

## PART 1 Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) was prepared based on the Corporation's fiscal year of April 1, 2019, to March 31, 2020, but where noted it contains some discussion of subsequent events up to early May 2020. The MD&A was approved by the Board of Directors on June 2, 2020. The MD&A should be read in conjunction with the consolidated financial statements, which also form part of the *Annual Report*.

### CDIC's operating environment

#### Economic environment

For most of fiscal year 2019/2020, the Canadian economy grew at a modest pace, supported by a healthy labour market and some improvements in housing. CDIC's membership maintained stable, consistent financial results, with solid profitability and healthy capital and liquidity ratios. However, consumer indebtedness remained high and real estate prices were elevated in several markets relative to local household income. By the end of the fiscal year in March 2020, the COVID-19 pandemic, the oil price shock, uncertainty in international trade and growing geopolitical risks were seen as risks that could lead to a potentially challenging environment for member institutions.

By early May 2020, the COVID-19 pandemic had significant and widespread health and economic impacts worldwide. Public sector authorities unveiled unprecedented supports for businesses and individuals. While the full impact of the COVID-19 pandemic on the economy and CDIC member institutions remains uncertain, CDIC continues to monitor the resilience of its member institutions closely with its financial safety net partners and remains focused on being ready to resolve any troubled member institutions if necessary.

#### Regulatory environment

The Deposit Insurance Review that was announced in Budget 2014 resulted in several amendments to the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) which received Royal Assent on June 21, 2018. These amendments will modernize and enhance Canada's deposit insurance framework. The Government set two phases for the changes to come into force:

- On April 30, 2020, CDIC's deposit insurance was extended to eligible deposits held in foreign currencies and eligible deposits with terms greater than five years, and coverage for travellers' cheques was eliminated.
- The second phase of the amendments is set to come into force on April 30, 2022. There will be separate coverage up to \$100,000 for eligible deposits held under Registered Disability Savings Plans (RDSPs) and Registered Education Savings Plans (RESPs); removal of separate coverage for deposits in mortgage tax accounts; and new requirements for deposits held in trust.

Significant efforts are underway to update CDIC's internal processes, and to work with member institutions and stakeholders to ensure the changes are effectively implemented.

The unfolding COVID-19 pandemic presents sudden operational and financial challenges for CDIC's member institutions. In response, Canadian financial sector safety net organizations have introduced regulatory relief for financial institutions, which include the CDIC member institutions. CDIC introduced specific measures to help CDIC members allocate their resources towards directly supporting the needs of depositors, while not compromising the Corporation's commitment to proactive readiness. These measures included: deferring the premium due date until December 15, 2020; offering acceptable delays in complying with the *CDIC Deposit Insurance Information By-law* requirements in light of changes to CDIC deposit insurance coverage effective April 30, 2020; waiving the annual notification to multi-beneficiary trust depositors; and stepping up CDIC's public awareness activities.

On March 25, 2020, the *COVID-19 Emergency Response Act* received Royal Assent. The legislation allows the Minister of Finance to respond quickly to protect financial stability and maintain consumer confidence during the extraordinary events related to the COVID-19 pandemic. It amended the *CDIC Act* to allow the Minister to increase the deposit insurance coverage limit until September 30, 2020.

Emerging technologies in the financial services sector pose both challenges and opportunities with respect to disrupting established business models, cyber security and data privacy. The Government of Canada is continuing its review of open banking, and Canadians expect that any mechanism for sharing financial data would have a strong focus on security, privacy and the stability of our financial sector.

## Corporate environment

### Organization and Culture Strategy and Plan

CDIC completed year one of its three-year Organization and Culture Strategy and Plan to evolve CDIC's culture, enhance organizational effectiveness and better align the Corporation with its risks, as informed by its renewed Enterprise Risk Management (ERM) Framework. In doing so, CDIC's Management, on the direction of the Board of Directors, undertook the largest restructuring in the Corporation's history, bringing fundamental changes to leadership and organizational structure. As part of this transformation, CDIC established a new cultural framework with renewed values and competencies.

Evolving CDIC's culture and organizational programs and processes will ensure ongoing preparedness to respond to risks and ensure that CDIC continues to attract and retain a highly skilled and engaged work force.

### OAG Special Examination

The Office of the Auditor General (OAG) conducted a Special Examination of CDIC during the 2019/2020 fiscal year. Such a Special Examination is required at least once every 10 years under the *Financial Administration Act*. A Special Examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

The report by the OAG affirms that CDIC has good practices for corporate governance, strategic planning, risk management and managing its operations. There were no significant deficiencies noted and CDIC has responded with Management action plans to three OAG recommendations for improvement.

The full **OAG report** is posted on our website at [www.cdic.ca](http://www.cdic.ca).

## Office environment and COVID-19

CDIC has offices in Ottawa and Toronto. CDIC took a proactive approach in adopting flexible work arrangements and providing additional support to employees in response to the COVID-19 pandemic. CDIC employees began working remotely on March 12, 2020. The Corporation will maintain the work from home option for employees until at least June 30, 2020, and likely for the remainder of the year. CDIC networks are fully operational, enabling an effective work environment despite the changing circumstances.

## CDIC membership

As at March 31, 2020, CDIC had 86 member institutions, a net increase of one institution from the prior year.

Overall, CDIC's membership continued to deliver solid financial results, with healthy capital and liquidity ratios. However, 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 highly uncertain economic shocks from the COVID-19 pandemic. 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 respond rapidly if members experience financial difficulty.

## Insured deposits

As at April 30, 2019 (the annual date on which insured deposits are calculated), deposits insured by CDIC increased by 6% year over year to \$852 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 for member institutions. The vast majority of deposits insured by CDIC are from individuals.

### CDIC member peer groups

Member institutions consolidate to 55 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

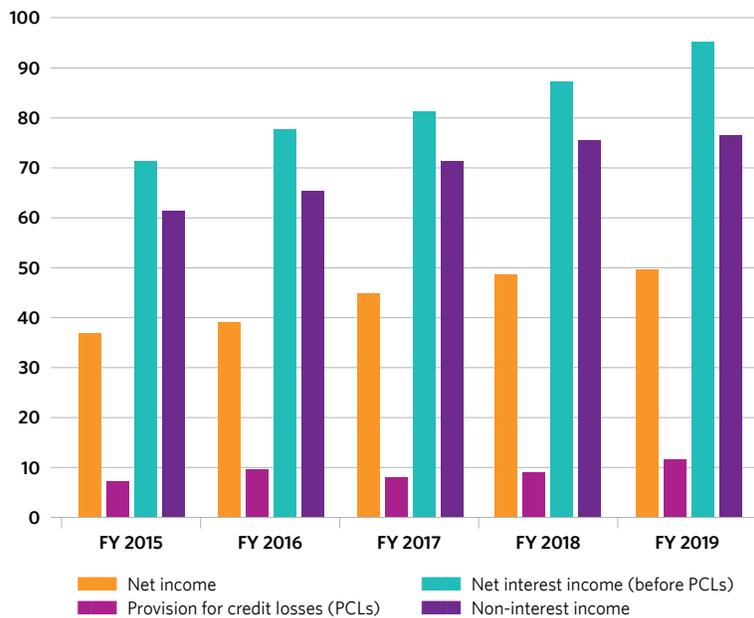
### Profit and return on average shareholders' equity

CDIC members earned a total net income of \$49.4 billion in 2019. 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 \$11.3 billion increased 26.7% year over year, which was driven by unfavourable changes to the economic outlook, credit migration in certain portfolios, and volume growth. In 2019, the quality of loans made by CDIC members remained solid with rates of arrears remaining near historical lows; however, the COVID-19 pandemic may impact arrears in the upcoming year.

