Canada Deposit
Insurance Corporation

2019 Annual Report

Canada

CDIC'S MANDATE

CDIC's mandate is to provide insurance against the loss of part or all of deposits and to promote and otherwise contribute to the stability of the financial system in Canada, for the benefit of those with deposits in CDIC member institutions while minimizing the Corporation's exposure to loss, and to act as the resolution authority for its members.

CDIC'S VISION

Earning the trust of Canadians as a global leader in deposit insurance and resolution.

CDIC 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) separately in each of the following:

- Deposits held in one name
- Joint deposits
- Trust deposits
- Registered Retirement Savings Plans (RRSPs)
- Registered Retirement Income Funds (RRIFs)
- Tax-Free Savings Accounts (TFSAs)
- Deposits held for paying taxes on mortgaged property

What's an eligible deposit?

Eligible deposits include:

- Savings accounts and chequing accounts
- Term deposits, such as Guaranteed Investment Certificates (GICs), of five years or less
- Money orders and bank drafts issued by CDIC members, and cheques certified by 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, foreign currency deposits (including those in U.S. dollars), and digital and cryptocurrencies are not covered by CDIC.

FOR MORE INFORMATION ABOUT CDIC

Visit our website at **www.cdic.ca**. You can also reach us by phone, e-mail, fax or letter:

Head office
Canada Deposit Insurance Corporation
50 O'Connor Street, 17th Floor
Ottawa, Ontario
K1P 6L2

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)
TTY: 613-943-6456
Fax: 613-996-6095
Website: **www.cdic.ca**
E-mail: info@cdic.ca

**The Government of Canada has announced that changes to the CDIC Act to modernize and enhance CDIC deposit protection will come into force on April 30, 2020, and on April 30, 2021.*

Catalogue number: CC391-1

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the years ending March 31	2019	2018	2017	2016	2015
Selected statement of financial position items (C$ millions)					
Cash and investments	5,036	4,374	3,833	3,411	3,044
Provision for insurance losses	2,050	2,050	1,600	1,300	1,250
Retained earnings	2,985	2,322	2,236	2,116	1,801
Selected statement of comprehensive income items (C$ millions)					
Premiums	645	535	420	361	279
Investment income	66	46	40	40	40
Operating expenses	43	46	41	40	40
Increase in provision for insurance losses	—	450	300	50	50
Total comprehensive income	663	86	120	316	232
Member institutions (number)					
Domestic banks and subsidiaries	53	50	50	47	47
Domestic trust and loan companies and associations	16	15	15	15	15
Subsidiaries of foreign financial institutions	16	17	17	16	16
Total number of institutions	85	82	82	78	78
Total insured deposits[a] (C$ billions)	807	774	741	696	684
Growth rate of insured deposits (%)	4.3%	4.4%	6.5%	1.8%	3.0%
***Ex ante* funding** (C$ billions)	5.0	4.4	3.8	3.4	3.1
Basis points of insured deposits	62	55	52	49	45
Permanent employees (number)[b]	116	126	126	119	114
Borrowing limit (C$ billions)	23	23	22	20	20

[a] Insured deposits are calculated at April 30 each year. The amounts presented for the years ended March 31 are therefore reflective of the previous April 30 calculation and include insured deposits of new member institutions during the fiscal year.

[b] Represents the number of full-time, permanent employees at year end.

WE PROTECT YOUR FIRST APARTMENT MONEY

THE YEAR AT A GLANCE

In 2018/2019 . . .

- CDIC's membership reached **85 members**. CDIC welcomed four new members, including its second federal credit union.
- CDIC insured approximately **$800 billion in deposits** as at March 31, 2019.
- The Corporation welcomed its **new CEO, Peter D. Routledge,** and **five new private sector Directors** were appointed to CDIC's Board.
- In total, CDIC members earned **record total net income**. Despite this strong performance, the household and banking sectors continue to be exposed to the risks associated with elevated housing prices and heightened levels of household indebtedness.
- The Corporation completed the second year of its three-year public awareness strategy and **increased awareness of CDIC and its deposit insurance program**, to its March 31, 2019 target of 55%. This increase reflects significant progress towards its target of 60%–65% awareness. Amendments to the CDIC ***Deposit Insurance Information By-law*** came into force and contributed to strong depositor awareness.
- Regulations supporting the **bail-in regime** came into force on September 28, 2018, and Canada's domestic systemically important banks (D-SIBs) have begun to issue bail-in debt. CDIC continues to ensure that the bail-in tool can be operationalized and bail-in execution is integrated into the D-SIBs' resolution planning process.
- CDIC continued to **work with the Department of Finance to conclude its review of the deposit insurance framework**. Changes relating to deposit insurance coverage will come into force on April 30, 2020, while all other changes to enhance deposit insurance will come into force on April 30, 2021. The changes will require amendments to certain CDIC by-laws and administrative processes.
- CDIC furthered work on its **by-law review program** by developing the *Resolution Planning By-law* and the *By-law Amending the Differential Premiums By-law* in support of its role as resolution authority. The Corporation also collaborated extensively with the industry on proposed amendments to the *Joint and Trust Account Disclosure By-law* and the associated changes to the data and system requirements specifications.

WE PROTECT YOUR

DREAM WEDDING

MONEY

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WE PROTECT YOUR STARTUP MONEY

MESSAGE FROM THE CHAIR

For more than 50 years, Canadians have trusted CDIC to protect their savings. In more recent times, as the global financial system evolves, they also expect to have prompt access to their money following a member institution failure, and some choice in how they are reimbursed. This shift in expectations, coupled with rapid advances in technology, means CDIC must transform itself along with its environment, and our Board must also evolve to keep pace with this change. 2018/2019 was a year of significant change and renewal at CDIC. This past year, the Board of Directors underwent a "changing of the guard." CDIC's Board is unique in many respects. It comprises five *ex officio* members who are senior figures in the Government of Canada. These public sector members are matched with six private sector members, including myself as Chair.

This year, five new private sector Directors were appointed to our Board and I am delighted by their depth of experience, talent, diversity and ambition. I wish to take this opportunity to welcome each of these new Directors.

One new Director, Johanne Charbonneau, left the Board shortly after the fiscal year end, and we are grateful for her contribution to our discussions. Ms. Charbonneau was replaced by J. Martin Castonguay.

- Martin Castonguay is a Chartered Professional Accountant and auditor.
- Linda Caty is a lawyer and administrator.
- David Dominy is the CEO of a private financial services firm.
- Andrew Kriegler is President and Chief Executive Officer of the Investment Industry Regulatory Organization of Canada.
- Wendy Millar has held executive leadership roles in the financial sector.

Our new Board members bring a wealth of private sector and governance expertise that will help us remain flexible and responsive to new economic and environmental challenges. The full roster of Board members is available in the governance section of the *Annual Report*. This past year CDIC undertook, and is now implementing, several initiatives to support our focus on enhanced governance.

More than ever, Canadians recognize CDIC as a stable force that protects and secures their deposits. The peace of mind we provide is part of our departing private sector Directors' legacy. I would like to thank Shelley Tratch, Éric Pronovost, George Burger, Angela Tu Weissenberger and Susan Hicks for their years of service and contribution to CDIC and the financial system. CDIC benefited greatly from their ongoing stewardship in the tumultuous years during and following the global financial crisis.

On the theme of long-time service, I would also like to express the Board's thanks to Michèle Bourque and Claudia Morrow, who each retired this past year. Ms. Bourque spent more than 25 years at CDIC, eight years as CEO. Ms. Morrow joined CDIC in 1995 and served in various roles, including as Corporate Secretary.

I would also like to express the Board's gratitude to Dean A. Cosman, who served as President and CEO on an interim basis during the CEO recruitment process, for his outstanding service and leadership throughout this period of transition. He has now taken on the role of Executive Vice-President and Chief Risk Officer.

This appointment highlights the Corporation's renewed focus on Enterprise Risk Management.

In November, the Board welcomed Peter D. Routledge as CDIC's new President and CEO. Mr. Routledge brings a wealth of financial sector expertise to this role, both from the private and public sectors. The Board has already established a strong relationship with Mr. Routledge and values his commitment to transparency, partnership and effective challenge.

We know that it is essential to keep pace with our changing risk environment. This year, we worked to enhance our understanding of the innovative and effective use of CDIC's toolkit to protect depositors, minimize our risk of loss and promote financial stability. This included overviews of CDIC's objects and the use of tabletop exercises to delineate our leadership role.

Through these exercises, the Board will continue to enhance its approach to risk evaluation and oversight. This commitment is reflected in our renewed governance and committee structure. Following a full review in the last year, we moved to establish a new Risk Committee to help us keep pace with our evolving risk environment. The Board Committee Charters and Board Charter have been refreshed and amended accordingly.

The Board's intention is to continue to "up the game" to help CDIC meet the expectations of depositors and the public in a manner consistent with our mandate, and to strive to be best in class in the world.

Robert O. Sanderson

MESSAGE FROM THE PRESIDENT AND CEO

When I became CDIC's new President and Chief Executive Officer midway through the 2018/2019 fiscal year, I joined an organization in the midst of finalizing several substantial achievements—achievements that will make Canada's financial system more resilient—and an organization on the cusp of a new era, one that CDIC's agility is well suited to address. Let me take a moment to explain what we accomplished and what lies ahead for our organization.

With Canada's bail-in regime in place, we have now closed one of the key gaps exposed by the global financial crisis, when financial distress at several large, complex deposit-taking institutions around the world required taxpayer funds to prevent their disruptive failures. Canada's newly implemented bail-in framework shifts the burden of risk from taxpayers and depositors to shareholders and certain creditors who are aware of—and accept—the risk of loss when they make their initial investment in one of Canada's six domestic systemically important banks (D-SIBs), should that unwelcome requirement ever arise. With this regime in place, CDIC intends to strengthen its readiness for bank resolution, bolster the Canadian financial system's resilience to the failure of a large, complex deposit-taking institution, and protect Canadian taxpayers from bail-outs.

Complementing our bail-in regime achievement, we also completed our work on the *CDIC Resolution Planning By-law*. The by-law formalizes the framework for the development, submission and maintenance of resolution plans by Canada's D-SIBs. The resolution plans detail how these banks would be resolved in an orderly manner. The framework also sets out a process for highlighting and addressing deficiencies in those plans. The by-law will strengthen the resiliency of Canada's largest banks. It provides an incentive to D-SIBs to meet our resolution planning expectations, and ensures that critical services and financial stability are maintained in the unlikely event of a large bank failure. CDIC aims to guide and direct D-SIBs to meet its resolvability target in 2020 via annual assessments of resolution plans and prompt remediation of impediments.

The Government of Canada announced timely and important changes to the deposit insurance framework, and CDIC is working closely with its financial safety net partners, member institutions and industry stakeholders to implement these changes. In so doing, we will modernize the scope of deposit insurance to better reflect products offered in the market, expand coverage to include eligible deposits in foreign currency, create two new insurance categories, and strengthen the rules for trust deposits so Canadians can have access to their deposits more quickly in the event of a failure.

For this legacy of achievement, I owe a debt of gratitude to my predecessor, Michèle Bourque, an outstanding President and CEO who led the Corporation through the tumultuous years following the global financial crisis. I would also like to thank our Board Chair, Bob Sanderson, for his warm welcome to CDIC and his wise counsel. CDIC Management has always enjoyed a constructive relationship with its Board, and as the ranks of private sector Directors are renewed, I look forward to engaging and challenging conversations. Finally, I wish to thank my colleagues at CDIC for welcoming me and helping me take on my new responsibilities.

Reflecting on my first few months, I have learned CDIC's depth and breadth of talent exceeded my high expectations—a tribute to my colleagues on the Senior Executive Team for building and retaining such a richly talented group of people. CDIC's organizational structure was very well matched against the risks it faced over the past six to seven years, including building a resolution framework for D-SIBs and managing member risk. This is a sign of excellent foresight; I have an obligation to continue that tradition.

To this end, I came to the judgment that CDIC needed to continue to adapt and align its organization to its evolving environment. First, effective April 1, 2019, we created a new Enterprise Risk Management (ERM) function to act as a second line of defence in managing the risks associated with our core activities. This includes the creation of a Centre of Excellence for Crisis Simulations to ensure that we take a dedicated, systemic and comprehensive approach to strengthening our crisis response capabilities.

Second, we will become even more ambitious in reimbursement readiness. Readiness to respond rapidly to member failures is critical to fulfilling our mandate and instilling public confidence. Although CDIC's reimbursement systems align with international standards, we will modernize our reimbursement process so that it is capable of handling concurrent failures quickly and accurately. Indeed, our "audacious goal" is to build within five years a system capable of reimbursing depositors on the day of member failure—a goal we call "T+0." This will require stronger deposit data standards, commitment to those standards by our members, and investments by CDIC in new information technology. Our pursuit of the T+0 goal is dependent on enhancements to Canada's payment system. In addition, CDIC has developed a robust and sophisticated risk assessment framework to identify key risk among the membership. Our activities will focus on earlier stage preparedness activities so that we are prepared to act promptly, if advisable, rather than waiting for the risk of losses to grow more severe.

And last, we will better align the activities of identifying troubled institutions and planning for their resolution. This will include expanding the resolution planning expertise we have built with D-SIBs to a broader array of member institutions. Indeed, we believe the very act of imposing resolution preparedness on a troubled member may lower the probability that a member fails.

I feel that these changes will position CDIC such that we consistently exceed Canadians' expectations regarding the protection of their savings. In so doing, we contribute to the stability and resiliency of the Canadian financial system. Powered by the passion of my colleagues and guided by our Board of Directors, CDIC's goal is to become the global leader in deposit insurance and resolution.

Peter D. Routledge

WE PROTECT YOUR SPRING BREAK MONEY

PART 1 – MANAGEMENT'S DISCUSSION AND ANALYSIS

CDIC's operating environment

Economic environment

After a strong start, economic activity in Canada began to slow in the latter half of 2018, as the economy experienced declines in real GDP growth across all major components, including consumption, investment, exports and imports. While negotiations were concluded on a United States-Mexico-Canada Agreement in fall 2018, it has yet to be ratified by the parties, resulting in continued uncertainty regarding trade. Unemployment remained low, both nationally and at the provincial level, and while inflation softened, it remains within the Bank of Canada's target range. Other key vulnerabilities are unchanged: high consumer indebtedness and elevated house prices in certain key markets.

Regulatory environment

In 2018, the Department of Finance concluded its review of the deposit insurance system. The review was conducted to ensure the deposit insurance framework continues to provide adequate protection given the shifts in the banking landscape. As a result of the review, recent amendments to the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) were introduced with the purpose of strengthening and modernizing the Canadian deposit insurance framework, while keeping pace with the way Canadians save their money. The changes will come into force in 2020 and 2021 and will require amendments to certain CDIC by-laws and administrative processes.

Federal legislative changes in 2018 also provided greater flexibility for CDIC's member institutions to invest and engage in the emerging fintech sector. Implementation of these amendments is subject to future enabling regulation (with the exception of expanded digital verification and identification powers). As well, the Government of Canada is undertaking a review into the merits of open banking in order to provide meaningful benefits to Canadians, with appropriate safeguards to mitigate risk. Emerging technologies in the financial services sector pose both challenges and opportunities with respect to disrupting established business models, cyber security and data privacy.

CDIC membership

As at March 31, 2019, CDIC had 85 member institutions, a net increase of three institutions from the prior year. CDIC also welcomed its second federal credit union member in 2018, Coast Capital Savings Federal Credit Union.

Overall, CDIC's membership continues to deliver strong financial results, with healthy capital and liquidity ratios. Nevertheless, the household and banking sectors continue to be exposed to the risks associated with elevated housing prices and heightened levels of household indebtedness in the face of potential economic shocks and rising interest rates. These risks, as well as the continued addition of new members, underscore the need for CDIC to maintain its focus on the monitoring of the risk environment in order to be prepared to deal with members experiencing financial difficulty.

CDIC member peer groups

Member institutions consolidate to 53 distinct groups on the basis of affiliation with a parent. For the purpose of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, and/or its primary business activities.

Domestic systemically important banks (D-SIBs)—includes the largest six banks designated by the Office of the Superintendent of Financial Institutions (OSFI) as being of systemic importance domestically

Residential—main business line is residential mortgages

Commercial—main business lines are business loans or commercial mortgages

Consumer—main business lines are retail consumer loans or credit cards

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

Insured deposits

As at April 30, 2018 (the annual date on which insured deposits are calculated), deposits insured by CDIC increased by 2% year over year to $792 billion and accounted for 26% of total deposits held at member institutions. Insured deposits continue to be a highly valued, cost-effective and stable source of funding. The vast majority of deposits insured by CDIC are from individuals; it is estimated that close to 98% of personal deposit accounts are fully protected by CDIC. This means that Canadians benefit from a high level of protection of their deposit savings. Demand deposits comprised approximately 54% of total deposits as at April 2018. This underscores the importance of public awareness among depositors of CDIC deposit insurance in order to support confidence in our members and contribute to financial stability.

Small and medium-sized members, as well as new CDIC members, continue to favour insured deposits as their preferred choice of funding for their operations.

