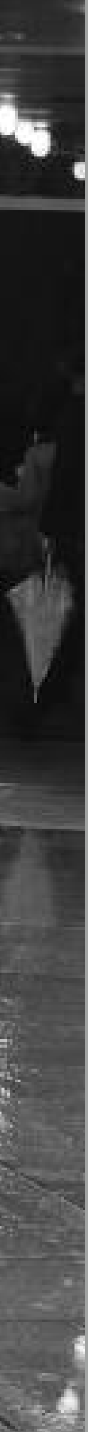
CDIC

Canada Deposit
Insurance Corporation

Annual Report 2009

Canada



$100,000 Deposit Insurance Coverage

What's covered?

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

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

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

What's an eligible deposit?

Eligible deposits include:

- savings accounts and chequing accounts
- Guaranteed Investment Certificates (GICs) and other term deposits with an original term to maturity of five years or less
- money orders, travellers' cheques and bank drafts issued by CDIC members and cheques certified by CDIC members
- debentures issued by loan companies that are CDIC members

Deposits must be payable in Canada, in Canadian currency.

What's not covered?

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

CDIC Mission

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

CDIC Values

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

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

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

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

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

Five-Year Financial and Statistical Summary

For the Years Ending March 31[a]	2009	2008	2007	2006	2005
Selected Balance Sheet Items ($ millions)					
Cash and investments	1,771	1,660	1,554	1,447	1,325
Provision for insurance losses	800	650	600	600	550
Retained earnings	960	998	950	844	793
Selected Income Statement Items ($ millions)					
Premiums	92	68	75	65	93
Interest on cash and investments	54	65	56	43	35
Operating expenses	26	24	22	23	23
Adjustment to allowance and provisions for loss	149	50	(1)	42	1
Net income (loss)	(37)	48	105	52	105
***Ex ante* funding** ($ billions)	1.76	1.65	1.55	1.44	1.34
Member Institutions (Number)					
Domestic banks and subsidiaries	41	40	42	41	37
Domestic trust and loan companies and associations	20	21	19	20	21
Subsidiaries of foreign financial institutions	20	19	19	21	23
Total number of institutions	81	80	80	82	81
Total insured deposits ($ billions)	512	477	455	438	376
Growth rate of insured deposits (%)	7.3%	4.6%	4.1%	16.5%[b]	3.4%
Employees (Number)					
Permanent employees[c]	97	83	79	79	79

[a] Financial figures are presented on a consolidated basis and include the results of CDIC and of Adelaide Capital Corporation (ACC), a variable interest entity. As described in Note 6 to the Financial Statements, effective April 2005, the Corporation adopted Accounting Guideline 15, *Consolidation of Variable Interest Entities*, issued by the Canadian Institute of Chartered Accountants. This Guideline required that ACC be consolidated with CDIC.

[b] The increase in deposit insurance coverage from $60,000 to $100,000 in 2005 contributed to the majority of the 16.5% increase in insured deposits during CDIC's 2005/2006 fiscal year.

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

Highlights of 2008/2009

- Closely monitored the financial and operating environment of our member institutions. The elevated risk prompted CDIC to increase its provision for insurance losses by $150 million.
- Significantly enhanced CDIC payout and communication capacity and undertook the largest and most complex failure simulation to date.
- Received from Parliament the most important amendments to CDIC's powers and authorities in 20 years, adopting bridge bank powers and other international best practices.
- Launched a new long-term public awareness program; positive results were achieved showing that 54% of Canadians are aware of CDIC and 26% are aware of the $100,000 deposit insurance coverage limit.
- Played a leadership role in having the Basel Committee on Banking Supervision adopt the International Association of Deposit Insurers' *Core Guidance Principles on Deposit Insurance.* Collaborated with the Bank of England and the U.K. Financial Services Compensation Scheme to share information on failure resolutions and public awareness communication.
- Awarded the Canadian Institute of Chartered Accountants Award for Excellence in Financial Reporting in the large Crown corporation category.

CDIC's Mandate

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

CDIC is funded by premiums that are assessed on the insured deposits of member institutions each year—we do not receive federal tax dollars to fund our operations. We conduct regular risk assessments of our members and monitor their performance and results using information from a variety of sources, including reports provided by the Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF). We also rely on OSFI and the AMF to conduct annual examinations of member institutions on our behalf. As one of five federal agencies that make up Canada's financial "safety net,"* our role is unique.

Further information about CDIC can be found on our website (**www.cdic.ca**).

* The "safety net" consists of the Bank of Canada, CDIC, the Department of Finance, the Financial Consumer Agency of Canada and OSFI.

CDIC
Canada Deposit
Insurance Corporation

Annual Report 2009

TABLE OF CONTENTS

MESSAGE FROM THE CHAIR

As a consequence of global financial market turmoil and contraction, Canada has experienced difficult economic times this past year. Nevertheless, CDIC's membership has continued to perform relatively well. Our members entered this period well capitalized, a result of careful management coupled with our country's strong regulatory regime and well-designed financial safety net. Canadians have maintained their confidence in our financial system.

CDIC's role in contributing to stability

CDIC plays a key role in maintaining that confidence. Our mandate specifically requires the Corporation to promote and contribute to the stability of Canada's financial system. To fulfill our mandate in these challenging times, the Board and management of CDIC are focused on planning for problems our members may encounter, translating lessons learned from other jurisdictions and from past economic turbulence into action plans for the present and the future. In his message, our President and CEO, Guy Saint-Pierre, has summarized some of the more significant projects pursued over the past year.

While there is a constant need to upgrade and improve our systems, processes and tools, CDIC is already widely recognized as a world leader in operating an effective deposit insurance regime. Our Board was pleased to support the extensive assistance provided by CDIC staff to the financial regulatory agencies in the United Kingdom as they reformed their compensation and resolution schemes. Collaboration with other jurisdictions gives CDIC exposure to issues that help inform our planning, and at the same time strengthens systems of deposit insurance outside our boundaries, contributing to public confidence in the global financial structure.

Governance and oversight

The Board of Directors has also focused on elements of governance critical to the effective functioning of CDIC. In the course of the past year, we enhanced our oversight of the succession planning processes used to ensure the Corporation will have the management leadership in place to meet the needs of the future. We also reviewed and adjusted CDIC's performance management policies to support a productive work force. The Board's Audit Committee oversaw the work now underway in support of the transition to International Financial Reporting Standards as well as management's review of the Corporation's internal controls.

As is mandated by the *Financial Administration Act*, the Office of the Auditor General (OAG) is presently undertaking a special examination of CDIC, and our Board looks forward to receiving its objective assessment of the efficiency and effectiveness of the Corporation's systems and practices, as well as any recommendations the OAG might propose for further strengthening the Corporation's performance.

Board changes

During the year, we said farewell to two Board members and had a replacement to one of our Alternate positions. Tracey Bakkeli, a Board member since 2001 and Chair of the Audit Committee for much of her tenure, retired from our Board, as did Barry Moore. As well, Serge Dupont, who had been the Alternate to the Deputy Minister, left the Board when he moved from the Department of Finance to accept a more senior position in the public service. The input of all of these colleagues was appreciated and their wise counsel will be missed.

At the same time, this past year we have been fortunate in obtaining the services of three new private sector members, as well as a replacement of the Finance Department Alternate. Joining an already strong Board, we welcomed Les Cannam (Saskatoon), John McFarlane (Halifax) and Éric Pronovost (Trois-Rivières) as Board members, and Jeremy Rudin as the Alternate for the Deputy Minister of Finance. As Chair, I am fortunate to be able to call upon such a talented and experienced set of Board colleagues as overseers of the Corporation.

The cornerstone of CDIC's ability to deliver on its mandate is the quality and commitment of its staff. I want to close by acknowledging the hard work and dedication of the CDIC team, led by our President and CEO. They accomplished much over the past year.

Bryan P. Davies

MESSAGE FROM THE PRESIDENT AND CEO

The global financial crisis and economic downturn have had effects on CDIC, its membership, and the Canadian financial sector. In spite of continued stresses, CDIC marked 13 consecutive years without a member failure. CDIC remains focused on ensuring it is ready to address the failure of a member institution.

A difficult environment

Member institutions entered the year with strong earnings and capital and, consequently, were in a good position to face a difficult environment. Overall, membership financial performance in 2008 was satisfactory, despite a significant drop in profitability and some deterioration in credit quality. Membership assets and deposits continued to grow rapidly during the year. Insured deposits at our member institutions surpassed $500 billion, emphasizing the important role CDIC plays in protecting the savings of Canadians and in promoting a stable financial system.

CDIC's financial position also remained strong this past year. Our *ex ante* fund reached $1.8 billion as at March 31, 2009. Revenues, largely premiums collected from our member institutions, amounted to $146 million. We increased our provision for insurance losses to $800 million to reflect the rising risk in the environment and the possibility that we may be called upon to address a member failure. This resulted in a net loss of $37 million, our first loss since 1995. We continued our efforts to closely contain our costs while making the necessary investment to ensure readiness. Net operating expenses of $26 million at March 31, 2009, were fully offset by interest earned on our funds.

While members have enjoyed historically low premium rates for several consecutive years including in 2008, a number of factors require that we increase premium rates for 2009. The deteriorating economy, coupled with the current faster-than-anticipated growth in insured deposits, made it much less likely that CDIC's *ex ante* funding target of 40 to 50 basis points, to which we are committed, would be reached within a reasonable time frame. With a modest increase in premium rates we will be able to reach the lower end of our *ex ante* funding target in the next five years. The 2009 rates will still be at historically low levels ranging from 1.9 to 14.8 basis points of insured deposits for the best-rated to the worst-rated categories, respectively.

Our strategies and related accomplishments

CDIC based its work during 2008/2009 on its three corporate strategies. I encourage you to learn more about the activities we undertook in support of these strategies in this Annual Report. I offer a few highlights here.

Our **readiness** strategy is designed to ensure that CDIC stays alert to developments that affect its membership, has the ability to anticipate and react to events, and manages its insurance risk. As member institutions have grown in both size and complexity, the challenges facing CDIC, if one or more members should fail, have likewise grown. Accordingly, over the year we continued a number of initiatives to enhance our ability to deal with payout and non-payout member resolutions. Initiatives included conducting a simulation of the largest failure to date. We made great strides in improving the effectiveness of our payout systems, with an emphasis on speed and volume, so that we can handle a more complex payout. In conjunction with this we upgraded our call centre and website capacity to allow a faster response to depositors.

Our **public awareness** strategy helps us target our efforts to increase consumer awareness of CDIC deposit insurance, including its benefits and limits. With a new long-term public awareness plan in place, CDIC's recent survey results are positive, with 54% of Canadians aware of CDIC and 26% with an unprompted recollection of our $100,000 deposit insurance limit—these results represent the highest levels of awareness in recent years. We are pleased that we were, again this year, able to partner with the Autorité des marchés financiers for our advertising in Québec.

Sustaining efficient governance and operational capacity, our third corporate strategy, supports all our activities. We manage our significant risks prudently and effectively, regularly assess the Corporation's compliance with all its statutory provisions and policies, and maintain a strong governance regime, which includes preparing for the adoption of International Financial Reporting Standards by 2011/2012.

The financial crisis of the past year has certainly demonstrated the need for effective systems of deposit insurance around the globe to help maintain public confidence. We supported this objective through our participation in the International Association of Deposit Insurers (IADI). During the year IADI and the Basel Committee on Banking Supervision drafted an international set of principles for effective deposit insurance systems. CDIC was pleased to be a part of this effort in promoting principles that reflect, in large part, Canada's well-respected and sound deposit insurance regime.

Looking ahead

The amendments to the *Canada Deposit Insurance Corporation Act* set out in the *Budget Implementation Act*, 2009 (Bill C-10) will have a significant impact on CDIC's operations. Among other things, the Corporation will have more resolution options to respond to systemic risk concerns arising from a failing member. Over the coming year we will begin to implement these options and other new powers that arise from Bill C-10. Given the increasing complexity of the financial sector and the challenges being presented by current economic and financial conditions, we anticipate the need to further step up our capacity to be ready for future events that may unfold.

Our people are the key to carrying out CDIC's mandate and in turn supporting public confidence in its operations. In order to maintain a motivated work force, we foster an ethical and positive environment for all employees. Last year we received the Canadian Institute of Chartered Accountants award for financial reporting in the large Crown corporation category, a tribute to our employees' determination to sustain the highest quality in their work. As a very busy year closes and another begins, I thank them all for their commitment and integrity. I also extend a warm thank you to Bryan Davies, our Chair, for his leadership and to the Board for its ongoing support.

Guy L. Saint-Pierre

1 MANAGEMENT'S DISCUSSION AND ANALYSIS

CDIC Canada Deposit Insurance Corporation

This financial institution is a member of the Canada Deposit Insurance Corporation

Cette institution financière est membre de la Société d'assurance-dépôts du Canada

CDIC 1-800-461-CDIC

SADC Société d'assurance-dépôts du Canada

SADC 1-800-461-SADC

Canada

SAVINGS PROTECTION CANADIANS CAN COUNT ON

CDIC'S OPERATING ENVIRONMENT

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

Economic Environment

The dramatic contraction in the U.S. economy over the past year, as well as the rapid deterioration in business conditions in many other countries, has had a negative impact on the Canadian economy. This has primarily been felt through weakened exports, plunging commodity prices and a sharp slowdown in spending on consumer goods and housing. As well, unemployment rates have risen in most regions of the country.

Economic conditions would have been much worse if not for the relative resilience of Canada's financial system and the sizeable injection of fiscal and monetary stimuli into the economy. These measures are expected to take hold during CDIC's fiscal year 2009/2010 and are expected to contribute to a foundation for improving business and consumer conditions by 2010/2011. It is important to note, however, that even when growth returns to the economy it is expected that most consumers, businesses and financial institutions will continue to face a challenging environment.

Member Environment

Weak capital markets and deterioration in global financial conditions in 2008 have resulted in substantial losses in securities and derivatives. Concerns over counterparty risk sharply curtailed liquidity in a number of markets worldwide. This took place at a time when financial institutions attempted to reduce their own leverage, further fuelling the economic slowdown. Following the failure of several large globally-active financial institutions and deteriorating economic fundamentals, central banks around the world took aggressive actions to stabilize the financial system and to counteract the spread of the U.S.-led global recession.

Marked deterioration of global financial markets along with Canada's weakening economic performance, particularly in the last quarter of the year, contributed to a significant drop in profitability at CDIC member institutions in 2008. Although asset quality declined in the latter part of the year, it remained acceptable. Overall, CDIC membership capital ratios remained stable, assisted by the sale of additional common or preferred shares at large members.

However, larger banks continue to be challenged by their loan exposures to the U.S. and losses on complex securities and off-balance sheet derivatives. Going forward, weaker economic conditions in Canada could well result in continued deterioration in asset quality and in the performance of member institutions.

Legislative and Regulatory Developments

During the past year key legislative and regulatory developments affecting the Corporation have centered on expanding CDIC's capabilities to deal with potential problem member institutions and to contribute to financial stability. On March 12, 2009, Bill C-10 was passed by Parliament and it included the following key provisions affecting CDIC:

1. CDIC is able to establish a bridge institution as a resolution tool to preserve critical functions and help maintain financial stability in the event a CDIC member is no longer viable.

2. In order to provide CDIC with a broader range of options to respond to systemic risk concerns arising from the failure of a member, CDIC is allowed to resolve a failure in ways that may not result in a "lowest cost" solution to CDIC. The Government grants the Minister of Finance the power to direct CDIC to take specific action to prevent adverse effects on the stability of the financial system.

3. CDIC is authorized to hold or own shares in its member institutions, subject to the approval of the Minister of Finance.

4. CDIC is provided with greater flexibility in the timing of preparatory examinations.

5. The borrowing limit of CDIC is increased from $6 billion to $15 billion to reflect the growth of insured deposits since the last increase in 1992. The higher limit will increase annually in line with insured deposit growth.

6. Tax-Free Savings Accounts (TFSAs) have received separate CDIC deposit protection as is currently provided for Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs).

It is a priority for the coming year to operationalize these new provisions, enabling CDIC to respond effectively in the event of a failure.

Consumer Environment

The profile of Canada's population continues to change, with overall growth slowing and the population aging. One in seven Canadians is now aged 65 or older; seniors will account for an even greater proportion of Canadians as the first baby boomers reach the 65-year mark in 2011.