Net interest income increased by 9.1% (\$7.9 billion) in 2019 mainly due to higher loan volumes, as net interest margins have continued to be hampered by the low rate environment. Non-interest income increased 1.5% (\$1.1 billion), driven by higher contributions from investment management fees and insurance premiums.

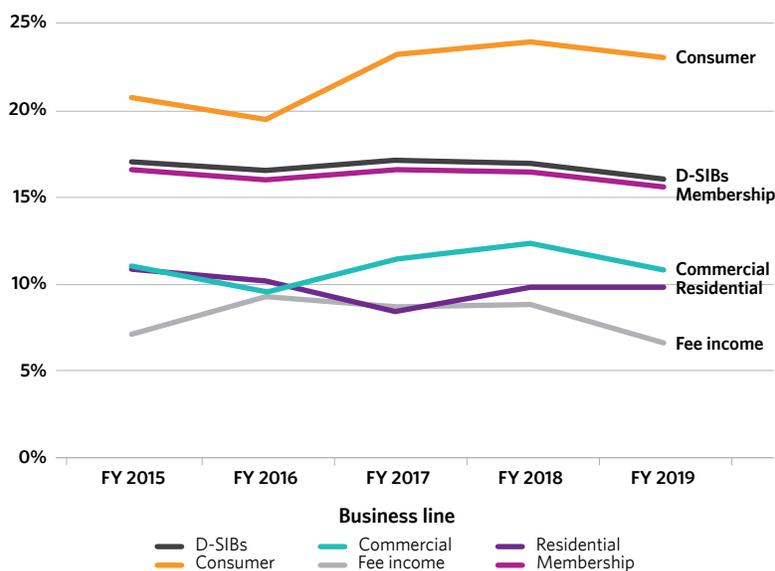
The membership's return on average shareholders' equity (ROAE), a broad-based measure looking at institutions' profitability, remained solid at 15.6%, down from 16.5% last year. The ROAE of the membership has been relatively stable over the last several years,

Revenue, provisions and profits for CDIC members, 2015-2019 (C\$ billions)



FY = Fiscal year performance of member institutions that employ either October 31 or December 31 as their fiscal year end, as applicable.

Return on average shareholders' equity (ROAE) by peer group, 2015-2019

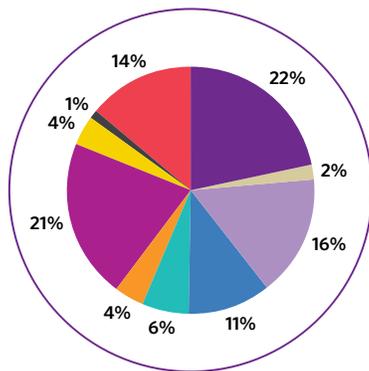


driven by the performance of the institutions in the domestic systemically important bank (D-SIB) peer group. As shown in the graph on the previous page, the ROAE varies considerably by peer group, mainly due to the type of lending and the degree of leverage utilized.

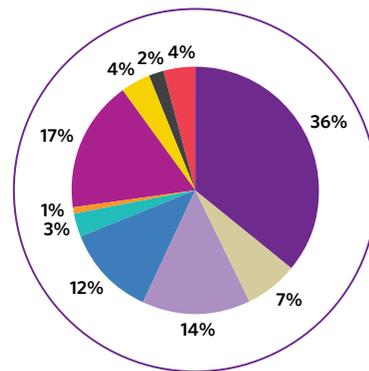
### Asset composition, growth and quality

The membership's total asset base grew 7.5% to \$6.1 trillion year over year, and the asset mix was substantially unchanged compared to 2018. Residential mortgages, the single largest asset class on the balance sheet of CDIC members, totalled approximately \$1.4 trillion, or 22% of the membership's on-balance sheet assets. Other significant asset classes included securities (21% of total assets, 25% of which were Canadian government-issued securities), personal and consumer loans (11%) and reverse repurchase agreements (13%).

**Asset mix—D-SIB peer group (%),\* 2019**  
(C\$5.7 trillion)



**Asset mix—all other peer groups (%),\* 2019**  
(C\$372 billion)



- Residential mortgage loans
- Commercial mortgage loans
- Commercial loans
- Personal and consumer loans
- Other assets
- Derivatives related amounts
- Securities
- Cash and equivalents
- Other loans and bankers' acceptances
- Reverse repurchase agreements

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

The overall quality of the membership's assets in 2019 is comparable to last year with a gross impaired loan ratio remaining at 0.49% of total loans (2018: 0.49%). This measure remained low both relative to historical levels and to Canadian lenders' international peers.

### Liquidity levels

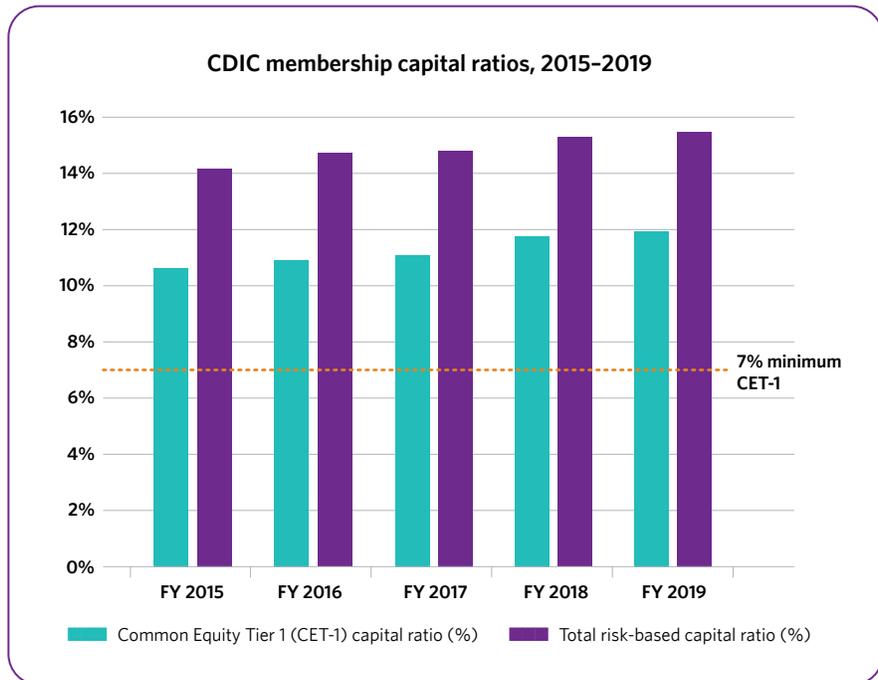
The membership maintained satisfactory levels of liquid assets as at December 31, 2019, and all CDIC member institutions were in compliance with regulatory expectations as set out in the *Liquidity Adequacy Requirements* of the Office of the Superintendent of Financial Institutions (OSFI). Viewed on 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 slightly in 2019 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 2019, was 11.9% (compared to the OSFI minimum requirement of 7.0%). The average total capital ratio for the membership increased slightly to 15.4%.