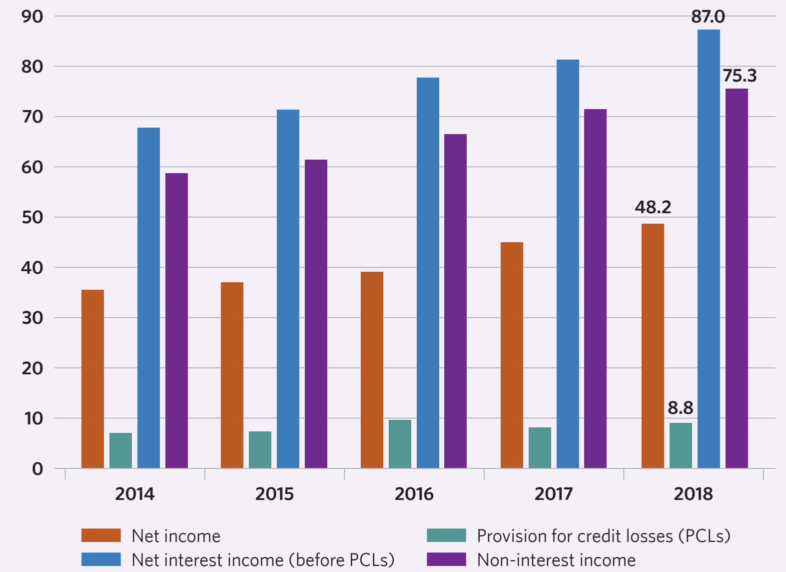
Profit and return on average shareholders' equity

CDIC members earned a record total net income of $48.2 billion in 2018. Higher profits for the membership were attributable to higher net interest income and steady growth in non-interest income, which outpaced growth in operating and interest expenses. Provisions for credit losses of $8.8 billion increased 12% year over year. A material portion of this increase was due to members' adoption of a new accounting standard (International Financial Reporting Standard 9 (IFRS 9)) and was not due to a deterioration in the quality or performance of loans. On balance, the quality of loans made by CDIC members remains high, with rates of arrears remaining near historical lows.

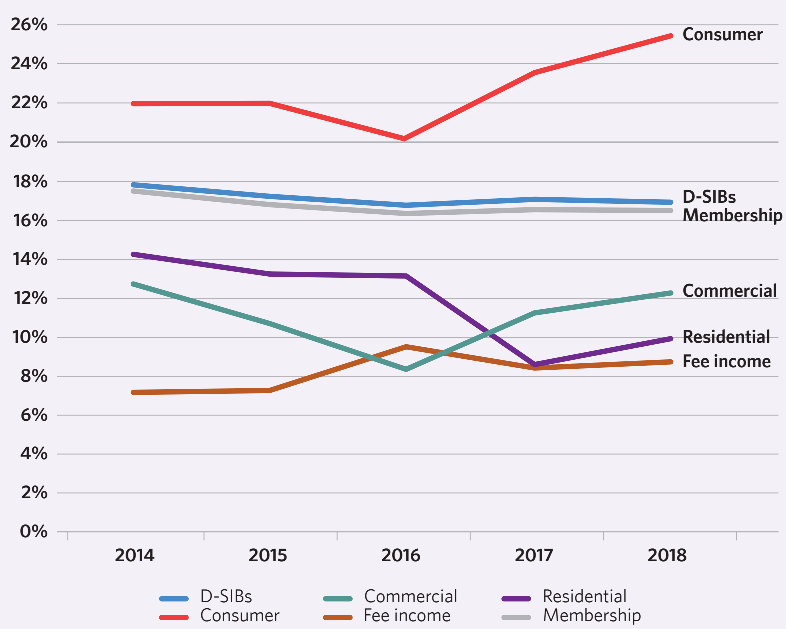
Net interest income increased by 7.5% ($6.1 billion) in 2018 mainly due to higher loan volumes, as net interest margins have continued to be hampered by the low rate environment. Non-interest income increased 7% ($4.9 billion) due to higher contributions from investment management fees, trading activities, mutual fund fees and credit/debit card fees.

The membership's return on average shareholders' equity (ROAE), a broad-based measure looking at institutions' profitability, remained high at 16.6%. The ROAE of the membership has been relatively stable over the last several years, driven by the performance of the institutions in the D-SIB peer group. As shown in the graph opposite, the ROAE varies considerably by peer group, mainly due to the type of lending and the degree of leverage utilized. The Residential peer group saw its overall profitability improve in 2018 relative to 2017, due to higher mortgage originations more in line with historical norms following a decline in 2017. The Commercial peer group also saw its profitability improve in 2018 in response to higher net interest income and lower provision expenses. The Consumer peer group's improved profitability in 2018 was due principally to business decisions to carry lower levels of equity at certain members, thus increasing the relative level of profitability.

Revenue, provisions and profits for CDIC members, 2014–2018 (C$ billions)



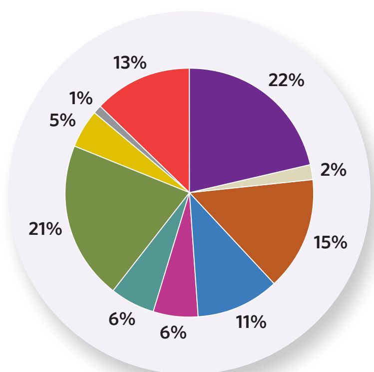
Return on average shareholders' equity (ROAE) by peer group, 2014–2018



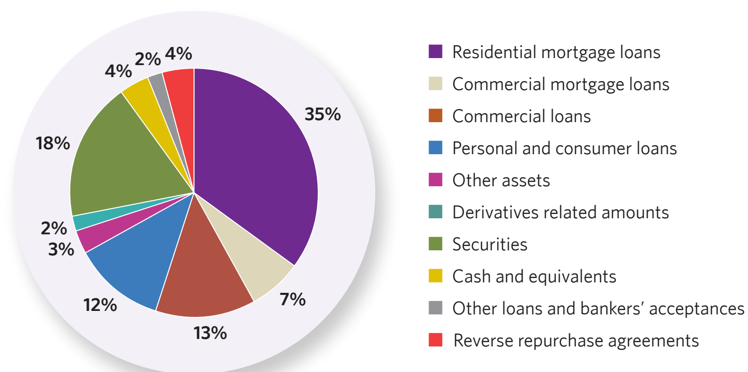
Asset composition, growth and quality

The membership's total asset base grew 7.9% to $5.7 trillion year over year, and the asset mix was virtually unchanged compared to 2017. The majority of asset growth was driven by increases in liquid assets and lending to businesses. Residential mortgages, the single largest asset class on the balance sheet of CDIC members, totalled approximately $1.3 trillion, or 23% of the membership's on-balance sheet assets. Other significant asset classes included securities (20% of total assets, 27% of which were Canadian government-issued securities), personal and consumer loans (11%) and reverse repurchase agreements (12%).

Asset mix—D-SIB peer group (%),* 2018
(C$5.3 trillion)



Asset mix—all other peer groups (%),* 2018
(C$359 billion)



*As at members' fiscal year end
Note: Totals may not add to 100% due to rounding.

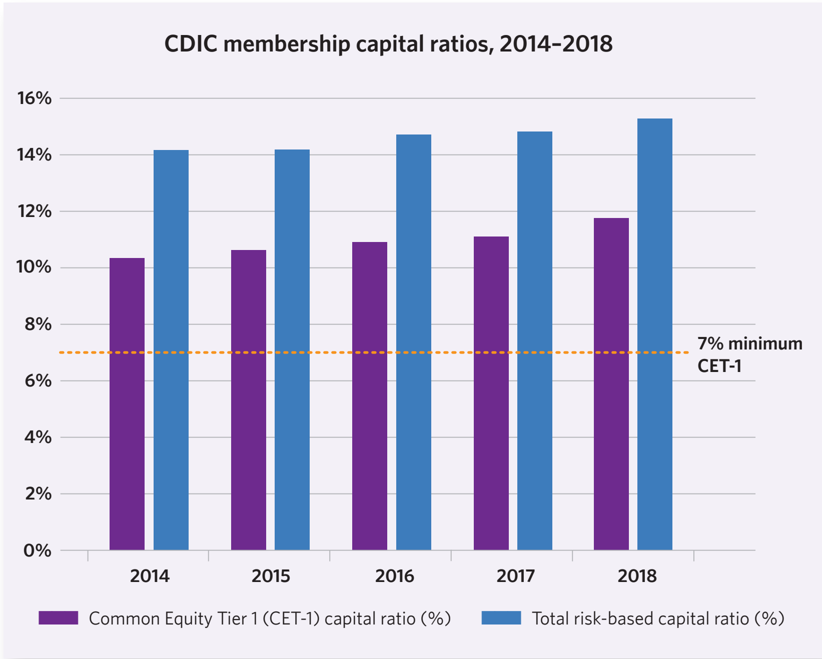
The overall quality of the membership's assets showed a slight deterioration during 2018 with a gross impaired loan ratio of 0.49% of total loans (2017: 0.44%). This measure remains low both relative to historical levels and to Canadian lenders' international peers.

Liquidity levels

The membership maintained satisfactory levels of liquid assets as at December 31, 2018, and members were in compliance with regulatory expectations as set out in the *Liquidity Adequacy Requirements* of the Office of the Superintendent of Financial Institutions (OSFI). Viewed on a combined basis, these metrics and assessments, which include a number of qualitative considerations, provide CDIC with broad and deep perspectives of the liquidity adequacy of its members as no single measure can, on its own, present a complete picture.

Capital ratios

Overall membership capital levels increased in 2018 and remain well in excess of Basel III minimum requirements. The membership's average Common Equity Tier 1 (CET-1) capital ratio, as at each member's Q4 2018, was 11.7% (compared to the OSFI minimum requirement of 7.0%). The average total capital ratio for the membership increased slightly to 15.2%.



Further, under the terms of OSFI's *Leverage Requirements Guideline*, all institutions are required to maintain a leverage ratio that meets or exceeds 3% at all times. As at each member's Q4 2018, the average leverage ratio of the membership was 4.4%, with D-SIBs having the lowest leverage ratio of the membership at 4.3% and the Consumer peer group having the highest leverage ratio of the membership at 12.4%.

Risk governance and management

CDIC is exposed to a variety of internal and external risks that could influence its ability to achieve its mandate and vision. To ensure that these risks are properly identified, assessed and managed, CDIC maintains an Enterprise Risk Management (ERM) program which includes a comprehensive assessment of key corporate risks on a quarterly basis.

Our Enterprise Risk Management process

- Identifies and assesses the key risks to which CDIC is exposed
- Provides the Audit Committee of the Board of Directors and the Board of Directors with reports designed to enable them to understand these risks
- Reviews CDIC's risk policies to ensure that they continue to be appropriate and prudent
- Identifies initiatives to enhance the management of each key risk and monitors progress in completing each initiative

CDIC's key risks

CDIC's key risks and mitigating actions are set out below. Overall, CDIC's risks remain acceptable as at March 31, 2019, and Management will continue to monitor these risks and responses on a regular basis. Further details regarding the steps that CDIC is taking to address its risks, including CDIC's strategic objectives and outcomes can be found in the "A look ahead to 2019/2020" section that follows.

Key risk	Description	Response
Economic	Economic vulnerabilities (such as highly indebted Canadian households, the rising interest rate impact on borrowing, overvalued real estate markets and trade uncertainties) could negatively impact a number of CDIC's members and potentially lead to multiple failures that could stretch CDIC's capacity to respond adequately.	CDIC manages this risk by continually monitoring the economic environment and making progress on initiatives designed to enhance its preparedness to identify membership risks in a timely manner and, if necessary, respond to member failures.
Regulatory	The failure of members and other stakeholders to adopt regulatory changes to the insurance coverage regulations and proposed changes to the joint and trust disclosure requirements could adversely impact CDIC's ability to implement these new measures effectively, which in turn affects CDIC's ability to achieve its mandate.	CDIC is engaging in extensive consultations and communications with members and key stakeholders.
Preparedness to resolve one or more member institutions	This is the risk that CDIC cannot or does not take timely and effective action with respect to failing or failed member institutions.	CDIC maintains robust risk assessment processes to ensure the timely identification of risks in the membership and resolution planning processes, including those with the D-SIBs. CDIC regularly tests its preparedness for one or multiple failures with simulation and tabletop exercises. In addition, the Corporation plans to invest significant resources to modernize its payout capabilities and move toward a day-of-failure reimbursement system.
Cyber security	CDIC is exposed to cyber security risks from multiple sources. CDIC must ensure the resiliency of its own systems and also consider the risk posed by a cyber event at a member institution, which could result in the failure of the member institution.	To improve understanding and manage its cyber security risk, CDIC will identify and develop its cyber security framework to ensure that the Corporation has the standards, guidelines and best practices to strengthen its resilience when managing cyber security-related risk and responding to a cyber incident. To manage the external cyber risk, CDIC continues to work with its members, its financial safety net partners and stakeholders on the impact of cyber risk threats.

Key risk	Description	Response
Financial	CDIC's key financial risk is that it does not have adequate financial resources or liquidity to support the resolution of one or more member institutions.	CDIC manages its investment portfolio in accordance with Board-approved credit, liquidity and market risk policies. CDIC has developed an *ex ante* funding strategy to cover possible resolution losses with a minimum target of 100 basis points of insured deposits. The Corporation reviews this target level regularly to ensure it remains appropriate. In addition to the investment portfolio, CDIC has the ability to borrow from the Government of Canada or capital markets. The Minister of Finance could also provide a loan to CDIC under the provisions of the *Financial Administration Act* where such funding is necessary to promote the stability or maintain the efficiency of the financial system in Canada. If liquidity access is insufficient, CDIC could request additional funding through an appropriation act that would be subject to parliamentary approval.
Evolving the culture/change management	As CDIC experiences changes in Board direction, leadership and organizational structure and recruits new employees, there is a risk that CDIC may be unable to attract and retain employees and that the Corporation's culture would not align with its operating environment.	To manage this risk, CDIC is developing a multi-year human capital strategy and has several initiatives in place to foster the creation of a culture of effective challenge and to drive organizational success.
Reputation	This risk arises when key stakeholders have a loss of confidence or trust in CDIC which negatively impacts its ability to fulfill its mandate and conduct its business. This could occur where CDIC has failed to manage its strategic, operational or financial risks properly. It could also arise due to low public awareness levels of CDIC, contributing to depositors making uninformed financial decisions which could result in a bank run.	CDIC manages this risk by ensuring that it has a robust ERM framework to identify, assess and manage its risks. The Corporation also has an active stakeholder management program in place to monitor these relationships. In addition, CDIC is devoting significant efforts to increase public and depositor awareness of CDIC and its deposit insurance program to 60%–65% by 2020, leveraging members and key media consumed by the public, as well as research conducted on depositor behaviour.

Transforming Enterprise Risk Management

CDIC's operating environment is evolving at a rapid pace and is becoming increasingly complex. For CDIC to fulfill its mandate and meet its business objectives, it must continue to identify, manage and respond to risks in an effective manner. To this end, in 2019 we will begin to transform the current ERM framework to enhance our risk management culture, and to improve alignment of key risks with our strategies, decision making, priorities and allocation of resources. Key elements of the transformation project include establishing a "three lines of defence" model, articulating and operationalizing CDIC's risk appetite, establishing appropriate risk policies, and putting in place enhanced reporting and monitoring. This multi-year project is expected to result in CDIC better managing its risks and delivering on its mandate.

To support this transformation, in late 2018, CDIC appointed its first Chief Risk Officer (CRO) and, in March 2019, established a Board Risk Committee to assist the Board in fulfilling its oversight responsibilities with respect to the identification, assessment, management, and reporting of key risks and the development of risk response strategies. The CRO reports to the Risk Committee and will oversee the ERM project. Our Board of Directors and Senior Executive Team are fully engaged to ensure that the ERM transformation project is effectively implemented at all levels at CDIC.

A look ahead to 2019/2020

As set out in the Corporation's 2019/2020 to 2023/2024 Corporate Plan, to mitigate the risks discussed in the previous section, CDIC's work will focus on four areas with corresponding strategic objectives and outcomes for the planning period:

1. **Preparedness: Advancing resolution readiness**
2. **Deposit insurance program: Modernizing the deposit insurance program**
3. **Stakeholders: Strengthening confidence and trust**
4. **Organization: Evolving the Corporation**

1. Preparedness: Advancing resolution readiness

Outcomes

- In the event of member failure, CDIC's people, systems and processes are ready to provide access to all insured deposits within seven days or less, through a streamlined and scalable solution.
- Resolvability of all member institutions, regardless of size, is supported by CDIC's robust risk assessment, resolution planning and preparedness activities.

Key initiatives

- Implement key design features of the modernized reimbursement process, scalable for concurrent failures, with a focus on strengthening deposit data standards and technology enhancements to ensure privacy and security, depositor communication and electronic reimbursement capabilities.
- Guide and direct D-SIBs to reach the 2020 resolvability target through formal assessment and testing of resolution plans and timely remediation of identified impediments.
- Advance preparedness for member failure through a risk-based testing and readiness program that requires an appropriate level of preparedness for all members, and that considers evolving risks (such as cyber attacks) and associated impacts on intervention approaches. Strengthen crisis communications for all aspects of CDIC's resolution toolkit.

CDIC's goal is to provide access to all insured deposits within seven days or less. Although they align with international standards, CDIC's reimbursement systems require ongoing modifications so they remain fully functional. These modifications typically make use of modern technologies, including authentication processes, payment methods and security applications. New developments, including changes to deposit insurance coverage, require CDIC to modernize its payment and communications capabilities. CDIC will continue to assess depositor preferences for payout and communication methods, with the aim of providing modern reimbursement and communication options. Our long-term goal is to modernize payout capabilities for a day-of-failure reimbursement system, which we have committed to achieving within five years.

CDIC will continue to advance D-SIB members towards the 2020 resolvability target by conducting annual resolvability assessments and providing timely feedback to each D-SIB on its work plans to address remaining impediments. This work will be supported by CDIC's new *Resolution Planning By-law*, which will come into force in May 2019. In addition, CDIC will carry out joint exercises with each D-SIB, to test the effectiveness of key elements of D-SIB plans.