Financial services continue to evolve to meet the needs and preferences of an ever-changing population. Canadian consumers often receive complex information from their financial services provider and the media, making financial planning and decision making difficult. In fact, over 40% of Canadians say they find financial information confusing. Progress is being made—more than half of Canadians are aware of CDIC. When asked about CDIC, the majority of people surveyed consider CDIC to be safe, reliable and trustworthy. They indicate that they can count on CDIC to protect their savings.

In turbulent economic times, personal savings become more important to Canadians. In 2008, Canadians saved 1.5% more than in 2007, putting away money that they previously would have spent.[1] With an increase in savings comes a strong interest in knowing more about savings protection; consumers are actively seeking information about their financial protection. CDIC has found that advertising on the Internet draws increased demand for deposit insurance information from consumers, with online ads, for example, leading to more than 20,000 hits in a single day on the CDIC website. And with the growing interest in financial protection, awareness of the $100,000 deposit insurance limit is at the highest level seen to date.

Consumer concern for protection is also manifest in heightened awareness of CDIC's product coverage. CDIC-commissioned research indicates that over three quarters of Canadians now know that savings accounts are covered by CDIC. Two thirds are aware that term deposits are covered by CDIC and that stocks are not covered. Despite the fact that awareness of CDIC has climbed only modestly, these results represent an important increase over the past two years with the economic climate having an impact on consumer behaviour.

Corporate Environment

The increasingly difficult economic climate and membership environment has led CDIC to increase resources in key areas of the Corporation to support a heightened state of readiness. This approach is a prudent response to current global and Canadian economic developments. Our focus on readiness and contributing to stability goes hand in hand with recent G7 and G20 statements concerning restoring confidence in the financial system.

CDIC focuses on readiness in a number of ways, including monitoring the financial condition of its member institutions, conducting failure simulations and employee training, and through ongoing investment in technology and information systems. During the past year this type of readiness activity represented a major portion of our work and will continue to be a priority in the future.

Our relationships with other financial safety net players at the federal, provincial and international levels continue to be vital to CDIC in carrying out its mandate and contributing to strengthening the overall financial safety net in Canada. Global discussions in regard to recent economic problems have highlighted the importance of information sharing, and having a macro view of regulation and deposit insurance. For CDIC this demonstrates the importance of maintaining strong relationships with the Office of the Superintendent of Financial Institutions (OSFI) and with other financial safety net players, as well as reinforcing the value of the regular exchange of information.

The significance of CDIC's information technology (IT) infrastructure to the Corporation's overall operations points clearly to the need to maintain this infrastructure in a current state at all times. Sound information systems (IS) governance remains a priority for CDIC, and integral to the process is a senior-level steering committee that reviews technology needs for effective operations. CDIC also maintains a robust business continuity management program to ensure the Corporation is able to cope with a range of potential business disruptions. Further, the Corporation is in the midst of upgrading its aging Ottawa office infrastructure, which includes plans for the construction of a new "green" data centre to be completed during the course of the upcoming year. This facility will feature energy efficient power and cooling systems, and environmentally friendly fire suppression methods.

---

[1] Statistics Canada. *Economic Indicators, 2009*. Report on Q4'08.

CDIC has a unique role in Canada and, as a result, employee knowledge of the Corporation's operations and deposit insurance is largely acquired on the job. Managing the risk of losing corporate knowledge is a key aspect of our operating environment, as deposit insurance expertise is not readily found in the labour market. CDIC ensures that employees are engaged and motivated, and promotes a positive working environment.

MANAGING OUR RISKS

Risk Governance and Management

CDIC's risks are subject to sound governance and management. CDIC's Board of Directors has formalized its risk governance responsibilities in the Board Charter. These are to:

- understand the significant risks to which CDIC is exposed
- establish appropriate and prudent risk management policies for those risks and review these policies on a regular basis—at least annually
- obtain reasonable assurance—through annual or more frequent reviews—that CDIC has an effective Enterprise Risk Management (ERM) process and that risk management policies are being adhered to

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

CDIC's Significant Risks

CDIC is exposed to four categories of risks stemming from its statutory objects and the conduct of its affairs: insurance risk, financial risk, operational risk and reputation risk. Management has concluded that CDIC's overall risk exposure is acceptable. However, CDIC's insurance risk is viewed as "cautionary" and CDIC's insurance and some operational risks are increasing given the current economic environment. Management's assessment is summarized in the table on pages 13 and 14.

Overview of CDIC's Assessment of Its Significant Risks

	2008/2009		2007/2008	
Insurance Risk: CDIC's risk of loss, including costs incurred in the event of an intervention, associated with insuring deposits.	**Rating**	**Trend**	**Rating**	**Trend**
Insurance Powers Risk: The risk that CDIC does not have the necessary powers to support the management of its insurance risk in accordance with CDIC's statutory objects.	Cautionary	–	Acceptable	▲
Assessment Risk: The risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of insurance risk.	Acceptable	–	Acceptable	–
Intervention Risk: The risk that CDIC cannot or does not take timely and effective action with respect to an unacceptable level of insurance risk posed by a member institution, or with respect to failed member institutions.	Cautionary	▲	Cautionary	▲
Operational Risk: CDIC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	**Rating**	**Trend**	**Rating**	**Trend**
People Risk: The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment, of CDIC personnel.	Cautionary	–	Cautionary	–
Information Risk: The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.	Acceptable	–	Acceptable	▲
Technology Risk: The risk that CDIC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.	Acceptable	▲	Acceptable	▲
Process Risk: The risk resulting from the incorrect execution of a breakdown in, or a gap in, a policy, practice or control respecting CDIC's processes.	Acceptable	–	Acceptable	–
Legal/Compliance Risk: The risk that CDIC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.	Acceptable	–	Acceptable	–
Business Continuity Risk: The risk that a disruption impacting CDIC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct its affairs.	Acceptable	–	Cautionary	▼

LEGEND

Risk Rating: Acceptable · Cautionary · Serious Concern

Risk Trend: ▼ Decreasing · – Stable · ▲ Increasing

Overview of CDIC's Assessment of Its Significant Risks

	2008/2009		2007/2008	
Financial Risk: CDIC's risk associated with managing its assets and liabilities, including those that appear on and off the balance sheet.	**Rating**	**Trend**	**Rating**	**Trend**
Liquidity Risk: The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off-balance sheet) as they arise.		–		–
Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.		–		–
Credit Risk: The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off-balance sheet, to CDIC.		–		–
Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.	**Rating**	**Trend**	**Rating**	**Trend**
Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in CDIC, and which could result in a financial and other loss to CDIC.		▲		–

LEGEND

Risk Rating: ■ Acceptable ■ Cautionary ■ Serious Concern

Risk Trend: ▼ Decreasing – Stable ▲ Increasing

Insurance Risk

In relative terms, insurance risk is CDIC's most significant risk. The failure of a member institution, which is the worst-case scenario from an insurance risk perspective, has the potential for a major impact on CDIC given the high costs of resolution and substantial resources required to handle a failure. Insurance risk is viewed as "cautionary" and is increasing due to two principal factors:

First, given the difficult environment in which our member institutions operate, CDIC faces an increased possibility of being called on to conduct one or more interventions at a time when it is in the midst of a multi-year effort to build its resolution capacity.

Second, although CDIC has had effective powers required to manage its insurance risk, additional powers are needed to deal effectively with the sudden failure of larger institutions such as those experienced in many countries. The Government is providing CDIC with additional resolution powers and time and resources will be needed to operationalize these important new powers.

Operational Risk

CDIC is exposed to operational risk in every aspect of its operations. With the exception of people risk, CDIC's operational risks were assessed as acceptable in 2008/2009. The exception relates to several factors. Key among them is the pressure stemming from CDIC's increased insurance risk. Although we continue to enhance our intervention capabilities and capacity and test them through simulations, our approach is to operate with only a core level of employees, some of whom perform multiple intervention roles that require specialized knowledge not readily available in the external labour market. We are taking steps to mitigate this risk. For example, some new employees were hired during the latter part of 2008/2009. We are actively seeking the remaining needed personnel during 2009/2010. We are also engaging (by way of stand-by agreements with external parties) a network of consultants/service providers to ensure that we continue to have adequate and ready resources to fulfill our mandate.

CDIC also could face some technology risk challenges in the next few years, even though our exposure to this risk is currently deemed to be acceptable. Our key challenge with respect to technology risk is that CDIC is making some major IT enhancements over the next three years, including to its ROADMAP payout system and data centre, causing delays in upgrading existing IT systems. Moreover, these major IT enhancements are being conducted at the same time that the Corporation faces an increased risk of being involved in an intervention.

Financial Risk

CDIC's financial risks (liquidity, market and credit risk) continue to be acceptable and stable. This reflects that the management of these risks is governed by conservative Board financial risk policies, which, in turn, ensures that funds can be available quickly and without material compromise to their value. These policies have enabled CDIC to avoid direct exposure to asset-backed commercial paper (ABCP) and equities, two types of investments that have recently undergone material declines. Management considers that appropriate practices and controls are in place to ensure adherence to these policies. In addition to having the appropriate segregation of duties, oversight of the Corporation's treasury strategy is provided by a Risk Management Unit and an Asset/Liability Committee (ALCO), which reflects a cross-section of CDIC's operations. All investments meet or exceed the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*.

Uncertainties in capital markets during the past year have caused some disruptions and a general "flight to quality." This move toward less risky investments has increased demand for the types of assets in which CDIC invests, thereby increasing the market value of CDIC's current portfolio and the value at which they are carried on CDIC's financial statements (in accordance with mark-to-market accounting requirements). At the same time, it has contributed to a reduction in yields on new investments going forward. About 90% of the portfolio is short term (i.e., a term-to-maturity of less than one year). The relatively short duration of CDIC's total investment portfolio protects the value of the portfolio to a large extent against interest rate fluctuations.

Management regularly shock tests CDIC's portfolio—with results discussed at management's ALCO and reported to the Audit Committee.

Reputation Risk

CDIC's reputation risk is assessed as acceptable but increasing. Public attention on CDIC has generally been perceived to be positive over the past year and has picked up significantly, as evidenced in particular by the number of enquiries to CDIC's call centre. CDIC is aware that it faces a greater possibility of being called on to conduct one or more interventions at a time when expectations are for faster payments of insured deposits. CDIC has not had recent experience in dealing with an actual failure although we continue to perform simulations, developing and upgrading our skills and capacity for a payout.

ERM Representation

CDIC management provides the Board of Directors with an annual ERM representation. The objective of the representation is to provide the Board with further assurances about the soundness of CDIC's risk management processes and to enable the Board to be in a position to consider CDIC's risks, including any risk management issues, prior to approving CDIC's annual financial statements and considering CDIC's Annual Report. Management's ERM representation for 2008/2009 is included on page 35 of this report.

PERFORMANCE AGAINST PLAN

Three Corporate Strategies

CDIC regularly reviews its corporate strategies in light of its ongoing assessment of the Corporation's operating environment and its significant risks. For its year ended March 31, 2009, CDIC focused on three strategies to direct its work. These strategies support the Corporation's mandate, at the same time placing considerable importance on managing CDIC's significant risks:

- ***Strengthening Core Expertise and Readiness***
- ***Promoting Depositor Awareness***
- ***Sustaining Efficient Governance and Operational Capacity***

The activities that CDIC carried out over the past year in each of these three strategic areas are described below. Our success in meeting performance targets is reflected in our Corporate Scorecard (pages 22–24).

■ *Strengthening Core Expertise and Readiness*

CDIC must stay alert to developments that affect the Corporation and its membership. The Corporation must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. CDIC will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolutions.

During the year we continued to monitor the financial and operating performance of our membership and the environment in which they operate, focusing on those emerging risks that have the potential to affect specific groups of members. In particular, we paid close attention to negative developments in the residential and commercial real estate markets, regionally and nationally, as well as on the non-bank ABCP market. CDIC focuses on proactively managing the risk posed by the riskiest members and relies heavily on information provided by OSFI, combined with its own analysis, to carry out this work effectively. We also made further improvements to the systems that support our ongoing monitoring and risk assessment functions and remained committed to working closely with both OSFI and the other safety net agencies.

CDIC continued its work as a member of the Financial Information Committee (FIC), a sub-committee of the Financial Institution Supervisory Committee (FISC)—giving consideration to such issues as potential improvements to regulatory filings by member institutions, including implementation of Basel II filing requirements. We also continued to carry out research and provided internal training related to the introduction of new accounting standards and capital rules under Basel II. This helps us prepare for our upcoming evaluation of the impact of the implementation of Basel II, fair value accounting, and International Financial Reporting Standards (IFRS) against the factors used under the *CDIC Differential Premiums By-law*.

To strengthen our capacity to carry out a depositor payout, CDIC worked on processes to respond promptly to meet depositor needs and expectations. Our capacity is evaluated in terms of the effectiveness of our communication with depositors, the speed by which depositors have access to their insured deposits, and the volume of depositors and accounts CDIC is capable of handling.

Immediate and effective communication with depositors has been strengthened by the development of CDIC's intervention website. During the year, we increased the capacity of the server supporting the website and made a first phase of improvements that will enable depositors of a failed member institution to verify online the status of their insurance payment.

The speed with which depositors will be able to access their funds has also been increased as a result of a number of other initiatives. We obtain advance information from problem member institutions about their deposit products and adjust our technology and processes accordingly. We have improved our software to speed up the calculation of each depositor's insured deposit. We have also augmented the capacity of our call centre with the addition of third party telephone services. CDIC will now be better able to handle large volumes of telephone calls from depositors in the event of a member institution failure. CDIC is in the second year of the Payout Capacity Enhancement Project. This multi-year project aims to increase the Corporation's capability to respond to the failure of member institutions, recognizing that the size of institutions has increased over time.

These readiness initiatives are subject to annual testing. As in prior years, CDIC conducted a comprehensive simulation this year. The exercise exposed our resources, systems and processes to the largest and most complex payout-related simulation to date.

Depositor payout is one method available to CDIC to resolve the failure of a member institution. Other non-payout options include financially assisting a buyer of a failing institution. In 2008/2009, CDIC continued work to strengthen our capabilities in non-payout intervention and resolution work. Resolution options were assessed to take into account changes in the environment and characteristics of CDIC membership. The applicability, strengths and weaknesses of each resolution method were documented and shared with other safety net agencies. We updated our valuation model, which is used to analyze the viability of members and assess various resolution options. Training was undertaken in the use of the model and in the conduct of a Special Examination. Employees were also added in the intervention area to enhance our capacity in the event of an intervention.

Promoting Depositor Awareness

CDIC is mandated to play a key role in supporting the stability of the financial system in Canada. Informing Canadians about CDIC deposit insurance is one of the principal methods we use to make this contribution, as awareness assists Canadians in making informed decisions about the protection of their savings.

CDIC must work to increase public awareness of deposit insurance and of its benefits and limits. Through our targeted, long-term strategy, we will carry out public awareness initiatives that build on past years' initiatives.

The deteriorating economic environment in the past year highlights the relevance of undertaking communication that inspires confidence in CDIC and the Canadian financial system, a goal that is consistent with CDIC's mandate. To this end, we launched a new long-term strategy for depositor awareness in 2008/2009 with two objectives:

1. To increase and sustain awareness of CDIC and deposit insurance while inspiring a sense of confidence and trust in CDIC and Canada's financial system.
2. To encourage Canadians to consult with member institutions or CDIC's website and call centre to learn more about what is covered and what is not covered by CDIC deposit insurance.

Our key audience under this new strategy is the general public with a focus on Canadians 50 years of age and older. During the year, activities under this new strategy focused on a national advertising campaign which included television, print and online advertisements, and participation in consumer shows. We also continued to operate our 1-800 phone line and website. As the success of a deposit insurance system hinges largely on consumers knowing about it, CDIC tracks the results of its annual public awareness campaign. During the past year total awareness of CDIC was at 54%, while 26% of Canadians can state the $100,000 coverage limit from memory. In addition, there has been an important increase in awareness of CDIC product coverage, which suggests that Canadians are paying closer attention to deposit protection messages during these tougher economic times.

CDIC partnered again this year with the Autorité des marchés financiers in its advertising efforts in Québec. Other partners in our public awareness activities included the Financial Consumer Agency of Canada (FCAC), the Registered Deposit Brokers Association, and a number of financial and consumer associations. We also continued to participate in the Canadian Financial Services Insolvency Protection Forum's website (www.financeprotection.ca).

