, the Corporation, at this time, cannot reliably estimate the related impact on the provision for insurance losses.

Additional provisions, if any, will be recorded in the accounts in the fiscal year in which the Budget Implementation Bill receives Royal Assent and the amounts can be determined.

12. Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2005 are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2006	\$1,024
2007	1,074
2008	1,085
2009	1,085
2010	1,085
2011-2012	1,007
Total	\$6,360

13. 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 \$114,400 and 8.9 times the employees' contribution on amounts of salaries in excess of \$114,400. The contributions expensed during the year were as follows:

	2005	2004
	(in thousands of dollars)	
Employer	\$1,969	\$1,715
Employee	\$ 440	\$ 454

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



◀ IV CORPORATE GOVERNANCE ▶


CDIC's activities are guided principally by two statutes — the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) and the *Financial Administration Act* (FAA). The *CDIC Act* sets out the Corporation's objects, powers and duties, as well as general terms for deposit insurance and other aspects of the Corporation's role. Part X of the FAA provides for the control of Crown corporations.

TREASURY BOARD OF CANADA SECRETARIAT REVIEW OF THE GOVERNANCE FRAMEWORK FOR CANADA'S CROWN CORPORATIONS

In February 2005, the President of the Treasury Board of Canada Secretariat released the report, *Review of the Governance Framework for Canada's Crown Corporations — Meeting the Expectations of Canadians*, setting out results of the first major review of all key aspects of the governance regime for Crown corporations in 20 years.

Through this review, the Government seeks to reassess the role of Crown corporations as instruments of public policy and to improve the effectiveness of the governance framework of Crown corporations. The 31 measures detailed in the Review are aimed at:

- ▶ clarifying the relationship between Ministers and Crown corporations
- ▶ clarifying the accountability regimes of Crown corporations
- ▶ making the appointment process more transparent

- 
- ▶ bringing the governance of Crown corporations in line with reforms in the private sector
 - ▶ strengthening the audit regimes in Crown corporations
 - ▶ making the activities and operations of Crown corporations more transparent

The Review notes that since “no single governance framework could possibly meet the requirements” of 46 diverse Crown corporations, many of the measures will need to be tailored to individual corporations. Implementation of the measures is expected to flow from legislative, policy and guideline changes, which the Government will pursue in consultation with Crown corporations. (The full text of the Review can be found at <http://www.tbs-sct.gc.ca>.)

CDIC is well known for being committed to sound corporate governance. The Corporation has been a finalist for the Office of the Auditor General (OAG) of Canada Award for Excellence in Annual Reporting by Crown corporations in each of the past 10 years and was the award winner in 1996.

In seeking to implement known best practices, CDIC has already instituted a number of governance practices, many of which are cited by the Government in the Review. Some of these at CDIC include: a Board Governance Policy delineating the roles and responsibilities of the Board and the expectations of management (see also the section on Board Governance Policy); mandates for all Board committees; and documented roles and responsibilities for the Chairperson of the Board and the President and CEO.

Moreover, CDIC already has in place a number of policies and practices to help ensure good corporate governance. These include Codes of Business Conduct and Ethical Behaviour for both Employees and Directors; a Conflict of Interest Code; a Policy on Internal Disclosure of Information Concerning Wrongdoing in the Workplace; and a Policy on Harassment in the Workplace. CDIC management reports on these issues to the Human Resources and Compensation Committee and the Audit Committee of the Board. (See also the section on Corporate Practices Related to Business and Employee Conduct.)

On another front, CDIC actively engages with its stakeholders and disseminates information about deposit insurance and the Corporation through its public awareness program. The Corporation is planning to hold annual general meetings with stakeholders to further these awareness initiatives.

Other measures of the Review already apply to CDIC: the Corporation is subject to the *Access to Information Act*; its Board and Audit Committee are independent of management; all Audit Committee members have, in general, the requisite financial literacy as stipulated by the Review; and the Auditor General is CDIC's external auditor and conducts special examinations of the Corporation at least once every five years. CDIC is not funded by public funds or by parliamentary appropriations — those measures that relate to appropriation-dependent Crown corporations do not apply to CDIC.

Nonetheless, there may be more work to be done by CDIC in support of more formalized or uniform processes to address the effectiveness measures in the governance framework proposed by the Government. The Government has indicated that there are certain areas open for discussion and for which it will be seeking input from Crown corporations. CDIC looks forward to this opportunity for discussion and collaboration.

BOARD OF DIRECTORS

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

Key Activities

The Board and its committees undertook a number of significant activities throughout 2004/2005. Among these and key to the Corporation was succession planning for the position of President and CEO, in which the Nominating Committee of the Board were actively involved. The new President and CEO, Guy L. Saint-Pierre, was appointed on May 9, 2005.

The Board also recommended a 33% reduction in premium rates to take effect for the 2005 premium year, which has been approved by the Government and is now in effect. Following extensive consultations with member institutions, the Board approved amendments to the *CDIC Differential Premiums By-law* to update the differential premiums system.

As a result of recommendations made by CDIC to the Minister of Finance in July 2004 and the 2005 Federal Budget announcement that CDIC's *Standards of Sound Business and Financial Practices* be eliminated, the Board approved the repeal of the Standards By-law, which took effect on April 22, 2005. This also resulted in consequential amendments to three other CDIC by-laws, namely, the *Deposit Insurance Policy By-law*, the *Differential Premiums By-law* and the *Premium Surcharge By-law*, which the Board reviewed and approved.

In addition, on April 14, 2004, the Board adopted a Code of Business Conduct and Ethical Behaviour for Directors. This Code illustrates the standards of conduct and ethical behaviour that Directors are expected to maintain in the performance and exercise of their responsibilities as Directors of the Corporation, or when otherwise representing the Corporation. For example, the Code stipulates that Directors are expected to exercise their duties honestly and in good faith, in the best interests of the Corporation.

OFFICE OF THE AUDITOR GENERAL'S SPECIAL EXAMINATION REPORT

CDIC recently underwent a Special Examination of its systems and practices as required by the *Financial Administration Act*. The Office of the Auditor General (the OAG) must conduct a Special Examination of CDIC at least once every five years. The Auditor General's report was presented to the CDIC Board of Directors on December 1, 2004.

In order to proceed with the Special Examination, a plan for the examination, including a statement of the criteria to be applied in the examination was prepared by the Office of the Auditor General and submitted to the CDIC Audit Committee for its approval. The Board's ongoing commitment to good governance was recognized by the OAG in its 2004 Special Examination Report of CDIC. In this examination, the OAG found that the Board assumed the stewardship of the Corporation and played a key role in establishing the strategic direction of the Corporation. The examination also found that the Board held effective full-participation meetings and made good use of its committees. (The report and the examination criteria can be found on CDIC's website at <http://www.cdic.ca>.)

On the basis of an examination of CDIC's systems and practices, the OAG determined that "during the period under examination, the systems and practices of CDIC were designed and operated in a way that provided reasonable assurance that assets were safeguarded and controlled, resources managed economically and efficiently, and operations carried out effectively." The report identified no deficiencies and made no recommendations.