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 2019, the average leverage ratio of the membership was 4.4%, with D-SIBs having the lowest leverage ratio of the membership at 4.2% and the Consumer peer group having the highest leverage ratio of the membership at 12.6%.



## 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, the Corporation maintains an ERM program that includes a comprehensive assessment of key corporate risks which are reported to CDIC's Board Risk Committee on a quarterly basis.

### Transforming Enterprise Risk Management

CDIC's operating environment is evolving at a rapid pace. For the Corporation to fulfill its mandate and meet its business objectives, it must identify, manage and respond to risks in an effective manner. To this end, in 2019 CDIC transformed its existing ERM Framework. As a result, CDIC improved the alignment between its key risks and its strategies, decision-making priorities and allocation of resources. Key elements of the transformation included defining CDIC's risk appetite, updating risk policies and processes, and establishing enhanced reporting to the Board of Directors and its Risk Committee. CDIC's risk appetite and risk taxonomy are outlined below.

### CDIC's risk appetite

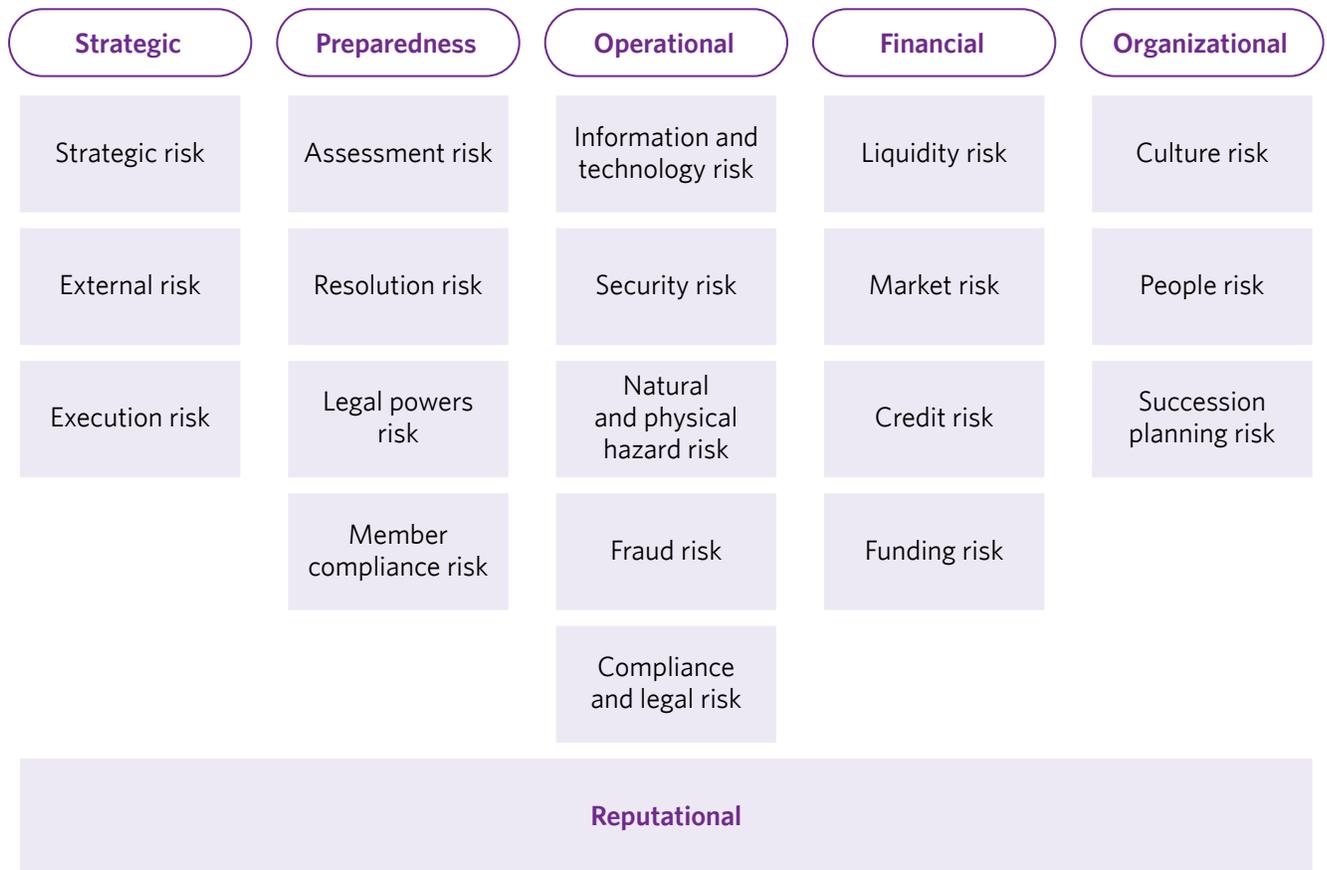
CDIC's risk philosophy is fundamentally focused on anticipating and being prepared to act against risks that threaten the protection of Canadian savings and the stability of the financial system. Equally, CDIC is prepared to take informed and targeted risks that:

- Will assist in achieving its mandate and vision.
- It understands, can manage, and that are aligned with its strategic objectives.
- Instill confidence and trust in CDIC.

The risks CDIC faces are varied, complex and often inter-related. In considering its risk appetite, CDIC takes a holistic approach to evaluating the impact of its actions across the risks to which it is exposed. Overall, CDIC has a balanced approach to risk appetite aligned with its statutory mandate. For example, CDIC is willing to take the risk of acting early to proactively promote the stability of the financial system and/or minimize its exposure to loss.

### Risk taxonomy

CDIC categorizes its risks according to the taxonomy below.



The initiatives that address these key risks are described on the following pages under CDIC's five strategic objectives. CDIC will monitor the progress of its initiatives and will continually assess their impact on risk and determine when the risks have been mitigated to an acceptable level.

The Corporation will also ensure that any new risks are identified. As outlined below, the impact of the COVID-19 pandemic on CDIC's risk environment, and so its activities, was highly uncertain as of early May 2020 due to many variable and counter-balancing factors that could impact the health of Canadians, the economy and CDIC member institutions.

### COVID-19 pandemic emerging risk factors



### A look ahead to 2020/2021

As set out in the Corporation's 2020/2021 to 2024/2025 Corporate Plan, to mitigate its key risks, CDIC plans to focus on five key risk areas with corresponding strategic objectives and outcomes for the planning period. As noted above, the impact of the COVID-19 pandemic on CDIC member institutions and on CDIC itself remains highly uncertain. CDIC is monitoring the resilience of its member institutions and will reprioritize its efforts within these strategic objectives as required.

CDIC's objectives over the planning period are to reduce its risks in the following five areas:

1. Strategic
2. Preparedness
3. Operational
4. Organizational
5. Reputational

These strategic objectives and related outcomes will be delivered through a number of initiatives outlined below.

### Strategic key risks (Sub-category: Strategic)

- CDIC's Enterprise Risk Management (ERM) Framework fails to enable CDIC to identify, assess and monitor corporate risks adequately, and to set appropriate strategic objectives to enable CDIC to fulfill its mandate.
- A lack of oversight, coordination and prioritization could impact CDIC's ability to execute and deliver on its key initiatives.