CDIC held its third annual public meeting in Montréal in October 2008. With close to 180 attendees, the meeting provided CDIC's Board members and senior management with an opportunity to discuss deposit insurance directly with Canadians.

Sustaining Efficient Governance and Operational Capacity

To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. To achieve this objective, CDIC will take steps to manage its significant risks, maintain sound governance and continue to work actively with its key stakeholders. Such stakeholders include member institutions, the depositing public, employees, Financial Institutions Supervisory Committee (FISC) members, regulators, parliamentarians, and other deposit insurers in Canada and around the world.

A key ongoing program in support of CDIC addressing regulatory, legislative and similar requirements is our semi-annual compliance assessment against all statutory provisions, policies and guidelines to which CDIC must adhere. The document that results from this process is reported to the Board and assists CDIC management in ensuring that appropriate compliance is demonstrated on an annual basis.

During the year CDIC continued the transition of our review of internal controls over financial reporting (ICFR) into an ongoing program of risk-based cyclical testing and annual reporting. The 2008/2009 ICFR work done in support of the annual statement (see sidebar, next page) focused on documenting and testing key controls for the remaining lower risk processes that were classified as lower risk during our initial scoping. Management also tested all of the higher risk control areas in support of annual reporting processes, including financial close and reporting, disclosure controls, and our entity level monitoring controls. The testing of these controls was coordinated with CDIC's Audit and Consulting Services group and, as appropriate, with our ERM process.

Management Review of Internal Controls

CDIC management acknowledges that it is responsible for establishing and maintaining effective internal controls over financial reporting (ICFR).

Consistent with evolving best practices in financial statement disclosure and governance, management has determined that a program of review of CDIC's internal controls over financial reporting will add additional support to the Corporation's existing practices as summarized in the "Management Responsibility for Consolidated Financial Statements" in this Annual Report.

In 2005/2006, after carefully assessing various approaches, CDIC began a risk-based multi-year approach to review its ICFR. The extent and frequency of testing CDIC's ICFR varies according to the risks associated with individual processes.

Management's ICFR work is coordinated to the extent possible with the internal audit work of CDIC's Audit and Consulting Services Department, as well as with CDIC's ongoing ERM process. CDIC's Board of Directors, through its Audit Committee, receives regular reports on management's work with respect to internal controls over financial reporting, and also monitors progress on any action items arising from such work.

Although a number of observations of potential areas of improvement were noted, and management has action plans in place for addressing these opportunities, management did not identify any significant internal control deficiencies through the work conducted to date.

The move to International Financial Reporting Standards (IFRS) is having an impact on both CDIC and our member institutions. During the past year, the Corporation continued its active participation in a working group of Crown corporations studying the implications of these new standards. CDIC is working towards the requirement to report under IFRS for the year ended March 31, 2012, with IFRS-compliant comparatives for the year ended March 31, 2011. Details of CDIC's IFRS work and plans are included in the Financial Overview on page 25.

CDIC is dedicated to maintaining an organizational climate that attracts and retains employees who have excellent skills, who conduct business with the uppermost ethical standards, and who are committed to the mandate and operations of CDIC. CDIC's Human Resources (HR) Strategy and Plan reinforces the importance of employees as a key resource, assures the future of the organization by creating a sustainable and adaptable work force, and maintains CDIC's excellence as a workplace. Activities against the objectives in the HR Strategy and Plan are tracked annually. In 2008/2009 in particular, a review of key human resource policies was conducted which incorporated feedback from the previous year's employee survey.

CDIC's Information Systems (IS) Strategic Plan guided the Corporation throughout the year in a number of key areas. The Corporation dedicated a substantial amount of its IS resources to the continued efforts to improve the intervention systems that are essential in supporting the Corporation's mandate. Intervention systems are supported by CDIC business and technical staff to maintain the level of internal expertise needed to evolve and adapt these systems to meet the changing intervention landscape.

Several corporate projects to upgrade the technical infrastructure were launched this year to improve the capabilities of CDIC's information systems. These projects included enhancements to the features associated with CDIC's financial system in order to support new accounting standards and the ability to link systems to the portal to improve online reporting.

CDIC is in the fifth year of its Enterprise Information Portal roll-out, which has delivered many benefits to the staff in their ability to collaborate online. The portal has seen large adoption this year by CDIC staff to improve the way they share and manage information related to projects, meetings and committees.

The HR employee self-serve system features were expanded to allow employees to do more online and reduce the need to use paper to track HR requests. Several projects were started to support the communication needs of CDIC, which included increasing the CDIC website capacity using the website to support CDIC intervention needs. Several corporate systems have been upgraded, including the e-mail server, office suite and records systems. The productivity gains from these upgrades have had a positive effect on CDIC's ability to be more efficient in running its operations.

The Corporation continued to develop and strengthen our business continuity management program. A key activity over the year involved systems upgrades that enable our employees to work more collaboratively from any location. This was led by a new Secure Remote Access (SRA) approach to enable CDIC staff and designated personnel to work remotely. SRA has many spin-off benefits including enabling staff to work from an alternate location (part of CDIC's business continuity planning) and allowing CDIC to scale up its resources to meet staffing needs in the event of an intervention.

Successful all-employee testing of the SRA solution was a key component of CDIC's business continuity and pandemic preparedness plans. During the year we continued to monitor potential risks to our plans and developed actions to mitigate them. We also made improvements to our shared emergency back-up site and to its business recovery capabilities.

In 2007, CDIC initiated a leasehold project to ensure that the Corporation has appropriate long-term accommodation for its offices in Ottawa and Toronto. This work progressed through 2008/2009 and will allow our Ottawa leasehold renovations and the construction of a new data centre to be undertaken.

Collaboration and partnership continues to be an important aspect of CDIC's work. Collaborative work in Canada included working with and providing advice to a number of provincial regulators and deposit insurers concerning intervention planning. In June 2008, CDIC participated in the joint Credit Union/Caisse Populaire Stabilization Fund of Canada and Credit Union Regulatory Conference in Halifax, where we provided an update on CDIC membership performance.

In November 2008, CDIC also provided a membership overview and participated in the annual conference of the Canadian Financial Services Insolvency Protection Forum in Toronto. The forum brought together organizations responsible for the protection of Canadian consumers of financial services, including CDIC, Assuris, Canadian Investors Protection Fund, Property and Casualty Insurance Compensation Corporation, Deposit Insurance Corporation of Ontario, the Autorité des marchés financiers, Financial Institutions Commission of British Columbia, and Mutual Fund Dealers Association of Canada, as well as representatives from the Credit Union Deposit Guarantee Corporations of Alberta and Saskatchewan.

Internationally, CDIC was also active. Key activities are included in the "International Involvement" sidebar on the next page.

International Involvement

CDIC's international activities are aimed at helping the Corporation sustain a high level of core competencies and readiness. This work also provides benefits to Canada and CDIC member institutions through contributions made to international financial system stability. Major initiatives undertaken during 2008/2009 included:

- Providing substantial assistance to the United Kingdom—Staff visited the Bank of England on four occasions to assist in their development of a special failure resolution regime and to help build the capacity to conduct risk assessment. CDIC also hosted a delegation from the U.K. Financial Services Compensation Scheme to share information on public awareness, communication and payout resolutions. Other assistance was provided to deposit insurance authorities such as Jamaica, Japan, Malaysia and Switzerland.

- Continuing to work with the International Association of Deposit Insurers (IADI)—The Corporation's President and Chief Executive Officer is an active member of the Executive Council of IADI and member of the joint IADI—European Federation of Deposit Insurers (EFDI) Steering Committee. These groups looked at areas where EFDI and IADI can share information and cooperate more effectively. CDIC staff members also worked with IADI and the Financial Stability Institute to develop online tutorials on deposit insurance and training on failure resolutions; they also completed the 2008 International Deposit Insurance System Survey.

- Co-chairing a working group between IADI and the Cross-Border Resolution Group of the Basel Committee on Banking Supervision to develop a set of internationally agreed upon Core Principles for Effective Deposit Insurance Systems—Based on earlier work by IADI, the Core Principles were endorsed by IADI and the Basel Committee for public consultation on March 10, 2009. This work is an important aspect of the Financial Stability Forum/G20 workplan for financial stability.

CDIC CORPORATE SCORECARD—RESULTS AGAINST KEY INDICATORS, AS AT MARCH 31, 2009

CDIC's Corporate Scorecard, presented on the following pages, sets out the progress made for the year ended March 31, 2009, against the Corporation's key performance indicators established in CDIC's Corporate Plan. The Scorecard shows that CDIC's progress against the majority of key performance indicators proceeded as planned and that the Corporation achieved the majority of its key performance targets for 2008/2009. Only two of the nineteen indicators did not proceed as planned:

- Training is in progress to keep employees up-to-date on the use of current non-payout strategies, special examination methodologies and the valuation model. Current operational priorities slowed the pace of this training and it will continue into the next year.
- Although a draft Pandemic Preparedness Plan (PPP) is in place, fine-tuning and testing of this plan have yet to be performed. CDIC is now developing plans to fine-tune and fully test its PPP in the fall of 2009.

CDIC CORPORATE SCORECARD—2008/2009 to 2012/2013

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

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Strengthening Core Expertise and Readiness CDIC must stay alert to developments that affect the Corporation and its membership. It must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. The Corporation will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolutions.	**Insurance Program and Powers**	
	• Return of Insured Deposits: Consultation with member institutions about premium assessment base. • *Joint and Trust Account Disclosure By-law:* Undertake comprehensive review. • *Deposit Insurance Information By-law:* Update internal clearance system.	• Return of Insured Deposits and by-laws are current and relevant, and take into account member institutions' input. ▲
	• Amendments to CDIC differential premiums system to address Basel II.	• Consultation with members completed and appropriate amendments made to the differential premiums system for the 2010 premium year. ▲
	Membership Risk Monitoring	
	• Training for CDIC Risk Managers in support of changes reported by member institutions respecting Basel II, International Financial Reporting Standards (IFRS), fair value accounting and other changes.	• Basel II training completed by March 2009 and other training programs ongoing throughout the planning period. ▲
	Readiness for Payout	
	• Undertake the Payout Capacity Enhancement Project: Conduct annual end-to-end and limited scope simulations to test existing capacity and enhancement project progress.	• Achievement of annual project milestones for each year up to completion of the project as evidenced by CDIC's ability to conduct a large payout, while always maintaining existing capacity in full readiness—by March 2012. ▲

CDIC CORPORATE SCORECARD—2008/2009 to 2012/2013

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

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Strengthening Core Expertise and Readiness CDIC must stay alert to developments that affect the Corporation and its membership. It must also ensure that it has the ability to anticipate and react to events and to manage insurance risk. The Corporation will focus on solidifying expertise in our core operation areas of insurance, risk monitoring, intervention and resolutions.	**Readiness for Non-Payout Resolutions**	
	• Review and update the valuation model.	• Valuation model reviewed and updated as required during the planning period. ▲
	• Maintain current, optimal resolution methods by member peer group—a "toolbox" of non-payout failure resolution strategies and supporting documentation. Ensure all Risk Managers are trained on special examination methodologies and on the valuation model.	• All Risk Managers up-to-date on the use of current non-payout strategies, special examination methodologies, and the valuation model via tailored and ongoing training program. ▼
Promoting Depositor Awareness CDIC must work to increase public awareness of deposit insurance and of its benefits and limits. Through our targeted, long-term strategy, we will carry out public awareness initiatives that build on past years' initiatives.	• Develop for Board approval, and implement, the next long-term public awareness strategy and plan.	• 50% awareness of CDIC and 25% awareness of the $100,000 deposit insurance coverage limit. ▲
	• Enhance stakeholder partnerships in the delivery of activities to promote depositor awareness.	• Diversify public awareness activities with stakeholders such as the Autorité des marchés financiers (AMF), CARP—Canada's Association for the 50 Plus, the Association of Chinese Canadian Entrepreneurs (ACCE), and the Federation of Canadian Independent Deposit Brokers (FCIDB). ▲
	• Monitor the effectiveness of communications tools to ensure that they reflect best practices and contribute to measuring the impact of the public awareness strategy and plan.	• Maintain, test and adapt communications tools as required during the planning period. ▲
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. To achieve this objective, CDIC will take steps to manage its significant risks, maintain sound governance, and continue to work actively with its key stakeholders. Such stakeholders include: member institutions, the depositing public, employees, Financial Institutions Supervisory Committee (FISC) members, regulators, parliamentarians, and other deposit insurers in Canada and around the world.	**Governance**	
	• Continue to conduct annual assessments of CDIC's significant corporate risks, review and update CDIC's Board and management risk policies as necessary, and provide (through the Management's Discussion and Analysis section of CDIC's Annual Report) regular reports to stakeholders about the management of CDIC's significant corporate risks.	• Significant risks are assessed at least annually. Risk management initiatives are undertaken on a timely basis to ensure exposure is within acceptable levels. ▲
	• Negotiate new leases for both Ottawa and Toronto CDIC offices (existing leases expire in 2010 and 2011, respectively).	• New long-term leases for both Ottawa and Toronto offices in place by 2010 and 2011, respectively. Premises are secured that satisfy CDIC's human resource and operational requirements. ▲

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

CDIC CORPORATE SCORECARD—2008/2009 to 2012/2013

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

Corporate Strategies	Planned Key Initiatives	Key Performance Indicators
Sustaining Efficient Governance and Operational Capacity To maintain the public's confidence, CDIC must demonstrate that it is fulfilling its mandate in an efficient and effective manner. To achieve this objective, CDIC will take steps to manage its significant risks, maintain sound governance, and continue to work actively with its key stakeholders. Such stakeholders include: member institutions, the depositing public, employees, Financial Institutions Supervisory Committee (FISC) members, regulators, parliamentarians, and other deposit insurers in Canada and around the world.	**Governance**	
	• Make enhancements to the Ottawa office data centre (subject to resolution of CDIC's lease situation).	• Ottawa office data centre enhancements addressing all space, power and climate control issues completed by the end of 2009. The data centre has the capacity to meet CDIC's long-term needs. ▲
	• Continue to implement the Information Systems (IS) Strategic Plan.	• Initiatives specified in the IS Strategic Plan implemented in accordance with timelines set out in that Plan. ▲
	• Continue to implement the Human Resources (HR) Strategy and Plan.	• Initiatives described in the HR Strategy and Plan implemented throughout the planning period. ▲
	• Monitor employee satisfaction to ensure that there are no impediments to a productive and motivated work force.	• An employee survey to be undertaken, and the survey results analyzed and addressed during the planning period. ▲
	• Business continuity management activities—address issues arising from the 2007/2008 Business Impact Analysis (BIA), and finalize and maintain a Pandemic Preparedness Plan (PPP).	• All BIA issues addressed during the planning period. ▲ • Complete draft of PPP completed by March 31, 2009. ▼
	Regulatory, Legislative and Other Requirements	
	• Complete implementation of Internal Control Review initiative arising from Treasury Board Secretariat (TBS) governance measures for Crown corporations.	• Internal Control Review annual reporting regime in place pursuant to TBS guidelines. Annual attestations report no material deficiencies. ▲
	Stakeholder Initiatives	
	• Annual reporting of CDIC plans and progress to parliamentarians and all interested stakeholders through publications such as the Annual Report and Summary of the Corporate Plan.	• CDIC Annual Report and Summary of the Corporate Plan tabled in both houses of Parliament and available on CDIC's website each year. ▲

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

FINANCIAL OVERVIEW

About the Consolidated Financial Statements

CDIC's consolidated financial statements include the Corporation's results and those of Adelaide Capital Corporation (ACC), a variable interest entity (VIE). This is due to the fact that, effective April 1, 2005, the Corporation adopted Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, issued by the Canadian Institute of Chartered Accountants (CICA). The guideline requires the consolidation of VIEs that are subject to control on a basis other than through ownership of a majority of voting interest.

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of $1.3 million (2008: $1.5 million) and no increase in liabilities (2008: $3 thousand), as well as an increase in total revenue of $48 thousand (2008: $14 thousand) and an increase in total expenses of $265 thousand (2008: $10 thousand). As a result, the impact on the Corporation's retained earnings is $1.3 million (2008: $1.5 million).