The report notes principally that CDIC:

- ▶ has in place the key elements of a good governance framework
- ▶ takes timely and appropriate action to address identified risks
- ▶ has an experienced management team
- ▶ has taken steps to reduce the regulatory burden on its members
- ▶ maintains systems and practices for providing timely, accurate information to the depositing public
- ▶ has strong accountability reporting

The report identifies four opportunities for CDIC to enhance the quality of its systems and practices. CDIC management's response is set out in the report, and indicates that CDIC has already made progress in these areas and has resolved to address them on a timely basis through specific action plans and timelines. The four opportunities are:

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

**Board of Directors —
as at March 31, 2005**

-  Board of Directors
-  Executive Committee
-  Audit Committee
-  Governance Committee
-  Human Resources and Compensation Committee
-  Nominating Committee
-  Committee of Independent Directors



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



Tracey Bakkeli
Strategic Consultant
T. Bakkeli Consultants Inc.
Regina



Ian E. Bennett
Deputy Minister of Finance
(*ex officio*)



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



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



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



Claude Huot
Consultant in economic
development
Le Groupe Stragesult
Montréal



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



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



Grant Morash
Financial Advisor
Halifax



Darryl J. Raymaker
Partner
McNally Cuming Raymaker
Calgary

Alternates



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



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



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

Board Committees

Much of the work that comes before CDIC's Board of Directors is initially addressed by its committees. As at March 31, 2005, CDIC's Board had five standing committees. One of these — the Nominating Committee — was created on June 9, 2004, further to the President of the Treasury Board of Canada Secretariat's request that all Crown corporations establish such a committee. The Nominating Committee is charged with primary responsibility for the succession of the Chairperson, the President and CEO, and the Directors. It was actively involved in succession planning for the President and CEO, who announced his retirement effective April 1, 2005. Prior to the formation of the Nominating Committee, these responsibilities were undertaken by the Governance Committee.

In addition to its standing committees, CDIC's Board has a Committee of Independent Directors. This Committee, which was established in March 2004, works with management expressly to respond to the Minister of Finance's requests in the 2004 and 2005 Federal Budgets to improve the efficiency and effectiveness of the delivery of financial services regulation, and to reduce unnecessary overlap and duplication with OSFI's activities.

Highlights of committee mandates and activities are set out in the following table.

Overview of CDIC Board Committees — Mandate, Meetings, Composition and Highlights of Activities in 2004/2005

Committee Name and Mandate	Number of Meetings	Composition (March 31, 2005)	Highlights of Activities
<p>Audit Committee — to oversee audits, advise the Board on financial issues and oversee risk management</p>	4	<p>T. Bakkeli (Chair) J. Doran G. Morash D.J. Raymaker</p>	<ul style="list-style-type: none"> ▶ approval of 2003/2004 financial statements ▶ oversaw OAG’s 2004/2005 attest audit ▶ oversaw 2004 OAG Special Examination of CDIC ▶ oversaw CDIC’s ERM initiative ▶ authorized a comparative review of Audit Committee practices ▶ implemented the Corporation’s voluntary disclosure of travel and hospitality expenses
<p>Executive Committee — to review any matter and advise the referring body or person concerning any matter referred to it by the Board, the Chairperson or the President and CEO</p>	0	<p>R.N. Robertson (Chair) D.A. Dodge H.G. Emerson</p>	N/A
<p>Governance Committee — to ensure appropriate structures and processes are in place for effective oversight of and direction for CDIC’s activities</p>	2	<p>R.N. Robertson (Chair) T. Bakkeli C. Huot B. Knight D.J. Raymaker</p>	<ul style="list-style-type: none"> ▶ recommended Code of Business Conduct and Ethical Behaviour for Directors ▶ began process of CEO succession (responsibilities assumed by the Nominating Committee in June 2004) ▶ oversaw the one-year reappointment process of CDIC’s current Chairperson

Committee Name and Mandate	Number of Meetings	Composition (March 31, 2005)	Highlights of Activities
Human Resources and Compensation Committee — to review and advise the Board on human resource issues (policies, succession planning, compliance with legal requirements, compensation and complaints)	3	H.G. Emerson (Chair) C. Huot N. Le Pan G. Morash	<ul style="list-style-type: none"> ▶ conducted performance assessment of President and CEO (for 2003/2004) ▶ recommended revisions to CDIC's Compensation Policy and Performance Management Policy following a comprehensive review of CDIC's compensation practices
Nominating Committee — to assume the primary responsibility for the succession of the Chairperson, the President and CEO, and the Directors	5	R.N. Robertson (Chair) T. Bakkeli C. Huot B. Knight D.J. Raymaker	<ul style="list-style-type: none"> ▶ recommended revisions to Directors' Profile and updated the Board Gap Analysis ▶ developed accountability profiles for the positions of Chairperson and the President and CEO ▶ oversaw the succession process for the President and CEO
Committee of Independent Directors — to work with management to respond to the Minister of Finance's request in the 2004 and 2005 Federal Budgets for ways to improve the efficiency and effectiveness of the delivery of financial services regulation, and to reduce unnecessary overlap and duplication with OSFI's activities	11	R.N. Robertson (Chair) T. Bakkeli H.G. Emerson C. Huot G. Morash D.J. Raymaker	<ul style="list-style-type: none"> ▶ delivered a report to the Minister of Finance (July 2004) with proposed recommendations and initiatives in respect of the March 2004 Budget announcement ▶ explored opportunities for further efficiencies in the administrative and corporate services functions of CDIC and OSFI

Meetings and Attendance^a (April 1, 2004 to March 31, 2005)

	Board Committees						
	Board of Directors	Executive Committee	Audit Committee	Governance Committee	Human Resources and Compensation Committee	Nominating Committee	Committee of Independent Directors
NUMBER OF MEETINGS	6 ^b	^e	4	2	3	5	11
ATTENDANCE							
R.N. Robertson — Chairperson	6		4	2	3	5	11
H.G. Emerson	4				3		10
T. Bakkeli	6		4	1		5	11
D.J. Raymaker	6		4	2		5	11
G. Morash	6		4		3		10
C. Huot	6			2	3	5	11
EX OFFICIO MEMBERS (ALTERNATES)							
D.A. Dodge (D. Longworth)	1 (5)						
N. Le Pan (J. Dickson)	6				3		1 (1) ^f
J. Doran	2		4				
K. Lynch ^c (F. Swedlove)	0 (3)						
I.E. Bennett ^d (F. Swedlove)	0 (3)						
B. Knight	5			2		5	

Notes:

^a Also includes meetings attended by telephone.

^b Also includes the October 14, 2004, and February 9, 2005, Special Board Meetings.

^c Kevin Lynch ceased to be Deputy Minister of Finance as at October 31, 2004.

^d Ian Bennett was appointed Deputy Minister of Finance as at November 15, 2004.

^e There were no meetings of the Executive Committee in 2004/2005.

^f Invited to and attended Committee of Independent Directors meeting of June 21, 2004.

Remuneration

Private sector Directors are paid based on a fee structure recommended by the Government and approved by Order-in-Council. For 2004/2005, the total of these fees paid to Directors was \$287,630.

BOARD GOVERNANCE POLICY

CDIC's Board Governance Policy records the Board of Directors' understanding of its governance responsibilities and the various means by which the Board will endeavour to ensure that these responsibilities are fulfilled. The policy reflects the two principal statutes to which CDIC is subject (the *CDIC Act* and Part X of the *Financial Administration Act* (FAA)), the Board's determination that CDIC should follow current standards of sound business and financial practices, guidance on matters of governance specific to Crown corporations and recognized "best practices" identified in various other sources. The Board Governance Policy consists of 19 statements of principle. Appendix A to this Annual Report presents CDIC's approach to each statement.

In addition to translating Board direction into action and managing the Corporation's day-to-day operations, management — led by the President and CEO — is responsible for supporting the Board in fulfilling its governance responsibilities.