Our risk assessment activities will increasingly focus on earlier stage preparedness so that we are ready to respond proactively to key risks in the membership as they emerge. Building on the multi-year tabletop and simulation program, CDIC will strengthen its internal preparedness and staff training to undertake key facets of its resolution toolkit, including rapid reimbursement and transactional approaches that include multiple failure scenarios and crisis communications.

In collaboration with other safety net agencies CDIC will evaluate its role and intervention response to protect depositors, should a member (or CDIC itself) experience a severe and plausible cyber event. We will implement improvements in our toolkit, programs and resolution responses as needed.

2. Deposit insurance program: Modernizing the insurance program

Outcome

- Key elements of CDIC's deposit insurance program (including processes, by-laws and legislation) are modernized to support the Corporation in the delivery of its mandate; to anticipate and adapt to the changing banking landscape; and to meet the needs of depositors.

Key initiatives

- Implement changes from the deposit insurance review, including engaging with members and other key stakeholders.
- Conclude the by-law modernization initiative and develop a program for the regular and timely review of all by-laws.
- Assess the progression of *ex ante* funding toward the minimum target in light of insurance coverage changes and evolving membership risks.
- Strengthen focus and understanding of key emerging issues in order to best position CDIC, as a deposit insurer and resolution authority, to adapt to modern banking trends and contribute to financial stability.

In June 2018, the Government of Canada amended the *CDIC Act* to modernize and enhance Canada's deposit insurance framework. Changes impacting deposit insurance coverage will come into force on April 30, 2020, with all remaining changes coming into force on April 30, 2021. In preparation, CDIC will amend certain by-laws and administration requirements to reflect the new framework. Member institutions and stakeholders will also need to adjust their operations and systems to ensure that clients benefit from the amended coverage. CDIC's goal is fast and effective implementation of these changes. In particular, we will work with the nominee broker community as it develops its systems to ensure that our seven days or less payout objective is met, as well as our long-term goal of day-of-failure reimbursement. We will consult and keep member institutions and other key stakeholders informed so they can plan and deploy appropriate resources accordingly.

The multi-year work to modernize and update the suite of by-laws required by amendments to the *CDIC Act* will be completed by December 31, 2019. The by-law reviews will be guided by changes resulting from the ongoing deposit insurance review (specifically the *Data and System Requirements By-law* and the *Joint and Trust Account Disclosure By-law*) and the 2019 federal financial sector framework review. Other by-laws will be reviewed from time to time to assess their relevancy and effectiveness, most notably the *Differential Premiums By-law*, for which we will be launching a comprehensive review in 2019/2020.

CDIC remains committed to reaching the 100 basis point minimum *ex ante* funding target in a reasonable period of time. However, the membership risk environment is dynamic and regular assessments will determine the potential impact of changes on the time it will take to reach the minimum target. Enhanced insurance coverage resulting from the deposit insurance review is also expected to impact the progression to the minimum target. Management will monitor and assess the impact of these changes through the coming into force date and the filing of the first return of insured deposits that incorporate such changes.

CDIC will place increasing emphasis on its understanding of, and insight into, key emerging technological, demographic and regulatory issues affecting the Corporation and its member institutions. These include the impacts and opportunities that open banking and other digitalization trends present to both depositors and members, as well as coordinated governmental efforts on cyber-related risks to the financial industry. In pursuing this work, CDIC will connect directly with industry, academic and thought leaders through a variety of research and other fora, including by hosting a conference in May 2019 on how these industry trends will shape the future of deposit insurance.

3. Stakeholders: Strengthening confidence and trust

Outcomes

- Public awareness and key stakeholders' understanding of CDIC's role as deposit insurer and resolution authority are strengthened and support confidence and trust in CDIC and in the stability of the financial system.
- CDIC fosters a collaborative and productive relationship with member institutions and Canadian financial safety net partners.

Key initiatives

- Increase public and depositor awareness of CDIC and its deposit insurance program, by leveraging members and key media consumed by the public, and by conducting research on depositor behaviour and expectations.

- Strengthen relationships with key stakeholders through an integrated engagement process that is responsive to key findings of a member survey, and to results of other consultations and engagement activities.
- Increase stakeholder understanding of CDIC's role as resolution authority for all members (including a global systemically important bank (G-SIB)) and build credibility and confidence in CDIC's ability to deliver on its mandate.

Public awareness of CDIC deposit insurance promotes confidence in the Canadian financial system and mitigates the risk of bank runs. A three-year public awareness strategy was launched in 2017/2018 to stem declining public awareness levels. We will continue to implement and adapt this strategy to increase public awareness of CDIC deposit protection towards a target range of 60%–65% of Canadians by March 31, 2020. Efforts will include: leveraging key media consumed by the public, such as television, digital and social media; conducting research on evolving depositor habits and behaviours; and leveraging members to inform Canadians about the deposit insurance program.

Given the important role that CDIC's stakeholders play in supporting an effective deposit insurance and resolution program, various ongoing by-law reviews, outreach activities, and member involvement in resolution and public awareness efforts, we will work to strengthen relationships with stakeholders through an integrated engagement process. We conducted a survey in early 2019 exploring members' overall impressions of CDIC's effectiveness and their experience with CDIC in some key processes. Participants provided useful insights and constructive feedback that will inform future stakeholder engagement activities.

Our role in resolution and resolution planning has become more visible over the last few years and it is expected to continue to grow, given the evolution of our responsibilities and powers as resolution authority. To build trust and confidence in CDIC and its resolution authority function, the Corporation will continue to enhance the dissemination of information on resolution to the public and stakeholders, including by coordinating efforts among its Canadian financial safety net partners, through an enhanced resolution authority communications plan. The plan will include posting additional resolution information on CDIC's website and through other media, and conducting outreach activities such as webinars and speeches.

4. Organization: Evolving the Corporation

Outcome

- CDIC has an engaged, innovative, adaptable and high-performing workforce and a work environment that supports the changing needs of the organization and its employees.

Key initiatives

- Foster CDIC's strong culture of respect, diversity, innovation, adaptability and excellence through continued focus on employee skills and leadership development, to support the evolution of the Corporation's programs and organization.
- Conduct a comprehensive review of CDIC's Enterprise Risk Management (ERM) program.
- Enhance the work environment, including adapting CDIC's policies, practices and technology to align with workforce changes and trends.
- Review CDIC's data assets and ensure that they are streamlined, effective and secure.

In order to adapt to external and internal environmental changes, CDIC is developing and will implement a multi-year human capital management strategy to continue to attract and retain high-performing and engaged employees. This will include developing initiatives that foster a culture of effective challenge and evolution to drive organizational success, as well as adopting modern talent acquisition and talent management strategies.

To enhance our risk management culture and keep pace with the rapidly changing environment, we will carry out an ERM transformation. This will better align CDIC's key risks with its strategies, decision making, priorities and allocation of resources. Key elements of the project will include: establishing a three lines of defence model; articulating and operationalizing CDIC's risk appetite; establishing appropriate risk policies; and enhancing reporting and monitoring.

During the planning period, CDIC will make changes to its office tools and technology so that they meet the needs of a new generation of employees. We will take other steps as well to create a work environment aligned with changing employee workforce trends and organizational needs.

There is demand for increased and easier data and information sharing within CDIC, while being sensitive to the information security risks associated with providing broader access. To address this, CDIC will develop a data management strategy that balances benefits and risks and ensures that information and data are subject to appropriate governance and controls. We will also emphasize robust data analysis with external stakeholders, reinforcing CDIC's role as a thought leader on deposit insurance and resolution issues.

2019/2020 to 2023/2024 financial plan

The projections included in CDIC's 2019/2020 to 2023/2024 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:

- A growth in insured deposits year over year of 4% in 2019/2020 and 3% thereafter.
- The premium rates as well as the distribution of members across the differential premium categories will remain unchanged from 2018/2019.
- Investment income is based on an assumed average yield on cash and investments of 1.6% for fiscal 2019/2020, rising gradually to a yield of 1.8% in 2023/2024.
- No member institution failures are assumed during the planning period.
- The provision for insurance losses is forecast to increase at a similar rate to that of the assumed growth in insured deposits, although other inputs into the calculation, such as the default probabilities, are not taken into consideration.

2019/2020 fiscal year

Total comprehensive income is planned at $591 million for the 2019/2020 fiscal year.

Total revenues are planned to be $750 million in the 2019/2020 fiscal year, including $665 million of premium revenue and $85 million of investment income.

Planned **premium revenue** of $665 million is $20 million higher than fiscal 2018/2019 premium revenue of $645 million. The increase is the result of an expected increase in insured deposits.

Expected **investment income** of $85 million is $19 million higher than investment income of $66 million in fiscal 2018/2019, reflecting the projected growth in the investment portfolio coupled with an increasing interest rate environment.

Net operating expenses are planned to be $50 million in fiscal 2019/2020, compared to $43 million actual operating expenses in fiscal 2018/2019. The $50 million budget reflects a full staffing complement aimed at furthering preparedness and resolution capabilities for D-SIBs and a $5.8 million public awareness budget.

Cash and investments are planned to be $5.7 billion at the end of the 2019/2020 fiscal year.

The **provision for insurance losses** is planned to increase to $2.15 billion at the end of the 2019/2020 fiscal year due to the estimated growth in insured deposits and an assumed stable economic environment.

The level of ***ex ante* funding** is planned to be $5.7 billion at the end of the 2019/2020 fiscal year, representing 69 basis points of forecast insured deposits, an increase of 7 basis points from March 31, 2019.

Performance against Plan

The following Scorecard summarizes progress as at March 31, 2019, in support of the four corporate strategic objectives identified in CDIC's 2018/2019 to 2022/2023 Corporate Plan. These strategies support the Corporation's mandate to provide insurance against the loss of part or all of deposits, to promote and otherwise contribute to the stability of the financial system in Canada, and to act as resolution authority for its members. CDIC's corporate targets are on track and proceeding as planned, except as otherwise noted in the Scorecard below.

CDIC'S CORPORATE SCORECARD—2018/2019

(as at March 31, 2019)

Preparedness: Advancing resolution readiness

Outcomes

- In the event of member failure, CDIC's people, systems and processes are ready to provide access to all insured deposits within seven days or less, through a streamlined and scalable solution.
- Resolvability of all member institutions, regardless of size, is supported by CDIC's robust risk assessment, and resolution planning and preparedness activities.

Key corporate initiatives	Status ▲ ▼ ●	Update
Advance domestic systemically important banks (D-SIBs) toward the 2020 resolvability target through review and provision of feedback on their 2018 planning submissions, and the implementation of a bail-in regime in Canada. Crisis communications for all resolution tools will also be addressed.	▲	CDIC continued to set expectations and provide feedback to the banks on their plans to achieve resolvability by 2020. D-SIBs submitted another iteration of their resolution plans in December 2018, incorporating CDIC feedback and focusing on the legal, operational and financial feasibility of executing their resolution strategies. Regulations supporting bail-in and the new compensation regime are now in place and bail-in execution is being integrated into the D-SIBs' resolution planning process. CDIC took steps to strengthen its crisis communications and completed a D-SIB communications strategy for all resolution tools by March 31, 2019.
Implement key design features of a modernized reimbursement process with a focus on strengthening deposit data standards and technology enhancements to facilitate online authentication, depositor communication and electronic reimbursement capabilities.	▼	CDIC continued its work to ensure that its reimbursement systems are able to keep up with changes both in technology and depositors' expectations during a resolution. Proofs of concept, pilots and projects were initiated and are at different stages of completion, while solutions and options that align with national payment standards continue. CDIC began implementing new technology solutions focused on: providing additional payment options to depositors; improving depositor communications during a resolution; and improved data validation and analysis. Additional resources will be allocated to this initiative in the next fiscal year to enhance the reimbursement process and associated systems.
Implement a multi-year tabletop and simulation program that tests preparedness for reimbursement and other resolution tools and that involves the CDIC Board, member institutions and other safety net agencies.	▲	CDIC developed a testing and readiness program and conducted several tabletop and simulation exercises in line with planned preparedness activities. These included: an assisted transaction communications tabletop exercise and a reimbursement system walk-through (August and September 2018); an expedited broker reimbursement communications dry run (September 2018); tabletops with other Canadian financial agencies focusing on a mid-size failure exercise (November and December 2018); a payout simulation on the broker process (February 2019); and a CDIC Board tabletop on runway options, deal evaluation and resolution (March 2019).

Legend

▲ Planned progress on schedule and within budget

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

● Cancelled or deferred

CDIC'S CORPORATE SCORECARD—2018/2019

(as at March 31, 2019)

Deposit insurance program: Modernizing our insurance program

Outcome

- Key elements of CDIC's deposit insurance program (including processes, by-laws and legislation) are modernized to support the Corporation in the delivery of its mandate, to adapt and respond to the changing banking landscape, and to meet the needs of depositors.

Key corporate initiatives	Status ▲ ▼ ●	Update
Accelerate the roll-out of the comprehensive by-law review program.	▲	CDIC continued its review program that resulted in several changes to CDIC by-laws. The Corporation updated its *Differential Premiums By-law* and developed a new *Resolution Planning By-law* in support of its role as resolution authority. CDIC reviewed the *Data and System Requirements By-law*, the *Deposit Insurance Information By-law*, the *Exemption from Deposit Insurance (Notice to Depositors) By-law* and the *Joint and Trust Account Disclosure By-law* in support of the deposit insurance review changes, and also initiated reviews of the *Application for Deposit Insurance By-law* and the *Deposit Insurance Policy By-law*.
Review the *Premium Rate and Ex Ante Funding Strategy* to ensure it remains consistent with CDIC's coverage and membership and with the Corporation's role as resolution authority for its member institutions.	▲	This initiative was completed, with Management presenting a review of the 2011 *Ex Ante Funding Strategy* to CDIC's Board of Directors, including a status update and estimates of how the proposed changes resulting from the deposit insurance review could affect the Strategy. It was determined that the Strategy remains appropriate, with the potential impact on the progression towards the minimum target being extended by a few years, due to the increased coverage associated with foreign currency deposits and the removal of term limits on insured deposit products. Further analysis will be conducted during the planning period as CDIC approaches the minimum funding target. (See also the "Financial overview" section that follows.)

Legend

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

CDIC'S CORPORATE SCORECARD—2018/2019

(as at March 31, 2019)

Stakeholders: Strengthening confidence and trust

Outcomes

- Public awareness and key stakeholders' understanding of CDIC's role as deposit insurer and resolution authority are strengthened and support confidence and trust in CDIC and in the stability of the financial system.
- CDIC fosters a collaborative and productive relationship with member institutions.

Key corporate initiatives	Status ▲ ▼ ●	Update
Increase public and depositor awareness of CDIC and its deposit insurance program, by leveraging members and key media consumed by the public, and conducting research on depositor behaviour.	▲	CDIC completed year two of its three-year public awareness strategy which included television advertising and digital and social media channels, and which leveraged member institutions through new requirements under the *Deposit Insurance Information By-law* (DIIB). New DIIB measures came into force on September 29, 2018, and include requirements for members to display the CDIC logo at ATMs, and on in-branch screens and web banking features. The strategy increased public awareness of CDIC deposit insurance by 5% to over 55% which meets our target as at March 31, 2019, demonstrating significant progress towards the overall public awareness target of 60%-65% by March 31, 2020. Website hits over the past year also rose by 252% to 1.8 million visits from approximately 511,000 in the previous year.
Strengthen relationships with key stakeholders through an integrated engagement process, including results from a member survey.	▲	CDIC designed and implemented a stakeholder engagement process to proactively identify and pursue engagement activities. Our involvement in activities is updated and reported on at monthly strategic initiative management meetings. A survey was distributed to CDIC's members in January 2019. Its main objective was to explore perceptions of CDIC's effectiveness in by-law consultation, and in its interaction with members in certain key processes such as resolution planning, premiums and fast insurance determination. Survey results were generally positive. CDIC developed a plan of action to address the noted areas for improvement. The plan will be implemented to strengthen engagement with member institutions further.
Increase transparency regarding CDIC's role as resolution authority for all members (including a global systemically important bank (G-SIB)), to educate stakeholders and build credibility and confidence in CDIC's ability to deliver on its mandate.	▲	CDIC increased transparency and enhanced its communications with the public and other stakeholders to raise their understanding of CDIC's role in resolution. This included: developing and disseminating a video presentation on resolution; conducting a webinar on how CDIC protects brokered deposits in a failure; posting extensive information on our resolution tools (notably bail-in and compensation) on the website; delivering an enhanced Executive speaking schedule; and conducting outreach activities with domestic and international stakeholders.

Legend

▲ Planned progress on schedule and within budget

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

● Cancelled or deferred

CDIC'S CORPORATE SCORECARD—2018/2019

(as at March 31, 2019)

Organization: Evolving the Corporation

Outcome

- CDIC promotes innovation and adaptability in a modern work environment.

Key corporate initiatives	Status ▲ ▼ ●	Update
Implement a plan to develop employees with the competencies required to support the evolution of programs and systems and the change in leadership, to preserve CDIC's strong culture of respect, diversity and adaptability.	▲	In anticipation of the appointment of a new President and CEO during 2018, a one-year Talent Management Strategy (TMS) was put in place to ensure alignment with anticipated changes. A stakeholder engagement and communications plan was also developed and implemented to support the new CEO. In accordance with the TMS, CDIC developed an enhanced employee development plan including an updated employee mandate training program, which was designed and launched. Results of an employee engagement survey conducted in December 2018 showed best in class engagement levels and an increase in employee satisfaction in answer to the question "CDIC provides me with the training/development I require to do my job" (up 3% to 73%, and 7% over the public service benchmark).
Modernize the work environment (including new or renovated workspaces, tools and technology) and enhance data safeguards and cyber security programs to protect depositor information.	▲	CDIC renewed the lease for its Ottawa premises for an additional 10 years, in advance of its expiry in 2020. The Corporation created plans for improvements to its collaboration tools and technology in order to modernize the work environment. In addition, CDIC implemented Microsoft Office 365 and initiated a Cloud Migration Strategy. We continued to strengthen our cyber and information security programs by hiring additional resources, performing an external security review and employing best practices for mitigating security risks. CDIC also completed employee training to increase awareness of existing and emerging cyber risks.