In addition, CDIC adopted Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments—Disclosures,* and Section 3863 *Financial Instruments—Presentation*. As a result of the adoption of Section 1535, the Corporation has increased disclosures regarding its objectives, policies and processes for managing capital, the quantitative data about what the Corporation regards as capital, whether the Corporation has complied with any capital requirements and also if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 replace Section 3861 *Financial Instruments—Disclosure and Presentation*. The adoption of these new sections resulted in additional disclosures with respect to the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

In October 2008, the CICA issued amendments to Section 3855 *Financial Instruments—Recognition and Measurement*, and Section 3862 *Financial Instruments—Disclosures*. These amendments permit the reclassification of non-derivative financial assets out of the held-for-trading and available-for-sale categories under specified circumstances. The Corporation did not reclassify any non-derivative financial assets and, therefore, there is no impact from the amendments.

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles (GAAP) with IFRS for all Publicly Accountable Enterprises. In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be for fiscal years starting on or after January 1, 2011. The Corporation will be required to report under IFRS for the year ended March 31, 2012, with IFRS-compliant comparatives for the year ended March 31, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are differences between the two in recognition, measurement and disclosure requirements. During the first half of the 2008/2009 fiscal year, the Corporation conducted a diagnostic assessment which identified at a high level the main differences between CDIC's accounting policies and IFRS and the systems and processes that will need to be updated to issue IFRS-compliant financial statements. As a result of the diagnostic, it has been determined that 21 of the 37 standards have an impact on CDIC. Of note, 10 of the standards that will impact CDIC are subject to change before the implementation date. As a result, the Corporation plans to monitor changes in the standards as part of its IFRS conversion strategy and consider the impact of these changes, if any, on current plans and decisions taken.

A project team has been set up and a formal approach to IFRS established. CDIC will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

The impact of the transition on financial reporting cannot be reasonably estimated at this time.

Consolidated Balance Sheet Highlights

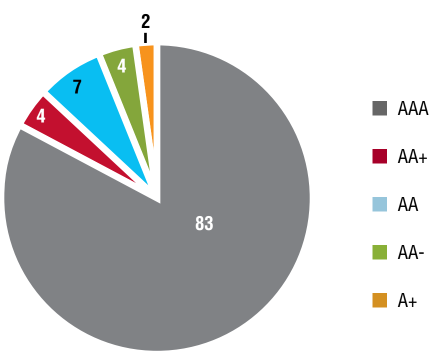
As at March 31, 2009, CDIC's total assets amounted to $1,779 million representing growth of approximately 7% compared to total assets of $1,664 million as at March 31, 2008. Total assets are comprised primarily of investments (99% of total assets). CDIC's investment portfolio is made up of Government of Canada or provincial treasury bills (17%) and bonds issued or guaranteed by the Government of Canada or a province (83%). Other investments held for cash management purposes are insignificant (less than 1%). CDIC's investments as at March 31, 2009, carry a weighted average yield to maturity of 2.31% (2008: 3.93%) with a modified duration of 0.9. This suggests that CDIC's investments have a low exposure to interest rate risk and thus a low volatility in value given the short-term nature of the portfolio.

Investments

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

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

Investment Portfolio
Distribution of Credit Ratings* (%)
March 31, 2009



* As rated by Standard & Poor's

These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance. CDIC's Board Financial Risk Policies require that investments be limited to only those that meet or exceed the credit quality criteria mandated by the Guidelines. The Board Financial Risk Policies further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument. The Corporation is restricted under these policies to investments issued or guaranteed by the Government of Canada or a province. Counterparties for investments of less than three years must have a minimum credit rating of "A." The Corporation's investments of more than three years are restricted to Government of Canada securities.

Future Recoveries

CDIC estimates possible future recoveries from failed member institutions of approximately $16 million. These potential additional recoveries relate primarily to recoveries of amounts that were previously written-off by CDIC and are not reflected on CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. There is also considerable uncertainty when projecting the timing and amount of future recoveries. Factors contributing to this uncertainty include creditor disputes, lawsuits against the estates and competing claims in respect of specific assets.

Name of Institution (Method of Failure Resolution—Year of Failure)	CDIC's Total Claims and Loans	CDIC's Recoveries to March 31, 2009	CDIC's Possible Future Recoveries	CDIC's Projected Loss as a % of:	
	($ millions)	($ millions)	($ millions)	Claims and Loans—Nominal Basis	Claims and Loans—NPV[a] Basis
Standard Trust Co. (Formal Liquidation—1991)	1,164	967	14	16%	33%
Adelaide Capital Corp. (Loan and Management Agreement—1992)	1,588	1,484	2	6%	15%

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

Income Taxes

CDIC is subject to federal income tax. The Corporation's primary source of taxable income is its interest on 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. For the year ended March 31, 2009, CDIC's income tax expense was $8.6 million and its income taxes receivable (after taking into account installments made during the year) was $5.1 million.

CDIC recognizes future income tax assets and liabilities based on temporary differences between the carrying amount of balance sheet items, including fair value changes on available-for-sale financial assets, and their corresponding tax basis.

The future benefits or costs of income taxes are recognized, subject to a valuation allowance as appropriate, to the extent that it is more likely than not that such income taxes will be realized. In accordance with CICA recommendations, the related asset or liability is re-valued each year. As at March 31, 2009, the future income tax liability was $3.9 million, compared to $2.4 million as at March 31, 2008.

Provision for Insurance Losses

The risks to CDIC's membership have increased during the 2008/2009 fiscal year as a result of weakening economic conditions. 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, 2009, the provision was $800 million, an increase of $150 million from March 31, 2008. This increase reflects the intensification of the global recession over the year combined with the Bank of Canada's view that global economic weakness has become more synchronous. Canadian gross domestic product declined by 3.4% during the Corporation's third quarter ended December 31, 2008, and is expected by the Bank of Canada to show a further decline of 7.3% for the quarter ended March 31, 2009, once economic data have been finalized.[2] This weak economic environment could negatively impact the financial condition of CDIC's members.

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

Ex Ante Funding

CDIC recognizes the importance of having appropriate financial resources for the proper functioning of a sound deposit insurance system. There must be a high degree of confidence that the resources available to CDIC will be sufficient to address the risks to which it is exposed. In its 2003/2004 fiscal year, CDIC's Board of Directors decided that it would be appropriate to maintain an amount of advance or *ex ante* funding available for possible deposit insurance losses. It was further determined that this amount of *ex ante* funding would be represented by the aggregate of both the retained earnings and the provision for insurance losses as reported in CDIC's financial statements. The target range for the amount of *ex ante* funding is currently between 40 and 50 basis points of insured deposits—which translate into a range of approximately $2.1 billion to $2.6 billion based on insured deposits as at April 30, 2008. The reported amount as at March 31, 2009, was $1.8 billion, representing 34 basis points of insured deposits.

Under current forecasts, as set out in CDIC's 2009/2010 to 2013/2014 Corporate Plan, the bottom of the range will be achieved in the Corporation's 2014/2015 fiscal year. The progression of the *ex ante* fund toward the bottom of the target range is sensitive to the level of insured deposits, premium levels and market interest rates. Changes in one or all of these criteria can materially impact the time it will take the *ex ante* fund to reach 40 basis points of insured deposits.

---

[2] The actual rate of decline in gross domestic product for Q1 was 5.4%—as reported by the Bank of Canada in its June 4, 2009, rate announcement.

Consolidated Statement of Income and Retained Earnings—Highlights

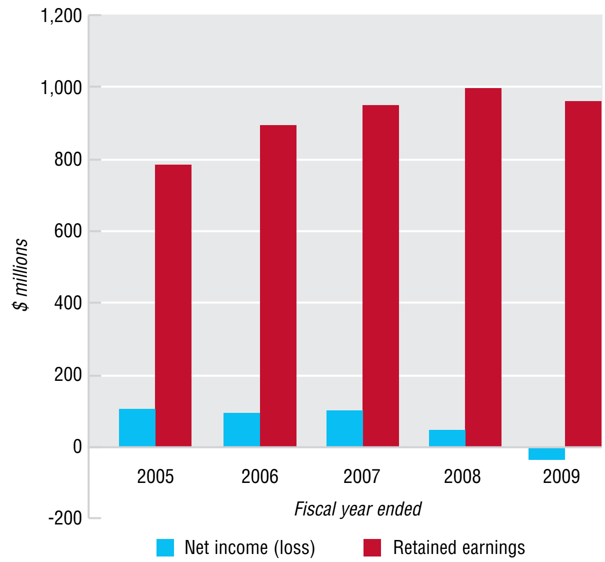
CDIC ended 2008/2009 with **retained earnings** of $960 million, a decrease of approximately 4% compared to last year. The decrease was primarily attributable to an increase in the provision for insurance losses of $150 million.

For the year ended March 31, 2009, CDIC's **revenues** totaled $146.4 million, offset by net operating expenses of $25.6 million and income taxes of $8.6 million. This, combined with the increases in provisions for loss of $149.5 million, resulted in a **net loss** for the year of $37.3 million.

Premiums for the fiscal year were $92.3 million, compared to $67.8 million for 2007/2008.

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.

Net Income (Loss) and Retained Earnings



Classification is based on a mix of quantitative and qualitative factors. Premium rates in effect for the 2008 premium year, unchanged from 2007, were as follows:

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

The table below illustrates the distribution of members among premium categories in the 2008 premium year as well as the preceding four premium years.

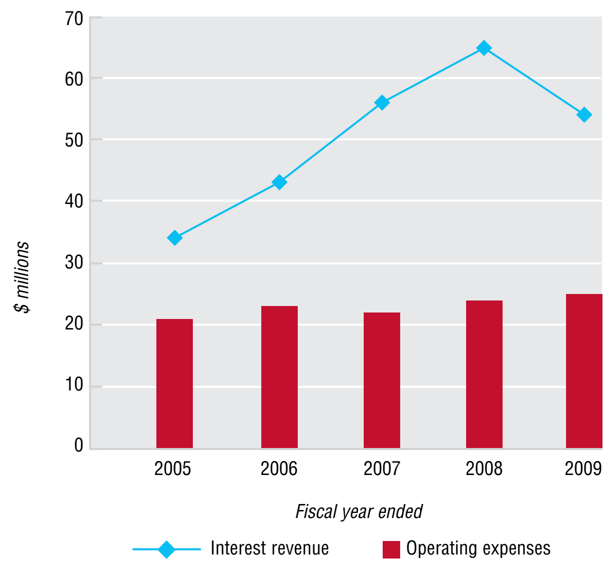
Premium Category	Premium Year				
	2004 %	2005 %	2006 %	2007[a] %	2008 %
1	78	81	84	93	75
2	18	18	14	6	20
3	3	0	2	1	5
4	1	1	0	0	0

[a] Restated

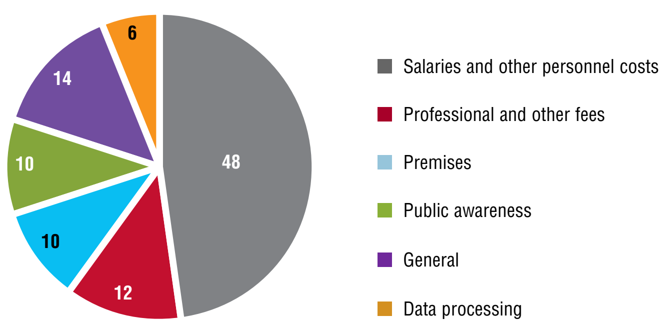
CDIC generates sufficient interest revenue on its investments to cover its operating expenses. **Interest revenue from investments** was $53.9 million in 2008/2009, a decrease of approximately 17% from the previous fiscal year due primarily to a significantly lower interest rate environment.

Net operating expenses for the year ended March 31, 2009, totaled $25.6 million ($23.6 million in 2007/2008). CDIC continues to focus on readiness activities to ensure that the Corporation is prepared to address issues as they arise.

Interest Revenue vs. Operating Expenses



Profile of Operating Expenses (%)
March 31, 2009



CDIC's expense profile reflects reliance on a core group of skilled employees. As a result, the most significant expense category is salaries and other personnel costs that comprised almost 50% of total net operating expenses in 2009 consistent with the prior year.

CDIC's operating expenses are net of cost recoveries received from other organizations. CDIC provides call centre services to FCAC and OSFI (related parties) on a cost-recovery basis. The Autorité des marchés financiers in Québec contributes to CDIC's public awareness campaign. The total recoveries recorded in 2008/2009 were $940 thousand (2007/2008: $802 thousand).

Comparison with 2008/2009 Corporate Plan

Balance Sheet

Total assets as at March 31, 2009, were $1,779 million, compared to the planned amount of $1,761 million. The variance of $18 million was primarily the result of higher-than-planned investments.

Statement of Income and Retained Earnings

Total revenue during the year was $146 million, or $11 million higher than budgeted. The variance was the result of higher-than-planned premium revenue offset by lower-than-planned interest on investments.

Net loss for the year ended March 31, 2009, was $37 million compared to planned net income of $97 million, a variance of $134 million. This variance is primarily the result of a $150 million increase in CDIC's provision for insurance losses to reflect increasing risks to CDIC's members. In addition, lower-than-planned interest on investments caused by a significantly lower interest rate environment and higher-than-planned premium revenue contributed to the variance in financial performance during 2009. Net operating expenses were in line with planned expenses of $25 million.

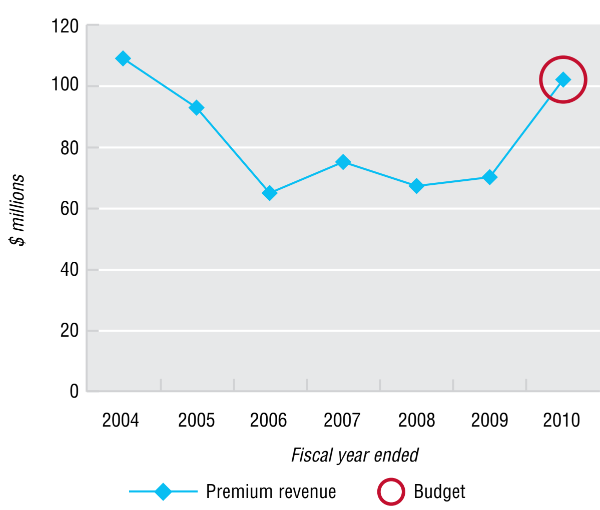
The year-end **retained earnings** of $960 million were $196 million lower than planned. This variance reflects the cumulative impact of a higher-than-expected provision for insurance losses in 2008/2009 and 2007/2008 combined with higher-than-expected premium revenue and lower-than-planned interest on investments.

2009/2010 to 2013/2014 Corporate Plan

2009/2010 Fiscal Year

CDIC's plan for the 2009/2010 fiscal year includes $102 million in premium revenue, an increase of approximately 11% over the 2008/2009 fiscal year. The Corporation has based its plans on a forecast increase in premium rates of one third over rates applicable for the 2008/2009 fiscal year. The impact of such an increase in premium rates on premium revenue will vary from year to year based on the differential premium rate categorization of member institutions each year. In addition, CDIC is assuming a continued weak interest rate environment resulting in a 33% decline in interest on investments to $36 million from $54 million in 2008/2009. CDIC's total revenues are planned to be $138 million.

Premium Revenue



Operating expenses are planned to be $32 million in 2010 compared to $26 million in 2009, an increase of 23%. CDIC plans to add 13 new employees with key core competency skills, engage external parties in stand-by arrangements to augment CDIC intervention resources if necessary, and to increase our public awareness activities.

In addition, recoveries of amounts previously written-off are forecast at $14 million, resulting in a projected net income before income taxes of $120 million.

As at March 31, 2010, cash and investments, and retained earnings are projected to be $1,873 million and $1,228 million, respectively. Also as at March 31, 2010, CDIC's level of *ex ante* funding is projected to be $1,878 million, representing 35 basis points of insured deposits.

Subsequent to the approval of the 2009/2010 to 2013/2014 Corporate Plan, the provision for insurance losses was increased by $150 million. This would increase the projected provision for insurance losses to $800 million and reduce projected retained earnings to $1,080 million as at March 31, 2010.

2009/2010 to 2013/2014

Over CDIC's current five-year planning period, premium revenue is expected to total $752 million and interest income on cash and investments is forecast to total $211 million. Over this same period, CDIC expects to incur total net operating expenses of $167 million.

At the end of the planning period (March 31, 2014), cash and investments are projected to be $2,555 million and CDIC's retained earnings were projected to grow to $1,904 million.