CDIC OFFICERS

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

Salary ranges for CDIC's officers, as of March 31, 2005, are:

- ▶ for the position of President and Chief Executive Officer — \$187,200 to \$220,200
- ▶ for the position of Executive Vice-President and Chief Operating Officer — \$156,440 to \$208,590
- ▶ for the position of Vice-President — \$149,940 to \$199,910

Guy L. Saint-Pierre
President and Chief Executive Officer
(formerly Executive VP and COO)

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

OTHER COMMITTEES

CDIC Executive Management Committee

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

Guy L. Saint-Pierre
President and CEO

Keith Adam
Director, Corporate Strategy
and Reporting

Michèle Bourque
Vice-President
Insurance and Risk Assessment

Patricia Griffin-Dobson
Director, Human Resource Management

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

Ken Mylrea
Director, Corporate Risk

Margaret Saxon-Kopke
Director, Audit and Consulting Services

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

OSFI/CDIC Liaison Committee

Created under the *CDIC/OSFI Strategic Alliance Agreement*, the **OSFI/CDIC Liaison Committee** is jointly chaired by the Superintendent of Financial Institutions and the Chairperson of CDIC. The Committee coordinates the activities of the two organizations, with the goals of avoiding unwarranted duplication and cost, and fostering close and effective working relationships between the two organizations. On March 31, 2005, the members of the Liaison Committee were:

Co-Chair
Nicholas Le Pan
Superintendent of Financial Institutions
OSFI

Co-Chair
Ronald N. Robertson
Chairman of the Board
CDIC

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

John Doran
Assistant Superintendent
Supervision
OSFI

Michèle Bourque
Vice-President
Insurance and Risk Assessment
CDIC

Pamela Hopkins
Managing Director
OSFI

Financial Institutions Supervisory Committee and Senior Advisory Committee

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

CORPORATE PRACTICES RELATED TO BUSINESS AND EMPLOYEE CONDUCT

In 2004/2005, CDIC management provided an annual report on compliance with corporate policies and practices related to business and employee conduct to the Human Resources and Compensation Committee and to the Audit Committee. The report addressed CDIC's 10 principal corporate policies and practices:

- ▶ CDIC's Mission and Corporate Values
- ▶ Oath of Fidelity and Secrecy
- ▶ Code of Business Conduct and Ethical Behaviour for Employees
- ▶ Conflicts of Interest Code
- ▶ Policy on Internal Disclosure of Information Concerning Wrongdoing in the Workplace
- ▶ Harassment in the Workplace Policy
- ▶ Employment Equity Policy
- ▶ Health and Safety
- ▶ *Official Languages Act*
- ▶ *Canadian Multiculturalism Act*

Compliance with the **Code of Business Conduct and Ethical Behaviour for Employees** was assessed for the first time starting in April 2004, as part of the annual performance appraisal process. The **Code of Business Conduct and Ethical Behaviour for Directors is supported by direct reporting to the Board of Directors**. Both Directors and employees are obliged to certify, on joining CDIC and annually thereafter, that they have read, understood and abide by their respective Codes.

The **Policy on Internal Disclosure of Information Concerning Wrongdoing in the Workplace** ("Whistleblower Policy"), has been in place since April 2003 and applies to all CDIC employees. Corporate practices with respect to the *Employment Equity Act*, the *Official Languages Act* and the *Canadian Multiculturalism Act* are addressed in the following section.

STATUTORY REQUIREMENTS


As a Crown corporation, CDIC must comply with the provisions of Part X of the FAA, which requires that the Corporation submit annually a five-year corporate plan (and a summary of the plan) and an annual report to the Minister, who then tables the summary and annual report in each House of Parliament. CDIC fulfilled these requirements, as well as the following additional statutory requirements, over the course of the year:

Access to Information Act and Privacy Act — CDIC responded to eleven requests under the *Access to Information Act* (including six carried forward from the previous year), as well as to one request under the *Privacy Act*.

Health and Safety — The Corporation met its obligations under Part II of the *Canada Labour Code* and its regulations dealing with occupational health and safety, and filed its annual report with Human Resources Development Canada as required under the *Canadian Occupational Health and Safety Regulations*.

Official Languages — CDIC is subject to section 48 of the *Official Languages Act*. The Corporation fully met its obligations for review and reporting and, in addition, amended its Official Languages Policy to comply with the changes to the Government of Canada's Official Languages Policy. CDIC continues to offer language training to employees. In response to four complaints that its advertisement entitled "Your savings are valuable. But are they protected?" was not equally disseminated in English and French, CDIC advertised in French weekly publications where no daily French language newspapers existed.

Multiculturalism — The Corporation filed with the Minister of Canadian Heritage its report on activities under the Multiculturalism Program for 2003/2004, adapted its public awareness program to better serve multicultural communities, and shared its expertise and information on deposit insurance with countries around the globe.



Other Requirements — CDIC conducted an assessment of potential risks arising from the *USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act)*. Further to the Treasury Board’s request to all government institutions, CDIC reviewed its contractual arrangements to assess risks in this regard and to put in place a risk management strategy aimed at mitigating future risks. Review results, reported to the Treasury Board, indicate that CDIC’s contractual arrangements presented “no to low” risks. For further details about this Act, visit the Treasury Board of Canada’s Secretariat website at: http://www.tbs-sct.gc.ca/media/nr-cp/2004/1029_e.asp.

In keeping with the Treasury Board’s **Privacy Impact Assessment Policy**, CDIC conducted four preliminary privacy impact assessments during the year as part of the simulations of payouts that it carried out.



◀ V ABOUT OUR MEMBERSHIP ▶

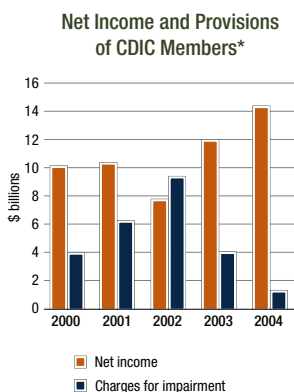
The financial health of its membership is of utmost importance to CDIC since most of the Corporation's risks are related to a potential member failure, the level of insured deposits these members carry, the recovery of funds by CDIC in a failure situation, and the degree to which failure of members is driven by similar factors.

CDIC's membership continues to exhibit low short-term risk to the Corporation due to strong profitability, stellar asset quality measures and capital levels near historical highs. The Corporation expects these favourable conditions to persist through 2005. Over the longer term, some risks warrant monitoring including global structural imbalances, high consumer leverage, consumer and corporate sensitivity to potential rises in interest rates, real estate or capital market corrections, and risky asset mixes at some lenders.

FINANCIAL PERFORMANCE

Second consecutive year of record profits

Membership after-tax profits surged by \$2.4 billion in fiscal year 2004 to a historical high of \$14.4 billion. As was the case last year, lower provisions for credit losses were largely responsible for the improved membership results. Although most members reported increased profitability, performance varied among individual members and groups with some groups of members experiencing especially strong growth in profits and a handful of members reporting losses. For example, domestic trust and loan companies experienced a 40% improvement in 2004/2005. Domestic banks and subsidiaries recorded a 20% rise, while subsidiaries of foreign institutions trailed with a 16% improvement.

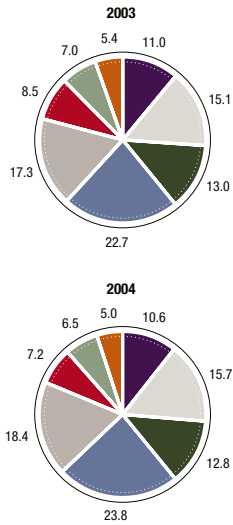


* For members' fiscal year end.

Despite a 6% rise in loans outstanding, net interest income remained flat at approximately \$33 billion due to a fall in interest rate spreads in early 2004. Since a peak in early 2002, spreads have declined primarily as a result of two factors. First, the large banks reduced their exposure to U.S. high-yield energy and telecommunications loans. These funds were largely redeployed to lower margin retail loans, further squeezing interest rate spreads in this segment. The second factor contributing to reduced spreads was the low absolute level of interest rates — this limited members' ability to pass on interest rate cuts to depositors.

The average membership spread fell by 6 basis points to 1.86% during the 2004 fiscal year. The largest declines were felt by subsidiaries of foreign institutions, followed by domestic trust and loan companies.

Components of Other Income, 2003 vs. 2004* (%)



* For members' fiscal year end.