Legend

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

Financial overview

This section of CDIC's Management's Discussion and Analysis provides a narrative context in which to interpret the Corporation's financial position, financial performance and cash flows. It should be read in conjunction with CDIC's fiscal 2018/2019 consolidated financial statements and notes.

CDIC's statutory objects are: to provide insurance against the loss of part or all of deposits in member institutions; to promote and otherwise contribute to the stability of the financial system in Canada; to pursue these objects for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss; and to act as the resolution authority for its member institutions. The Corporation's financial position, financial performance and cash flows are influenced by the pursuit of these objects.

Basis of preparation

As a publicly accountable Corporation, CDIC prepares its consolidated financial statements using International Financial Reporting Standards (IFRS) as per the requirements of the Canadian Accounting Standards Board.

CDIC's significant accounting policies are described in Note 2 to the consolidated financial statements. Effective April 1, 2018, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) and IFRS 9 *Financial Instruments: Impairment* (IFRS 9). There were no quantitative changes as a result of implementation. During the year ended March 31, 2019, CDIC also made changes to its provision methodology and sick leave program, the details of which can be found in Note 2 of the Corporation's fiscal 2018/2019 consolidated financial statements.

The Corporation's consolidated financial statements include the results of Adelaide Capital Corporation (ACC), a structured entity created by CDIC in 1992 to effect the failure of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. (See Note 2 of the Corporation's fiscal 2018/2019 consolidated financial statements for more information.) The impact of the consolidation of ACC is immaterial to the consolidated financial results.

Financial highlights

CDIC earned total comprehensive income of $663 million for the year ended March 31, 2019.

Premium revenue was $645 million for the year, an increase of $110 million (21%) from the previous fiscal year. The increase in premium revenue was primarily due to an increase in premium rates. Growth in insured deposits held at member institutions, including from new member institutions and changes in the premium categorization of certain members, also contributed to the variance.

Investment income was $66 million for the year, an increase of $20 million (43%) from the previous fiscal year. The variance was as a result of an increase in the weighted average effective investment yields during the year (1.55% as at March 31, 2019, compared to 1.28% as at March 31, 2018), together with the growth in the investment portfolio as a result of increased premium revenue.

Net operating expenses were $43 million for the year, $3 million (7%) lower than the previous fiscal year, primarily due to vacancies within senior-level positions along with a decrease in employee benefits as a result of a change in CDIC's sick leave program. This was partially offset by an increase in professional fees to continue to enhance resolution capabilities and an initiative to modernize CDIC's mandate applications. In addition, the Corporation incurred non-recurring expenses on the disposal of fixed assets in the prior year resulting in lower expenses for the current year.

The Corporation's asset base continued to grow during the year. Total assets were $5,044 million as at March 31, 2019, an increase of $661 million (15%) over the previous fiscal year. The majority of the Corporation's assets are investment securities, which totalled $5,034 million as at March 31, 2019, an increase of $661 million (15%) from the previous fiscal year.

The Corporation's provision for insurance losses was $2,050 million as at March 31, 2019, unchanged from the previous fiscal year. During the year ended March 31, 2019, Management reviewed and updated the methodology and assumptions used in the expected loss calculation, including: (i) the exposure to losses; (ii) the expectation of default derived from probability statistics; and (iii) an expected loss given default. There is no difference in the provision for insurance losses between using the updated methodology and the prior methodology as at March 31, 2019. During the year there were also changes to the risk profile of certain member institutions and to the probability of defaults, as well as improved credit ratings for D-SIBs and growth in insured deposits, including the addition of new member institutions.

The Corporation's premium revenue is not taxable for income tax purposes. However, the investment and other income is subject to income taxes. The increase in investment and other income together with a decrease in operating expenses has led to an increase in income tax expense amounting to $6 million compared to that of the previous fiscal year.

The Corporation's *ex ante* funding is designed to cover possible deposit insurance losses. The balance stood at $5,035 million, or 62 basis points of insured deposits as at March 31, 2019, a year over year increase of $663 million, or 7 basis points.

Consolidated statement of financial position

Assets

The total assets of the Corporation increased to $5,044 million as at March 31, 2019, from $4,383 million as at March 31, 2018, representing an increase of 15%. The following table summarizes CDIC's assets.

As at March 31 (C$ thousands)	**2019**	**2018**
Cash	2,190	1,581
Investment securities	5,033,815	4,372,580
Trade and other receivables	502	215
Amounts recoverable from estates	6	82
Prepayments	605	317
Property, plant and equipment	3,189	3,782
Intangible assets	3,884	4,056
Total assets	**5,044,191**	**4,382,613**

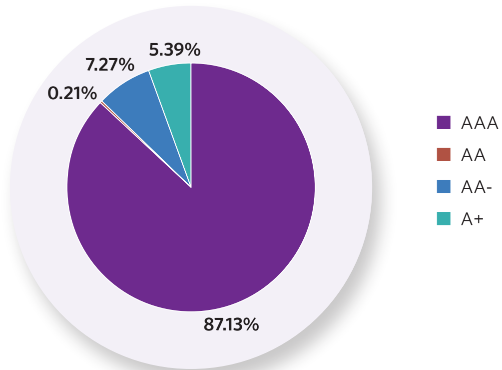
Investment securities

CDIC's $5 billion investment portfolio forms the majority of its assets. The Corporation's investment strategy is based on two key principles:

- Limit credit and market risk to preserve capital.
- Use the investment portfolio as a funding source for intervention activities.

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 further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument.

Investment securities credit profile, as at March 31, 2019



CDIC is restricted under these policies to the obligations of the Government of Canada and agent Crowns and the obligations of provincial governments or municipal financing authorities. Investment securities are restricted to securities having a minimum credit rating of A- with a term of five years. The Corporation invests in a ladder-style structure, requiring investments to be distributed evenly, within tolerance bands, over five, one-year time rungs.

The duration of the Corporation's portfolio is 2.5 years as at March 31, 2019, unchanged from the prior year. CDIC's investments as at March 31, 2019, carry a weighted average effective yield at maturity of 1.55% (March 31, 2018: 1.28%).

Recoveries

From time to time, CDIC receives recoveries from the estates of failed members. These potential recoveries relate primarily to recoveries of amounts that were previously written off and are not reflected in CDIC's financial statements due to uncertainty with respect to both potential amount and ultimate receipt. Factors contributing to uncertainty include creditor disputes, lawsuits against the estate, and competing claims for specific assets.

During 2018/2019, CDIC received $517 thousand from the liquidator of Standard Trust Company, a member institution that failed in 1991. As a result, a recovery of $441 thousand was recognized during 2018/2019 against losses written off for Standard Trust Company in prior years and $76 thousand was charged against accounts receivable recognized in 2015/2016. There may be additional immaterial final recoveries from the estate upon dissolution.

ACC (the structured entity controlled by the Corporation) is also in the process of winding down its litigation and administration activities. No recoveries were recognized during 2018/2019 against losses written off in its name. There may be additional immaterial final recoveries from the estate upon dissolution.

Liabilities

The total liabilities of the Corporation remained relatively the same at $2,059 million as at March 31, 2019, compared to $2,060 million as at March 31, 2018. The following table summarizes the liabilities of the Corporation.

As at March 31 (C$ thousands)	**2019**	**2018**
Trade and other payables	5,800	6,059
Deferred lease inducement	734	847
Employee benefits	1,524	2,804
Provision for insurance losses	2,050,000	2,050,000
Tax liabilities	807	562
Total liabilities	**2,058,865**	**2,060,272**

Provision for insurance losses

CDIC's provision for insurance losses is estimated based on a number of assumptions. The $2,050 million provision for insurance losses as at March 31, 2019, represents CDIC's best estimate of the losses it is likely to incur as a result of resolving the failure of member institutions.

During the year ended March 31, 2019, Management reviewed and updated the provision methodology and assumptions used in the expected loss calculation, including: (i) the exposure to losses; (ii) the expectation of default derived from probability statistics; and (iii) an expected loss given default. Had the provision been calculated using the old provision methodology, there would be no change to the provision as at March 31, 2019.

Numerous other factors in the calculation of provision for insurance losses changed during the year, the effects of which offset each other and the details of which are as follows:

- A 4.3% growth in the level of insured deposits as at April 30, 2018, as compared to April 30, 2017 ($807 billion[1] compared to $774 billion)
- The change in the categorization and risk profile of some member institutions
- Improved credit ratings for D-SIBs
- The decrease in the five-year Government of Canada benchmark bond yield used as the discount rate (1.52% at March 31, 2019, compared to 1.96% at March 31, 2018)
- Fluctuations in the calculated probability of defaults of certain member institutions

The derivation of default probabilities includes both historical and forward-looking perspectives of potential for failure. Moody's Investors Service and Standard & Poor's default statistics are used to derive an historically based view of default. Moody's Analytics, a provider of market-based quantitative

[1] Includes changes in insured deposits levels as a result of changes to the membership during the fiscal years 2018/2019 and 2017/2018.

credit risk products for financial institutions and credit risk investors, is used to provide a forward-looking perspective of the probability of default estimate.

The Corporation calculates its expected losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage of exposure to losses and reflects: (i) the cumulative unweighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss, plus an adjustment for measurement uncertainty; and (ii) recent losses sustained in other jurisdictions.

Ex ante funding

Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC has developed an *ex ante* funding strategy to cover possible deposit insurance losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses. CDIC's funding strategy involves the accumulation of resources during strong economic times to address future potential losses, avoiding as much as possible significant increases in premium rates during periods of economic stress when CDIC's member institutions are dealing with financial headwinds.

As at March 31, 2019, the minimum target level of the Corporation's *ex ante* funding was 100 basis points of insured deposits. The Corporation reviews this target level regularly to ensure it remains appropriate.

CDIC primarily utilizes two methodologies to assess the optimal level of *ex ante* funding. The first of these is referred to as "discretionary analysis." Under this methodology, the Corporation considers the profile of its membership and determines the ability of a specific level of funding to address the hypothetical failure of member institutions.

The second methodology is referred to as "loss estimation." This methodology utilizes statistical techniques to estimate theoretical loss scenarios. Multiple loss scenarios are developed that permit a calibration of funding levels. The inputs to a loss estimation scenario include the level of insured deposits, probability of default statistics and loss given default assumptions.

As part of its regular assessment of sufficiency, the Corporation stress-tests model assumptions. The purpose of these stress tests is to evaluate how funding requirements could be impacted by changes in model inputs. The stress tests primarily assess how changes in probability of default and loss given default affect funding requirements.

The actual level of *ex ante* funding as at March 31, 2019, was $5,035 million, or 62 basis points of insured deposits. Based on the level of insured deposits as at March 31, 2019, the 100 basis point minimum target level would amount to $8,074 million. The Corporation has developed a funding plan that would see *ex ante* funding progress to the minimum funding target in the Corporation's 2025/2026 fiscal year.

Ex ante funding comprises one component of CDIC's entire funding envelope. The Corporation maintains an investment portfolio roughly equivalent to the *ex ante* fund and, in addition, has the ability to borrow from the Government of Canada or from capital markets. The borrowing limit increases with the growth in insured deposits and, as at March 31, 2019, CDIC had the legislative authority to borrow up to $23 billion, subject to ministerial approval. Supplemental borrowing, if required, could be authorized by Parliament through an appropriation act or by the Minister of Finance out of the Consolidated Revenue Fund.

The following table sets out the liquid funds available to CDIC as at period end.

As at March 31 (C$ millions)	2019	2018
Available liquid funds:		
Cash	2	2
Fair value of high quality, liquid investment securities	5,045	4,309
Availability of borrowings:		
Borrowings authorized under the *CDIC Act*, either from market sources or from the Consolidated Revenue Fund	23,000	23,000
Total available funds	**28,047**	**27,311**

Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2018/2019 totalled $663 million, an increase of $577 million from 2017/2018. The Corporation's financial performance is summarized in the following table.

For the year ended March 31 (C$ thousands)	2019	2018
Revenue		
Premium	644,576	535,322
Investment income	66,545	46,201
Other	31	7
Expenses		
Operating expenses	42,593	45,592
Increase in provision for insurance losses	—	450,000
Recovery of amounts previously written off	(441)	(628)
Income tax expense	5,989	219
Net income	663,011	86,347
Other comprehensive (loss) income	(26)	15
Total comprehensive income	**662,985**	**86,362**

Premium revenue

In the 2018/2019 fiscal year, premium revenue increased by $110 million (21%) to $645 million. Increases in the premium rates, growth in insured deposits (including from new member institutions) and changes in the categorization of member institutions contributed to the increase in premium revenue. Insured deposits increased to $807 billion[2] as at April 30, 2018, from $774 billion as at April 30, 2017, an increase of 4.3%.

Premiums are based on the total amount of insured deposits held by members as of April 30 each year, calculated in accordance with the *CDIC Act* and its *Differential Premiums By-law*, which classifies member institutions into one of four premium categories. Classification is based on a mix of quantitative and qualitative factors. The increase in premium rates for 2018/2019 is consistent with CDIC's strategy to achieve its minimum target *ex ante* funding level by 2025/2026. Premium rates, expressed as basis points of insured deposits, are presented below.

Premium category *(basis points of insured deposits)*	**2018/2019**	**2017/2018**
Category 1	7.5	6.5
Category 2	15.0	13.0
Category 3	30.0	26.0
Category 4	33.3	33.3

The distribution of member institutions among premium categories is set out in the following table.

Distribution of member institutions by premium category (% of members)

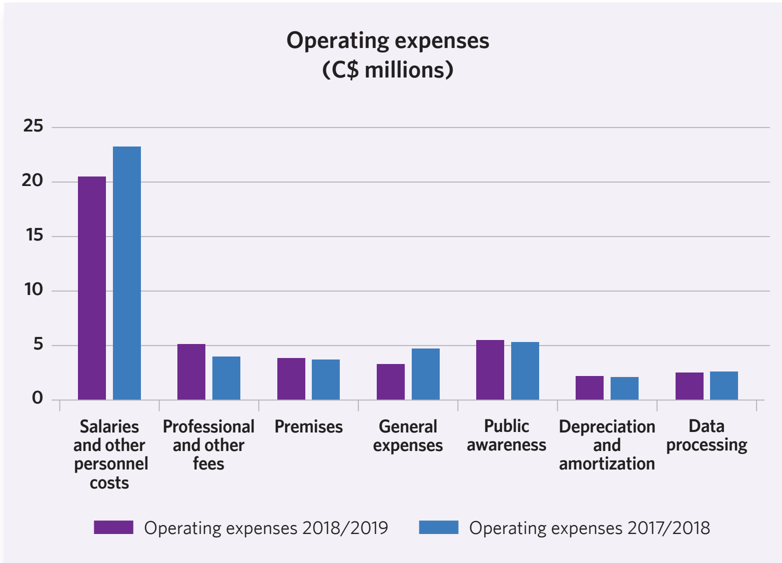
Premium category	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
1	81	83	78	79	76
2	15	11	18	13	15
3	4	5	4	5	5
4	—	1	—	3	4

Investment income

Investment income was $66 million for the year, an increase of $20 million (43%) from the previous fiscal year. The variance was the result of an increase in investment yields during the period (1.55% as at March 31, 2019, compared to 1.28% as at March 31, 2018), in addition to the growth in the investment portfolio.

[2] Includes changes in insured deposits levels as a result of changes to the membership during fiscal years 2018/2019 and 2017/2018.

Operating expenses



Operating expenses decreased by $3 million (7%) to $43 million in fiscal 2018/2019 from fiscal 2017/2018. The decrease is primarily due to vacancies within senior-level positions together with a reversal of employee benefits due to a change in CDIC's sick leave program. In addition, the Corporation incurred non-recurring expenses on the disposal of fixed assets in the prior year resulting in lower expenses for the current year. This decrease was partially offset by increased professional fees as a result of continuous enhancement of CDIC's resolution capabilities and an initiative to modernize CDIC's mandate applications.

Consolidated statement of cash flows

CDIC's cash flows are summarized in the following table.

For the year ended March 31 (C$ thousands)	**2019**	**2018**
Increase in cash from operating activities	688,776	567,245
Decrease in cash from investing activities	(688,167)	(567,435)
Net increase (decrease) in cash balance	609	(190)
Cash, end of year	**2,190**	**1,581**

Cash flows generated from operating activities are used primarily to contribute to the Corporation's investment portfolio, increasing the *ex ante* fund.

Comparison with 2018/2019 to 2022/2023 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2018/2019 with the Corporate Plan for the same year.

Consolidated statement of financial position

Total assets as at March 31, 2019, were $5,044 million, $15 million (0.5%) higher than the planned amount of $5,029 million. This slight increase is primarily due to the higher than planned premium revenue, which also contributed to the increase in investment securities resulting in higher investment income than planned.

Total liabilities as at March 31, 2019, were $2,059 million, $151 million (7%) lower than the planned amount of $2,210 million. The decrease is due to the variance in the provision for insurance losses. The balance as at March 31, 2019, was $2,050 million versus the planned amount of $2,200 million. The calculation of the planned provision for insurance losses only assumes an estimated growth in insured deposits, with all other factors—including the change in the provision methodology, economic inputs, categorization and risk profiles of member institutions, and probabilities of default remaining constant—resulting in the variance.