The projections included in CDIC's 2009/2010 to 2013/2014 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 increased by one third over 2008/2009 rates in each of 2009/2010, 2010/2011 and 2011/2012, effectively doubling the 2008/2009 rates.
- Interest revenue on investments is based on an assumed average yield of 2%.
- There will be no member institution failures during the planning period.
- The adequacy of the provision for insurance losses is assessed on an annual basis and, if necessary, adjustments are recorded. For the purposes of the 2009/2010 to 2013/2014 Corporate Plan, the provision for insurance losses was forecast to remain at $650 million (see sidebar).

CDIC's Corporate Plan for the fiscal period commencing April 1 is based on information as at December 31 of the preceding year. As such, the financial information and commentary in this section reflect the original Corporate Plan information but do not reflect the impact of the increases in the provision for insurance losses of $50 million as at March 31, 2008, and $150 million as at March 31, 2009. The provision for insurance losses is recalculated each fiscal year-end based on a combination of quantitative criteria and on CDIC's assessment of the environment at the time.

$ millions

Consolidated Balance Sheet (as at March 31)	2009/2010 Corporate Plan[a]	2008/2009 Actual Results	2008/2009 Corporate Plan[a]
Assets			
Cash and investments	1,873	1,770	1,758
Accounts receivable	5	2	–
	1,878	1,772	1,758
Capital assets	2	2	2
	1,880	1,774	1,760
Income taxes receivable	–	5	–
Future income tax asset	1	–	1
Total assets	1,881	1,779	1,761
Liabilities			
Accounts payable	3	4	4
Income taxes payable	–	–	1
Future income tax liability	–	4	–
Provision for insurance losses	650	800	600
	653	808	605
Equity			
Retained earnings	1,228	960	1,156
Accumulated other comprehensive income[b]	–	11	–
	1,228	971	1,156
Total liabilities and equity	1,881	1,779	1,761
Consolidated Statement of Income and Retained Earnings (for the year ended March 31)			
Revenue			
Premiums	102	92	70
Interest on investments	36	54	65
Other revenue	–	–	–
	138	146	135
Expenses			
Net operating expenses	32	26	25
Adjustment to allowance and provision for loss	–	149	–
Recovery of amounts previously written-off	(14)	–	–
	18	175	25
Net income (loss) before reduction in future income tax asset/income tax expense	120	(29)	110
Reduction in future income tax asset/income tax expense	2	8	13
Net income (loss)	118	(37)	97
Retained earnings, beginning of year	1,110	997	1,059
Retained earnings, end of year	1,228	960	1,156
Consolidated Statement of Comprehensive Income (for the year ended March 31)			
Net income (loss)	118	(37)	97
Other comprehensive income			
Change in unrealized gains on available-for-sale financial assets[b]	–	4	–
Income taxes	–	(1)	–
Other comprehensive income	–	3	–
Comprehensive income (loss)	118	(34)	97

[a] The Corporate Plans 2008/2009 to 2012/2013 and 2009/2010 to 2013/2014 were developed based on information at December 31, 2007 and 2008, respectively. As a result, the impacts of the increase in the provision for insurance losses of $50 million at March 31, 2008, and $150 million at March 31, 2009, are not reflected in those respective columns.
[b] It was assumed in the 2008/2009 and 2009/2010 Corporate Plans that the market value of the Corporation's available-for-sale financial assets were equal to book value; therefore, there were no unrealized gains or losses.

CDIC MANAGEMENT ERM REPRESENTATION TO THE CDIC BOARD OF DIRECTORS

May 1, 2009

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

During CDIC's fiscal year 2008/2009, management has, using an Enterprise Risk Management process:

- Identified and assessed the significant risks to which CDIC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports designed to enable them to understand these risks;
- Reviewed CDIC's policies governing each significant risk to ensure that they continue to be appropriate and prudent; and
- Identified initiatives to enhance the management of each significant risk and monitored the progress in completing each initiative.

Based on the work undertaken by management during CDIC's 2008/2009 fiscal year and our knowledge of the Corporation's affairs as at March 31, 2009, we represent that:

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

Based on this work, management has concluded that CDIC's overall risk remains acceptable, although CDIC's insurance and some operational risks are increasing given the current environment.

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

Guy L. Saint-Pierre
President and Chief Executive Officer

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

2 FINANCIAL STATEMENTS

CDIC Canada Deposit Insurance Corporation

CDIC

This financial institution is a member of the Canada Deposit Insurance Corporation

Cette institution financière est membre de la Société d'assurance-dépôts du Canada

1-800-461-CDIC

SADC Société d'assurance-dépôts du Canada

SADC

1-800-461-SADC

Canada

SAVINGS PROTECTION CANADIANS CAN COUNT ON

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

May 1, 2009

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

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

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

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

Guy L. Saint-Pierre
President and Chief Executive Officer

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

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Canada Deposit Insurance Corporation as at 31 March 2009 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Clyde M. MacLellan, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
1 May 2009

FINANCIAL STATEMENTS AND NOTES

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Balance Sheet
as at March 31
(in thousands of dollars)

	Notes	2009	2008
Assets			
Cash		$ 450	$ 425
Investments	4	1,770,216	1,659,793
Accounts and other receivables		2,001	1,972
		1,772,667	1,662,190
Capital assets		1,641	1,512
Income taxes receivable	9	5,089	–
		6,730	1,512
		$1,779,397	**$1,663,702**
Liabilities			
Accounts payable and accrued liabilities		$ 4,007	$ 3,723
Income taxes payable	9	–	2,101
Future income tax liability	9	3,885	2,355
Provision for insurance losses	5	800,000	650,000
		807,892	658,179
Equity			
Retained earnings	7	960,211	997,518
Accumulated other comprehensive income	10	11,294	8,005
		971,505	1,005,523
		$1,779,397	**$1,663,702**
Contingent liabilities and commitments	14, 15		

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

Approved by the Board:

Director

Director

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Income and Retained Earnings
for the year ended March 31
(in thousands of dollars)

	Notes	2009	2008
Revenue			
Premium	11	$ 92,338	$ 67,838
Interest on investments		53,906	64,928
Other		115	691
		146,359	133,457
Expenses			
Operating	12	25,616	23,624
Increase to provisions for loss	5	149,497	49,998
Recovery of amounts previously written-off		–	(1,338)
		175,113	72,284
Net income (loss) before income taxes		(28,754)	61,173
Income Taxes			
Current	9	7,993	12,944
Future	9	560	346
		8,553	13,290
Net Income (Loss)		(37,307)	47,883
Retained earnings, beginning of year		997,518	949,798
Adjustment as a result of the adoption of the effective interest method		–	(163)
Retained earnings, end of year		**$960,211**	**$997,518**

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

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Comprehensive Income
for the year ended March 31
(in thousands of dollars)

	2009	2008
Net Income (Loss)	$(37,307)	$47,883
Other Comprehensive Income		
Change in unrealized gains on available-for-sale financial assets	4,260	14,314
Income tax expense on unrealized gains on available-for-sale financial assets	(971)	(4,548)
Other comprehensive income	3,289	9,766
Comprehensive Income (Loss)	**$(34,018)**	**$57,649**

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

CANADA DEPOSIT INSURANCE CORPORATION
Consolidated Statement of Cash Flows
for the year ended March 31
(in thousands of dollars)

	2009	2008
Operating Activities		
Premium revenue received	$ 92,338	$ 67,838
Claims recovered	–	1,008
Interest revenue received	56,361	59,556
Recovery of amounts previously written-off	–	1,338
Other amounts received (paid)	(237)	597
Income taxes paid	(15,183)	(17,922)
Recoveries under guarantee agreements	503	2
Payments to suppliers and employees	(25,139)	(23,246)
Cash flows from operating activities	108,643	89,171
Investing Activities		
Purchase of securities and term deposits	(6,392,388)	(4,107,347)
Maturities of securities and term deposits	6,283,770	4,018,537
Cash flows used in investing activities	(108,618)	(88,810)
Cash		
Increase during the year	25	361
Balance, beginning of year	425	64
Balance, end of year	**$ 450**	**$ 425**

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

CANADA DEPOSIT INSURANCE CORPORATION
Notes to Consolidated Financial Statements
March 31, 2009

1 – Authority and Objective

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

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

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

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

2 – Significant Accounting Policies

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

Basis of Consolidation. These consolidated financial statements include the financial statements of the Corporation and, as required by Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities* (see Note 6), the financial statements of Adelaide Capital Corporation (ACC), a variable interest entity (VIE) for which the Corporation is considered to be the primary beneficiary. Inter-company balances and transactions have been eliminated.

Adoption of New Accounting Standards. The following new standards issued by the Canadian Institute of Chartered Accountants (CICA) became effective for the Corporation beginning on April 1, 2008: Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments—Disclosures* and Section 3863 *Financial Instruments—Presentation*. As a result of the adoption of Section 1535, the Corporation has increased disclosures regarding its objectives, policies and processes for managing capital, the quantitative data about what the Corporation regards as capital, whether the Corporation has complied with any capital requirements and also, if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 replace Section 3861 *Financial Instruments—Disclosure and Presentation*. The adoption of these new sections resulted in additional disclosures with respect to the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

In October 2008, the CICA issued amendments to Section 3855 *Financial Instruments—Recognition and Measurement* and Section 3862 *Financial Instruments—Disclosures*. These amendments permit the reclassification of non-derivative financial assets out of the held-for-trading and available-for-sale categories under specified circumstances. The Corporation did not reclassify any non-derivative financial assets and, therefore, there is no impact on these financial statements from the amendments.

Use of Estimates. Financial statements prepared in accordance with Canadian generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are financial instruments measured at fair value and the provision for insurance losses.

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

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium charged to member institutions be increased or decreased, depending on the situation.

Investments. Investments, consisting of marketable securities and term deposits, are purchased with the intention of being held to maturity but may be sold in response to changes in liquidity requirements, to fund intervention solutions respecting member institutions or to bring financial risk exposures within the parameters of the exposure limits permitted under CDIC's financial risk policies. As a result, the Corporation has classified its investments as available for sale. Any unrealized gains or losses due to the change in value of available-for-sale investments are recorded in other comprehensive income. As unrealized gains and losses are realized as a result of sale or other than temporary reduction in value, they are transferred from accumulated other comprehensive income into interest on investments. Interest income is calculated using the effective interest rate method and is included in interest on investments. Investments are recorded on a settlement date basis.

Transaction costs for financial assets designated as available for sale are immediately expensed to net income.

Accounts and Other Receivables. Accounts and other receivables are classified as loans and receivables. They are recorded at fair value upon initial recognition and are subsequently measured at amortized cost using the effective interest method. The book value of accounts and other receivables approximate fair value due to their short term to maturity.

Accounts Payable and Accrued Liabilities. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest method. The book value of accounts payable and accrued liabilities approximate fair value due to their short term to maturity.

Provisions for Guarantees and Insurance Losses. In its financial statements, the Corporation records the following provisions for guarantees and insurance losses:

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

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

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

Changes in the provision for insurance losses that result from annual estimations for financial reporting purposes are recognized as an adjustment to the provision 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 installments on July 15 and December 15.

Other Revenue. In certain situations, amounts recovered from the estates of member institutions 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, including fair value changes in available-for-sale financial assets, and their corresponding tax basis. The future income taxes are measured using the corporate income tax rates in effect as at the balance sheet date.

International Financial Reporting Standards (IFRS). In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles with IFRS for all Publicly Accountable Enterprises. In early 2008, the AcSB announced that the changeover date for full adoption of IFRS will be for fiscal years starting on or after January 1, 2011. The Corporation will be required to report under IFRS for the year ended March 31, 2012, with IFRS-compliant comparatives for the year ended March 31, 2011.

3 – Fair Value

Other than 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 as at March 31, 2009, involve uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

4 – Investments

All investments are highly liquid fixed rate contracts.

	March 31, 2009			March 31, 2008		
	Remaining term to maturity (in thousands of dollars)					
	Under 1 year	1 to 3 years	Total	Under 1 year	1 to 3 years	Total
Treasury bills	$305,478	$ –	$ 305,478	$ 819,070	$ –	$ 819,070
Weighted average effective yield (%)	2.40	–	2.40	4.09	–	4.09
Bonds	580,407	883,531	1,463,938	459,845	260,527	720,372
Weighted average effective yield (%)	3.05	1.80	2.29	3.89	3.67	3.82
Other	800	–	800	120,351	–	120,351
Weighted average effective yield (%)	0.45	–	0.45	3.55	–	3.55
Total investments	**$886,685**	**$883,531**	**$1,770,216**	**$1,399,266**	**$260,527**	**$1,659,793**
Weighted average effective yield (%)	**2.82**	**1.80**	**2.31**	**3.98**	**3.67**	**3.93**

	March 31, 2009				March 31, 2008
	(in thousands of dollars)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value
Treasury bills	$ 304,375	$ 1,103	$ –	$ 305,478	$ 819,070
Bonds	1,449,048	14,890	–	1,463,938	720,372
Other	800	–	–	800	120,351
Total investments	**$1,754,223**	**$15,993**	**$ –**	**$1,770,216**	**$1,659,793**

5 – Provisions for Guarantees and Insurance Losses

The following table is a continuity schedule of the provision for guarantees and the provision for insurance losses as at March 31, 2009, with corresponding totals as at March 31, 2008.

	March 31, 2009			March 31, 2008
	(in thousands of dollars)			
	Provision for Guarantees	Provision for Insurance Losses	Total	Total
Beginning of period	$ –	$650,000	$650,000	$600,000
Receipts	503	–	503	2
Write-offs	–	–	–	–
Adjustment to provisions for guarantees and insurance losses	(503)	150,000	149,497	49,998
End of period	**$ –**	**$800,000**	**$800,000**	**$650,000**

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

6 – Variable Interest Entities

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

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

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

The impact from the consolidation of ACC on the Corporation's financial statements is an increase in assets of $1.3 million (2008: $1.5 million) and no increase in liabilities (2008: $3 thousand), as well as an increase in total revenue of $48 thousand (2008: $14 thousand) and an increase in total expenses of $265 thousand (2008: $10 thousand). As a result, the impact on the Corporation's retained earnings is $1.3 million (2008: $1.5 million).

7 – Capital Management

The Corporation's capital is comprised of retained earnings. CDIC is not subject to externally imposed capital requirements.

The Corporation has determined that it is prudent to maintain an amount of advance or *ex ante* funding to absorb losses. The amount of such funding is represented by the aggregate of the Corporation's capital and its provision for insurance losses. The target range for the *ex ante* fund is between 40 and 50 basis points of insured deposits.

The Corporation is exposed to two types of losses related to its insurance obligations; those losses that it is likely to incur and residual exposure to losses that cannot be reasonably estimated due to insufficient data. On an annual basis the Corporation estimates the losses that it is likely to incur and records such estimate as a provision for insurance losses (see Note 5).

The target range for the level of capital that should be available to absorb losses that cannot be reasonably estimated is the residual target range for the *ex ante* fund after deducting the provision for insurance losses.

The Corporation has not yet achieved the bottom of the target range for capital as determined by the *ex ante* funding process. The key mechanism used to manage the level of capital is premium rates (see Note 11). CDIC will determine the disposition of any capital above the target range once such level has been attained.

Ex Ante Fund

	Actual March 31, 2009	Actual March 31, 2008	Target Range* March 31, 2009	
	(in thousands of dollars)			
			Low	High
Retained earnings	$ 960,211	$ 997,518	$1,248,886	$1,761,107
Basis points of insured deposits	18*	21**	24	34
Provision for insurance losses	800,000	650,000	800,000	800,000
Basis points of insured deposits	16*	14**	16	16
Total	$1,760,211	$1,647,518	$2,048,886	$2,561,107
Total basis points of insured deposits	34*	35**	40	50

* Based on level of insured deposits as at April 30, 2008
** Based on level of insured deposits as at April 30, 2007

8 – Financial Risk Management

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

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

Credit Risk. Credit risk is defined as the risk of loss attributable to counterparties failing to honour their obligation, whether on- or off-balance sheet, to CDIC. CDIC's maximum exposure to credit risk is the carrying amount of investment assets and accounts and other receivables held on the Consolidated Balance Sheet. None of the accounts and other receivables are past due or impaired.