#### 1. Strategic objective: Transform CDIC's Enterprise Risk Management program

| Planned initiatives   | Desired outcomes  |
|---|---|
| <p>Continue refining the ERM Framework and integrating risk management into priority setting and decision making, to ensure that all risks are appropriately identified, assessed, managed and reported on, supported by a corporate planning process which clearly aligns key risks and strategic initiatives and a proper governance structure. Execution risk associated with implementing the key strategic initiatives will be closely monitored and reported through an Enterprise Program Management Office.</p> | <p><b>2020/2021 key deliverables:</b></p> <ul style="list-style-type: none"> <li>• Finalize and then operationalize ERM Guideline and policies.</li> <li>• Establish a new Enterprise Program Management Office to monitor corporate performance and rapidly adapt to COVID-19 risks and changing circumstances.</li> <li>• More robust reporting to CDIC's Leadership Council, the Risk Committee and the Board.</li> <li>• Complete internal process review and update operational risk management policies.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>By March 31, 2021, CDIC has an enhanced ERM program that is supported by a strong risk culture and enables risk-informed decision making consistent with CDIC's risk appetite.</p> |

## Preparedness key risks (Sub-categories: Resolution; Member compliance)

- CDIC fails to take timely action in responding to one or more failing or failed member institutions consistent with its mandate.
- External stakeholders fail to adopt regulatory changes associated with new legislation and associated by-laws resulting in reduced deposit insurance coverage or delays in effecting a timely payout of trust deposits.

### 2. Preparedness objective: Refine CDIC's capability to respond quickly and effectively to member institution failures

| Planned initiatives  | Desired outcomes  |
|--|---|
| <p>Enhance CDIC's resolution readiness by:</p> <ul style="list-style-type: none"> <li>i) undertaking intensive, early stage preparatory activities for troubled members, supported by efficient, targeted risk assessment;</li> <li>ii) maintaining simple, clear, implementable resolution plans for all small and mid-sized members commensurate with their risk and resolvability profile; and</li> <li>iii) maturing the D-SIB/G-SIB planning efforts into a credible, sustainable model for crisis readiness amongst the industry and safety net stakeholders.</li> </ul> | <p><b>2020/2021 key deliverable:</b></p> <ul style="list-style-type: none"> <li>• CDIC defines and is operating within an acceptable level of resolution preparedness (risk tolerance) for all member institutions commensurate with their risk and resolvability profile.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b><br/>CDIC operates within its established risk tolerance, identifying member risks earlier and taking the necessary preparatory actions to implement the orderly resolution of troubled members for the benefit of depositors and the stability of the financial system.</p> |
| <p>Review and strengthen CDIC's capacity to manage the operational risks posed by multiple member institution failures.</p>  | <p><b>2020/2021 key deliverable:</b></p> <ul style="list-style-type: none"> <li>• CDIC refines its crisis model for responding to multiple member institution failures, including cross-training of necessary internal and standby resources.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b><br/>Through continuous testing exercises, CDIC can demonstrate that it has the operational capacity to respond to large-scale and/or simultaneous failures of multiple member institutions.</p>  |

| Planned initiatives   | Desired outcomes   |
|---|--|
| <p>Engage internally and with external stakeholders to ensure that regulatory changes are effectively implemented by the coming into force date.</p>      | <p><b>2020/2021 key deliverables:</b></p> <ul style="list-style-type: none"> <li>▪ Lead the Brokered Deposit Advisory Group (BDAG) which includes key industry groups. Develop industry best practices concerning the organization and transmission of broker client data to CDIC member institutions.</li> <li>▪ Develop and implement, in consultation with the industry, a comprehensive nominee broker deposit compliance framework that includes systems development, guidance, enforcement, and a monitoring and testing program.</li> <li>▪ Monitor broker progress towards compliance with the revised coverage rules and assess and consider options to deal with any residual coverage risk.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>CDIC can validate through testing and other means that all member institutions and other stakeholders are compliant with the <i>CDIC Act</i> and by-law requirements, thereby protecting depositors, and Management has assessed the implementation of the new legislative framework to ensure insured deposits continue to be appropriately protected.</p> |
| <p>Advance preparedness activities through the newly created Simulation Centre of Excellence by implementing a risk-based simulation testing program.</p> | <p><b>2020/2021 key deliverables:</b></p> <ul style="list-style-type: none"> <li>▪ At least one simulation test per quarter, as aligned with risk areas, with varying levels of participation from the CDIC Board, Management, financial safety net partners and CDIC employees.</li> <li>▪ Adapt test plan to prioritize readiness test activities to respond to COVID-19 circumstances.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>Test exercise findings are incorporated into the annual ERM cycle and drive continuous improvement in CDIC's response capabilities and overall readiness.</p>  |

## Operational key risks (Sub-category: Information and Technology)

- CDIC has ineffective or inadequate processes which could result in delays in effecting a payout in the event of member institution failure.
- A cyber event affecting the Corporation's data could result in a breach, impacting CDIC's ability to deliver on its mandate.

### 3. Operational objective: Modernize CDIC's payout systems and enhance its information security practices

| Planned initiatives  | Desired outcomes   |
|--|--|
| <p>Invest significant resources to modernize CDIC's payout capabilities and related processes to protect depositors and facilitate access to insured deposits on the day of failure.<sup>1</sup></p> | <p><b>2020/2021 key deliverable:</b></p> <ul style="list-style-type: none"> <li>• CDIC defines strategy details and commences implementation of a payout execution strategy, including key vendor selection and industry alignment.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>By 2025, CDIC has implemented data standards, processes and supporting technologies to enable depositors to access their insured deposits on the date of their member institution failure.</p>   |
| <p>Enhance CDIC's information security to ensure the protection of CDIC's information and infrastructure assets by leveraging new technologies and industry best practices.</p>                      | <p><b>2020/2021 key deliverables:</b></p> <ul style="list-style-type: none"> <li>• Enhanced secure and resilient information security program is in place, ensuring that best practices (including privacy protection) and emerging risks are identified and mitigated.</li> <li>• Strategic partnerships are created to enhance CDIC's security capabilities.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>By March 2025, the Corporation has made enhancements to its information security and privacy framework to ensure that CDIC has the standards and guidelines in place to continue to protect its systems and information and to respond to a data breach, including a cyber event.</p> |

<sup>1</sup> In order for CDIC to provide access to insured deposits on the day of failure, significant changes must also be made to the Canadian payments system. For more information on that initiative, which is being led by Payments Canada, see: **Modernization Delivery Roadmap 2019**.

## Organizational key risk (Sub-category: Culture)

- Inability to implement key change management initiatives, such as the Organization and Culture Strategy and Plan, may result in CDIC's culture not aligning with its operating environment which could affect the Corporation's ability to fulfill its mandate effectively.

### 4. Organizational objective: Implement the Organization and Culture Strategy and Plan

| Planned initiatives   | Desired outcomes   |
|---|--|
| <p>Continue implementation of CDIC's Organization and Culture Strategy and Plan, which is to <i>Serve Canadians as One</i>. This strategy and plan will drive transformation efforts through redesigning human capital processes, including performance management, total rewards, leadership and talent development programs and succession planning practices, to ensure organizational alignment, effectiveness and a strong leadership bench to guide CDIC in managing its risks.</p> | <p><b>2020/2021 key deliverables:</b></p> <ul style="list-style-type: none"> <li>• Implement year two of CDIC's three-year Organization and Culture Strategy and Plan, including: redesigning its 360-degree feedback leadership program; and revamping talent management and succession planning processes.</li> <li>• Develop key metrics to conduct a culture effectiveness assessment to measure the degree of transformation.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>By March 31, 2022, CDIC has fully implemented its Organization and Culture Strategy and Plan supporting CDIC's culture transformation and can demonstrate that the Corporation can attract, develop and retain an engaged, adaptable, high-performing and diverse work force to meet the demands of CDIC's environment.</p> |

## Reputational key risk

- Failure to raise public awareness of CDIC and federal deposit protection to the target range of 60%–65% could fail to mitigate the risk of a depositor run, in the event of a troubled member institution.