Consolidated statement of comprehensive income

Total revenue during the year was $711 million, or $14 million (2%) higher than the planned amount of $697 million. The primary sources of revenue were premiums and investment income:

- *Premiums:* Actual premium revenue was $645 million, $9 million (1%) higher than the planned amount of $636 million. The Corporate Plan was based on certain assumptions regarding the classification of members under the Differential Premiums system, as well as the growth in insured deposits. Actual results have differed from the assumptions, including the addition of new member institutions, resulting in the variance between the planned and actual amounts.
- *Investment income:* Actual investment income was $66 million, $5 million (8%) higher than the planned amount of $61 million, due to higher investment yields than anticipated.

Net operating expenses for the year were $43 million, or $5 million (10%) below Plan of $48 million. The variance was primarily due to vacancies within senior-level positions, together with changes in CDIC's sick leave program resulting in the reversal of employee benefits. This is further accompanied with lesser depreciation and amortization than anticipated on account of lesser capital spending than planned.

Total comprehensive income for the year ended March 31, 2019, was $663 million compared to planned total comprehensive income of $546 million, a variance of $117 million (21%).

(C$ millions)	2019/2020 Corporate Plan[a]	2018/2019 Actual results	2018/2019 Corporate Plan[a]
Consolidated statement of financial position *(as at March 31)*			
Cash and investments	5,720	5,036	5,021
Capital assets	15	7	8
Right-of-use assets	6	—	—
Other current assets	—	1	—
Total assets	**5,741**	**5,044**	**5,029**
Trade and other payables	5	6	5
Provision for insurance losses	2,150	2,050	2,200
Lease liabilities	6	—	—
Other non-current liabilities	5	3	5
Retained earnings	3,575	2,985	2,819
Total liabilities and equity	**5,741**	**5,044**	**5,029**
Consolidated statement of comprehensive income *(for the year ended March 31)*			
Revenue			
Premiums	665	645	636
Investment and other income	85	66	61
	750	711	697
Expenses			
Operating	50	43	48
Increase in provision for insurance losses	100	—	100
Recovery of amounts previously written off	—	(1)	—
	150	42	148
Net income before income tax	600	669	549
Income tax expense	(9)	(6)	(3)
Total comprehensive income	**591**	**663**	**546**

[a] The Corporate Plans 2018/2019 to 2022/2023 and 2019/2020 to 2023/2024 were developed based on information as at December 31, 2017, and December 31, 2018, respectively.

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PART 2 – CONSOLIDATED FINANCIAL STATEMENTS

Management responsibility for consolidated financial statements

June 5, 2019

The accompanying consolidated financial statements of the Canada Deposit Insurance Corporation and the information related to the consolidated financial statements in this *Annual Report* are the responsibility of Management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts, the most significant one being the provision for insurance losses, which 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 this *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, that assets are safeguarded, and that 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. Internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls. In addition, the internal and external auditors have free access to the Audit Committee of the Board of Directors, 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 his report is included herein.

Peter D. Routledge
President and Chief Executive Officer

Anthony Carty
Vice-President, Finance, Technology and Depositor Solutions, and Chief Financial Officer

Independent auditor's report

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canada Deposit Insurance Corporation and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report *continued*

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent auditor's report *continued*

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Deposit Insurance Corporation coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and regulations, the by-laws of Canada Deposit Insurance Corporation, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Canada Deposit Insurance Corporation that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Deposit Insurance Corporation's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Deposit Insurance Corporation to comply with the specified authorities.

Independent auditor's report *continued*

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Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Normand Lanthier, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
5 June 2019

Consolidated financial statements and notes

Canada Deposit Insurance Corporation

Consolidated statement of financial position

As at March 31 (audited) (C$ thousands)

	Notes	2019	2018
ASSETS			
Cash		2,190	1,581
Investment securities	*4*	5,033,815	4,372,580
Trade and other receivables		502	215
Amounts recoverable from estates	*5*	6	82
Prepayments		605	317
Property, plant and equipment	*6*	3,189	3,782
Intangible assets	*7*	3,884	4,056
TOTAL ASSETS		**5,044,191**	**4,382,613**
LIABILITIES			
Trade and other payables		5,800	6,059
Current tax liability		504	542
Deferred lease inducement		734	847
Employee benefits	*16*	1,524	2,804
Provision for insurance losses	*8*	2,050,000	2,050,000
Deferred tax liability	*11*	303	20
Total liabilities		**2,058,865**	**2,060,272**
EQUITY			
Retained earnings		2,985,326	2,322,341
TOTAL LIABILITIES AND EQUITY		**5,044,191**	**4,382,613**

Contingencies and commitments (Note 15)

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

Approved by the Board of Directors June 5, 2019

Director

Director

Canada Deposit Insurance Corporation

Consolidated statement of comprehensive income

For the year ended March 31 (audited) (C$ thousands)

	Notes	2019	2018
REVENUE			
Premium	*12*	644,576	535,322
Investment income	*4*	66,545	46,201
Other		31	7
		711,152	581,530
EXPENSES			
Operating	*13*	42,593	45,592
Increase in provision for insurance losses	*8*	—	450,000
Recovery of amounts previously written off	*5*	(441)	(628)
		42,152	494,964
Net income before income taxes		669,000	86,566
Income tax expense	*11*	5,989	219
NET INCOME		**663,011**	**86,347**
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that will not be reclassified to net income:			
Actuarial (loss) gain on defined benefit obligations	*16*	(35)	20
Income tax effect	*11*	9	(5)
Other comprehensive (loss) income, net of tax		(26)	15
TOTAL COMPREHENSIVE INCOME		**662,985**	**86,362**

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

Canada Deposit Insurance Corporation

Consolidated statement of changes in equity

For the year ended March 31 (audited) (C$ thousands)

	Retained earnings and total equity
Balance, March 31, 2017	**2,235,979**
Net income	86,347
Other comprehensive income	15
Total comprehensive income	86,362
Balance, March 31, 2018	**2,322,341**
Net income	663,011
Other comprehensive loss	(26)
Total comprehensive income	662,985
Balance, March 31, 2019	**2,985,326**

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 (audited) (C$ thousands)

	2019	2018
OPERATING ACTIVITIES		
Net income	663,011	86,347
Adjustments for:		
Depreciation and amortization	2,146	2,058
Investment income	(66,545)	(46,201)
Income tax expense	5,989	219
Employee benefit (reversal) expense	(930)	303
Loss on retirement and disposal of property, plant and equipment, and intangible assets	3	673
Change in working capital:		
(Increase) decrease in trade and other receivables	(287)	8
Decrease in amounts recoverable from estates	76	2,800
Increase in prepayments	(288)	(144)
(Decrease) increase in trade and other payables	(259)	1,003
Decrease in deferred lease inducement	(113)	(113)
Increase in provision for insurance losses	—	450,000
Investment income received	92,093	70,491
Employee benefit payment	(385)	(177)
Income tax paid	(5,735)	(22)
Net cash generated by operating activities	688,776	567,245
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, and intangible assets	(1,384)	(1,749)
Purchase of investment securities	(1,993,950)	(1,846,415)
Proceeds from sale or maturity of investment securities	1,307,167	1,280,729
Net cash used in investing activities	(688,167)	(567,435)
Net increase (decrease) in cash	609	(190)
Cash, beginning of year	1,581	1,771
Cash, end of year	**2,190**	**1,581**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

1 – General information

The Canada Deposit Insurance Corporation (CDIC, or the Corporation) was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). It is a Crown corporation without share capital 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 address of the registered office is 50 O'Connor Street, 17th Floor, in Ottawa, Ontario.

The objects of the Corporation are: to provide insurance against the loss of part or all of deposits in member institutions; to promote and otherwise contribute to the stability of the financial system in Canada; to pursue these objects for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss; and to act as the resolution authority for its member institutions.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including, but not limited to: acquiring assets from and providing guarantees or loans to member institutions and others; making or causing to be made inspections of member institutions; acting as liquidator, receiver or inspector of a member institution or a subsidiary thereof; establishing a bridge institution and acquiring shares and/or assets and assuming liabilities of member institutions; and converting some of the debt of a failing domestic systemically important bank (D-SIB) into common shares in order to recapitalize the bank and allow it to remain open and operating.

The Corporation is an agent of Her Majesty in right of Canada for all purposes of the *CDIC Act*. As a result, all obligations incurred by the Corporation in the course of carrying out its mandate are obligations of Canada.

The Deposit Insurance Review that was announced in the 2014 Budget resulted in several amendments to the *CDIC Act*, which received royal assent on June 21, 2018. These amendments will modernize and enhance Canada's deposit insurance framework, and will come into force in two phases—April 30, 2020, and April 30, 2021.

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that is consistent with its legal obligations. The Corporation is in compliance with the directive.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on June 5, 2019.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (C$).

The consolidated financial statements have been prepared on the historical cost basis, except for the provision for insurance losses and certain employee benefits (see Note 16) which are measured at their present value. Historical cost is generally based on the fair value of the consideration given in exchange for assets and the amount of cash expected to be paid to satisfy a liability.

The accounting policies set out in Note 2 were consistently applied to all the periods presented unless otherwise noted below.

2 – Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of Adelaide Capital Corporation (ACC), a structured entity controlled by the Corporation.

The results of ACC are included in the consolidated statement of comprehensive income until the date control ceases or the company is dissolved. All transactions, balances, income and expenses between CDIC and ACC are eliminated in full on consolidation.

The overall impact of consolidation is not significant.

These consolidated financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened but does not have control.

Judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to exercise judgment in applying the Corporation's accounting policies. The following are the significant judgments made in the process of applying the Corporation's accounting policies.

Consolidation

Management has determined, based on an analysis of the facts and circumstances, that the Corporation controls ACC and the financial statements of CDIC should incorporate the financial statements of ACC. Control is achieved where the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Although CDIC does not own any of the share capital of ACC, it is the sole creditor of ACC, having provided an intercompany loan in 1992. The facts and circumstances that Management considered in arriving at the conclusion that CDIC controls ACC are as follows:

- The loan exposes CDIC to variable returns from its involvement with ACC.
- A CDIC employee is the sole member of the Board of Directors of ACC, giving CDIC the power to make decisions about ACC's operations to affect the returns that CDIC ultimately receives from its loan to ACC.
- The terms of the loan restrict the activities of ACC and stipulate that ACC cannot alter the composition of the Board of Directors, giving CDIC power over ACC's key activities.

Financial instruments

The Corporation holds a significant amount of investment securities. Based on an analysis of the facts and circumstances, Management has determined that: (i) the investment securities are held in order to collect contractual cash flows; and (ii) the contractual terms of the investment securities give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, the Corporation measures the investment securities at amortized cost using the effective interest method. See "Financial instruments" below for further details.

The Corporation calculates a loss allowance for expected credit losses (ECLs) on investment securities that are measured at amortized cost. The measurement of ECLs on the Corporation's financial assets is an area that requires the use of complex models and significant assumptions and judgments that are driven by numerous factors, changes in which can result in different levels of allowances.

Elements of the ECL model that are considered accounting judgments and estimates include:

- Determining criteria for significant increase in credit risk
- Development of appropriate models and assumptions for the measurement of ECLs
- Determination of the economic variables most highly correlated to our portfolios of financial assets
- Establishing the number and relative weightings of forward-looking macroeconomic scenarios and their effect on economic inputs in the ECL model

See "Financial instruments" below for further details.

Estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions. Estimates and assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates or assumptions are revised and any future periods affected.

Provision for insurance losses

Estimating CDIC's provision for insurance losses involves significant estimation and requires Management to make assumptions. During the year ended March 31, 2019, Management reviewed and updated the methodology and assumptions included in the calculation of the provision. See Note 8 for the description of the change in accounting estimates.

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of resolving the failure of member institutions. The provision is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the exposure to losses; (ii) the expectation of default derived from probability statistics; (iii) an expected loss given default; and (iv) the Corporation's specific knowledge of its members. See "Provision for insurance losses" below for further details on how the provision is measured. See Note 8 for the Corporation's calculation of the provision for insurance losses.

Actual results in the near term could differ significantly from these estimates, including the timing and extent of losses the Corporation incurs as a result of future failures of member institutions. This could require a material adjustment to the carrying amount of the provision for insurance losses. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium rates charged to member institutions be increased or decreased, depending on the situation.

Capital assets

Capital assets, comprising property, plant and equipment, and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are measured using Management's best estimate of the period of service provided by the assets. Any changes to the useful life estimates would affect the future carrying value of the assets and the future depreciation or amortization. The carrying amounts of the Corporation's capital assets are included in Notes 6 and 7.

Employee benefits liabilities

The carrying value of employee benefits liabilities to be settled in the future depends on numerous factors that are determined on an actuarial basis using several assumptions. The Corporation consults with an external actuary annually regarding these assumptions. Any changes to these assumptions will impact the present value of these liabilities. The carrying values of employee benefits liabilities are disclosed in Note 16.

Financial instruments

The Corporation early adopted IFRS 9 *Financial Instruments: Recognition, Classification and Measurement* in November 2009 and adopted IFRS 9 *Financial Instruments: Impairment* as of April 1, 2018.

Recognition and initial measurement

All financial assets and financial liabilities are recognized initially at fair value plus directly attributable transaction costs.

Purchases of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date—that is, the date the asset is delivered to or by CDIC.

Classification

A) Financial assets

Subsequent to initial recognition, a financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is measured at fair value. All of the Corporation's investment securities meet these conditions; therefore, they are measured at amortized cost.

B) Financial liabilities

Subsequent to initial recognition, all the Corporation's financial liabilities are measured at amortized cost.

Amortized cost measurement

Amortized cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method or any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are categorized within a fair value hierarchy:

- *Level 1*—Fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*—Fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- *Level 3*—Fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For financial assets and financial liabilities that are recognized at fair value on a recurring basis, the Corporation determines whether transfers have occurred between the levels in the hierarchy by reassessing categorization at the end of each reporting period.

Identification and measurement of impairment

The adoption of IFRS 9 *Impairment* introduces an expected loss impairment model as opposed to an incurred loss model under IAS 39 for all financial assets not measured at fair value through profit or loss. The model has three stages:

- *Stage I*—On initial recognition, 12-month expected credit losses are recognized in profit or loss, and a loss allowance is established. Interest revenue is calculated on the gross carrying amount of the asset.
- *Stage II*—If credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset.
- *Stage III*—When a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

The Corporation calculates a loss allowance for expected credit losses (ECLs) on investment securities and premiums receivable that are measured at amortized cost. CDIC recognizes 12-month ECLs for financial instruments unless there has been a significant increase in credit risk since initial recognition, in which case lifetime ECLs are recognized. The amount of ECLs, if any, is updated at each reporting date to reflect changes in credit risk since initial recognition and is disclosed in Note 4 in accordance with IFRS 7 *Financial Instruments: Disclosures*.

The Corporation has incorporated forward-looking economic information into its ECLs by performing the calculation under multiple scenarios resulting in probability-weighted average ECLs based on the weightings of each scenario.

Expected credit loss approach and assessment

Investment securities

For investment securities, ECLs are the difference between all contractual cash flows that are due to the Corporation in accordance with the contract and all the cash flows CDIC expects to receive, discounted at the original effective interest rate. If a significant increase in credit risk has occurred since initial recognition, impairment is measured as lifetime ECLs. Otherwise, impairment is measured as 12-month ECLs which represent the portion of lifetime ECLs that is expected to occur based on default events that are possible within 12 months after the reporting date. If credit quality improves in a subsequent period such that the increase in credit risk since initial recognition is no longer considered significant, the loss allowance reverts back to being measured based on 12-month ECLs.

All the investment securities held by the Corporation are debt instruments, issued or guaranteed by the Government of Canada or provincial governments, with a minimum credit rating of A-. In assessing ECLs on these instruments, the Corporation has applied the simplified approach under IFRS 9 available due to their high credit quality, whereby the Corporation is not required to assess changes in credit risk but instead requires the recognition of a loss allowance based on lifetime ECLs at each reporting date, right from origination.

Premiums receivable

CDIC applies the simplified approach for premiums receivable whereby the Corporation is not required to assess changes in credit risk but instead requires the recognition of a loss allowance based on lifetime ECLs at each reporting date, right from origination. In the case of CDIC's premiums receivable, the contractual maturity would be less than one year and hence the lifetime credit loss would be measured over a 12-month period.

As the premiums are payable in two equal installments on July 15 and December 15, the Corporation recognizes premiums receivable only in the first quarter of its fiscal year and no premiums are receivable at the year end.

Amounts recoverable from estates

Amounts recoverable from estates are deemed credit-impaired assets and therefore the credit-adjusted effective interest rate approach is applied. Under this approach, a loss allowance for cumulative changes in lifetime ECLs is recognized at initial recognition. Therefore, the fair value already takes into account lifetime ECLs and there is no additional 12-month ECL allowance required. Indicators of whether an asset is credit-impaired on acquisition or origination are the same as for Stage III. At each reporting date, CDIC will update its estimated cash flows and adjust the loss allowance accordingly.

The Corporation considers investment securities and premiums receivable in default and that they be placed under Stage III when there has been a deterioration in credit quality of the obligator, to the extent that the obligator is unlikely to pay its credit obligations to CDIC in full or the obligator is past due more than 90 days on any credit obligation to CDIC, as required under IFRS 9. Amounts recoverable from estates are considered to be in default and placed under Stage III when the estate responsible for winding up declares that no further recoveries are possible.

Cash

Cash includes cash on hand and demand deposits.

Investment securities

Investment securities are debt instruments, issued or guaranteed by the Government of Canada or provincial governments. Investment securities are measured in the consolidated statement of financial position at amortized cost, plus accrued interest.

Interest income on investment securities is recognized using the effective interest method.