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

The Corporation's financial risk policies limit investments to Government of Canada or provincially guaranteed securities as well as debt issued by municipal financing authorities. Risk is further limited by setting a maximum investment amount and term for each qualifying instrument. Counterparties for investments of less than three years must have a minimum credit rating of A at the time of acquisition. The Corporation's investments of more than three years are restricted to Government of Canada securities having a minimum credit rating of AA-.

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

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

Credit Rating*	2009	2008
	(in thousands of dollars)	
AAA	$1,475,588	$1,352,840
AA+	68,858	19,941
AA	123,495	193,713
AA-	70,358	65,715
A+	31,917	27,584
Total	$1,770,216	$1,659,793

*As rated by Standard & Poor's

CDIC may at times intervene in one capacity or another, in providing financial assistance to a troubled financial institution, either in the form of a loan, by guarantee or otherwise. The Corporation could also have to make payment to insured depositors in the event of a member institution failure. The latter action results in claims receivable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed member institutions, thus exposing CDIC to additional credit risk. The Corporation is closely involved in the asset realization process of these failed institutions in order to mitigate credit risk and minimize any potential loss to CDIC. The Corporation does not currently have such claims.

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

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

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

The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

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

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

Interest Rate Risk

The Corporation accounts for its investments at fair market value and, by doing so, it obtains a clear picture of the impact of changes in interest rates on the value of its investments. The difference between the amortized cost of its investments and their fair market value is found in Accumulated Other Comprehensive Income, on an after-tax basis, in the Equity section of the Consolidated Balance Sheet. From a Consolidated Balance Sheet perspective, the impact of interest rate movements on the value of CDIC's investments is not significant relative to the size of the Corporation's conservatively structured investment portfolio, due to the portfolio's high quality and its short term to maturity. From a Consolidated Statement of Income perspective, however, movement in interest rates can have a significant impact on the Corporation's investment income due to the size of its investment portfolio and the relative importance of the revenue it generates. CDIC actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances while diligently respecting approved policies. Interest rate shock analyses are performed on a regular basis on the Corporation's investments to evaluate the impact of possible interest rate fluctuations on interest income. Other financial assets exposed to interest rate risk include cash which is held at short-term interest rates.

Based on the Corporation's investment portfolio as at March 31, 2009, the following table shows how after-tax net income and other comprehensive income would have been affected by a 100 basis point increase or by a 25 basis point decrease in interest rates.

	Net Income	Other Comprehensive Income (Loss)
	(in thousands of dollars)	
100 basis point increase	$ 8,220	$(11,087)
25 basis point decrease	$(2,055)	$ 3,056

Currency Risk and Other Price Risk

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

9 – Income Taxes

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

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

	March 31, 2009	March 31, 2008
	(in thousands of dollars)	
Statutory tax rate	29%	32%
Income tax expense at the federal statutory rate	$ (8,448)	$ 19,435
Increase (decrease) resulting from:		
Non-taxable premium revenue	(27,129)	(21,552)
Recovery of amounts previously written-off	–	(425)
Increase (decrease) to allowance and provision for loss	43,922	15,884
Other	(352)	(398)
Income tax expense	**$ 7,993**	**$ 12,944**

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, 2009, $2.8 million of undepreciated capital cost (2008: $4.3 million) and $16.0 million relating to unrealized gains on available-for-sale assets (2008: $11.7 million) has been applied, in calculating the future income tax liability of $3.9 million (2008: $2.4 million).

10 – Accumulated Other Comprehensive Income

	March 31, 2009	March 31, 2008
	(in thousands of dollars)	
Opening balance	$ 8,005	$ –
Unrealized gains (losses) on available-for-sale financial assets at date of transition—April 1, 2007	–	(2,581)
Income tax on transition adjustment	–	820
Other comprehensive income	3,289	9,766
Accumulated other comprehensive income	**$11,294**	**$ 8,005**

11 – Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2008, were $512 billion (2007: $477 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 2009, unchanged from 2008, are 1/72nd of 1% of insured deposits for members in Category 1, 1/36th of 1% for Category 2, 1/18th of 1% for Category 3 and 1/9th of 1% for members in Category 4. Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of the membership and the actual and projected size of the Corporation's *ex ante* fund relative to the target range.

12 – Operating Expenses

	March 31, 2009	March 31, 2008
	(in thousands of dollars)	
Salaries and other personnel costs	$12,573	$11,779
Professional and other fees	3,381	3,202
General expenses	3,622	3,348
Premises	2,546	2,483
Public awareness	2,757	2,180
Data processing	1,677	1,434
	26,556	24,426
Expense recoveries		
Related parties	665	527
Other	275	275
Operating Expenses	**$25,616**	**$23,624**

The Corporation provides call centre services to two related parties, the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions on a cost-recovery basis. In addition, the Autorité des marchés financiers in Québec contributes to the Corporation's public awareness campaign based on agreement between the parties and such contributions are reflected above under other expense recoveries. The associated costs are included in the relevant expense categories.

13 – Related Party Transactions

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

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

14 – Contingent Liabilities

ACC, the consolidated VIE, is involved in a judicial action that has arisen in the normal course of operations. In the opinion of the ACC this action will not likely result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to the legal proceeding pending at March 31, 2009, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

15 – Commitments

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2009, are as follows:

Fiscal Year Ending March 31	Amount (in thousands of dollars)
2010	$1,085
2011	757
2012	250
Total	**$2,092**

16 – Employee Future Benefits

a) Pension Benefits

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 1.91 times (2008: 2.02 times) the employees' contribution on amounts of salaries below $136,700 (2008: $130,700) and 7.5 times (2008: 7.3 times) the employees' contribution on amounts of salaries in excess of $136,700 (2008: $130,700). The contributions during the year were as follows:

	March 31, 2009	March 31, 2008
	(in thousands of dollars)	
Employer	$1,565	$1,450
Employee	$ 611	$ 551

b) Severance Benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. The cost of these benefits is accrued as employees render the services necessary to earn them.

	March 31, 2009	March 31, 2008
	(in thousands of dollars)	
Balance, beginning of year	$673	$658
Current service cost	85	15
Balance, end of year	$758	$673

3 CORPORATE GOVERNANCE

CDIC
Canada Deposit Insurance Corporation

This financial institution
is a member of the
Canada Deposit Insurance Corporation

Cette institution financière
est membre de la
Société d'assurance-dépôts du Canada

SADC
Société d'assurance-dépôts du Canada

1-800-461-CDIC
1-800-461-SADC
Canada

SAVINGS PROTECTION CANADIANS CAN COUNT ON

This section provides a description of CDIC's corporate governance activities over the past year.

SOUND GOVERNANCE

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

This section contains information about CDIC's Board of Directors' mandate and composition, highlights of Board activities in 2008/2009, Director education and training, the mandate and composition of each of the Board Committees (the Audit Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee, and the Executive Committee), and highlights of Committee activities in 2008/2009. The section also contains information regarding Directors' attendance at Board and Committee meetings, public service expectations and CDIC's officers.

CDIC is the recipient of the 2007 Canadian Institute of Chartered Accountants (CICA) award for corporate reporting in the large Crown corporation category for its *2007 Annual Report* and *2007/2008 Summary of the Corporate Plan*. The award was presented in December 2008. In selecting CDIC, the CICA judges commented that CDIC has produced a reader friendly report, using plain language, which discloses relevant information to Canadians. In particular, CDIC was commended for its prudent discussion of future plans and risks, its clear description of its operating environments and principal risks such as operational, insurance, reputation, financial, and their assessment, as well as its disclosure about the Board of Directors and CDIC's public expectations.

BOARD COMPOSITION AND ACTIVITIES IN 2008/2009

Board of Directors Mandate and Composition (2008/2009)	Highlights of Board Activities (2008/2009)
CDIC's affairs are administered by its Board, made up of a Chairperson, five other private sector Directors and five *ex officio* Directors (the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions (SOFI), a Deputy Superintendent of Financial Institutions or another officer of the Office of the Superintendent of Financial Institutions (OSFI) appointed by the Minister, and the Commissioner of the Financial Consumer Agency of Canada (FCAC)). Biographical information about each Director is also available on CDIC's website (**www.cdic.ca**). The Board of Directors provides strategic guidance to management and oversees the activities of the Corporation. The Board's commitment to effective stewardship of the Corporation and its overall mandate are outlined in the Board Charter, also available on CDIC's website. **Chairperson**  **Bryan P. Davies** Chair of the Board Canada Deposit Insurance Corporation Joined Board: June 2006	The Board reviewed, monitored, discussed and, where appropriate, approved the following: • CDIC's readiness activities and participation in government proposals to enhance CDIC's resolution powers • The financial health of CDIC's member institutions and exposures to market changes based on risk assessment information received from management • Amendments to certain by-laws applicable to CDIC member institutions • CDIC's five-year Corporate Plan, Operating and Capital Budgets, and Borrowing Plan (with recommendations on premium rates to the Minister of Finance)

Names in bold denote current Board members.

Board of Directors Mandate and Composition (2008/2009)

Private Sector Directors

Tracey Bakkeli
President
T. Bakkeli Consultants Inc.
Regina, Saskatchewan
Board member from March 2001 to January 2009

Les Cannam
Partner
Meyers Norris Penny LLP
Saskatoon, Saskatchewan
Joined Board: January 2009
Appointed for a three-year term

Nancy Lockhart
Chief Administrative Officer
Frum Development Group
Toronto, Ontario
Joined Board: December 2007
Appointed for a five-year term

John S. McFarlane
Lawyer
Halifax, Nova Scotia
Joined Board: September 2008
Appointed for a three-year term

Barry Moore
Senior Auditor
Dumoulin, Ethier & Lacroix, C.A.
Maniwaki, Québec
Board member from December 2007 to September 2008

Éric Pronovost
Licensed Trustee
Trois-Rivières, Québec
Joined Board: September 2008
Appointed for a three-year term

Shelley M. Tratch
Lawyer
Vancouver, British Columbia
Joined Board: December 2006
Appointed for a three-year term

Ex Officio Directors

Mark Carney
Governor
Bank of Canada
Joined Board: February 2008
Appointed for a seven-year term

Julie Dickson
Superintendent of Financial Institutions
Office of the Superintendent of Financial Institutions
Joined Board: October 2006
Appointed for a seven-year term

Ursula Menke
Commissioner
Financial Consumer Agency of Canada
Joined Board: December 2007
Appointed for a five-year term

Ted Price
Assistant Superintendent
Supervision Sector
Office of the Superintendent of Financial Institutions
Joined Board: January 2007
Appointed under s. 5(1)(b.1) of the CDIC Act

Robert Wright
Deputy Minister
Department of Finance
Joined Board: June 2006
Appointed to hold office during pleasure

Highlights of Board Activities (2008/2009)

- The annual report on CDIC's significant corporate risks and changes to Board Risk Policies
- Public awareness plans and CDIC's new long-term public awareness strategy and plan commencing in 2008/2009
- The President and CEO objectives for the year and assessment
- Executive Succession Plans
- The Board Charter and standing committees' Charters, and changes to the Audit Committee Charter
- Amendments to the Chairperson Accountability Profile and to the Directors Profile
- The 2009 Office of the Auditor General's special examination plan
- CDIC's first report on the Compliance Management Process and the annual report on employee compliance with codes/policies governing ethical behaviour
- Amendments to employee performance management policies

Alternates (for Ex Officio Directors)

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

Serge Dupont
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance
Alternate: From July 2006 to October 2008

Jeremy Rudin
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance
Appointed Alternate: October 2008

Names in bold denote current Board members.

At each regular Board meeting, the Directors set aside a period of time to meet without any representatives from CDIC management present.

Education and Training

Each new private sector Director appointed to the CDIC Board in 2008/2009 received an orientation on his or her responsibilities and the mandate and operations of the Corporation. A comprehensive information session was devoted to reviewing CDIC intervention activities and the Board's role therein. Continuing education opportunities were made available for all Directors throughout the year.

BOARD COMMITTEES

CDIC's Board had four standing committees in 2008/2009—the Audit Committee, the Human Resources and Compensation Committee, the Governance and Nominating Committee, and the Executive Committee. The mandate of each Committee is set out in the Committee Charters, available at **www.cdic.ca**. Highlights of the Charters and an overview of each of the Board Committee's activities during 2008/2009 are outlined below.

Audit Committee

Mandate and Composition (2008/2009)	Highlights of Activities
Audit Committee—oversees internal and external audits, advises the Board on financial issues including the review of the Management Discussion and Analysis (MD&A), as well as the consolidated financial statements and the Office of the Auditor General's attest audit, and oversees risk management **B.P. Davies (Chair)** Member and Chair of Audit Committee since January 2009 T. Bakkeli Member of Audit Committee from April 2001 and Chair of Audit Committee from June 2002 to January 2009 **L. Cannam** Member of Audit Committee since January 2009 **N. Lockhart** Member of Audit Committee since February 2008 **J. McFarlane** Member of Audit Committee since September 2008 B. Moore Member of Audit Committee from February 2008 to September 2008 **T. Price** Member of Audit Committee since January 2007 **É. Pronovost** Member of Audit Committee since September 2008	The Audit Committee reviewed, monitored, and recommended or approved the following as appropriate: • the MD&A • consolidated financial statements • provision for insurance losses • the Auditor's report • the annual report on the risk management of CDIC's investment portfolio and the semi-annual report on the performance of CDIC's investment portfolio • the 2009 Office of Auditor General's special examination plan • internal audit's 2009/2010 plan • internal audit review reports • the Enterprise Risk Management Annual Report, the Management Representation letter and the Board Risk Policies • management's initiatives concerning internal control review and its planning for convergence to International Financial Reporting Standards • the *Board Legal Services Procurement Policy* • the Business Continuity Management annual report • the Compliance Management Process annual report • the Information Systems Strategy and Plan • the expenses of the Chairperson, Directors and officers • the annual report on employee compliance with codes/policies governing ethical behaviour • changes to the Audit Committee Charter and the internal audit's mandate • action plans arising from the Committee's self-assessment

Names in bold denote current Board members.

Human Resources and Compensation Committee

Mandate and Composition (2008/2009)	Highlights of Activities
Human Resources and Compensation Committee—reviews and advises the Board on human resource issues (policies, CEO and senior management succession planning, CEO objectives and assessment, compliance with legal requirements, compensation, and any complaints concerning the President and CEO that may reach the Board) **S. Tratch (Chair)** Member of HRC Committee since January 2007 and Chair of HRC Committee since February 2008 **B.P. Davies** Chair of HRC Committee from September 2006 to February 2008 and Member of HRC Committee since February 2008 **J. Dickson** Member of HRC Committee since February 2008 **J. McFarlane** Member of HRC Committee since September 2008	The HRC Committee reviewed, monitored, oversaw and recommended the following, as appropriate: • the annual performance assessment of the President and CEO (2007/2008) and the President and CEO objectives (2009/2010) • the Human Resources Strategy and Plan for employees • the annual report on employee compliance with codes/policies governing ethical behaviour • succession planning for the President and CEO, and senior management • a report on results of the employee satisfaction survey and action items arising therefrom • the Committee Charter • employee benefits • employee performance management policies • action plans arising from the Committee's self-assessment

Names in bold denote current Board members.

Governance and Nominating Committee

Mandate and Composition (2008/2009)	Highlights of Activities
Governance and Nominating Committee—ensures appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities and succession planning for the private sector Directors **B.P. Davies (Chair)** Member and Chair of GN Committee since June 2006 T. Bakkeli Member of GN Committee from April 2001 to January 2009 **N. Lockhart** Member of GN Committee since February 2008 **U. Menke** Member of GN Committee since February 2008 **S. Tratch** Member of GN Committee since January 2007	The GN Committee reviewed, monitored and recommended the following, as appropriate: • planning of the 2008 Annual Public Meeting • the CDIC public awareness program and CDIC's new long-term public awareness strategy and plan commencing in 2008/2009 • amendments to Chairperson Accountability Profile and Directors Profile • the first annual report on Compliance Management Process • Director continuing education opportunities • the Board, Governance and Nominating Committee, and Executive Committee Charters • action plans arising from the Committee's, Chair's and Board's self-assessments

Names in bold denote current Board members.

Executive Committee

Mandate and Composition (2008/2009)	Highlights of Activities
Executive Committee—to meet, when required, at the request of the Board, the Chairperson, or the President and CEO to review any matter referred to it by the Board, the Chairperson or the President and CEO that would not be considered within the mandate of any other Committee of the Board; and to carry out such other functions as are assigned or delegated to it by the Board **B.P. Davies (Chair)** Member and Chair of Executive Committee since June 2006 T. Bakkeli Member of Executive Committee from September 2006 to January 2009 **M. Carney** Member of Executive Committee since February 2008 **S. Tratch** Member of Executive Committee since January 2009	There were no meetings held in 2008/2009, as no matters were referred to the Executive Committee.