### 5. Reputational objective: Increase public awareness of CDIC's deposit protection

| Planned initiatives  | Desired outcomes  |
|--|---|
| <p>Implement a new three-year public awareness strategy to increase public awareness of CDIC or of federal deposit protection.</p> <p>Intensify public awareness efforts in 2020/2021 given the economic uncertainty created by the COVID-19 pandemic.</p> | <p><b>2020/2021 key deliverable:</b></p> <ul style="list-style-type: none"> <li>• Steadily increase public awareness levels to at least 60% awareness of CDIC or of federal deposit protection by March 31, 2021.</li> </ul> <p><b>Desired long-term outcome/result indicator:</b></p> <p>By March 31, 2023, results from quarterly national surveys indicate awareness levels rising to target levels of 60%–65% awareness of CDIC or of federal deposit protection.</p> |

## 2020/2021 to 2024/2025 financial plan

The projections included in CDIC's 2020/2021 to 2024/2025 Corporate Plan are based on a number of assumptions and estimates available at the time of developing the Plan and, accordingly, actual results may vary materially from the figures below. Key financial assumptions—made during the planning period up to December 2019—include the following:

- A growth in insured deposits year over year of 9% (includes growth as a result of Deposit Insurance Review changes) in 2020/2021 and 3% thereafter.
- The premium rates as well as the distribution of members across the differential premium categories will remain unchanged from 2019/2020.
- Investment income is based on an assumed average yield on cash and investments of 1.6% for fiscal 2020/2021, rising gradually to a yield of 1.8% in 2024/2025.
- 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.

It is important to note that any impacts resulting from COVID-19 were not included in the Plan, as these were not known by CDIC at the time the Plan was developed.

## 2020/2021 fiscal year

**Total comprehensive income** is planned at \$757 million for the 2020/2021 fiscal year.

**Total revenues** are planned to be \$828 million in the 2020/2021 fiscal year, including \$728 million of premium revenue and \$100 million of investment income.

Planned **premium revenue** of \$728 million is \$60 million higher than fiscal 2019/2020 premium revenue of \$668 million. The increase is as a result of the expected increase in insured deposits.

Expected **investment income** of \$100 million is \$15 million higher than investment income of \$85 million in fiscal 2019/2020, reflecting the projected growth in the investment portfolio as a result of increased premium revenue.

**Net operating expenses** are planned to be \$62 million in fiscal 2020/2021, compared to \$51 million actual operating expenses in fiscal 2019/2020. The \$62 million budget reflects a full staffing complement, internal developments aimed at furthering preparedness and resolution capabilities, and a \$6 million public awareness budget.

**Cash and investments** are planned to be \$6.5 billion at the end of the 2020/2021 fiscal year.

The **provision for insurance losses** is planned to decrease to \$2 billion<sup>2</sup> at the end of the 2020/2021 fiscal year based on the calculations using assumptions as at December 31, 2019.

The level of **ex ante funding** is planned to be \$6.5 billion at the end of the 2020/2021 fiscal year, representing 70 basis points of forecast insured deposits, an increase of 3 basis points from March 31, 2020.

## Performance against previous Plan

The following Scorecard summarizes progress as at March 31, 2020, in support of the four corporate strategic objectives identified in CDIC's 2019/2020 to 2023/2024 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.

<sup>2</sup> As at March 31, 2020, the provision for insurance losses increased to \$2.25 billion and could increase further once the impacts of the COVID-19 pandemic on our membership are further known and quantifiable.

## CDIC's Corporate Scorecard—2019/2020<sup>3</sup>

(as at March 31, 2020)

### Preparedness: Advancing resolution readiness

#### Outcomes

- In the event of a member institution 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 corporate initiatives  | Status    | Update  |
|--|-----------|---|
| 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. | ON TARGET | <p>CDIC continued to implement systems enhancements, resulting in the Corporation being better positioned to respond to depositor expectations during resolution. A new Customer Relationship Management application was introduced to improve CDIC's ability to track day-to-day interactions with insured depositors.</p> <p>Additional enhancements to CDIC's application technology are underway in response to the revised deposit insurance coverage framework spelled out in the <i>Budget Implementation Act, 2018, No. 1</i>. As noted earlier, the first phase of amendments came into force on April 30, 2020. The second phase of amendments is set to come into force on April 30, 2022.</p> <p>Over the next fiscal year, CDIC will begin its multi-year modernization initiative across its insurance and reimbursement processes.</p> |

#### Legend

**ON TARGET**—Planned progress on schedule and within budget

**SLIPPAGE**—Slippage in terms of time to completion, budget and/or target variances

**CANCELLED**—Cancelled or deferred

<sup>3</sup> The Scorecard reflects the structure of previous Corporate Plan reporting and is being maintained for prior year comparison purposes. It was formulated prior to CDIC transforming its Enterprise Risk Management (ERM) Framework in 2019, and so CDIC will be modifying its corporate performance reporting format going forward. CDIC's key risks as identified through the ERM Framework are now the primary drivers for the development of strategies and initiatives for the Corporate Plan.

## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

| Key corporate initiatives   | Status           | Update  |
|---|------------------|---|
| <p>Guide and direct domestic systemically important banks (D-SIBs) to reach the 2020 resolvability target through formal assessment and testing of resolution plans and timely remediation of identified impediments.</p>   | <p>ON TARGET</p> | <p>The <i>CDIC Resolution Planning By-law</i> came into force in May 2019. To further guide and support the banks in developing their plans, CDIC provided the D-SIBs with updated guidance and the assessment framework that will be used to assess the resolution plans under the by-law. This guidance is posted on CDIC's website at <a href="http://www.cdic.ca">www.cdic.ca</a>.</p> <p>The first resolution plans pursuant to the by-law were submitted by the D-SIBs in December 2019. Management reviewed these plans in accordance with the assessment process and provided notice of compliance to each D-SIB on March 25, 2020.</p>   |
| <p>Advance preparedness for member institution failure through a risk-based testing and readiness program that requires an appropriate level of preparedness for all member institutions, and that considers evolving risks and associated impacts on intervention approaches. Strengthen crisis communications for all aspects of CDIC's resolution toolkit.</p> | <p>ON TARGET</p> | <p>CDIC continues to advance its readiness through the multi-year build of its Resolution Playbook, with a focus on its receivership manual, updated liquidation procedures and resource planning. Key changes were required in Q2 to established payout and liquidation processes to address amendments to the <i>CDIC Joint and Trust Account Disclosure By-law</i>.</p> <p>Through the continued development of resolution plans for non-D-SIBs, CDIC has increased its readiness to assess and execute resolution actions in a crisis.</p> <p>CDIC tested key elements of its Crisis Communications Program, including various resolution scenarios, spokesperson readiness, key messages, traditional and social media monitoring and website management. The Corporation continued to refine its D-SIB and non-D-SIB communications strategies.</p> <p>In response to the unfolding COVID-19 pandemic, CDIC has increased preparedness activities in concert with its financial safety net partners. In addition, simulations and other integration exercises are planned to improve CDIC's capacity to respond to any member failure event(s).</p> |