Amounts recoverable from estates

Amounts recoverable from estates are recoveries of losses previously written off in respect of failed member institutions. Amounts recoverable from estates are measured at amortized cost less any impairment losses, which approximates fair value.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of the year, with the effect of any changes in estimate being accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

- Leasehold improvements—the shorter of the term of the lease and the useful life of the leasehold improvement
- Furniture and equipment—five to ten years
- Computer hardware—three to five years

Depreciation expense is included in operating expenses in the consolidated statement of comprehensive income.

An item of property, plant and equipment is derecognized upon disposal or retirement when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item is determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the item is derecognized.

Items of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in operating expenses in the consolidated statement of comprehensive income.

Intangible assets

The Corporation records an internally generated intangible asset arising from the development of software once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of an application are capitalized if all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use.
- The intention to complete the intangible asset and use it.
- The ability to use the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of directly attributable costs incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are measured at cost less accumulated amortization and any impairment losses and are amortized on a straight-line basis over their estimated useful lives, which range from three to eight years. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of the year, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is included in operating expenses in the consolidated statement of comprehensive income.

An internally generated intangible asset is derecognized upon disposal or retirement when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item is determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the item is derecognized.

The Corporation considers potential indicators of impairment at the end of each reporting period. If any indication of impairment exists, the recoverable amount of the asset is estimated to determine the extent of the loss. Intangible assets that are not yet available for use are tested for impairment annually, irrespective of the presence of indicators, by comparing carrying amounts to recoverable amounts. Impairment losses are included in operating expenses in the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are measured at amortized cost in the consolidated statement of financial position. The carrying amounts of trade and other payables approximate fair value due to their short term to maturity.

Provision for insurance losses

Provisions are to be recognized when the Corporation has a present obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Corporation has a stand-ready obligation to provide insurance against the loss of part or all of deposits in a member institution and to act as the resolution authority in the event of failure. The provision for insurance losses represents the Corporation's best estimate of the consideration required to settle this obligation and is determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The estimate takes into account the risks and uncertainties surrounding the obligation.

The Corporation calculates its expected losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage of exposure to losses and it reflects: (i) the cumulative unweighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss, plus an adjustment for measurement uncertainty; and (ii) recent losses sustained in other jurisdictions. The present value of the provision is determined using a pre-tax, risk-free discount rate.

Increases to the provision for insurance losses are recognized as an expense in the consolidated statement of comprehensive income, while decreases to the provision are recognized as income in the consolidated statement of comprehensive income.

Premium revenue

Premium revenue is recognized at the fair value of the consideration received against deposit insurance services and reported as income proportionately over the fiscal year. Premiums are legislated by the *CDIC Act* and are determined annually based on the amount of insured deposits held by member institutions as at April 30 of the current fiscal year, and they are payable in two equal installments on July 15 and December 15.

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* funding relative to the minimum target level. No refunds are permitted under the *CDIC Act* except for instances of overpayment.

Other revenue

Other revenue includes payments received for services provided to other unrelated organizations, sub-lease income, certain interest income, and foreign exchange gains and losses.

Leases

Leases are classified as finance leases and recognized in the consolidated statement of financial position when the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

All of the Corporation's leases are accounted for as operating leases.

Operating leases are charged to operating expenses on a straight-line basis over the term of the lease. In the event that lease incentives are received, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of operating expenses on a straight-line basis over the term of the lease.

Public Service Pension Plan

All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Pension Plan. Consequently, contributions are recognized as an operating expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

Employee benefits

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits and death benefits. Effective September 1, 2018, the Corporation replaced its accumulating non-vesting sick leave program with a non-accumulating sick leave program, a short-term disability plan administered by a third party for up to 13 weeks of illness. The accumulated carry forward balances from the former sick leave plan can only be used after the end of the short-term disability period.

The cost of all such benefits earned by employees is actuarially determined using the projected unit credit method. The determination of the benefit expense requires the use of assumptions such as the discount rate to measure obligations, expected resignation rates and the expected rate of future compensation. The discount rate used is determined by reference to high quality corporate bonds that have terms to maturity approximating the terms of the related benefits liability. The expected rate of future compensation represents a long-term assumption and includes components for inflation, merit and promotion adjustments. Actual results may differ from estimates based on assumptions.

For all such benefits, the liability recognized in the consolidated statement of financial position is the present value of the obligation at the end of the reporting period.

With respect to the defined benefit plans, all actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in other comprehensive income and then transferred to retained earnings. Past service costs are recognized as an expense at the earlier of: (i) the date the plan amendment or curtailment occurs; and (ii) the date the Corporation recognizes related restructuring costs or termination benefits.

With respect to the other long-term employee benefits, all costs and reversals, including all actuarial gains and losses, are recognized immediately in operating expenses in the consolidated statement of comprehensive income.

Income taxes

Income tax expense represents the sum of the current and deferred tax expenses.

Current tax is recognized in net income except to the extent that it relates to items recognized in other comprehensive income or directly in equity. The tax currently payable/receivable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of comprehensive income because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and income tax laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax relating to actuarial gains and losses on defined benefit obligations is recognized directly in retained earnings as other comprehensive income.

3 – Application of new and revised International Financial Reporting Standards (IFRS)

New and revised IFRS affecting the amounts reported and/or disclosed in the consolidated financial statements

Certain IFRS were issued by the International Accounting Standards Board (IASB) that are mandatory and effective for accounting periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments (IFRS 9)

Effective April 1, 2018, CDIC has applied IFRS 9 *Financial Instruments: Impairment* and the related amendments to the other IFRS in accordance with the transition provisions set out in IFRS 9. With regard to CDIC's financial statements, the adoption of IFRS 9 has resulted in changes to the Corporation's accounting policies for the impairment of financial assets. IFRS 9 also significantly amends other standards relating to financial instruments, such as IFRS 7 *Financial Instruments: Disclosures* (IFRS 7). CDIC's revised accounting policies for financial instruments are found in Note 2 and revised disclosures for financial instruments in accordance with IFRS 7 are found in Notes 4 and 9.

As permitted by the transitional provisions of IFRS 9, CDIC elected not to restate comparative figures as there was no impact due to the adoption of IFRS 9. The accounting policies for prior period financial statements are consistent with those disclosed in CDIC's consolidated financial statements for the year ended March 31, 2018. Any adjustments to the carrying amounts of financial instruments at the date of transition were recognized in the opening retained earnings and other reserves of the current period. For note disclosures, the amendments to IFRS 7 have also been applied to the current period only and were primarily descriptive in nature.

On the date of initial application of April 1, 2018, CDIC's existing financial assets were assessed for impairment in accordance with the requirements of IFRS 9 as described in Note 2. CDIC had no impairment allowance recorded in accordance with the IFRS 9 expected loss model as at April 1, 2018.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 relates to the recognition of revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.

The Corporation adopted IFRS 15 with an initial application date of April 1, 2018. The Corporation applied IFRS 15 using the modified retrospective approach (cumulative effect method) which allows CDIC to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at April 1, 2018. There were no quantitative changes as a result of implementation and the comparative information has not been restated and continues to be reported under IAS 18 *Revenue* (IAS 18).

New and revised IFRS issued but not yet effective

IFRS 16 Leases (IFRS 16)

IFRS 16 was issued in January 2016. It specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, and IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17 *Leases*. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted. Either a full or modified retrospective application is required.

CDIC will adopt the standard effective April 1, 2019. On initial application, the amount of lease liabilities is estimated to be $13,997 thousand and the amount of right-of-use assets is estimated to be $13,263 thousand, with a corresponding adjustment to retained earnings for leases extending up to September 2030.

IFRS 17 Insurance Contracts (IFRS 17)

IFRS 17 was issued in May 2017 and establishes recognition, measurement, presentation and disclosure requirements of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021. The Corporation is evaluating the potential impact of this new standard on its consolidated financial statements; therefore, the impact is not known at this time.

4 – Investment securities

As at March 31, 2019 (C$ thousands)	Remaining term to maturity 90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	20,979	—	—	20,979
Weighted average effective yield (%)	1.65	—	—	1.65
Bonds	204,554	838,733	3,969,549	5,012,836
Weighted average effective yield (%)	1.57	1.08	1.64	1.55
Total investment securities	**225,533**	**838,733**	**3,969,549**	**5,033,815**
Weighted average effective yield (%)	**1.58**	**1.08**	**1.64**	**1.55**

As at March 31, 2018 (C$ thousands)	Remaining term to maturity 90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	28,661	—	—	28,661
Weighted average effective yield (%)	1.11	—	—	1.11
Bonds	120,900	715,069	3,507,950	4,343,919
Weighted average effective yield (%)	1.26	1.49	1.24	1.28
Total investment securities	**149,561**	**715,069**	**3,507,950**	**4,372,580**
Weighted average effective yield (%)	**1.23**	**1.49**	**1.24**	**1.28**

The carrying amounts in the above tables include accrued interest.

Fair value of financial instruments

The following table provides the estimated fair value of the Corporation's financial instruments. Fair values are measured and disclosed in relation to the fair value hierarchy (as discussed in Note 2) that reflects the significance of inputs used in determining the estimates.

As at March 31, 2019 (C$ thousands)	Amortized cost	Unrealized (losses) gains	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	20,979	(3)	20,976	—	—	20,976
Bonds	5,012,836	10,823	3,969,551	1,054,108	—	5,023,659
Total investment securities	**5,033,815**	**10,820**	**3,990,527**	**1,054,108**	**—**	**5,044,635**

As at March 31, 2018 (C$ thousands)	Amortized cost	Unrealized losses	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	28,661	(3)	28,658	—	—	28,658
Bonds	4,343,919	(63,875)	3,610,270	669,774	—	4,280,044
Total investment securities	**4,372,580**	**(63,878)**	**3,638,928**	**669,774**	**—**	**4,308,702**

The Corporation's total investment income for financial assets measured at amortized cost was $66,545 thousand for the year ended March 31, 2019 (2018: $46,201 thousand). The Corporation did not recognize any fee income or expense for its financial assets measured at amortized cost for the year ended March 31, 2019 (2018: nil).

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. No transfers occurred during the year ended March 31, 2019 (2018: nil).

The Corporation did not record any loss allowances on its investment securities at March 31, 2019 (2018: nil).

5 – Recovery of amounts previously written off

During the year ended March 31, 2019, ACC, the structured entity controlled by the Corporation, did not recognize any recovery in relation to amounts previously written off (2018: $628 thousand). As at March 31, 2019, $6 thousand remains receivable (2018: $6 thousand). ACC is in the process of winding down its litigation and administration activities. There may be additional immaterial final recoveries from the estate upon dissolution.

During the year ended March 31, 2019, CDIC received $517 thousand as final distribution from the liquidator of Standard Trust Company, a member institution that failed in 1991, and recognized a $441 thousand (2018: nil) recovery in relation to amounts previously written off. As at March 31, 2019, no amount has been recorded as receivable from the estate of Standard Trust Company in the consolidated statement of financial position (2018: $76 thousand). There may be additional immaterial final recoveries from the estate upon dissolution.

6 – Property, plant and equipment

(C$ thousands)	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance, March 31, 2017	**3,271**	**1,517**	**5,726**	**10,514**
Additions	333	24	13	370
Retirements and disposals	—	—	(1,330)	(1,330)
Balance, March 31, 2018	**3,604**	**1,541**	**4,409**	**9,554**
Additions	127	—	—	127
Retirements and disposals	—	(3)	—	(3)
Balance, March 31, 2019	**3,731**	**1,538**	**4,409**	**9,678**
Accumulated depreciation				
Balance, March 31, 2017	**2,631**	**726**	**2,209**	**5,566**
Depreciation	294	138	431	863
Retirements and disposals	—	—	(657)	(657)
Balance, March 31, 2018	**2,925**	**864**	**1,983**	**5,772**
Depreciation	225	150	342	717
Balance, March 31, 2019	**3,150**	**1,014**	**2,325**	**6,489**
Carrying amounts				
Balance, March 31, 2018	679	677	2,426	3,782
Balance, March 31, 2019	**581**	**524**	**2,084**	**3,189**

During the year ending March 31, 2018, the Corporation derecognized items of property, plant and equipment for which no future economic benefits were expected to arise from the continued use of the assets. As a result, the Corporation recognized a loss on disposal of $673 thousand in operating expenses in the consolidated statement of comprehensive income. No such disposals were made during the year ending March 31, 2019.

7 – Intangible assets

(C$ thousands)	Computer software	Computer software under development	Total
Cost			
Balance, March 31, 2017	**10,442**	**—**	**10,442**
Additions—internal development	1,268	111	1,379
Balance, March 31, 2018	**11,710**	**111**	**11,821**
Additions—internal development	1,130	127	1,257
Balance, March 31, 2019	**12,840**	**238**	**13,078**
Accumulated amortization			
Balance, March 31, 2017	**6,570**	**—**	**6,570**
Amortization	1,195	—	1,195
Balance, March 31, 2018	**7,765**	**—**	**7,765**
Amortization	1,429	—	1,429
Balance, March 31, 2019	**9,194**	**—**	**9,194**
Carrying amounts			
Balance, March 31, 2018	3,945	111	4,056
Balance, March 31, 2019	**3,646**	**238**	**3,884**

The carrying amount of computer software as at March 31, 2019, consists primarily of the Regulatory Reporting System (RRS) and mandate applications. The carrying amount for RRS as at March 31, 2019, was $1,109 thousand, with a remaining amortization period of 1.5 years (2018: $1,815 thousand, with a remaining amortization period of 2.5 years). The carrying amount for mandate applications as at March 31, 2019, was $2,072 thousand, with a remaining amortization period of four years (2018: $1,388 thousand, with a remaining amortization period of five years).

8 – Provision for insurance losses

The provision for insurance losses represents CDIC's best estimate of the future outflow of economic benefits resulting from the Corporation's object to insure deposits held by member institutions in the event of failure. The estimate is based on an expected loss calculation and is subject to uncertainty surrounding amount and timing of losses. As such, actual losses may differ significantly from estimates.

During the year ended March 31, 2019, Management reviewed and updated the methodology and assumptions used in the expected loss calculation, including: (i) the exposure to losses; (ii) the expectation of default derived from probability statistics; and (iii) an expected loss given default. The methodology review included an assessment of changes to CDIC's objects, new internal risk ratings and overall industry best practices. There is no difference in the provision for insurance losses between using the updated assumptions and the prior assumptions as at March 31, 2019. The impact on future periods has not been determined and is therefore not practical to estimate.

Changes in the provision for insurance losses are summarized as follows:

As at March 31 (C$ thousands)	**Provision for insurance losses**
Balance, March 31, 2018	**2,050,000**
Changes in provision	—
Balance, March 31, 2019	**2,050,000**

The provision for insurance losses is calculated at its present value using a pre-tax, risk-free discount rate. The discount rate used in the calculation of the provision at March 31, 2019, was 1.52% (2018: 1.96%). Discount rate sensitivity analysis is performed by the Corporation as its impact on the provision for insurance losses is considered significant. An increase of 100 basis points in the discount rate will decrease the provision by $99 million (2018: $97 million) while a decrease of 100 basis points in the discount rate will increase the provision by $105 million (2018: $103 million).

9 – Financial instruments and financial risk management

Classification and measurement of financial instruments

The table below sets out the carrying amounts of the Corporation's financial assets and financial liabilities, all of which are measured at amortized cost in accordance with IFRS 9.

As at March 31 (C$ thousands)	**2019**	**2018**
Cash	2,190	1,581
Investment securities	5,033,815	4,372,580
Trade and other receivables	502	215
Amounts recoverable from estates	6	82
Financial assets	**5,036,513**	**4,374,458**
Trade and other payables	5,800	6,059
Financial liabilities	**5,800**	**6,059**

See Note 4 for additional information on the maturity and composition of the Corporation's investment securities.

Fair value of financial instruments

With the exception of investment securities, the carrying amounts of the Corporation's financial instruments measured at amortized cost approximate their fair values. The fair values of the Corporation's investment securities are disclosed in Note 4.

Financial risk management objectives

The Corporation's assets consist primarily of its investment securities. CDIC's investment strategy is based on two key principles: the availability of the investment portfolio as a funding source for intervention activities; and limiting credit and market risk to preserve principal. 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 responsibilities of the Board of Directors.

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 to CDIC, whether on- or off-balance sheet. CDIC's maximum exposure to credit risk is the carrying amount of cash, investment securities, amounts recoverable from estates, and trade and other receivables held in the consolidated statement of financial position. None of the trade and other receivables are past due.

CDIC's *Board 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 transact with respect to 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 the obligations of the Government of Canada and agent Crowns and the obligations of provincial governments or municipal financing authorities. Risk is further limited by setting a maximum amount for each investment. In addition, 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 securities by credit rating.

Credit rating *As at March 31 (C$ thousands)*	**2019**	**2018**
AAA	4,385,778	4,086,722
AA	10,779	25,100
AA-	366,027	138,901
A+	271,231	121,857
Total investment securities	**5,033,815**	**4,372,580**

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.

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 payouts of insured deposits in the case of a member institution failure or to provide financial assistance for other member intervention activities. 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 (annually) and performance against approved limits (quarterly).

The *Board Liquidity Risk Policy* sets out, among other things, Management's responsibilities in managing the Corporation's portfolio of investment securities while respecting, first, the parameters established under all the financial risk policies, and, second, 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. CDIC currently may borrow up to $23 billion (2018: $23 billion), subject to ministerial approval. In addition, if existing borrowing authorities are insufficient, CDIC could apply to Parliament, through an appropriation act. Further borrowing could be provided through the *Financial Administration Act*, if necessary, to promote the stability or maintain the efficiency of the financial system in Canada. No amounts had been borrowed as at March 31, 2019 and 2018. Under the *Budget Implementation Act, 2009*, the borrowing limit is adjusted annually to reflect the growth of insured deposits. The Corporation's exposure to liquidity risk therefore is insignificant.