- Service charges
- Investment management and custodial services
- Income from trading and non-trading instruments
- Securities commissions and underwriting fees
- Other
- Loan, guarantee and bankers' acceptances (BAs) fees
- Credit and debit cards fees
- Income from securitization of assets

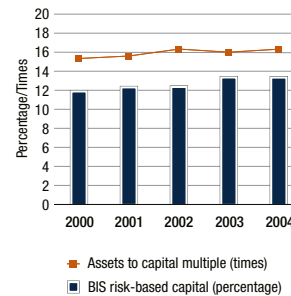
Sound growth in non-interest income

Non-interest income rose 6% to \$33.9 billion in fiscal year 2004 and now represents more than half of total membership revenues. Investment management and custodial services — as well as securities commissions and underwriting fees — rose by 11%, as capital market performance improved. Securities-related revenues, however, rose by a more modest 4%. Income from securitization fell modestly in 2004 and may fall further in 2005 as mortgage demand moderates, as institutions deal with accounting-related issues of securitization, and as alternative lenders potentially gain retail market share.

Capital ratios close to historical highs, but leverage is up slightly

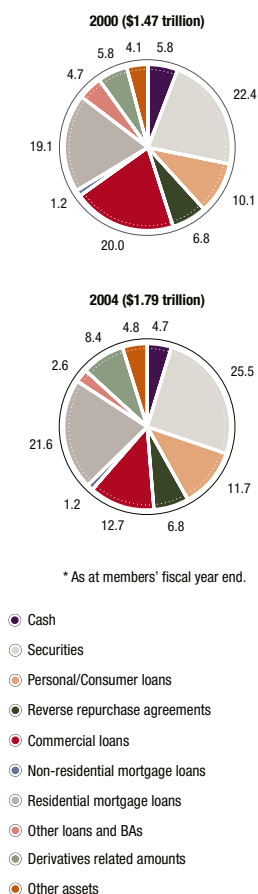
The average BIS (Bank for International Settlements) capital ratio of 13.3% for the membership in 2004 remained essentially unchanged from the previous year and near historical highs. All members held capital ratios above OSFI's well-capitalized guidelines of 7% for Tier 1 and 10% for BIS risk-based capital ratios. The ACM (assets to capital multiple), a measure of the leverage of capital, rose slightly from 16.0 times in fiscal year 2003 to 16.3 times in 2004. CDIC membership's strong capital ratios should allow institutions to weather unexpected economic shocks.

Capitalization, 2000–2004*



* As at members' fiscal year end.

Asset Mix, 2000 vs. 2004* (%)



Moderate membership asset growth masks high levels for some members

Although assets grew by a reasonable 5% in fiscal year 2004, several members experienced increases of more than 20% in balance sheet assets or total managed assets. Asset growth at domestic banks and subsidiaries rose less than 5%. Subsidiaries of foreign institutions surged 18%, while domestic trust and loan companies experienced a 9% increase.

Despite fierce competition in the retail market, some institutions successfully increased mortgage loan volumes or mortgages under management by capitalizing on the popularity of mortgage brokers. In some cases, fast growth was also accompanied by relatively high sensitivity to rises in interest rates (e.g., carrying relatively large short-term asset liability mismatches). Only a full business cycle, including more challenging economic circumstances, will test the success of certain risk-return trade-offs.

Shift of loans to retail pursues its course and adds to consumer indebtedness

Corporate and commercial loans fell by \$800 million to \$227 billion in fiscal year 2004, while retail loans rose \$52 billion (almost 10%) to \$595 billion. The ratio of retail loans to commercial loans has doubled in less than 10 years, from 1.3 times in 1995 to 2.6 times in 2004. While this movement is partly related to the trend towards corporate financing via capital markets instead of bank loans (i.e., disintermediation trends), it emphasizes the growing importance of consumer creditworthiness to CDIC members' performance. Arrears on retail loans remain close to historical lows. While these favourable ratios may not be sustainable indefinitely, no significant deterioration is expected over the coming year.

Average consumer debt ratios (total debt to personal disposable income) have accelerated from approximately 70% (before the 1980 recession) to approximately 80% (before the 1990 recession) to 120% in 2004. At current interest rates, homeowners with a good credit history can choose to borrow (mortgage plus other debt) almost 4 times their gross annual income compared to 2.5 times in 1989 and 1.5 times in 1981 (when interest rates for mortgages were significantly higher).

From a debt service perspective, however, the average consumer debt service payments (capital plus interest payments) are well below historical highs, due to the low interest rate environment.[†] While consumers could probably withstand a moderate rise in interest rates, a larger rise towards historical averages could cause financial distress for more leveraged households, particularly given the trend towards more floating-rate and shorter term debt. On the positive side, any interest rate rises are expected to be negligible in the short to medium term.

[†] Source: Bank of Canada

Corporate and commercial loan quality remains very strong

Provisioning (charges for impairment) for commercial and corporate loans and impaired loan levels of member institutions improved once again in 2004. The quality of corporate loans retained on balance sheets is benefiting from an active high-yield secondary loan market, as the appetite of non-banks for these riskier assets has continued. Most borrowers also faced improving prospects over 2004, but earnings growth has recently slowed.

Moody's Investors Service reported that corporate credit quality experienced considerable improvement in 2004, as bond defaults declined for the third consecutive year. While Moody's does not expect default rates to rise in 2005, it is concerned with the high issuance of debt by very low-rated speculative entities.


The pressures of a higher Canadian dollar could affect export-oriented industries (forestry, for example) which in turn could have an impact on the commercial loan quality of CDIC members. Competition from cheaper U.S. and foreign imports may add to pressure on domestic producers. U.S.-based auto manufacturers, plagued by a loss in market share, are relying on subsidized financing to consumers to generate profitability. Their investment grade status has been lost (for example, Ford and GM), or is at risk, as unit sales of cars and trucks are likely to fall in 2005, a trend that could be exacerbated by high oil prices. U.S. manufacturers are placing tremendous pressure on Canadian auto parts suppliers to lower prices or risk losing volume to foreign competitors.

Trade issues such as bovine spongiform encephalopathy (BSE) related barriers and softwood lumber disputes are some of the other concerns faced by Canadian businesses and institutions that lend to them.

Weaker real estate markets could have a negative impact on some institutions

Real estate markets have continued to be very strong in 2004, contributing to the healthy performance of most members — particularly those involved in residential mortgage lending.

A small percentage of members continue to hold significant exposure to higher risk real estate categories, including non-residential mortgages, interim construction loans, and commercial loans to the real estate sector. While there are currently no signs of deterioration in real estate markets, these loan categories are typically very sensitive to changes in economic growth.



The Canada Mortgage and Housing Corporation reported that residential apartment vacancies rose in most major Canadian cities in 2004, including Toronto, Ottawa and London. With strong building activity projected for 2005, this could further add to vacancies and gradually erode the ability of building owners to service mortgages, thus negatively affecting certain CDIC members.

Overall, CDIC members had a stellar year

In summary, CDIC's members recorded another exceptional year in fiscal year 2004 and indications are that most trends will continue to be favourable in fiscal year 2005. Although asset quality measures are at historical highs, a number of factors provide some cause for concern, including: longer term risks associated with corporate debt issuance by speculative grade entities; the rise in consumer indebtedness; interest rate increases; and potential capital market corrections. At the same time, robust capital levels at member institutions offer a significant measure of comfort for withstanding potential market shocks.

COMPARATIVE FINANCIAL 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, the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario, as well as from financial information received directly by CDIC. Every effort has been made to ensure that this information is correct; however, because it comes from varied sources, CDIC does not guarantee its accuracy.

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

The financial information, which is based on CDIC membership as of March 31, 2005, has been classified into three major peer groups: domestic banks and their subsidiaries, domestic trust and loan companies, and subsidiaries of foreign financial institutions.

The membership profile includes:

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

It should be noted that, in its five-year tables, CDIC restates the peer group results of prior years to reflect the current year's membership. Accordingly, the following tables exclude the financial information of institutions that were no longer members as of March 31, 2005.