### Legend

**ON TARGET**—Planned progress on schedule and within budget

**SLIPPAGE**—Slippage in terms of time to completion, budget and/or target variances

**CANCELLED**—Cancelled or deferred

## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

### 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 corporate initiatives  | Status    | Update  |
|--|-----------|---|
| Implement changes from the Deposit Insurance Review, including engaging with member institutions and other key stakeholders. | ON TARGET | <p>CDIC established a Brokered Deposit Advisory Group (BDAG) to support implementation of the new <i>CDIC Act</i> and by-law requirements. The BDAG facilitates discussions among industry stakeholders to develop and implement the new requirements.</p> <p>CDIC also initiated extensive ongoing internal work to prepare for the coming into force of the new <i>CDIC Act</i> and by-law requirements, including:</p> <ul style="list-style-type: none"> <li>Updating CDIC's internal systems and processes (i.e., for premiums and payout).</li> <li>Developing responses to enquiries from member institutions and other stakeholders on the new rules.</li> <li>Developing a compliance approach to enhance broker adherence to the new rules.</li> <li>Updating communication tools (e.g., website information, brochures, calculator) to raise awareness of the changes to the deposit insurance framework.</li> </ul> |

#### Legend

**ON TARGET**—Planned progress on schedule and within budget

**SLIPPAGE**—Slippage in terms of time to completion, budget and/or target variances

**CANCELLED**—Cancelled or deferred

## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

| Key corporate initiatives   | Status    | Update   |
|---|-----------|--|
| Conclude the by-law modernization initiative and develop a program for the regular and timely review of all by-laws.  | ON TARGET | The Corporation will continue to schedule regular reviews of key by-laws on an as-needed basis and to report quarterly to the Board on any by-law initiatives. In that vein, the Corporation initiated a review of the <i>Deposit Insurance Policy By-law</i> and a multi-year comprehensive review of the <i>Differential Premiums By-law</i> and framework in 2019.  |
| Assess the progression of <i>ex ante</i> funding toward the minimum target in light of insurance coverage changes and evolving membership risks.  | ON TARGET | CDIC continues to assess <i>ex ante</i> funding progression toward the minimum target of 100 basis points of insured deposits. Management forecasts that <i>ex ante</i> funding will reach the 100 basis point minimum target in the Corporation's 2025/2026 fiscal year. The estimated progression is sensitive to, among other things, insured deposit growth rates and the crystallization of risks in the membership. The full impact of the COVID-19 pandemic on the health of Canadians, the economy and CDIC member institutions was highly uncertain as at March 31, 2020. |
| 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. | ON TARGET | CDIC continues to keep abreast of emerging trends and latest developments in financial services and regulation. As part of the reorganization completed in January 2020, the Corporate Strategy and Risk Management Group was positioned to collaborate across the Corporation in taking an enterprise-wide view on risks, opportunities and strategic priorities.   |

### Legend

**ON TARGET**—Planned progress on schedule and within budget

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**CANCELLED**—Cancelled or deferred

## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

### 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 corporate initiatives  | Status    | Update  |
|--|-----------|---|
| Increase public and depositor awareness of CDIC or federal deposit protection, by leveraging members and key media consumed by the public, and by conducting research on depositor behaviour and expectations. | ON TARGET | <p>CDIC completed its existing three-year public awareness strategy, with its surveys showing that 61% of Canadians are aware of CDIC or federal deposit protection as of March 2020. This met the 60% target for public awareness in the general population by March 31, 2020. Awareness grew steadily during the strategy, particularly in target demographics such as Canadians aged 18-34 (a 17 percentage point increase) and low-income Canadians (a 10 percentage point increase).</p> <p>When the COVID-19 pandemic began, CDIC increased its advertising presence to help maintain the confidence of Canadians in the safety of their deposits and to contribute to financial stability. As a result, awareness is expected to continue growing.</p> |

#### Legend

- ON TARGET**—Planned progress on schedule and within budget
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- CANCELLED**—Cancelled or deferred

## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

| Key corporate initiatives   | Status           | Update  |
|---|------------------|---|
| <p>Strengthen relationships with key stakeholders through an integrated engagement process that is responsive to key findings of a member institution survey, and to the results of other consultations and engagement activities.</p>      | <p>ON TARGET</p> | <p>Last year, CDIC successfully conducted its first ever member institution survey to gauge the effectiveness of the Corporation's interactions with member institutions. Survey results showed that members have a good understanding of CDIC's role in the financial safety net and its processes, and that the expertise and helpfulness of CDIC staff is highly valued. CDIC communicated survey results to member institutions in September 2019 and has implemented key action items.</p> <p>CDIC consulted extensively on matters related to the operationalization of the changes to the insurance coverage framework. The Corporation conducted extensive outreach with member institutions on the proposed new Data and System Requirements specification document. CDIC will offer implementation support through its BDAG, as well as directly with the membership.</p> <p>CDIC will develop an integrated stakeholder engagement strategy to support the achievement of its mandate and to optimize its stakeholder relationships.</p> |
| <p>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.</p> | <p>ON TARGET</p> | <p>CDIC continued to publish articles on resolution in the <i>Industry News</i> section of its website (formerly <i>CDIC Matters</i>) and disseminated information using its social media channels. A "chatbot" function and enhanced coverage calculator were added to the CDIC website. The CEO increased the frequency and subject range of media interviews, and CDIC also leveraged member institutions' communications channels to share information about CDIC.</p> <p>Planned activities include videos and information about pending updates to insurance coverage, as well as additional information regarding CDIC's resolution toolkit.</p>   |

### Legend

**ON TARGET**—Planned progress on schedule and within budget

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## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

### Organization: Evolving the Corporation

**Outcome**

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

| Key corporate initiatives   | Status    | Update  |
|---|-----------|---|
| 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. | ON TARGET | <p>Year 1 of CDIC's multi-year Organization and Culture Strategy and Plan positioned CDIC to respond to changes in its internal and external operating environment. CDIC launched a new culture framework of revised values and leadership competencies, redesigned its leadership development program, invested in e-learning technology and support, and changed its organizational structure in January 2020 to better align the Corporation with its risks.</p> <p>The Corporation embarked on its comprehensive diversity and inclusion strategy to lead by example and foster an open and respectful workplace. CDIC prioritized diversity and inclusion through awareness, education, outreach, revised policies and regular multicultural events.</p> <p>The impact of the COVID-19 pandemic has required CDIC to pivot to a virtual environment and redesign delivery of its people programs. An even greater emphasis has been placed on the mental health and wellness of our employees—this will continue to ensure appropriate support for and resiliency of CDIC's work force. However, this may require CDIC to reprioritize some planned deliverables in Years 2 and 3 of the Organization and Culture Strategy and Plan.</p> |

**Legend**

- ON TARGET**—Planned progress on schedule and within budget
- SLIPPAGE**—Slippage in terms of time to completion, budget and/or target variances
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## CDIC's Corporate Scorecard—2019/2020