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 portfolio of investment securities. CDIC's main exposure to market risk is through interest rate risk.

Interest rate risk

The Corporation accounts for its investment securities at amortized cost but obtains fair market values for the investment securities on a daily basis for disclosure and financial risk management purposes. As a result, the Corporation obtains a clear picture of the impact of changes in interest rates on the market value of its investment securities. The difference between the amortized cost of its investment securities and their fair market value is disclosed in Note 4 of these consolidated financial statements. Movement in interest rates can have a significant impact on the Corporation's consolidated financial statements, specifically on its investment income due to the size of its portfolio of investment securities and the relative importance of the revenue it generates. CDIC manages its interest rate exposures with the objective of enhancing interest income within established risk tolerances while adhering to approved policies. Interest rate shock analyses are performed on a regular basis on the Corporation's investment securities to evaluate the impact of possible interest rate fluctuations on market value.

Other financial assets exposed to interest rate risk include cash which is held at short-term interest rates. Such exposure is not significant.

The following table shows how after-tax net income would have been affected by a 100 basis point increase or by a 25 basis point decrease in interest rates based on the investment portfolios at the end of each corresponding fiscal year. There have been no changes to the methods or assumptions used in this sensitivity analysis from the previous year.

	Increase (decrease) in net income	
For the year ended March 31 (C$ thousands)	**2019**	**2018**
100 basis point increase	3,377	2,809
25 basis point decrease	(844)	(702)

Currency risk and other price risks

The *Board Market Risk Policy* sets out, among other things, Management's responsibility not to 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. Therefore, the Corporation's exposure to foreign exchange risks and other price risks is insignificant.

10 – Capital management

The Corporation's capital is comprised of *ex ante* funding. CDIC is not subject to externally imposed capital requirements. There has been no change in what the Corporation considers as capital and management of capital was performed on a basis consistent with that of the preceding year.

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 retained earnings and its provision for insurance losses. As at March 31, 2019, the minimum target for the *ex ante* funding is 100 basis points of insured deposits.

The Corporation has not yet achieved the target for capital as determined by the *ex ante* funding process. The primary mechanism used to manage the level of capital is premium rates.

Ex ante funding

	Actual		Target
As at March 31 (C$ thousands)	**2019**	**2018**	**2019**
Retained earnings	2,985,326	2,322,341	
Provision for insurance losses	2,050,000	2,050,000	
Total *ex ante* funding	**5,035,326**	**4,372,341**	**8,073,981**
Total basis points of insured deposits	**62**	**55**	**100**

11 – Income taxes

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest income. 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 and the change in the provision for insurance losses is not deductible for tax purposes. In addition, recoveries of amounts previously written off are not taxable since the Corporation did not previously claim a deduction for tax purposes.

The following table sets out details of income tax expense recognized in net income.

For the year ended March 31 (C$ thousands)	**2019**	**2018**
Current income tax:		
Current income tax expense	5,739	541
Adjustments in respect of current income tax of previous years	(42)	(50)
Deferred tax:		
Relating to the origination (reversal) of temporary differences	292	(272)
Income tax expense recognized in net income	**5,989**	**219**

The following table presents a reconciliation of the Corporation's recognized income tax expense to income tax expense based on the Canadian federal tax rate.

For the year ended March 31 (C$ thousands)	**2019**	**2018**
Net income before income taxes	669,000	86,566
Expected income tax at the 25% federal tax rate (2018: 25%)	167,250	21,642
Non-deductible adjustments:		
Premium revenue	(161,144)	(133,831)
Increase in non-deductible provision for insurance losses	—	112,500
Recovery of amounts previously written off	(110)	(157)
Other	(7)	65
Income tax expense recognized in net income	**5,989**	**219**

The tax effects of temporary differences that gave rise to deferred assets and liabilities during the years ended March 31, 2019 and 2018, are as follows:

As at March 31, 2019 (C$ thousands)	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
Deferred tax assets				
Lease incentives	212	(28)	—	184
Remuneration payable	60	(19)	—	41
Defined benefit obligations	256	(55)	9	210
Other long-term employee benefits	274	(274)	—	—
Non-deductible reserves	—		—	—
Deferred tax liabilities				
Property, plant and equipment, and intangible assets	(822)	84	—	(738)
Net deferred tax liability	**(20)**	**(292)**	**9**	**(303)**

As at March 31, 2018 (C$ thousands)	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
Deferred tax assets				
Lease incentives	240	(28)	—	212
Remuneration payable	74	(14)	—	60
Defined benefit obligations	270	(9)	(5)	256
Other long-term employee benefits	240	34	—	274
Non-deductible reserves	7	(7)	—	—
Deferred tax liabilities				
Property, plant and equipment, and intangible assets	(1,118)	296	—	(822)
Net deferred tax liability	**(287)**	**272**	**(5)**	**(20)**

12 – Premium revenue

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 the 2018/2019 fiscal year are as follows:

Premium category *(basis points of insured deposits)* *For the year ended March 31*	**2019**	**2018**
Category 1	7.5	6.5
Category 2	15.0	13.0
Category 3	30.0	26.0
Category 4	33.3	33.3

Premium revenue of $644,576 thousand was recorded during the year ended March 31, 2019 (2018: $535,322 thousand). Premium revenue is higher year over year due to an increase in premium rates, changes in the categorization of certain member institutions, the addition of new member institutions and an increase in total insured deposits held at member institutions.

13 – Operating expenses

For the year ended March 31 (C$ thousands)	**2019**	**2018**
Salaries and other personnel costs	20,483	23,264
Professional and other fees	5,006	3,946
Premises	3,806	3,751
General expenses	3,435	4,879
Public awareness	5,431	5,349
Depreciation and amortization	2,146	2,058
Data processing	2,438	2,509
	42,745	45,756
Expense recoveries from related parties*	(152)	(164)
Total operating expenses	**42,593**	**45,592**

*The Corporation provides call centre services on a cost recovery basis to the Office of the Superintendent of Financial Institutions (OSFI) through an outsourcing arrangement with a third party. There are no significant outstanding balances owed to the Corporation in relation to these transactions as at March 31, 2019.

14 – Related party disclosures

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of ACC, a structured entity controlled by the Corporation. Balances and transactions between the Corporation and ACC have been eliminated on consolidation and are not disclosed in this Note.

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.

During the year ended March 31, 2019, CDIC recognized an amount of $2,005 thousand (2018: $2,773 thousand) against pension expenses paid into the Public Service Pension Plan. All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. See Note 16 for further details.

CDIC, OSFI and the Bank of Canada jointly developed the Regulatory Reporting System (RRS), a system hosted by the Bank of Canada and used for collecting financial data from federally regulated financial institutions. Each of these three parties control the system and contribute to its operating costs equally. These operational costs are not significant and no expenses were capitalized during the year.

Key Management personnel

Key Management personnel include all members of the Board of Directors and Executive officers who have the authorities and responsibilities for planning, directing and controlling the activities of the Corporation.

Compensation of key Management personnel was as follows:

For the year ended March 31 (C$ thousands)	2019	2018
Wages, bonuses and other short-term benefits	2,163	2,394
Post-employment benefits	399	924
Other long-term benefits	—	21
Total key Management personnel remuneration	**2,562**	**3,339**

15 – Contingencies and commitments

There were no claims pending against the Corporation as at March 31, 2019.

The Corporation leases office space in Ottawa and Toronto. The lease of office space in Ottawa ends in September 2030, with one renewal option for a five-year term. The lease of office space in Toronto ends in October 2021, with an option to renew for an additional five years.

Minimum lease payments recognized as an expense for the year ended March 31, 2019, totalled $1,760 thousand (2018: $1,655 thousand).

The following table shows future aggregate minimum lease payments (exclusive of other occupancy costs) under non-cancellable operating leases.

As at March 31 (C$ thousands)	2019	2018
Not later than one year	1,667	1,727
Later than one year and not later than five years	5,472	2,713
Later than five years	8,306	—
Total	**15,445**	**4,440**

As at March 31, 2019, CDIC had commitments of $806 thousand in relation to the development of internally generated assets (2018: $340 thousand).

The Corporation has various other contractual agreements for services. As at March 31, 2019, these future commitments are $13,482 thousand in total (2018: $9,935 thousand).

16 – Employee benefits

For the year ended March 31 (C$ thousands)	2019	2018
Defined benefit obligations	1,524	1,707
Other long-term employee benefits*	—	1,097
Employee benefits	**1,524**	**2,804**

*Effective September 1, 2018, the Corporation changed its sick leave program from accumulating to non-accumulating resulting in the reversal of the amount accrued as sick leave liability.

The Corporation's employees receive a number of employee benefits, including membership in the Public Service Pension Plan and defined benefit plans.

Public Service Pension Plan

All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established and governed by the *Public Service Superannuation Act* and sponsored by the Government of Canada. Pension benefits are based on salary, pensionable service, age and reason for termination. Contributions to the Pension Plan are required from both the employees and the Corporation. As required under present legislation, the contributions made by the Corporation to the Pension Plan are 3.79 times (2018: 3.2 times) the employees' contribution on amounts of salaries in excess of $169 thousand (2018: $165 thousand). For amounts on salaries below $169 thousand (2018: $165 thousand), the Corporation's contribution rate is 1.01 times for employment start dates before January 1, 2013, and 1.00 times for employment start dates after January 1, 2013 (2018: 1.01 times for start dates before January 1, 2013, and 1.00 times for start dates after January 1, 2013).

For employees with employment start dates before January 1, 2013, an unreduced pension benefit can be received at age 60 with at least two years of pensionable service (or at age 55 with 30 years of service). For employees with employment start dates after December 31, 2012, an unreduced pension benefit can be received at age 65 with at least two years of pensionable service (or at age 60 with 30 years of service).

In the consolidated financial statements of the Corporation, the Pension Plan is treated as a defined contribution plan. The Corporation's expense in relation to the Pension Plan is provided in Note 14. The estimated expense for fiscal 2019/2020 is $2,419 thousand. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Pension Plan to CDIC; the only obligation of the Corporation with respect to the Pension Plan is to make the specified contributions.

Defined benefit plans

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits and death benefits.

Retirement benefits are provided by the Corporation to certain employees upon retirement based on years of service and final salary. Resignation benefits are provided to certain employees with 10 or more years of continuous employment with the Corporation. The death benefit plan provides a lump sum payment based on salary at the time of death. These benefit plans are unfunded, require no contributions from employees and thus have no assets. The benefit plans have a plan deficit equal to the accrued benefit liability. Benefits will be paid from the Corporation's operations.

The most recent actuarial valuation of the unfunded obligations, and the related current service cost and past service cost, was carried out as at March 31, 2019, by an independent actuary, using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows:

For the year ended March 31	**2019**	**2018**
Discount rate	3.16%	3.36%
Rate of compensation increase:		
Fiscal 2018/2019	1.0% + merit	1.0% + merit
Fiscal 2019/2020	2.0% + merit	1.0% + merit
Thereafter	2.0% + merit	1.0% + merit

The following table shows amounts recognized in operating expenses in respect of these defined benefit plans.

For the year ended March 31 (C$ thousands)	**2019**	**2018**
Current service cost	114	112
Interest on obligation	53	55
Defined benefit obligations expense	**167**	**167**

The expense for the year is included in operating expenses as salaries and other personnel costs. The following table shows cumulative actuarial gains and losses recognized in other comprehensive income and then transferred to retained earnings.

(C$ thousands)	**Actuarial gains (losses)**
Cumulative amount at March 31, 2017	**432**
Recognized during the period	20
Cumulative amount at March 31, 2018	**452**
Recognized during the period	(35)
Cumulative amount at March 31, 2019	**417**

The amount included in the statement of financial position for defined benefit obligations is equivalent to the present value of the unfunded defined benefit obligations. The following table presents movements in the present value of the defined benefit obligations.

(C$ thousands)	**Defined benefit obligations**
Balance, March 31, 2017	**1,737**
Current service cost	112
Interest cost	55
Benefit payments	(177)
Actuarial gain arising from changes in demographic assumptions	(4)
Actuarial gain arising from changes in financial assumptions	(16)
Balance, March 31, 2018	**1,707**
Current service cost	114
Interest cost	53
Benefit payments	(385)
Actuarial gain arising from changes in demographic and other assumptions	(142)
Actuarial loss arising from changes in financial assumptions	177
Cumulative amount at March 31, 2019	**1,524**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below.

As at March 31 (C$ thousands)	**2019**	**2018**
Increase (decrease) in defined benefit obligations		
Effect of an increase of 1%:		
Discount rate	(142)	(137)
Rate of compensation increase	174	170
Effect of a decrease of 1%:		
Discount rate	165	159
Rate of compensation increase	(152)	(149)

The sensitivity analysis presented above has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as that applied in calculating the defined benefit obligations recognized in the statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligations as some of the assumptions may be correlated.

There was no change from prior years in the methods and assumptions used in preparing the sensitivity analysis.

As at March 31, 2019, the weighted average duration of the defined benefit obligations was 10.4 years (2018: 8.9 years).

17 – Events after the reporting period

On April 3, 2019, the coming into force dates were announced for amendments to the *CDIC Act*. These amendments will modernize and enhance the Canadian deposit insurance framework to better protect depositors and support the ongoing stability of the financial system in Canada. They will include changes to the coverage of eligible deposits that will impact CDIC's exposure to losses in the calculation of the provision for insurance losses. The coming into force dates will be in two phases—on April 30, 2020, and April 30, 2021. The impact to the provision for insurance losses is currently not known and is therefore not practical to estimate.

WE PROTECT YOUR
ADVENTURE
MONEY

PART 3 – CORPORATE GOVERNANCE

CDIC is committed to a strong governance framework. This section of our *Annual Report* presents information about the CDIC Board of Directors, including its committees and Director attendance, and outlines how CDIC works to meet public service expectations in the area of good governance.

More about governance

For additional information on how CDIC is governed, including information about Board and committee charters and Directors, please visit our website at **www.cdic.ca**.

Board of Directors

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 Commissioner of the Financial Consumer Agency of Canada (FCAC), the Superintendent of Financial Institutions, and a Deputy Superintendent of Financial Institutions or another officer of the Office of the Superintendent of Financial Institutions (OSFI) appointed by the Minister of Finance).

CDIC's Board of Directors oversees the strategic direction of the Corporation and ensures that significant business risks are identified and well-managed. The Board's commitment to effective stewardship and its overall mandate are outlined in its charter. An overview of the composition of CDIC's Board of Directors and of its supporting committees follows.

Board of Directors composition

as at March 31, 2019

Robert O. Sanderson
Chair
Joined: June 2016
Re-appointed as Chair for a two-year term, effective December 14, 2017

Private sector Directors

George Burger
Business Executive
Toronto, Ontario
Joined: November 2010
Re-appointed June 2014 for a three-year term

Linda Caty
Lawyer
Carignan, Québec
Joined: June 2018
Appointed for a two-year term expiring on June 20, 2020

Johanne Charbonneau
Financial Executive
Ottawa, Ontario
Joined: June 2018
Appointed for a four-year term expiring on June 20, 2022

David Dominy
Business Executive
Edmonton, Alberta
Joined: June 2018
Appointed for a four-year term expiring on June 20, 2022

Susan Hicks
Business Executive
Moncton, New Brunswick
Joined: February 2015
Appointed for a three-year term

Andrew Kriegler
Financial Executive
Toronto, Ontario
Joined: September 2018
Appointed for a four-year term expiring on September 6, 2022

Wendy Millar
Financial Executive
Oakville, Ontario
Joined: June 2018
Appointed for a four-year term expiring on June 20, 2022

Éric Pronovost
Chartered Professional Accountant
Trois-Rivières, Québec
Joined: September 2008
Re-appointed February 2015 for a two-year term

Shelley M. Tratch
Lawyer
Vancouver, British Columbia
Joined: December 2006
Re-appointed February 2013 for a three-year term

Angela Tu Weissenberger
Economist
Calgary, Alberta
Joined: June 2012
Re-appointed effective June 2015 for a three-year term

J. Martin Castonguay
Chartered Professional Accountant
Montréal, Québec
Joined: May 2019
Appointed for a four-year term expiring on May 20, 2023

Names in bold denote Board members as at March 31, 2019.
Name in italics denotes Board member appointed after March 31, 2019.

Ex officio *Directors*

Stephen Poloz
Governor
Bank of Canada
Joined: June 2013
Appointed for a seven-year term

Paul Rochon
Deputy Minister
Department of Finance
Joined: April 2014
Appointed to hold office during pleasure

Lucie Tedesco
Commissioner
Financial Consumer Agency
of Canada
Joined: June 2013
Appointed for a five-year term;
appointment extended to June 1, 2019

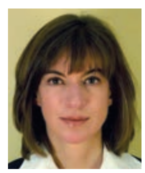
Jeremy Rudin
Superintendent of
Financial Institutions
Office of the Superintendent
of Financial Institutions
Joined: June 2014
Appointed for a seven-year term

Jamey Hubbs
Assistant Superintendent
Deposit-taking Supervision Sector
Office of the Superintendent
of Financial Institutions
Joined: April 2015
Appointed pursuant to s. 5(1)(b.1)
of the CDIC Act

Alternates (for ex officio *Directors)*

Sylvain Leduc
Deputy Governor
Bank of Canada
Designated Alternate: May 2016

Paul Beaudry
Deputy Governor
Bank of Canada
Designated Alternate: February 2019



Leah Anderson
Assistant Deputy Minister
Financial Sector Policy Branch
Department of Finance
Designated Alternate: December 2016

Names in bold denote Board members as at March 31, 2019.