Membership Changes April 1, 2004–March 31, 2005

During fiscal year 2004/2005, CDIC experienced a number of changes to its membership. As at March 31, 2005, the Corporation had 81 members, down 5 from the previous year.

Two institutions were approved for deposit insurance during the year — Dundee Wealth Bank, a wholly owned subsidiary of Dundee Bancorp Inc., and Concentra Trust, a wholly owned subsidiary of Concentra Financial Services Association, a current CDIC member (see paragraph below). Four members that had ceased accepting deposits had their policies of deposit insurance cancelled — Canada Life Trust Company, MD Private Trust Company, UBS Trust (Canada) and The Trust Company of London Life.

Three provincial members — Community Trust Company Ltd., Investors Group Trust Co. Ltd. and Industrial-Alliance Trust Inc. — were continued as federal trust companies. These continuances were the result of changes made to the Ontario *Loan and Trust Corporations Act*, R.S.O. 1990, c.L.25, requiring any provincial trust or loan company operating in Ontario to either continue as a federal entity, or to develop and implement an exit strategy (i.e., wind down or sell) prior to June 30, 2005. Co-operative Trust Company of Canada was continued as an association under the *Cooperative Credit Associations Act* and subsequently changed its name to Concentra Financial Services Association.

A number of CDIC members amalgamated during the year. Intesa Bank Canada merged with HSBC Bank Canada, continuing as HSBC Bank Canada. Sun Life Financial Trust Inc. merged with Clarica Trust Company and continued as Clarica Trust Company. Canada Trustco Mortgage Company merged with Canada Trust Company, continuing as Canada Trust Company.

New Members

December 1, 2004: Dundee Wealth Bank

December 1, 2004: Concentra Trust

Other Membership Changes

April 5, 2004: Canada Life Trust Company ceased to accept deposits — policy cancelled

April 5, 2004: MD Private Trust Company ceased to accept deposits — policy cancelled

April 5, 2004: UBS Trust (Canada) ceased to accept deposits — policy cancelled

June 1, 2004: Community Trust Company Ltd. was continued as a federal trust company and changed its name to Community Trust Company

June 1, 2004: Intesa Bank Canada amalgamated with HSBC Bank Canada — continuing as HSBC Bank Canada

June 9, 2004: The Trust Company of London Life ceased to accept deposits — policy cancelled

June 30, 2004: Investors Group Trust Co. Ltd. was continued as a federal trust company

December 31, 2004: Co-operative Trust Company of Canada was continued as an association under the *Cooperative Credit Associations Act* and changed its name to Concentra Financial Services Association

December 31, 2004: Sun Life Financial Trust Inc. amalgamated with Clarica Trust Company — continuing as Clarica Trust Company

January 1, 2005: Clarica Trust Company changed its name to Sun Life Financial Trust Inc.

January 1, 2005: Canada Trustco Mortgage Company amalgamated with The Canada Trust Company — continuing as The Canada Trust Company

March 2, 2005: Industrial-Alliance Trust Company was continued as a federal trust company and changed its name to Industrial Alliance Trust Inc.

Summary Financial Information — Total CDIC Membership

Balance Sheet (\$ billions and percentage)

As at members' fiscal year end	2004		2003		2002		2001		2000	
	\$	%	\$	%	\$	%	\$	%	\$	%
Assets										
Cash resources	84.1	4.7	94.1	5.5	95.0	5.7	87.1	5.3	85.6	5.8
Securities	456.5	25.5	432.3	25.4	382.7	23.0	376.9	23.0	329.5	22.4
Loans	976.6	54.6	923.4	54.4	929.5	55.8	920.3	56.3	855.7	58.1
Other assets	272.9	15.2	249.1	14.7	259.2	15.5	251.7	15.4	201.1	13.7
Total assets	1,790.1	100.0	1,698.9	100.0	1,666.4	100.0	1,636.0	100.0	1,471.9	100.0
Liabilities										
Deposits	1,193.5	66.7	1,133.9	66.7	1,122.8	67.4	1,088.5	66.5	1,013.7	68.9
Other liabilities	509.6	28.4	481.2	28.4	462.0	27.7	467.9	28.6	386.3	26.2
Total liabilities	1,703.1	95.1	1,615.1	95.1	1,584.8	95.1	1,556.4	95.1	1,400.0	95.1
Shareholders' equity	87.0	4.9	83.8	4.9	81.6	4.9	79.6	4.9	71.9	4.9
Total liabilities and shareholders' equity	1,790.1	100.0	1,698.9	100.0	1,666.4	100.0	1,636.0	100.0	1,471.9	100.0

Income Statement (\$ millions)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Interest income	64,097	66,878	68,999	85,696	83,740
Interest expense	31,077	33,735	35,735	55,996	58,089
Net interest income	33,020	33,143	33,264	29,700	25,651
Provision for impairment	1,303	4,039	9,402	6,257	3,990
Net interest income after provision for impairment	31,717	29,104	23,862	23,443	21,661
Other income	33,882	31,975	31,173	33,814	32,853
Net interest income and other income	65,599	61,079	55,035	57,257	54,514
Non-interest expenses	45,153	44,130	44,385	43,099	39,091
Net income before provision for income taxes	20,446	16,949	10,650	14,158	15,423
Provision for income taxes	5,472	4,333	2,371	3,339	4,994
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	14,974	12,616	8,279	10,819	10,429
Non-controlling interest in net income of subsidiaries and extraordinary items	575	611	497	434	285
Net income	14,399	12,005	7,782	10,385	10,144

Asset Size and Quality Measures

Total Assets (\$ billions and percentage)

As at members' fiscal year end	2004		2003		2002		2001		2000	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	1,680.5	93.9	1,604.7	94.5	1,579.0	94.8	1,559.1	95.3	1,405.9	95.5
Subsidiaries of foreign financial institutions	94.6	5.3	80.4	4.7	75.1	4.5	67.3	4.1	57.4	3.9
Domestic trust and loan companies	15.0	0.8	13.8	0.8	12.3	0.7	9.6	0.6	8.6	0.6
Total	1,790.1	100.0	1,698.9	100.0	1,666.4	100.0	1,636.0	100.0	1,471.9	100.0

Impaired Loans to Total Assets (percentage)

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	0.4	0.6	0.9	0.8	0.7
Subsidiaries of foreign financial institutions	0.5	0.6	0.8	0.9	1.1
Domestic trust and loan companies	0.5	0.6	0.8	0.9	0.5

Impaired loans (gross)/Total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	0.7	1.2	1.6	1.4	1.2
Subsidiaries of foreign financial institutions	0.8	1.1	1.5	1.6	1.8
Domestic trust and loan companies	0.8	1.0	1.3	1.3	0.8

Impaired loans (gross)/Total loans (gross)

Impaired Loans Unprovided For (percentage)

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	-39.2	-15.4	-0.1	-2.1	-12.5
Subsidiaries of foreign financial institutions	-55.5	-30.2	-21.9	-6.2	-1.6
Domestic trust and loan companies	-15.6	-18.5	12.2	33.9	-12.8

1 – (Allowance for loan impairment/Impaired loans(gross))

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	-3.4	-2.1	0.0	-0.4	-1.9
Subsidiaries of foreign financial institutions	-4.5	-3.3	-2.8	-0.8	-0.3
Domestic trust and loan companies	-1.1	-1.5	1.3	3.9	-0.9

Impaired loans (net)/Average shareholders' equity

Deposit Liabilities in Canada

Total Deposits (\$ billions and percentage)

As at April 30	2004		2003		2002		2001		2000	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	1,023.2	93.5	971.2	93.8	954.6	94.4	900.3	94.8	851.8	95.4
Subsidiaries of foreign financial institutions	59.4	5.4	53.9	5.2	48.6	4.8	42.5	4.5	35.7	4.0
Domestic trust and loan companies	11.3	1.1	10.5	1.0	7.9	0.8	6.8	0.7	5.5	0.6
Total	1,093.9	100.0	1,035.6	100.0	1,011.1	100.0	949.6	100.0	893.0	100.0

