

*As approved by the CDIC Board of Directors on June 8, 2005;  
amended by the Board, June 7, 2006; March 7, 2007, March 4, 2009, and June 9, 2010*

## BOARD CREDIT RISK POLICY

### 1.0 BACKGROUND

This Policy is made pursuant to Principle 16(b) of the Board Charter.

CDIC's exposure to credit risk is a sub-component of its financial risk and relates to situations in which CDIC:

- Makes any investment necessary or desirable for the financial management of CDIC (i.e., CDIC is exposed to the credit risk of the investment issuer from the time that such investments are made until they are repaid).
- Makes or guarantees loans or advances with or without security to a member institution and/or makes or guarantees deposits with a member institution (i.e., CDIC is exposed to the credit risk of the member institution from the time that such arrangements are entered into until the arrangements are repaid or fulfilled) (see Board Intervention Risk Policy).
- Makes payments to insured depositors in the event of a failure of a member institution (i.e., CDIC assumes the creditor status of insured deposits between the time payouts are made and recoveries are received against CDIC claims on the estates of failed members and, as such, is exposed to any credit risk associated with the assets of the failed member's estate) (see Board Intervention Risk Policy).
- Assesses annual or other premiums from member institutions (i.e., CDIC is exposed to the credit risk of each member institution between the time premiums are assessed and the time premiums are collected).

### 2.0 DEFINITIONS

**Credit Risk:** The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off- balance sheet, to CDIC.

**Financial Instrument:** Any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

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

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**Financial Transaction:** A single borrowing or investment transaction.

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

**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.

**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.

**Transactors:** CDIC personnel approved to enter into a financial transaction on behalf of CDIC.

### 3.0 POLICY

3.1 The Board of Directors shall approve:

- a) The investment dealers, securities vendors, agents acting on behalf of CDIC and others with whom CDIC is authorized to deal respecting financial transactions.
- b) Any material write-off related to an obligation, whether on- or off- balance sheet, owed to CDIC by a third party.
- c) Any financial transaction exceeding the limit of authority established for the President and Chief Executive Officer under section 3.3 of this Policy.
- d) Where approved by the Governor in Council, the entering into of an agreement with an agent of the government of a province pursuant to section 39 of the *CDIC Act*.

3.2 The Board of Directors directs Management to:

- a) Manage CDIC's exposure to credit risk in accordance with this Policy.
- b) Recommend to the Board of Directors the investment dealers, securities vendors, agents acting on behalf of CDIC and others with whom CDIC is authorized to deal respecting financial transactions.
- c) Provide the Board of Directors with regular, but at least annual, reports that will enable it to assess whether CDIC has an appropriate and effective credit risk management process.

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- 3.3 CDIC's cash and investments are to be managed within the limits set out below in subsections 3.3(a), (b) and (c).
- a) A security is eligible for investment only if it is referenced in the following table.

Product	Portfolio Limits by Credit Rating			
	A, A+ or equivalent	AA-, AA, AA+ or equivalent	AAA	Maximum Portfolio Limit
<b>Obligations of the Government of Canada and agent Crowns, including Treasury Bills and Bonds not exceeding 5 years remaining term to maturity.</b>	N/A <sup>1</sup>	N/A <sup>1</sup>	100%	100%
<b>Obligations of Provincial Governments / Municipal Financing Authorities including Treasury Bills, Promissory Notes and Bonds not exceeding 5 years remaining term to maturity.</b>	15%	30%	30%	30%

<sup>1</sup> Currently not applicable as Government of Canada and eligible investments of agent Crowns carry a AAA rating.

The Board of Directors may from time to time approve, or revoke its approval of, financial instruments. In the event that the Board of Directors revokes the approved status of a security, Management will take the appropriate steps to reduce or eliminate holdings as necessary.

Limits are to be applied for each counterparty on an aggregate exposure basis, which cannot be combined.

This policy specifically excludes CDIC member institutions for investment purposes. An exception is made with respect to CDIC's main banker. CDIC is authorized to maintain a maximum of \$100 million with its banker to facilitate cash management activity subject to the requirement that the bank maintains a long-term rating according to the investment criteria outlined in 3.3(b) and is classified a 1 rated institution in CDIC's differential premium determination.

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- b) Counterparties must meet the credit rating standards described below which meet the Minister of Finance Risk Management Guidelines for Crown Corporations throughout the life of the investment. In the event that a debt issue is downgraded below acceptable credit rating criteria, Management will take appropriate steps to reduce holdings as soon as practicable to ensure minimized exposure.

Ratings are to be obtained from two credit rating agencies, one of which must be Moody's or S&P, if available. Where there is a difference between two ratings, the lower credit rating shall apply.

Investments with a term to maturity of three years or less must meet the following criteria:

Rating Term	Rating Agency			
	Moody's	S&P	DBRS	IBCA
Long Term	A2	A	A	A
Short Term	P1	A1	R1(low)	A1

Investments with a term to maturity of over three years but less than 5 years must meet the following criteria:

Rating Term	Rating Agency			
	Moody's	S&P	DBRS	IBCA
Long Term	Aa3	AA-	AA(low)	AA-

- c) Investments in securities of individual issuers that qualify according to their respective credit ratings are subject to the following portfolio limits:

Product	Portfolio Limits by Credit Rating			
	A, A+ or equivalent	AA-, AA, AA+ or equivalent	AAA	Maximum Portfolio Limit
<b>Obligations of the Government of Canada and agent Crowns,</b> including Treasury Bills and Bonds not exceeding 5 years remaining term to maturity.	N/A <sup>1</sup>	N/A <sup>1</sup>	100%	100%
<b>Obligations of Provincial Governments / Municipal Financing Authorities</b> including Treasury Bills,	2%	6%	10%	30%

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Promissory Notes and Bonds not exceeding 5 years remaining term to maturity.				
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<sup>1</sup> Currently not applicable as Government of Canada and eligible investments of agent Crowns carry a AAA rating.

- 3.4 Approved Transactors for investment transactions shall be limited to the CEO and the CFO, in each case subject to the applicable transaction limits set out below. The CEO may temporarily delegate his/her transaction limit authority to another Officer. The execution of transactions may be delegated by an Approved Transactor to the Manager, Money Markets, with the approval of the CEO, but responsibility for the approval of all transactions shall be retained by the relevant Approved Transactor. This policy does not provide for any re-delegation of authority without the approval of the CEO.

An individual transaction or a series of related daily transactions are not to exceed the following approval limits based on the notional principal amount of each transaction. Limits cannot be combined.

Transactor	Transaction Limit
CEO	\$400 million
CFO	\$200 million

- 3.5 Temporary exceptions to this Policy may be approved by the President and Chief Executive Officer, and any such exception should apply only until Management can take the appropriate steps to eliminate it and must be reported to the Board of Directors at its next regularly scheduled meeting.

#### 4.0 CROSS-REFERENCES

Board Financial Risk Policies:

Board Liquidity Risk Policy  
 Board Market Risk Policy

Board Insurance Risk Policies:

Board Intervention Risk Policy