(as at March 31, 2020)

| Key corporate initiatives   | Status    | Update  |
|---|-----------|---|
| Conduct a comprehensive review of CDIC's Enterprise Risk Management (ERM) program.  | ON TARGET | <p>The revised ERM Framework, risk philosophy and the risk appetite statement by risk category were approved by the CDIC Board of Directors in December 2019.</p> <p>CDIC's key risks as identified through the ERM Framework are now the primary drivers for the development of strategies and initiatives for the Corporate Plan. The key risks are updated and reported quarterly to the Board Risk Committee.</p>   |
| Enhance the work environment, including adapting CDIC's policies, practices and technology to align with work force changes and trends. | ON TARGET | <p>CDIC began renovations to its boardrooms and modernizing audio-visual and conferencing tools and technology to facilitate collaboration and remote working. The project was slightly delayed due to COVID-19 and work will continue into 2020/2021.</p> <p>CDIC started a Modern Workplace project to strengthen and modernize its technologies and information security, which will support collaboration and efficiency. For example, the development of information management governance on Microsoft 365 (SharePoint Online and other related tools) has begun and is scheduled to finish by March 2021.</p>  |
| Review CDIC's data assets and ensure that they are streamlined, effective and secure.   | ON TARGET | <p>CDIC established an internal Data Management Strategy that consolidates and shares its data assets through a modernized data warehouse and business intelligence platform, supported by an appropriate governance structure and security protocols.</p> <p>CDIC completed a procurement process and selected a consultant to design a Cyber Security Framework that includes a review and update of CDIC's IT security policies and standards, performing a gap analysis for the security program, and developing a security assessment and authorizations process.</p> <p>CDIC enhanced e-mail security and developed an employee security training and phishing campaign program to increase awareness of cyber risks. CDIC also performed an ethical hack exercise to assess its security defence systems and remediate identified vulnerabilities.</p> |

### Legend

**ON TARGET**—Planned progress on schedule and within budget

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**CANCELLED**—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 2019/2020 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.
- Promote and otherwise contribute to the stability of the financial system in Canada.
- 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.
- 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, 2019, the Corporation adopted IFRS 16 *Leases* using the modified retrospective method and recognized \$13 million of right-of-use assets and \$14 million of lease liabilities, the difference being deferred lease inducements, with no impact on opening retained earnings. More details can be found in Notes 2, 3 and 6 of the Corporation's fiscal 2019/2020 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 2019/2020 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 \$494 million for the year ended March 31, 2020.

Premium revenue was \$668 million for the year, an increase of \$23 million (4%) from the previous fiscal year. The net increase in premium revenue was due to growth in insured deposits, partially offset by changes in the premium categorization of certain member institutions.

Investment income was \$85 million for the year, an increase of \$18 million (27%) from the previous fiscal year. The variance was as a result of an increase in the weighted average effective investment yield during the year (1.64% as at March 31, 2020, compared to 1.55% as at March 31, 2019), together with the growth in the investment portfolio as a result of increased premium revenue.

Net operating expenses were \$51 million for the year, \$8 million (19%) higher than the previous fiscal year, mainly due to a corporate focus on staffing vacant positions and to support various new initiatives launched by the Corporation to enhance preparedness and increase resolution capabilities, overhaul CDIC's ERM Framework, and support the Corporation's new Organization and Culture Strategy and Plan.

The Corporation's asset base continued to grow during the year. Total assets were \$5,755 million as at March 31, 2020, an increase of \$711 million (14%) over the previous fiscal year. The majority of the Corporation's assets are investment securities, which totalled \$5,731 million as at March 31, 2020, an increase of \$697 million (14%) from the previous fiscal year.

The Corporation's provision for insurance losses was \$2,250 million as at March 31, 2020, \$200 million (10%) higher than the previous fiscal year. This net increase is due to changes to the risk profile of certain member institutions, an increase in the exposure to losses and a decrease in discount rate (0.60% as at March 31, 2020, compared to 1.52% as at March 31, 2019) partially offset by improved probability of defaults.

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 partially offset by increased net operating expenses has led to an increase in income tax expense amounting to \$9 million, 50% higher 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 \$5,730 million, or 67 basis points of insured deposits as at March 31, 2020, a year over year increase of \$695 million, or 5 basis points.

## Consolidated statement of financial position

### Assets

The total assets of the Corporation increased to \$5,755 million as at March 31, 2020, from \$5,044 million as at March 31, 2019, representing an increase of 14%. The following table summarizes CDIC's assets.

| <i>As at March 31 (C\$ thousands)</i> | 2020             | 2019             |
|---------------------------------------|------------------|------------------|
| Cash                                  | 3,568            | 2,190            |
| Investment securities                 | 5,730,984        | 5,033,815        |
| Trade and other receivables           | 260              | 502              |
| Amounts recoverable from estates      | 6                | 6                |
| Prepayments                           | 1,106            | 605              |
| Right-of-use assets                   | 11,920           | —                |
| Property, plant and equipment         | 3,621            | 3,189            |
| Intangible assets                     | 3,482            | 3,884            |
| <b>Total assets</b>                   | <b>5,754,947</b> | <b>5,044,191</b> |

**Investment securities**

CDIC's 5,731 million 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.

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, 2020, unchanged from the prior year. CDIC's investments as at March 31, 2020, carry a weighted average effective yield at maturity of 1.64% (March 31, 2019: 1.55%).

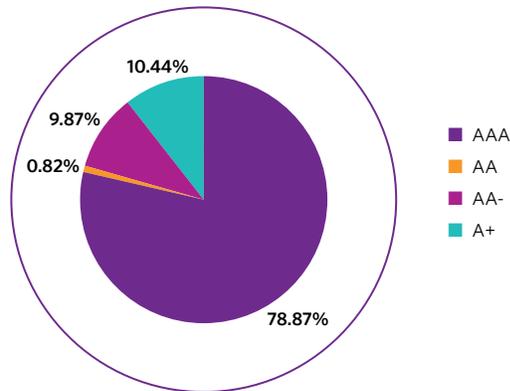
**Recoveries**

From time to time, CDIC receives recoveries from the estates of failed members. These recoveries relate primarily to amounts that were previously written off and are not reflected in CDIC's consolidated 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 2019/2020, no recoveries were received by the Corporation from failed institutions.

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 2019/2020 against losses written off in its name. There may be additional immaterial final recoveries from the estate upon dissolution.

**Investment securities credit profile, as at March 31, 2020**



### Liabilities

The total liabilities of the Corporation increased to \$2,275 million as at March 31, 2020, from \$2,059 million as at March 31, 2019, representing an increase of 10%. The following table summarizes the liabilities of the Corporation.

| <i>As at March 31 (C\$ thousands)</i> | <b>2020</b>      | <b>2019</b>      |
|---------------------------------------|------------------|------------------|
| Trade and other payables              | 7,812            | 5,800            |
| Lease liabilities                     | 12,611           | —                |
| Deferred lease inducement             | —                | 734              |
| Employee benefits                     | 1,444            | 1,524            |
| Provision for insurance losses        | 2,250,000        | 2,050,000        |
| Tax liabilities                       | 3,389            | 807              |
| <b>Total liabilities</b>              | <b>2,275,256</b> | <b>2,058,865</b> |

### Provision for insurance losses

CDIC's provision for insurance losses is estimated based on a number of assumptions. The \$2,250 million provision for insurance losses as at March 31, 2020, 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 increased by \$200 million in 2019/2020.