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

As at April 30	2004		2003		2002		2001		2000	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic banks and subsidiaries	348.8	34.1	339.6	35.0	328.3	34.4	315.8	35.1	304.3	35.7
Subsidiaries of foreign financial institutions	18.0	30.3	15.7	29.1	12.2	25.1	9.9	23.3	8.2	23.0
Domestic trust and loan companies	8.4	74.3	7.6	72.4	6.6	83.5	5.9	86.8	4.8	87.3
All peer groups	375.2	34.3	362.9	35.0	347.1	34.3	331.6	34.9	317.3	35.5

Capitalization Measures

Capitalization (percentage)

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	4.7	4.7	4.7	4.7	4.7
Subsidiaries of foreign financial institutions	6.3	6.0	6.6	6.9	6.6
Domestic trust and loan companies	7.6	7.6	8.0	8.5	8.7

Average shareholders' equity/Average assets

BIS Risk-Based Capital (percentage)*

As at members' fiscal year end	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	13.2	13.3	12.2	12.2	11.8
Subsidiaries of foreign financial institutions	14.8	14.5	13.7	13.4	13.0
Federal trust and loan companies	17.6	17.7	18.2	18.3	17.8

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

Income and Profitability Measures

Net Income (\$ millions)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	13,449	11,212	7,061	9,809	9,769
Subsidiaries of foreign financial institutions	795	682	623	485	289
Domestic trust and loan companies	155	111	98	91	86
Total	14,399	12,005	7,782	10,385	10,144

Interest Income (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	49.6	51.1	52.1	47.0	43.8
Subsidiaries of foreign financial institutions	46.5	47.7	44.4	42.4	44.0
Domestic trust and loan companies	45.9	44.9	45.4	45.8	43.2

Interest income: net interest income/total revenue

Interest Spread (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	1.9	1.9	2.0	1.9	1.8
Subsidiaries of foreign financial institutions	1.9	2.2	2.2	2.2	2.2
Domestic trust and loan companies	1.9	2.0	2.1	2.4	2.4

Interest spread: net interest income/average assets

Non-Interest Income (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	1.9	1.8	1.8	2.1	2.3
Subsidiaries of foreign financial institutions	2.2	2.4	2.8	2.9	2.8
Domestic trust and loan companies	2.3	2.4	2.6	2.8	3.2

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

Total Non-Interest Expenses (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	2.9	3.0	3.3	3.3	3.3
Subsidiaries of foreign financial institutions	3.2	3.8	4.1	4.3	4.4
Domestic trust and loan companies	3.4	3.6	3.9	4.2	4.6

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

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	0.8	0.7	0.4	0.7	0.7
Subsidiaries of foreign financial institutions	0.9	0.9	0.9	0.8	0.5
Domestic trust and loan companies	1.1	0.8	0.9	1.0	1.1

ROAA: net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	17.1	14.6	9.4	13.9	15.2
Subsidiaries of foreign financial institutions	14.2	14.3	13.2	11.0	7.9
Domestic trust and loan companies	14.1	11.1	11.1	11.6	12.4

ROAE: net income/average shareholders' equity

Efficiency (percentage)

For the members' fiscal year ending in	2004	2003	2002	2001	2000
Domestic banks and subsidiaries	68.0	68.3	69.4	68.0	66.7
Subsidiaries of foreign financial institutions	58.5	59.4	60.4	65.2	70.0
Domestic trust and loan companies	65.4	66.9	64.2	65.4	66.9

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



◀ VI REFLECTIONS OF THE PAST PRESIDENT AND CEO ▶


When I was first appointed as President and CEO in 1990, CDIC was in the midst of dealing with some of the biggest challenges in its history, including the imminent failure of a number of member institutions — one being the largest failure in Canada’s history. At the height of this period, CDIC had borrowed \$3.7 billion in funds from the Federal Government, its deficit was \$1.7 billion and the premiums charged to CDIC member institutions were at their highest levels.

With the support of a skilled management team, many of whom are still employees of CDIC, and the guidance of its Board of Directors, the Corporation met these challenges. The focus was first and foremost on protecting depositors and doing everything possible to reduce the rising costs associated with failures. This included initiatives to provide, along with other safety net partners, members with better incentives to manage their risks, and to ensure that when problems occur, CDIC had the means to detect and deal with them as early as possible.

By the end of the 1990s, when all was said and done, CDIC had eliminated its borrowings and deficit while protecting over 2 million Canadian depositors holding \$23 billion in insured deposits.

Major successes

The positive results of the Corporation’s efforts during those challenging times have endured. In my opinion, CDIC’s principal accomplishments over the years are:

- 
- ▶ **Protecting depositors and minimizing losses.** CDIC has dealt with the failure of 43 member institutions since it was created in 1967. In the process of resolving these institutions, CDIC has prided itself on putting the interests of depositors first while working diligently to reduce insurance losses over time. For instance, during the past 20 years CDIC has substantially reduced the time it takes to conduct a payout of insured deposits and introduced advance payouts to depositors in dire need of their funds. And, working closely with the Office of the Superintendent of Financial Institutions and provincial regulators and by perfecting its failure resolution skills and moving more promptly to resolve problem institutions, CDIC has driven down loss rates on member failures from approximately 50 cents on the dollar through the 1970s and 1980s to an average of approximately 17 cents for those occurring into the 1990s. The Corporation's losses from these failures would have been far greater had CDIC not had the powers of early intervention and the mandate to minimize its exposure to loss — powers that it received in 1987 after CDIC had experienced extremely high losses due to its original and very limited powers as a paybox.
 - ▶ **Building better incentives.** A big part of CDIC's success in reducing costs has come from working with its safety net partners to improve incentives to better manage risk in the financial system, such as improvements to early warning systems and enhancements to the intervention framework to ensure prompt corrective action, as well as the introduction of CDIC's differential premium system. Additionally, CDIC improved its ability to evaluate the cost of alternative forms of failure resolution, introduced more cost-effective systems for paying out insured depositors and created better incentives for liquidators and others concerned with claims and recoveries. It is commonly acknowledged that banks will fail from time to time in a competitive environment — it is therefore imperative, based on my experience, that in the best interests of depositors CDIC have the powers and the ability to deal with future failures.
 - ▶ **Reducing the cost of deposit insurance and unnecessary regulatory costs and burden.** CDIC has worked diligently to reduce the costs of providing deposit insurance. By far the largest costs are those associated with the resolution of failed institutions. These costs are directly reflected in the premiums CDIC members must pay. Since the mid-1990s, total annual premiums paid by members have been reduced from well over \$500 million to less than \$100 million (.025% of \$376 billion in insured deposits). Currently, premium rates are at their lowest levels ever and CDIC has been able to accumulate funds to deal with future losses.

CDIC has also worked with its members and safety net partners to reduce unnecessary regulatory costs and burden. And, as a matter of course, CDIC has improved the cost effectiveness of its own operations — the Corporation has reduced its operating expenses for three consecutive years.