Names in bold denote current Board members.

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

Board and Committee Meetings and Attendance[a] (April 1, 2008, to March 31, 2009)

	Board of Directors[b]	BOARD COMMITTEES: Executive Committee	Audit Committee	Governance and Nominating Committee	Human Resources and Compensation Committee[c]
Number of Meetings	5	0	4	4	4
Attendance:					
Current Directors					
B.P. Davies—Chair	5		3	4	4
L. Cannam[d]	1		1		
N. Lockhart	5		4	4	
J. McFarlane[e]	3		3		3
É. Pronovost[f]	3		3		
S. Tratch	4			4	4
Directors who departed during the year					
T. Bakkeli[g]	3		3	3	
B. Moore[h]	0		0		
***Ex Officio* Members (Alternates)**[i]					
Bank of Canada[j]	4 (5)				
SOFI[k]	5				4
OSFI—second Director[l]	5		4		
Department of Finance[m]	0 (4)				
FCAC[n]	5			4	

[a] Includes meetings attended by telephone.
[b] Includes a Strategic Session of the Board.
[c] Includes a Human Resources and Compensation Committee Session devoted to President and CEO and senior management succession planning.
[d] Les Cannam was appointed a Director on January 22, 2009.
[e] John McFarlane was appointed a Director on September 4, 2008.
[f] Éric Pronovost was appointed a Director on September 4, 2008.
[g] Tracey Bakkeli ceased to be a Director on January 22, 2009.
[h] Barry Moore ceased to be a Director on September 4, 2008.
[i] The names of the *ex officio* Directors who served on the Board during the year are listed below.
[j] **Bank of Canada**
Mark Carney
Pierre Duguay attended one meeting as Alternate for the Governor and four as an observer.
[k] **Superintendent of Financial Institutions**
Julie Dickson
[l] **Office of the Superintendent of Financial Institutions**
Ted Price
[m] **Department of Finance**
Robert Wright, Deputy Minister
Serge Dupont attended two meetings as Alternate in Rob Wright's absence. Mr. Dupont ceased to be an Alternate on June 16, 2008.
Jeremy Rudin was appointed Alternate to Rob Wright on October 7, 2008, and attended two meetings in Mr. Wright's absence.
Diane Lafleur attended one meeting as an observer for the Department of Finance.
[n] **Financial Consumer Agency of Canada**
Ursula Menke

In 2008/2009, private sector Directors' fees for the performance of their services in respect of their office totaled $213,000. These Directors also incurred expenses of $105,000. In 2007/2008, private sector Directors' fees for the performance of their services in respect of their office totaled $230,507.93. These Directors also incurred expenses of $116,359.08. CDIC's internal audit function reviewed the foregoing and concluded that they were duly authorized, supported with documentation, complied with applicable corporate policies and appeared reasonable.

ADDRESSING PUBLIC SERVICE EXPECTATIONS

CDIC is mindful of and committed to meeting Canadians' public service expectations in areas such as codes of conduct and ethical behaviour, whistleblowing, compliance with legislation and policies, and proactive disclosure. Key activities in 2008/2009 included:

- CDIC's *Code of Business Conduct and Ethical Behaviour for Directors*, its *Code of Business Conduct and Ethical Behaviour for Employees* and *Conflicts of Interest Code* (available at **www.cdic.ca**) reflect the commitment of CDIC and its Directors, officers and employees to continue to live up to CDIC's reputation as an organization with high ethical standards. Directors and employees annually confirm their intention to adhere to these codes. The Board of Directors monitors compliance with the codes and other corporate practices related to business and employee conduct through the receipt of annual reports to its Audit Committee and Human Resources and Compensation Committee. CDIC regularly provides mandatory employee ethics sessions and plans to hold such sessions again next year.

- As part of its determination to ensure that it exercises the highest standards of good corporate governance, CDIC formalized its Compliance Management Process (CMP) this year. CMP is a process whereby CDIC identifies the legislative and other requirements to which CDIC is subject or has chosen to follow, and assesses and reports on its status of compliance with those requirements. The Board received its first annual CMP report on the status of CDIC compliance during 2008/2009. CDIC was in compliance with all its key statutory responsibilities.

- CDIC knows from its research, and from practices carried out by deposit insurers around the world, that the success of a deposit insurance system hinges on consumers knowing the facts about its deposit insurance. CDIC pursued its ongoing efforts to inform Canadians about CDIC deposit insurance and developed a new long-term public strategy and plan commencing in 2008/2009, which will see CDIC's activities increase during 2009/2010.

- CDIC's Board held its third Annual Public Meeting (APM) in Montréal, Québec, on October 7, 2008. CDIC's APM is part of its commitment to be transparent. The meeting was well-attended and provided an opportunity for CDIC to inform Canadians about the Corporation's mandate. The next APM is planned for the fall in Halifax, Nova Scotia.

CDIC'S OFFICERS

CDIC's officers, as of March 31, 2009, are set out below. Biographical information about each officer is available on the CDIC website (**www.cdic.ca**).

Guy L. Saint-Pierre
President and Chief Executive Officer
Appointed May 2005

Michèle Bourque
Executive Vice-President, Insurance and Risk Assessment
Appointed December 2008
(formerly Vice-President, Insurance and Risk Assessment, December 2002 to December 2008)

M. Claudia Morrow
Vice-President, Corporate Affairs, General Counsel and Corporate Secretary
Appointed March 2003

Thomas J. Vice
Vice-President, Finance and Administration, and Chief Financial Officer
Appointed March 2003

Salary ranges for CDIC's officers, as of March 31, 2009, are:

- for the position of President and Chief Executive Officer—$221,100–$260,100
- for the position of Executive Vice-President, Insurance and Risk Assessment—$187,315–$249,750
- for the position of Vice-President—$171,220–$228,280

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

4 MEMBERSHIP PROFILE AND PERFORMANCE

CDIC
Canada Deposit Insurance Corporation

This financial institution
is a member of the
Canada Deposit Insurance Corporation

Cette institution financière
est membre de la
Société d'assurance-dépôts du Canada

SADC
Société d'assurance-dépôts du Canada

CDIC 1-800-461-CDIC

SADC 1-800-461-SADC

Canada

SAVINGS PROTECTION CANADIANS CAN COUNT ON

This section of CDIC's Annual Report provides an overview of our member institutions and highlights of their collective financial performance in 2008.

MEMBERSHIP PROFILE

As at March 31, 2009, the Corporation had 81 member institutions, an increase of one from the previous year. During the year, Jameson Bank and Shinhan Bank Canada became CDIC members and GE Money Trust Company ceased to accept deposits and was discontinued as a federal institution. A listing of CDIC members as at March 31, 2009, is presented on page 70. A current list of CDIC members is also posted on the CDIC website at **www.cdic.ca**.

CDIC has 55 distinct groups of member institutions based on affiliation with a parent institution. For the purposes of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, geographic reach of its operations and/or its primary business activities (see sidebar).

FINANCIAL PERFORMANCE

With the increasingly challenging capital markets and credit environment over the past year, CDIC members collectively pose an increasing level of risk to the Corporation. Our largest member banks were challenged by their loan exposures to the U.S. and the turmoil in global financial markets. In contrast, many smaller members involved mainly in residential mortgages and consumer lending recorded improved profits and better return on assets in 2008. However, the deterioration in the Canadian economy since the last quarter of 2008 may lead to weaker results this year.

CDIC Member Peer Groups

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

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

Residential—main business line is residential mortgages

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

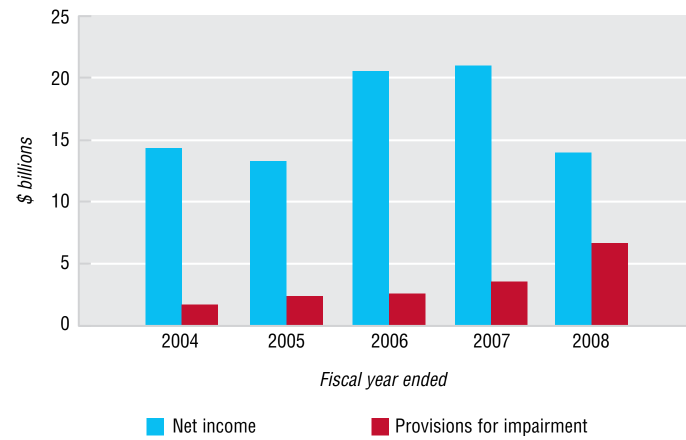
Consumer—main business lines are retail and investment loans to individuals

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

CDIC membership total profitability dropped significantly in 2008 with net income falling to $14.0 billion compared to $21.0 billion in the prior year. A majority of the drop in profits was attributable to weaker performance at a few large banks, while many smaller members recorded improved profitability.

Non-interest income plummeted almost 30% due to the U.S. and global financial market turmoil. Members with direct exposure to global financial markets were the most affected. This was partially off-set by strong net interest income. Higher provisions for credit losses were reported by CDIC members as the overall credit quality began to deteriorate.

Net Income and Provisions of CDIC Members*

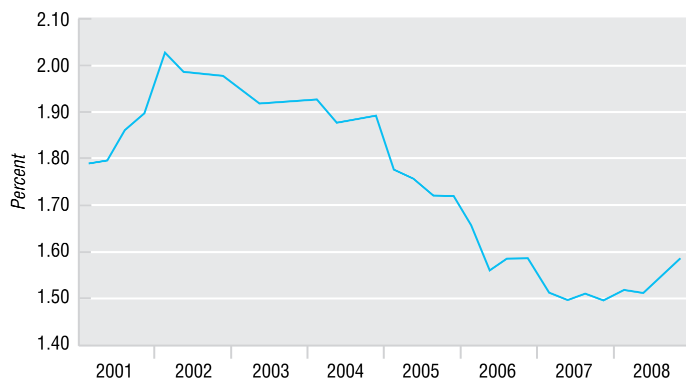


*For members' fiscal year end

Interest rate spreads stabilize near historical lows

Net interest income increased 17.6% to $42 billion in 2008 due to continued strong loan growth of over 15% combined with a slight increase in net interest rate spread. The general downward trend in interest rate spread since the peak in 2002 was mainly due to a shift in the loan mix from higher yield corporate loans to highly competitive lower margin retail loans. Since 2007, the negative global financial market environment, along with counterparty and liquidity concerns, has raised the cost of wholesale funds for all banks; however, this increase has been passed on largely to borrowers contributing to the slight improvement in interest rate spreads.

Average Membership Spread* *(gross of provisions)*



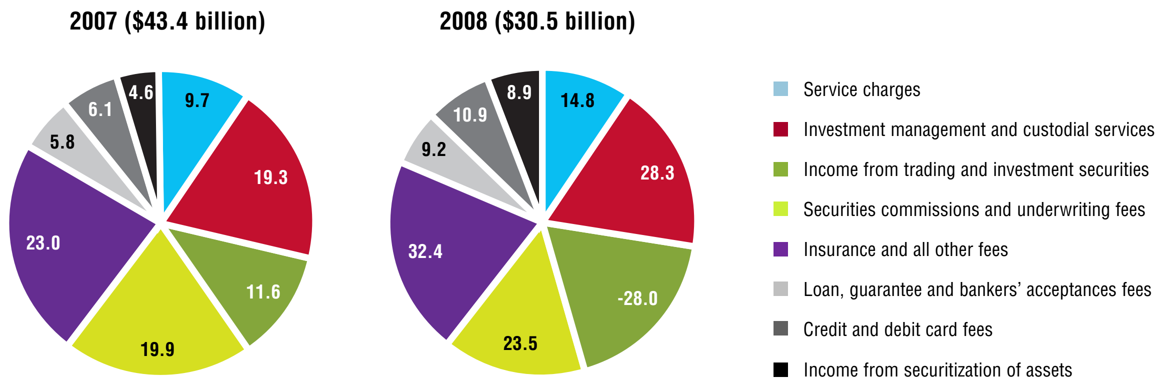
*Net interest income/average assets

Securities and derivative losses cause steep decline in non-interest income

Non-interest income decreased due to weak capital markets. Income from trading and investment securities, mainly those relating to structured credit instruments, experienced a $14 billion negative swing in revenue compared to the prior year. Members in the International peer group accounted for the majority of the decline. Losses from trading and investment securities at smaller members stemmed from non-bank sponsored asset-backed commercial paper (ABCP), foreign exchange and interest rate swaps.

Declines in global equity markets during the year resulted in reductions of assets under administration and outflows from mutual funds. While investment management and custodial services fees still increased slightly in 2008, some contraction can be expected in 2009. Securities commissions and underwriting fees were down almost 20% last year while income from securitization activities, particularly those relating to insured mortgages, and credit and debit card fees and service charges, posted strong gains. Insurance revenues at the larger members are gaining importance and account for almost 8% of non-interest income.

Components of Non-Interest Income* (%)



*For members' fiscal year end

Leverage continues to increase while capital ratios remain above OSFI guidelines

The average Bank for International Settlements (BIS) total capital ratio for CDIC membership increased slightly to 12.3% from 12.2%, and remained well above OSFI's well-capitalized requirements of 10%. In 2008, with the implementation of Basel II capital charges for operational risk, a decline in total Basel II capital ratios was noticeable for several members, mostly in the Fee Income and the Consumer peer groups. In contrast, the International peer group experienced improved capital ratios.

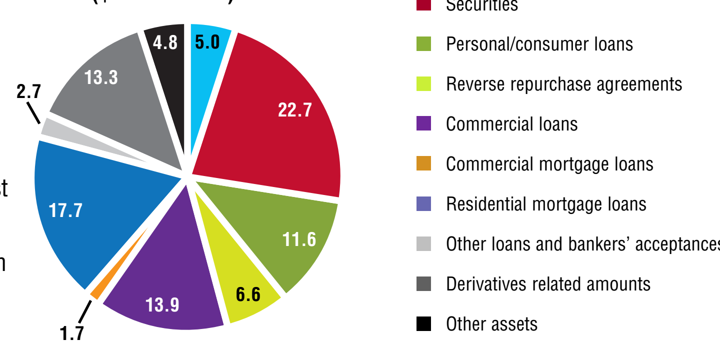
CDIC Membership Assets to Capital Multiple (ACM)

The assets-to-capital multiple (ACM), a measure of leverage, continued its rising trend over the past decade to 18.3 times from 15.4 times in 1999 mainly due to increases at the International peer group. Over the same period the ACM for the CDIC membership excluding these banks remained in a narrow range of 12.0 to 13.5 times.

Fast asset growth over each of the past four years

Asset growth of over 19% for the CDIC membership was the highest since 1997 and continued a four-year streak of double digit growth. As a result, total assets held by CDIC member institutions have almost reached the $3.0 trillion mark. The International peer group enjoyed substantial growth over the past four years due to major U.S. and Latin American acquisitions. The growth rate is even more pronounced at smaller members in the Commercial, Consumer and Residential peer groups, several of which had annual growth exceeding 25%.

Asset Mix* (%)
2008 ($2.93 trillion)



*As at members' fiscal year end

Loans continue to be the dominant asset class, making up just over 52% of total assets. Substantial increases in residential mortgages and personal loans, as well as commercial loans, were noted in fiscal year 2008. The overall loan portfolio increased by over 15% with corporate and commercial loans reaching $681 billion and retail loans increasing to $856 billion in fiscal year 2008.

Overall credit quality has deteriorated but remains acceptable at this time

Credit quality deteriorated across the CDIC membership with increased impaired loans and higher loans and securities losses. However, overall credit quality remains acceptable. Provision for credit losses jumped 96% in 2008 to $6.8 billion, but was still well below the high level of losses of $9.3 billion experienced in 2002.

Challenging environment ahead: CDIC insurance risk is acceptable but increasing

The difficult Canadian economic environment following the global financial crisis that surfaced in the fall of 2008 will provide a challenging climate for CDIC members in the coming year. Large banks continue to be exposed to complex securities and off-balance sheet derivatives that could further negatively impact their financial results. Both large and small CDIC members face risks of rising loan defaults in Canada as asset impairment typically does not peak until one to two years after the start of a recession. The largest threat to most CDIC members is the possibility of a significant and prolonged decline in Canadian real estate prices.