Board committees

Three standing committees supported the Board in its activities throughout 2018/2019: the Audit Committee, the Governance and Nominating Committee, and the Human Resources and Compensation Committee. In March 2019, the Board reorganized the committee structure to reflect changes in CDIC's mandate and the environment in which it works. The new committee structure consists of: the Audit Committee, a new Risk Committee, and the merger of the Governance and Nominating Committee and the Human Resources and Compensation Committee to form the Governance and Human Resources Committee.

Audit Committee*

Mandate

The Audit Committee oversees internal and external audits and Enterprise Risk Management, and advises the Board on financial issues, including the review and approval of quarterly financial reports, and the review of the Management's Discussion and Analysis section of CDIC's *Annual Report* (which includes the consolidated financial statements).

*Composition***

- **J. Charbonneau (Chair)**—Member and Chair since August 2018
- É. Pronovost (Chair)—Member from September 2008 and Chair from June 2009 to June 2018
- G. Burger—Member from January 2011 to June 2018
- **D. Dominy**—Member since August 2018
- S. Hicks—Member from April 2015 to June 2018
- **J. Hubbs**—Member since May 2015
- **A. Kriegler**—Member since September 2018
- W. Millar—Member from August 2018 to March 2019
- **L. Tedesco**—Member since March 2019
- A. Tu Weissenberger—Member from June 2012 to September 2018
- J.M. Castonguay—Member since June 2019

*By a resolution of the Board of Directors dated March 6, 2019, the mandate of the Audit Committee was amended such that it is responsible for assisting with the Board's oversight of: the integrity of CDIC's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of CDIC's internal audit function; and the performance of any special examinations pursuant to the *Financial Administration Act.*

**__Names in bold__ denote current committee members as at March 31, 2019. Ms. Charbonneau resigned from the Board of Directors effective April 18, 2019, and ceased to be Chair of the Audit Committee. Mr. Kriegler was appointed as Chair of the Audit Committee effective April 25, 2019. Ms. Tedesco ceased to be a member of the Audit Committee effective May 31, 2019. Mr. Castonguay was appointed as a member of the Audit Committee effective June 5, 2019.

Governance and Nominating Committee*

Mandate

The Governance and Nominating Committee ensures that appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities, including Director succession and the Corporation's public awareness strategy and plan, and to review any matter referred to it by any of the Board, the Chairperson, or the President and CEO that would not be considered within the mandate of any other committee of the Board.

Composition

- D. Dominy (Chair)—Member and Chair from August 2018 to March 2019
- G. Burger (Chair)—Member from January 2011 and Chair from October 2015 to June 2018
- L. Caty—Member from August 2018 to March 2019
- J. Rudin—Member from September 2018 to March 2019
- R.O. Sanderson—Member from June 2016 to March 2019
- L. Tedesco—Member from October 2013 to March 2019
- S.M. Tratch—Member from January 2007 to June 2018

Human Resources and Compensation Committee*

Mandate

The Human Resources and Compensation Committee reviews and advises the Board on human resource issues including: Chief Executive Officer (CEO) performance management, succession planning, compliance with standards of business conduct and ethics, statutory requirements, and compensation.

Composition

- W. Millar (Chair)—Member from August 2018 and Chair from September 2018 to March 2019
- S.M. Tratch (Chair)—Member from January 2007 and Chair from February 2008 to June 2018
- L. Caty—Member from August 2018 to March 2019
- J. Charbonneau—Member from August 2018 to March 2019
- S. Poloz—Member from September 2014 to March 2019
- R.O. Sanderson—Member from June 2016 to March 2019
- A. Tu Weissenberger—Member from June 2012 to September 2018

*The Governance and Nominating Committee and the Human Resources and Compensation Committee merged to form the Governance and Human Resources Committee by a resolution of the Board of Directors dated March 6, 2019.

Governance and Human Resources Committee*

Mandate

The Governance and Human Resources Committee assists with the Board's oversight of: corporate governance issues affecting CDIC; ensuring that appropriate processes, structures and information necessary for effective direction are in place to contribute to the success of CDIC; the succession of the Board Chairperson and non-*ex officio* Directors; the succession of the President and CEO and senior Management; the review and recommendation of annual objectives for, and the performance and annual evaluation of, the President and CEO; and key human resources and compensation policies, processes and strategies, including policies and processes relating to employee business conduct and ethical behaviour.

Composition

- **D. Dominy (Chair)**—Member and Chair since March 2019
- **L. Caty**—Member since March 2019
- **W. Millar**—Member since March 2019
- **J. Rudin**—Member since March 2019
- **R.O. Sanderson**—Member since March 2019

Risk Committee**

Mandate

The Risk Committee assists with the Board's oversight of CDIC's Enterprise Risk Management framework as well as CDIC's identification, assessment, management and recording of key risks, including financial, operational, reputational and strategic risks, which could impact CDIC's ability to carry out its mandate.

Composition

- **W. Millar (Chair)**—Member and Chair since March 2019
- **L. Caty**—Member since March 2019
- **J. Charbonneau**—Member since March 2019***
- **J. Hubbs**—Member since March 2019
- **A. Kriegler**—Member since March 2019
- **S. Poloz**—Member since March 2019

* The Governance and Human Resources Committee was created by a resolution of the Board of Directors dated March 6, 2019.

** The Risk Committee was created by a resolution of the Board of Directors dated March 6, 2019.

*** Ms. Charbonneau resigned from the Board of Directors effective April 18, 2019, and ceased to be a member of the Risk Committee.

Board and committee meetings and attendance

(April 1, 2018 to March 31, 2019)

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

		Board committees[a]		
	Board of Directors	Audit Committee[d]	Governance and Nominating Committee	Human Resources and Compensation Committee
Number of meetings[b]	7[c]	7	4	5
Attendance				
Private sector Directors				
R.O. Sanderson—Chair	7	7	4	5
L. Caty[e]	5		3	3
J. Charbonneau[f]	6	6		2
D. Dominy[g]	6	5	3	
W. Millar[h]	6	5		3
A. Kriegler[i]	5	3		
J.M. Castonguay[j]				
***Ex officio* Directors (Alternates)**				
Bank of Canada: S. Poloz (P. Beaudry)[k]	7 (1)			5
Department of Finance: P. Rochon (L. Anderson)	0 (7)			
Financial Consumer Agency of Canada: L. Tedesco	6		3	
Superintendent of Financial Institutions: J. Rudin[l]	6		1	
Office of the Superintendent of Financial Institutions—Second Director: J. Hubbs	6	5		
Directors who departed during the year				
Bank of Canada: S. Leduc[m]	0			
G. Burger	1	1	1	
S. Hicks	1	1		
É. Pronovost	1	1		
S.M. Tratch	1		1	2
A. Tu Weissenberger	1	2		2

a The Risk Committee and the Governance and Human Resources Committee were created on March 6, 2019, and did not meet during the 2018/2019 fiscal year.
b Also includes meetings attended by telephone.
c Includes Board Tabletop Simulation Session.
d The Chair is invited to Audit Committee meetings but is not a Committee member.
e Appointed to the Board of Directors effective June 21, 2018; joined Governance and Nominating Committee and Human Resources and Compensation Committee effective August 1, 2018.
f Appointed to the Board of Directors effective June 21, 2018; joined Audit Committee and Human Resources and Compensation Committee effective August 1, 2018. Ms. Charbonneau resigned from the Board of Directors effective April 18, 2019.
g Appointed to the Board of Directors effective June 21, 2018; joined Audit Committee and Governance and Nominating Committee effective August 1, 2018.
h Appointed to the Board of Directors effective June 21, 2018; joined Audit Committee effective August 1, 2018; joined the Human Resources and Compensation Committee effective September 21, 2018.
i Appointed to the Board of Directors effective September 7, 2018; joined Audit Committee effective September 21, 2018.
j Appointed to the Board of Directors effective May 21, 2019; joined Audit Committee effective June 5, 2019.
k P. Beaudry was designated as Alternate for the Governor of the Bank of Canada, effective February 18, 2019.
l Joined Governance and Nominating Committee effective September 21, 2018.
m S. Leduc ceased to be an Alternate, effective July 13, 2018.

Directors' fees

In 2018/2019, private sector Directors' fees for the performance of their services totalled $231,836 (compared to $208,220 in 2017/2018).

Executive Team

CDIC's Executive Team is comprised of its President and Chief Executive Officer (CEO), along with four corporate officers. The President and CEO is appointed by the Governor in Council, which also approves compensation for this position. CEO performance objectives are set and evaluated annually by the Board of Directors and submitted to the Minister of Finance. Officers are appointed by the Board of Directors. The Board also approves the salary range for these individuals. CDIC's officers, as of March 31, 2019, are set out below.

Peter D. Routledge*
President and CEO

Dean A. Cosman**
Executive Vice-President, Insurance and Risk Assessment and Chief Risk Officer

Michael Mercer**
Senior Vice-President, Resolution

Anthony Carty**
Vice-President, Finance and Administration, and Chief Financial Officer

Chantal M. Richer
Vice-President, Corporate Affairs, General Counsel and Corporate Secretary

Treasury Board directive on travel, hospitality, conference and event expenditures

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that is consistent with its legal obligations. The Corporation is in compliance with the directive.

*Ms. Michèle Bourque held the office of President and Chief Executive Officer until her retirement effective June 18, 2018. Mr. Dean A. Cosman held the office of Interim President and Chief Executive Officer for the period of June 19, 2018, to November 11, 2018. Mr. Peter D. Routledge was appointed as President and Chief Executive Officer for a term of five years effective November 12, 2018.

**Effective April 1, 2019, CDIC's operational divisions were restructured and the titles of certain Executive Team members were changed as follows:

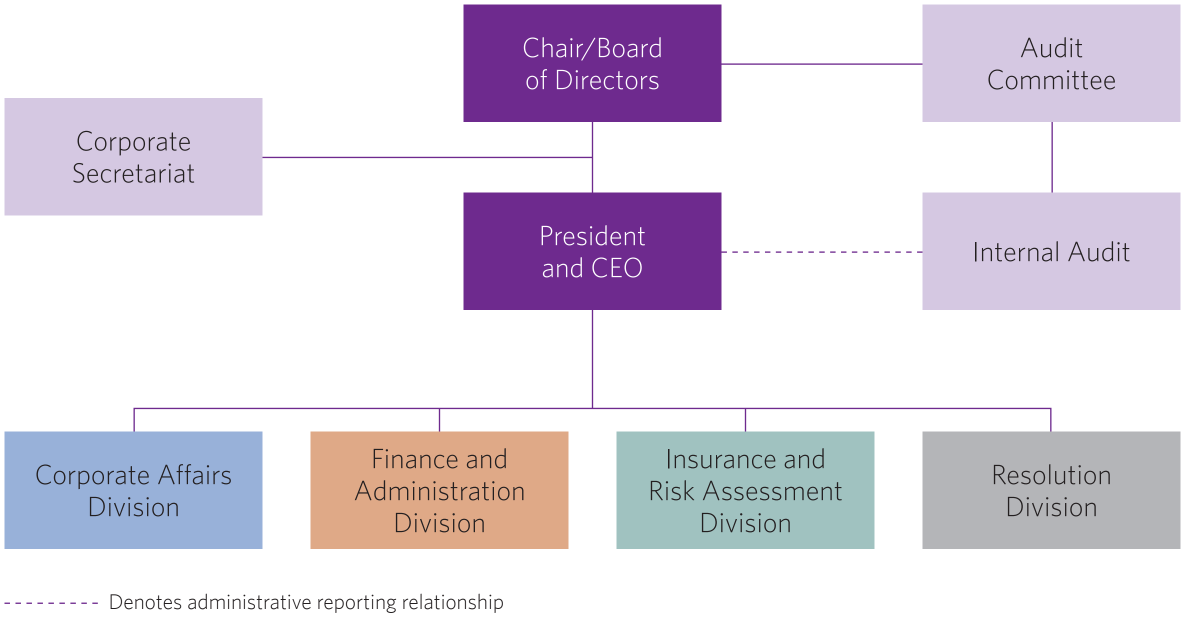
- Dean A. Cosman, Executive Vice-President and Chief Risk Officer
- Michael Mercer, Senior Vice-President, Member Risk and Resolution
- Anthony Carty, Vice-President, Finance, Technology and Depositor Solutions, and Chief Financial Officer

Report on annual expenditures for travel, hospitality and conferences

Since 2010, CDIC has proactively disclosed on its website travel and hospitality expenses for its Executive Team and, beginning in the first quarter of 2017/2018, the travel and hospitality expenses for the Chair of the Board of Directors and the private sector Directors. The Corporation reviews its disclosures on a regular basis and makes changes when warranted.

Commencing with the 2016/2017 fiscal year, the total annual expenditures for each of travel, hospitality and conference fees for the Corporation is disclosed on its website.

CDIC's organizational structure*



Addressing public service expectations

Ethical behaviour and integrity

Promoting ethical behaviour and integrity is an important focus for CDIC. Adherence to our codes and ethics-related policies is a condition of employment, as is adherence to the *Values and Ethics Code for the Public Sector*, which is fully integrated into CDIC policies. Directors and employees must confirm compliance with their respective codes annually. Compliance with the codes and other ethics-related corporate practices is reported to the Audit Committee and to the Governance and Human Resources Committee.

* Effective April 1, 2019, CDIC's operational divisions were restructured and renamed as follows:

- The Insurance and Risk Assessment Division will be known as the Corporate Risk, Strategy and Insurance Division
- The Finance and Administration Division will be known as the Finance, Technology and Depositor Solutions Division
- The Resolution Division will be known as the Member Risk and Resolution Division

Ethics training

Mandatory employee ethics training is conducted every two years. Corporate-wide ethics training is scheduled for 2020.

Diversity, inclusivity and harassment in the workplace

Mutual acceptance, shared respect and appreciation of individual differences are important characteristics of CDIC's workplace. Recent employee engagement survey results confirm the Corporation's commitment to embracing these values; best in class levels—over 80% positive—were achieved.

In 2018, CDIC conducted corporate-wide training focusing on diversity, inclusivity and harassment in the workplace. New Board members receive diversity training as part of the onboarding program.

CDIC continues to participate in external forums to benchmark best practices. Looking ahead, a comprehensive diversity and inclusivity program encompassing education, awareness, leadership and accountability is planned for 2019/2020.

Annual Public Meeting

CDIC will hold its Annual Public Meeting (APM) in May 2019. The event will be held in collaboration with Payments Canada's annual industry conference. In addition to conference participants, the general public will also be invited to attend. The APM will be broadcast live on social media channels in both official languages. The APM is an opportunity for CDIC to provide information to stakeholders and the public on our services and mandate, as well as to answer any questions from members of the public in attendance, online or via social media.

WE PROTECT YOUR SOCCER CAMP MONEY

GLOSSARY

Bail-in: A tool that CDIC can use to resolve a domestic systemically important bank (D-SIB) in the event that it fails or is about to fail. In a bail-in resolution, CDIC would take temporary control or ownership of a failing D-SIB and convert all or some of its eligible liabilities into common shares in order to recapitalize the bank and help restore it to viability. During a bail-in resolution, a D-SIB would remain open and operating, maintaining the services it provides to its customers. (*Régime de recapitalisation interne*)

Basel III Accord: The third of the Basel Accords, Basel III was developed in a response to deficiencies in financial regulation revealed by the global financial crisis. It is meant to strengthen bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. (*Accord de Bâle III*)

Basis point: One basis point is equivalent to 0.01%. (*Point de base*)

Deposit: As defined in the *Canada Deposit Insurance Corporation Act* (the *CDIC 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; and

(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*)

Domestic systemically important bank (D-SIB):[3] A bank designated by the Superintendent of Financial Institutions whose distress or failure could have adverse effects on the Canadian financial system or economy. Banks designated as such are subject to more intensive supervision and additional requirements to minimize the likelihood of failure. (*Banque d'importance systémique nationale (BISN)*)

Eligible deposit:[4] 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 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*)

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[3] The six designated D-SIBs are the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto-Dominion Bank.

[4] Note: this definition will change once the deposit insurance review changes come into force.

Financial Stability Board (FSB): A body established to coordinate internationally the work of national financial authorities and international standard-setting bodies, and to develop and promote effective regulatory, supervisory and other financial sector policies in the interest of financial stability. (*Conseil de stabilité financière (CSF)*)

Global systemically important bank (G-SIB): A bank that is designated to be so interconnected to the world's financial markets that its failure could pose a threat to the international financial system. The Basel Committee designates banks with the highest systemic risk scores as G-SIBs, based on size, interconnectedness, substitutability, complexity and cross-jurisdictional activities. A G-SIB must meet a higher risk-based capital ratio to enhance its resilience, and is subject to additional regulatory oversight and requirements for group-wide resolution planning and resolvability assessments. The resolvability of each G-SIB is reviewed annually using a high-level FSB Resolvability Assessment Process conducted by senior policy makers within the firms' Crisis Management Groups. (*Banque d'importance systémique mondiale (BISM)*)

International Financial Reporting Standards (IFRS): Standards for accounting and reporting, developed and revised by the International Accounting Standards Board (IASB) to support reliable and relevant reporting that is understandable and comparable across international jurisdictions. IFRS have increasingly replaced national financial reporting standards. (*Normes internationales d'information financière (IFRS)*)

Joint deposit: 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 copropriété*)

Member institution: A bank, trust company, loan company, federal credit union, 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. (*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*)

Provision for loss: The amount set aside on a balance sheet to provide for anticipated or possible loss or expenditure. CDIC maintains a provision for insurance losses that reflects the organization's best estimate of the losses it is likely to incur as a result of insuring deposits at member institutions. (*Provision pour pertes*)

Tier 1 capital ratio: The ratio of a bank's core equity capital to its risk-weighted assets. (*Ratio de fonds propres de catégorie 1*)