- ▶ **Providing information to the public.** CDIC has worked continuously to provide better information to the public on deposit insurance matters with the objective of ensuring that depositors understand both the benefits and limitations of the federal deposit insurance system. In recent years, it has sought out other safety net players and consumer protection agencies, both at the federal and provincial levels, to improve consumer awareness. As a result of that collaboration and CDIC's direct leadership and initiative, the Canadian Financial Services Insolvency Protection Forum was launched, as was a website where consumers have access to information about which agency insures or protects their deposits, investments, and insurance policies.
- ▶ **Governance, accountability and reporting regime.** Over the years CDIC has also successfully strengthened its accountability and reporting regime. The OAG's 2004 Special Examination Report on CDIC confirmed that the Corporation is well-governed and its operations are being managed efficiently and effectively. The OAG has also recognized CDIC's efforts by awarding it the Award for Excellence in Annual Reporting by Crown Corporations in 1996, and by naming it a finalist for this award each year since then. At the same time, CDIC has been a pioneer in the development and implementation of corporate governance practices for its members through CDIC's *Standards of Sound Business and Financial Practices* — since repealed — as the importance of sound governance practices has come to the fore in the financial services sector.
- ▶ **International activities.** CDIC is now renowned internationally as a leader in governance and deposit insurance — so much so that over 40 countries have sought CDIC's advice in developing their deposit insurance systems. This work benefits Canada by helping to strengthen financial systems within which CDIC's members operate and by building stronger international partnerships from which CDIC can learn a great deal.

Farewell!

Looking back, I am extremely proud of CDIC's reputation as a well-governed and well-managed Crown corporation. These successes would not have been possible without CDIC's employees, a talented team of people who

both understand public sector policy and have a private sector “bottom line” orientation. The Corporation has been well supported by its wise Chairman, Ronald N. Robertson, Q.C., and the mix of private and public sector members of its Board of Directors who both guide the CDIC team and allow it to do its work.

I am grateful to have been given the opportunity to serve Canada during these many years and to have had the opportunity to contribute to public confidence in Canada’s financial system. I will miss both the public service and the many friends and colleagues I have worked with during my 28 years with CDIC and 35 years in the public service. I have passed the baton to my successor, Guy Saint-Pierre, with complete confidence and trust, and I wish CDIC all the best in facing the challenges ahead.

J.P. Sabourin

J.P. Sabourin retired from CDIC on April 1, 2005, after a 28-year career with the Corporation, including 14 years as President and CEO.

◀ APPENDIX A ▶

CDIC BOARD GOVERNANCE POLICY

The following chart presents CDIC’s approach to each of the 19 statements of principle comprising its Board Governance Policy.

Statement of Principle	CDIC Approach/Comments
<p>Principle 1 The Board will exercise independent judgment.</p>	<ul style="list-style-type: none"> ▶ Composition of the Board — mix of private sector and <i>ex officio</i> members. No members of management are members of the Board ▶ A minimum of four regular Board meetings each year ▶ All significant decisions of the Board made by consensus or majority vote ▶ Management provides the Board and its committees with all materials required to support independent judgment and decision making by the Board ▶ <i>In camera</i> sessions held regularly at meetings of the Board and its committees (without the presence of management) ▶ Policy on Engagement of Separate Independent Counsel or Other Advisors allows the Board or individual Directors to engage separate independent counsel or other advisors as required
<p>Principle 2 The Board will obtain and maintain an understanding of CDIC’s objects and powers, as well as of their governance responsibilities, will develop and maintain approaches to fulfilling those responsibilities and will evaluate objectively, on a regular basis, their effectiveness in doing so.</p>	<ul style="list-style-type: none"> ▶ Annual strategic sessions are held to discuss objects, powers, strategic direction and key supporting initiatives ▶ Board Governance Policy is in place ▶ Governance Committee is in place and has a comprehensive mandate that is reviewed as required ▶ Comprehensive Director’s briefing binders are provided to all Directors ▶ Board evaluations are conducted as required
<p>Principle 3 The Board will arrange for orientation of new directors and ongoing training appropriate to the Board’s governance responsibilities and needs.</p>	<ul style="list-style-type: none"> ▶ Upon appointment, Directors receive in-depth briefings ▶ Ongoing and special issue information sessions are made available as required
<p>Principle 4 The Board, in consultation with the President and CEO, will maintain a profile of desirable skills and capabilities that would best enable the Board to fulfill its responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non-<i>ex officio</i> Board vacancies.</p>	<ul style="list-style-type: none"> ▶ Director’s Profile is kept current, and gap analysis is conducted when vacancies arise ▶ Board provides recommendations to Minister of Finance as and when appropriate

Statement of Principle	CDIC Approach/Comments
<p>Principle 5</p> <p>The Board will establish the responsibilities and authority of Board committees and of management, as well as accountability requirements for them.</p>	<ul style="list-style-type: none"> ▶ Board Governance Policy, which is in place, sets out the responsibilities of the Board and the expectations of management ▶ Each committee of the Board has a mandate that is reviewed regularly as required: Audit Committee, Executive Committee, Governance Committee, Human Resources and Compensation Committee (HRCC), Nominating Committee, Committee of Independent Directors ▶ All committees report after each meeting to the Board
<p>Principle 6</p> <p>The Board will distinguish and document the responsibilities and accountability of the Chairperson and the President and CEO.</p>	<ul style="list-style-type: none"> ▶ Accountability profiles approved by the Board are in place for both the position of Chairperson and of the President and CEO
<p>Principle 7</p> <p>The Board will establish standards of conduct and ethical behaviour for Directors and for CDIC's officers and other employees and obtain, on a regular basis, reasonable assurance that CDIC has an ongoing, appropriate and effective process for ensuring adherence to those standards.</p>	<ul style="list-style-type: none"> ▶ The following policies and practices are in place: <ul style="list-style-type: none"> • Code of Business Conduct and Ethical Behaviour for Directors • Code of Business Conduct and Ethical Behaviour for Employees • Conflict of Interest Code for Directors and Employees • Corporate Mission and Values Statements • Oath of Fidelity and Secrecy • Policy on Internal Disclosure of Wrongdoing in the Workplace • Harassment Policy • employment equity, official languages, health and safety, and multiculturalism ▶ Annual reporting on compliance to the Board by Directors and employees
<p>Principle 8</p> <p>The Board will recommend to the Minister of Finance candidates for appointment as President and CEO who are suitably qualified and capable of managing CDIC's affairs effectively and prudently.</p>	<ul style="list-style-type: none"> ▶ The Board recommends to the Minister of Finance a candidate for appointment as President and CEO based on the approved accountability profile and selection criteria, as well as in compliance with the Government's requirements respecting Crown corporation CEO appointments
<p>Principle 9</p> <p>The Board of Directors will appoint officers (other than the President and CEO).</p>	<ul style="list-style-type: none"> ▶ All CDIC officers are appointed by the Board on recommendation from the President and CEO in accordance with CDIC's <i>Corporate By-law</i>

Statement of Principle	CDIC Approach/Comments
<p>Principle 10</p> <p>The Board will plan for the succession of the President and CEO and the officers of CDIC appointed by the Board.</p>	<ul style="list-style-type: none"> ▶ Current succession plans are in place and regularly updated ▶ Succession plans for officers and senior management are reviewed by the HRCC ▶ Training is available for potential successors
<p>Principle 11</p> <p>The Board will review the compensation program for non-<i>ex officio</i> Directors, make recommendations to the Governor in Council in that regard and satisfy themselves, on a regular basis, that the compensation of CDIC's officers and employees is consistent with the sustainable achievement of CDIC's objects, the prudent management of its affairs and the risks to which it is exposed, and adherence to its policies and procedures.</p>	<ul style="list-style-type: none"> ▶ The Governance Committee is responsible for assessing the compensation program for non-<i>ex officio</i> Directors ▶ HRCC oversees CDIC's compensation program and policies, and makes specific recommendations to the Board annually ▶ CDIC's Board annually reviews a representative market sample to gauge the appropriateness of current salaries at all levels of the Corporation
<p>Principle 12</p> <p>The Board will, at least annually, establish objectives for the President and CEO and evaluate the performance of the President and CEO against those objectives.</p>	<ul style="list-style-type: none"> ▶ In accordance with the Guidelines of the Privy Council Office respecting same: <ul style="list-style-type: none"> • objectives for the President and CEO are established annually, agreed upon jointly by the President and CEO, reviewed by the HRCC and the Board, and submitted to the Minister of Finance • the Board reviews the President and CEO's performance against the statement of objectives annually
<p>Principle 13</p> <p>The Board will:</p> <ol style="list-style-type: none"> a) periodically assess CDIC's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance; b) adopt a strategic planning process; c) at least annually, approve operating objectives and strategies, an operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of CDIC's objects, current and anticipated environment, risks, resources and financial position; d) regularly evaluate CDIC's performance in implementing its approved plans and budgets; and e) obtain, on a regular basis, reasonable assurance that CDIC has an effective strategic management process. 	<ul style="list-style-type: none"> ▶ CDIC has a strategic management process and holds an annual strategic planning session with the Board ▶ CDIC's mandate is reviewed periodically by the Board as part of its strategic planning discussions — any proposed changes to the mandate would be provided by the Chairperson to the Minister of Finance ▶ The Board annually examines the Corporation's business environment and risks, approves the business objectives, strategies, supporting initiatives and resource budgets, capital budget, borrowing plan, Corporate Plan and premium rates — all as part of the annual corporate planning exercise. The Board recommends the Corporate Plan, incorporating all of these components, to the Minister and to Government for approval ▶ Comprehensive corporate performance reports (including a performance scorecard) are presented to the Board at each of its regular meetings