In the short term, CDIC's insurance risk is acceptable but rising. While liquidity and valuation issues surrounding structured products were a major concern in the last year, future challenges to CDIC members will likely come from capital market uncertainty, asset quality issues and the degree to which the Canadian economy deteriorates.

CDIC continues to be concerned with trends at several institutions, particularly those with rapid asset growth and members holding elevated and rising high-risk real estate categories, such as commercial mortgages, interim construction loans and commercial loans to the real estate sector.

In summary, CDIC members had a satisfactory year in fiscal 2008 despite operating in a more challenging environment. Their overall financial condition remains sound, but the overall risk is rising.

COMPARATIVE MEMBERSHIP INFORMATION

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

The membership profile includes:

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

It should be noted that, in its five-year tables, CDIC restates the peer 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, 2009.

MEMBERSHIP INFORMATION
CDIC Members as at March 31, 2009[3]

Domestic Banks and Subsidiaries

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

Domestic Trust and Loan Companies and Associations

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

Subsidiaries of Foreign Institutions

Member Institutions	Peer Group
Amex Bank of Canada	Consumer
Bank of China (Canada)	Commercial
Bank of East Asia (Canada) (The)	Commercial
Citibank Canada	Fee Income
Computershare Trust Company of Canada	Fee Income
CTC Bank of Canada	Commercial
First Data Loan Company, Canada	Fee Income
Habib Canadian Bank	Commercial
HSBC Bank Canada Household Trust Company HSBC Mortgage Corporation (Canada) HSBC Trust Company (Canada)	Regional
ICICI Bank Canada	Commercial
ING Bank of Canada	Residential
Korea Exchange Bank of Canada	Consumer
MBNA Canada Bank	Consumer
Mega International Commercial Bank (Canada)	Commercial
Shinhan Bank Canada	Consumer
State Bank of India (Canada)	Commercial
UBS Bank (Canada)	Fee Income
Total: 20	

Total: 81 members

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

Membership Changes
April 1, 2008–March 31, 2009

New Members

July 22, 2008: Jameson Bank
February 5, 2009: Shinhan Bank Canada

Other Membership Changes

November 26, 2008: GE Money Trust Company ceased to accept deposits and was discontinued as a federal institution.

Summary Financial Information—Total CDIC Membership

Balance Sheet ($ billions and percentage)

As at members' fiscal year end	2008		2007		2006		2005		2004	
	$	%	$	%	$	%	$	%	$	%
Assets										
Cash resources	146.0	5.0	129.7	5.3	112.8	5.1	102.8	5.2	83.7	4.7
Securities	663.6	22.6	642.4	26.1	626.5	28.1	527.1	26.6	453.3	25.5
Loans and acceptances	1,525.7	52.1	1,321.8	53.8	1,205.6	54.1	1,075.4	54.3	970.4	54.6
Other assets	593.9	20.3	364.3	14.8	282.4	12.7	275.1	13.9	271.2	15.2
Total assets	**2,929.2**	**100.0**	**2,458.2**	**100.0**	**2,227.3**	**100.0**	**1,980.4**	**100.0**	**1,778.6**	**100.0**
Liabilities										
Deposits	1,903.5	65.0	1,618.4	65.8	1,479.9	66.4	1,329.4	67.1	1,187.3	66.8
Other liabilities	888.3	30.3	728.4	29.6	644.1	28.9	560.0	28.3	504.9	28.4
Total liabilities	**2,791.8**	**95.3**	**2,346.8**	**95.4**	**2,124.0**	**95.3**	**1,889.4**	**95.4**	**1,692.2**	**95.2**
Shareholders' equity	137.4	4.7	111.4	4.6	103.3	4.7	91.0	4.6	86.4	4.8
Total liabilities and shareholders' equity	**2,929.2**	**100.0**	**2,458.2**	**100.0**	**2,227.3**	**100.0**	**1,980.4**	**100.0**	**1,778.6**	**100.0**

Income Statement ($ millions)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
Interest income	111,171	111,634	93,727	74,484	64,077
Interest expense	68,749	75,562	60,179	41,294	30,849
Net interest income	**42,422**	**36,072**	**33,548**	**33,190**	**33,228**
Provision for impairment	6,809	3,479	2,413	2,187	1,476
Net interest income after provision for impairment	**35,613**	**32,593**	**31,135**	**31,003**	**31,752**
Non-interest income	30,523	43,410	42,689	37,517	33,931
Net interest income and non-interest income	**66,136**	**76,003**	**73,824**	**68,520**	**65,683**
Non-interest expenses	51,013	49,831	47,181	49,320	45,260
Net income before provision for income taxes	**15,123**	**26,172**	**26,643**	**19,200**	**20,423**
Provision for income taxes	1,240	4,897	5,618	5,409	5,470
Net income before non-controlling interest in net income of subsidiaries and extraordinary items	**13,883**	**21,275**	**21,025**	**13,791**	**14,953**
Non-controlling interest in net income of subsidiaries and extraordinary items	-75	245	373	507	575
Net income	**13,958**	**21,030**	**20,652**	**13,284**	**14,378**

Deposit Liabilities in Canada

Total Deposits ($ billions and percentage)

As at April 30	2008		2007		2006		2005		2004	
	$	%	$	%	$	%	$	%	$	%
International	1,305.5	84.9	1,204.7	84.6	1,074.1	85.0	1,003.2	85.9	950.7	87.8
Regional	146.6	9.5	143.8	10.1	128.0	10.1	112.3	9.6	95.7	8.9
Residential	49.1	3.2	41.0	2.9	35.5	2.8	29.5	2.5	23.0	2.1
Commercial	7.2	0.5	5.2	0.4	3.9	0.3	3.0	0.3	2.6	0.2
Consumer	11.3	0.7	7.6	0.5	5.0	0.4	3.6	0.3	3.5	0.3
Fee Income	18.1	1.2	21.9	1.5	17.1	1.4	16.8	1.4	7.5	0.7
Membership	**1,537.8**	**100.0**	**1,424.2**	**100.0**	**1,263.6**	**100.0**	**1,168.4**	**100.0**	**1,083.0**	**100.0**

Insured Deposits ($ billions and percentage of Total Deposits)

As at April 30	2008		2007		2006		2005		2004	
	$	%	$	%	$	%	$	%	$	%
International	402.5	30.8	382.1	31.7	371.1	34.5	358.5	35.7	312.1	32.8
Regional	60.0	40.9	54.4	37.8	50.5	39.5	46.5	41.4	39.5	41.3
Residential	36.5	74.3	31.0	75.6	26.6	74.9	22.3	75.6	16.1	70.0
Commercial	5.3	73.6	3.8	73.1	2.5	64.1	1.7	56.7	1.3	50.0
Consumer	6.4	56.6	4.4	57.9	3.1	62.0	2.4	66.7	1.8	51.4
Fee Income	1.6	8.8	1.3	5.9	1.5	8.8	1.3	7.7	0.3	4.0
Membership	**512.3**	**33.3**	**477.0**	**33.5**	**455.3**	**36.0**	**432.7**	**37.0**	**371.1**	**34.3**

Profitability Measures

Efficiency (percentage)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
International	71.6	62.3	62.0	71.0	68.0
Regional	64.0	67.3	62.9	63.6	64.8
Residential	54.0	57.6	56.0	58.2	56.4
Commercial	69.8	67.9	59.6	81.2	80.6
Consumer	54.1	58.9	59.3	58.4	59.0
Fee Income	75.4	72.4	60.5	58.5	65.3
Membership	**69.9**	**62.7**	**61.9**	**69.8**	**67.4**

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

Non-Interest Income (percentage)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
International	40.8	54.8	56.0	53.0	50.0
Regional	41.3	52.6	53.9	51.2	52.3
Residential	25.5	14.3	23.0	22.9	27.2
Commercial	28.9	17.0	30.5	27.1	24.1
Consumer	54.3	56.0	58.4	59.6	59.4
Fee Income	82.6	88.8	90.8	102.7	97.0
Membership	**41.8**	**54.6**	**56.0**	**53.1**	**50.5**

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

Return on Average Assets (ROAA) (percentage)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
International	0.5	0.9	1.0	0.7	0.8
Regional	0.7	0.6	0.8	0.9	0.8
Residential	0.7	0.6	0.7	0.7	0.8
Commercial	0.1	0.4	0.8	0.4	0.4
Consumer	1.9	1.8	2.4	2.5	3.3
Fee Income	0.5	0.6	1.1	0.9	0.8
Membership	**0.5**	**0.9**	**1.0**	**0.7**	0.8

ROAA: Net income/average assets

Return on Average Equity (ROAE) (percentage)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
International	10.9	21.1	22.3	14.9	17.3
Regional	15.0	13.7	17.3	17.8	15.8
Residential	13.1	11.7	11.9	10.9	14.1
Commercial	1.1	4.7	9.0	3.8	4.2
Consumer	13.2	11.1	13.0	13.6	17.0
Fee Income	7.3	8.5	18.4	13.5	13.0
Membership	**11.2**	**19.6**	**21.3**	**15.0**	**16.9**

ROAE: Net income/average shareholders' equity

Cost of Funds (percentage)

For the members' fiscal year ending in	2008	2007	2006	2005	2004
International	3.8	4.7	4.2	3.2	2.5
Regional	3.3	4.3	3.6	2.6	2.4
Residential	3.8	4.3	4.0	3.3	3.1
Commercial	4.2	4.2	3.9	3.3	3.2
Consumer	4.9	6.4	6.4	5.3	4.4
Fee Income	2.3	3.5	3.5	2.6	2.0
Membership	**3.8**	**4.6**	**4.2**	**3.1**	**2.5**

Cost of funds: Interest expense/average interest bearing liabilities

Capitalization Measures

Leverage (times)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	22.2	23.1	22.6	22.5	21.4
Regional	21.4	23.1	21.2	21.0	19.6
Residential	19.7	19.7	17.9	16.5	17.9
Commercial	9.6	10.7	11.1	10.1	9.9
Consumer	7.0	6.1	5.5	5.4	5.1
Fee Income	13.3	14.6	16.3	15.5	16.5
Membership	**21.4**	**22.4**	**21.8**	**21.7**	**20.8**

Leverage: Average assets/average shareholders' equity

BIS Risk-Based Capital (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	11.9	11.9	12.4	12.8	13.2
Regional	12.9	12.0	12.3	11.6	12.3
Residential	16.7	16.2	16.1	19.5	17.8
Commercial	15.9	17.5	14.9	15.0	15.7
Consumer	15.5	16.8	19.6	19.7	20.1
Fee Income	21.5	22.7	25.3	20.3	19.7
Membership	**12.3**	**12.2**	**12.6**	**12.9**	**13.3**

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

Asset Quality Measures

Asset Growth (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	19.7	10.9	11.9	10.4	4.5
Regional	13.9	2.6	10.7	16.6	8.9
Residential	15.0	11.8	15.2	32.6	29.0
Commercial	56.1	31.6	36.5	25.5	17.2
Consumer	23.4	40.9	21.5	23.2	25.2
Fee Income	13.9	14.6	64.5	3.6	9.6
Membership	**19.2**	**10.4**	**12.5**	**11.3**	**5.3**

Asset growth: Year-over-year growth

Impaired Assets to Total Assets (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	0.4	0.2	0.2	0.3	0.4
Regional	0.6	0.3	0.3	0.3	0.5
Residential	0.4	0.3	0.2	0.1	0.2
Commercial	0.6	0.6	0.6	0.8	1.4
Consumer	0.3	0.2	0.8	1.1	1.1
Fee Income	0.8	0.3	0.0	0.0	0.0
Membership	**0.4**	**0.2**	**0.2**	**0.3**	**0.4**

Impaired assets (gross)/total assets (gross)

Impaired Loans to Total Loans (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	0.8	0.4	0.4	0.5	0.7
Regional	1.1	0.5	0.5	0.5	0.8
Residential	0.3	0.2	0.2	0.2	0.3
Commercial	0.9	0.8	1.0	1.1	2.0
Consumer	0.4	0.2	1.0	1.3	1.3
Fee Income	0.0	0.0	0.1	0.4	0.4
Membership	**0.8**	**0.4**	**0.4**	**0.5**	**0.7**

Impaired loans (gross)/total loans (gross)

General Allowance to Risk-Weighted Assets (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	0.6	0.5	0.5	0.6	0.7
Regional	0.7	0.6	0.6	0.7	0.9
Residential	0.5	0.5	0.5	0.5	0.6
Commercial	0.5	0.6	0.6	0.7	0.8
Consumer	2.3	2.0	2.0	2.3	2.4
Fee Income	0.2	0.1	0.1	0.2	0.3
Membership	**0.6**	**0.5**	**0.5**	**0.6**	**0.7**

General allowance/risk-weighted assets

Net Impaired Loans to Total Shareholders' Equity (percentage)

As at members' fiscal year end	2008	2007	2006	2005	2004
International	0.4	-2.9	-4.2	-4.4	-3.3
Regional	1.5	-3.4	-4.5	-5.3	-5.2
Residential	0.9	-1.3	-1.8	-1.9	-2.0
Commercial	0.2	-0.8	-2.1	-2.2	0.0
Consumer	-13.6	-10.7	-4.7	-4.7	-5.2
Fee Income	-0.7	-0.7	-1.0	-1.5	-1.7
Membership	**0.2**	**-3.1**	**-4.1**	**-4.4**	**-3.5**

Impaired loans (net)/average shareholders' equity

5 GLOSSARY

CDIC
Canada Deposit Insurance Corporation

This financial institution
is a member of the
Canada Deposit Insurance Corporation

Cette institution financière
est membre de la
Société d'assurance-dépôts du Canada

SADC
Société d'assurance-dépôts du Canada

CDIC 1-800-461-CDIC

SADC 1-800-461-SADC

Canada

SAVINGS PROTECTION CANADIANS CAN COUNT ON

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

Basel II Accord: The Basel II Accord was initially published in 2004 and is now in the process of being implemented by national bank supervisory authorities. It describes a more comprehensive measure and minimum standard for capital adequacy and seeks to improve on the previous 1988 Accord known as Basel I by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision which is better able to evolve with advances in markets and risk management practices. *("Bâle II")*

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

Deposit: As defined in the *Canada Deposit Insurance Corporation Act*, a deposit is the unpaid balance of money received or held by a CDIC member institution from or on behalf of a person in the usual course of deposit-taking business for which the member:
(a) is obliged to give credit to that person's account or is required to issue an instrument for which the member is primarily liable,
(b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person. *("Dépôt")*

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

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

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

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

Guide to Intervention for Federally Regulated Deposit-Taking Institutions: This document, developed by OSFI and CDIC, outlines the intervention steps that may be taken when a federally regulated deposit-taking 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. Reference: http://www.cdic.ca/e/formemberinstitutions/intervention.html *("Guide en matière d'intervention à l'intention des institutions financières fédérales")*

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

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

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

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

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

Preparatory Examination: An examination by CDIC or by a person designated by CDIC, of the books, records and accounts of a member institution relating to its deposit liabilities, where CDIC believes that the making of a deposit insurance payment is imminent, and that it would be in the best interest of both the depositors and CDIC that preparations be made to make that payment as soon as possible. *("Examen préparatoire")*

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 Basel Capital Accord, agreed to by the G-10 supervisory authorities, sets out a framework for measuring capital adequacy and the minimum capital ratios to be achieved, which were implemented at the individual supervisory level. The Accord maintains a minimum risk-based requirement of 8%; however, OSFI has established a target level of 10% for federally regulated deposit-taking institutions. *("Capital réglementaire")*

Special Examination: An examination of the affairs of a member institution conducted by or on behalf of CDIC for a specified purpose at such times as CDIC may require. It is a detailed examination of the assets and deposit liabilities of a bank with a view to estimating CDIC's potential exposure to loss, and it enables CDIC to compare payout and non-payout intervention strategies to minimize its exposure to loss. *("Examen spécial")*

Tax-Free Savings Account: A Tax-Free Savings Account (TFSA) is a new way for residents of Canada to set money aside, tax-free, throughout their lifetimes. The TFSA rules allow a variety of financial products and other types of investments to be held in a TFSA. In the 2009 Federal Budget, the Government amended the *CDIC Act* to provide separate coverage for TFSAs; however, only eligible deposits held in a TFSA are covered by CDIC. *("Compte d'épargne libre d'impôt")*