Statement of Principle	CDIC Approach/Comments
<p>Principle 14</p> <p>The Board will:</p> <p>a) obtain an understanding of the significant risks to which CDIC is exposed;</p> <p>b) establish appropriate and prudent risk management policies for those risks and review these policies on a regular basis, but at least annually, to satisfy themselves that they continue to be appropriate and prudent; and</p> <p>c) obtain reasonable assurance, on a regular basis, but at least annually, that CDIC has an effective Enterprise Risk Management (ERM) process and that risk management policies are being adhered to.</p>	<ul style="list-style-type: none"> ▶ The Audit Committee has responsibility for oversight of ERM and provides regular reports to the Board ▶ Risk management policies for Insurance Risk, Financial Risk, Operational Risk and Reputation Risk are being developed with the goal that they be finalized and approved by the Board by March 2006 ▶ Annual ERM reporting to the Board to be in place by March 2006 ▶ The Board will obtain independent and objective assessment of CDIC's ERM implementation, as a validation of management's risk assessments, from CDIC's Audit and Consulting Services Department ▶ Management policies are in place in all key areas of the Corporation ▶ CDIC's policies are reviewed regularly as required ▶ Changes to significant policies (e.g., compensation) are approved by the Board
<p>Principle 15</p> <p>The Board will obtain, on a regular basis, reasonable assurance that CDIC's operations are supported by an appropriate and effective control environment and that CDIC has effective policies and practices to assure the integrity of internal controls and management information systems.</p>	<ul style="list-style-type: none"> ▶ Internal Audit function in place ▶ Mandate of the Internal Audit function is approved by the Board and incorporates direct reporting to the Audit Committee ▶ The Audit Committee approves the Internal Audit Plan and oversees its work. It also reviews all Internal Audit reports and recommendations (including follow-up/action thereon) ▶ The Audit Committee meets at least four times each year ▶ The Audit Committee holds separate <i>in camera</i> sessions with the Director, Audit and Consulting Services ▶ The Office of the Auditor General (OAG) attends all meetings of the Audit Committee ▶ The OAG conducts annual attest audits and special examinations every five years
<p>Principle 16</p> <p>The Board will establish the mandate of, and allocate sufficient resources for, CDIC's Internal Audit group, approve their audit plan each year and seek from that group, on a regular basis, reasonable assurance that CDIC's policies and procedures are being monitored and adhered to, and that appropriate action is taken to address any significant weaknesses or breakdowns that are identified.</p>	<ul style="list-style-type: none"> ▶ CDIC's Audit and Consulting Services Department reports to the Audit Committee and to the President and CEO ▶ The Audit Committee annually reviews and approves the audit plan for Audit and Consulting Services ▶ All reports prepared by Audit and Consulting Services are presented to the Audit Committee, accompanied by action matrices for all resulting recommendations/observations ▶ The Audit Committee holds separate <i>in camera</i> sessions with the Director, Audit and Consulting Services

Statement of Principle	CDIC Approach/Comments
<p>Principle 17</p> <p>The Board will obtain, on a regular basis, reasonable assurance that CDIC is “in control.”*</p>	<ul style="list-style-type: none"> ▶ CDIC demonstrates good corporate governance practices. It has in place: <ul style="list-style-type: none"> • policies relating to: <ul style="list-style-type: none"> • ethical conduct and business practices, and conflicts of interest, which are monitored for compliance and reported to the Audit Committee, the HRCC and the Board • a strategic management process • an ERM process • processes designed to ensure internal controls are regularly reviewed and assessed • policies related to human resource management, which are approved by the Board • processes for regularly monitoring performance and financial results ▶ The OAG conducts annual attest audits and, once every five years, special examinations (most recently in November 2004), which are reported to the Board
<p>Principle 18</p> <p>The Board will ensure that CDIC communicates effectively with the Crown, depositors, member institutions, financial institution regulators and supervisors, and other relevant parties.</p>	<ul style="list-style-type: none"> ▶ <i>Deposit Insurance Awareness</i> and <i>Strong Partnerships</i> are two of CDIC’s business strategies ▶ Long-term communications strategy and plan is approved by the Board of Directors ▶ CDIC has in place a website and 1-800 information lines, and regularly provides an Annual Report and a Summary of Corporate Plan to stakeholders (the Board of Directors reviews the Annual Report and Summary of the Corporate Plan) ▶ CDIC meets and consults regularly with member institutions and related associations on a variety of deposit insurance issues — all of which are reported to and discussed by the Board ▶ CDIC has established procedures for handling enquiries or representations received from the Minister’s office or other intervenors ▶ The Chairperson of the Board is a member of the Financial Institutions Supervisory Committee (by statute) ▶ CDIC participates on the Senior Advisory Committee of the Department of Finance ▶ A Liaison Committee is in place to facilitate discussions between CDIC and OSFI

*CDIC’s concept of being “in control” refers to the state or condition wherein:

- ▶ Its affairs are subject to effective governance by its Board of Directors, are being managed in accordance with ongoing, appropriate and effective strategic and risk management processes, and are being conducted in an appropriate corporate culture; and
- ▶ Any significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

Statement of Principle	CDIC Approach/Comments
<p>Principle 19</p> <p>The Board will periodically (and at least annually) review this Board Governance Policy to ensure that it remains responsive to the circumstances and needs of CDIC and continues to reflect the legislation to which CDIC is subject, the CDIC Standards* (adapted to reflect CDIC's mandate as a Crown corporation with public policy objects), guidance on matters of governance specific to Crown corporations and recognized "best practices."</p>	<ul style="list-style-type: none"> ▶ Review of CDIC's Board Governance Policy is planned for fall 2005

*CDIC's Standards were repealed in April 2005 — this Board Governance Policy is being revised to reflect this change.

◀ APPENDIX B ▶

FOR MORE INFORMATION ABOUT CDIC

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

Head Office

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

Toll-free telephone service:

1-800-461-CDIC (2342)

Website: www.cdic.ca

E-mail: info@cdic.ca

Facsimile: (613) 996-6095

Toronto Office

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

◀ APPENDIX C ▶

GLOSSARY

Basic Coverage: CDIC insures eligible deposits in the name of the same person at a member institution up to \$100,000, including principal and interest. Separate coverage is provided for other eligible deposits in joint and trust accounts, RRSPs, RRIFs and mortgage tax accounts. (“Couverture de base”)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Member Institution: A bank, trust company, loan company or an association governed by the *Cooperative Credit Associations Act* that has applied for and been granted CDIC membership. (“Institution membre”)

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

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”)

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

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

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

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

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

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

Wholesale Deposit: Wholesale deposits are raised in the money market directly from depositors or brokers. These deposits are usually large (over \$150,000) and short term in nature. (“Dépôts de gros”)