Numerous factors contributed to the overall net increase in the provision for insurance losses, including:

- Changes in the categorization and risk profile of some member institutions.
- Growth in the estimated level of exposure to losses.
- Decrease in the five-year Government of Canada benchmark bond yield used as the discount rate (0.6% at March 31, 2020, compared to 1.52% at March 31, 2019).
- 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 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 from member institution failures in Canada since 1987, 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, 2020, 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, 2020, was \$5,730 million, or 67 basis points of insured deposits. Based on the level of insured deposits as at March 31, 2020, the 100 basis point minimum target level would amount to \$8,519 million. The Corporation has developed a funding plan that would see *ex ante* funding reach 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, 2020, CDIC had the legislative authority to borrow up to \$25 billion, subject to ministerial approval. Supplemental borrowing, if required, could be authorized either by Parliament through an appropriation act, or by the Governor in Council and the Minister of Finance if, in the Minister's opinion, it is necessary to promote the stability or maintain the efficiency of the financial system in Canada. In case such a borrowing is obtained by the Corporation to resolve a member institution failure, the borrowed amount will be recovered by levying higher premium revenue from CDIC's member institutions.

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

| <i>As at March 31 (C\$ millions)</i>   | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <i>Available liquid funds:</i>   |                |                |
| Cash   | 4              | 2              |
| Fair value of high quality, liquid investment securities   | 5,864          | 5,045          |
| <i>Availability of borrowings:</i>   |                |                |
| Borrowings authorized under the <i>CDIC Act</i> , either from market sources or from the Consolidated Revenue Fund | 25,000         | 23,000         |
| <b>Total available funds</b>   | <b>30,868</b>  | <b>28,047</b>  |
| <b>Insured deposits</b>  | <b>851,903</b> | <b>807,398</b> |
| <b>Total basis points of insured deposits</b>  | <b>362</b>     | <b>347</b>     |

### Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2019/2020 totalled \$494 million, a decrease of \$169 million or 25% from 2018/2019. The Corporation's financial performance is summarized in the following table.

| <i>For the year ended March 31 (C\$ thousands)</i> | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <b>Revenue</b>                                     |                |                |
| Premium  | 668,360        | 644,576        |
| Investment income                                  | 85,490         | 66,545         |
| Other  | 6              | 31             |
| <b>Expenses</b>                                    |                |                |
| Net operating expenses                             | 51,008         | 42,593         |
| Increase in provision for insurance losses         | 200,000        | —              |
| Recovery of amounts previously written off         | —              | (441)          |
| Income tax expense                                 | 8,661          | 5,989          |
| Net income   | 494,187        | 663,011        |
| Other comprehensive income (loss)                  | 178            | (26)           |
| <b>Total comprehensive income</b>                  | <b>494,365</b> | <b>662,985</b> |

### Premium revenue

In the 2019/2020 fiscal year, premium revenue increased by \$23 million (4%) to \$668 million. Growth in insured deposits partially offset by changes in the premium categorization of certain member institutions contributed to the net increase in premium revenue. Insured deposits increased to \$852 billion as at April 30, 2019, from \$807 billion<sup>4</sup> as at April 30, 2018, an increase of 6%.

Premiums charged to member institutions are based on the total amount of insured deposits held by members as of April 30 each year, and are calculated in accordance with the *CDIC Act* and the *CDIC 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 2019/2020 premium rates are 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<br>(basis points of insured deposits) | 2019/2020 | 2018/2019 |
|--|-----------|-----------|
| Category 1   | 7.5       | 7.5       |
| Category 2   | 15.0      | 15.0      |
| Category 3   | 30.0      | 30.0      |
| Category 4   | 33.3      | 33.3      |

CDIC's premium revenue for fiscal 2019/2020 amounting to \$668 million is approximately 7.8 basis points of insured deposits.

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 | 2019/2020 | 2018/2019 | 2017/2018 | 2016/2017 | 2015/2016 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| 1                | 83        | 81        | 83        | 78        | 79        |
| 2                | 14        | 15        | 11        | 18        | 13        |
| 3                | 3         | 4         | 5         | 4         | 5         |
| 4                | —         | —         | 1         | —         | 3         |

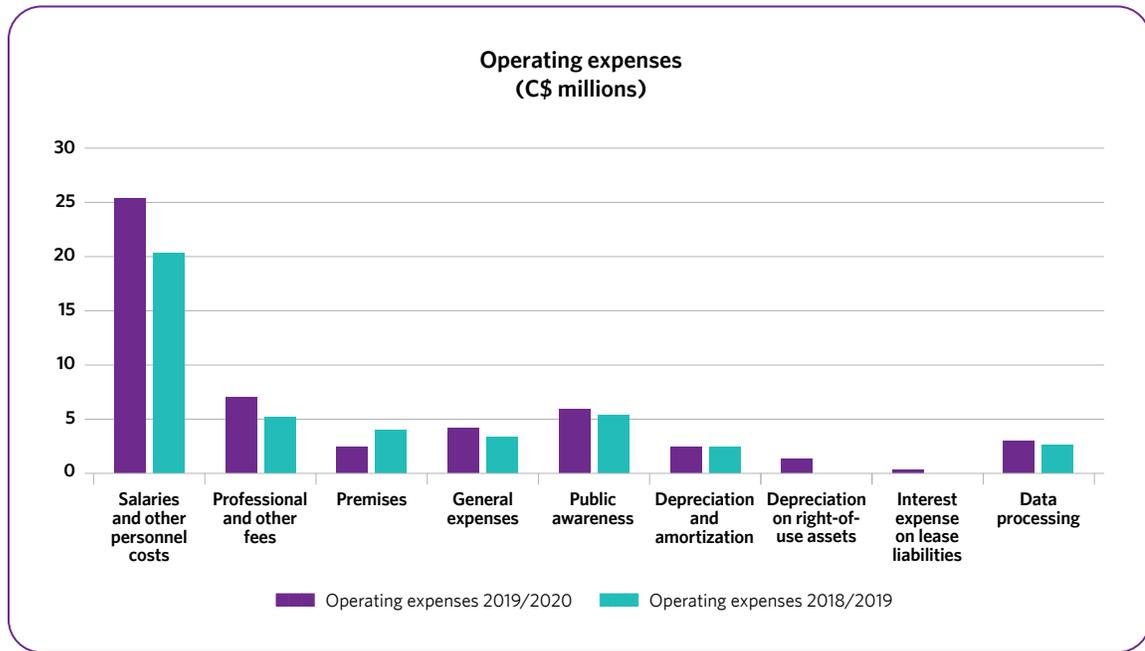
### Investment income

Investment income was \$85 million for the year, an increase of \$18 million (27%) from the previous fiscal year. The variance was the result of an increase in investment yields during the period (weighted average effective yield rate was 1.64% as at March 31, 2020, compared to 1.55% as at March 31, 2019), in addition to the growth in the investment portfolio.

<sup>4</sup> Includes changes in insured deposits levels as a result of changes to the membership during fiscal year 2018/2019.

**Operating expenses**

Operating expenses increased by \$8 million (19%) to \$51 million in fiscal 2019/2020 from fiscal 2018/2019. The increase is primarily due to a corporate focus on staffing vacant positions and to support various new initiatives launched by the Corporation to enhance preparedness and increase resolution capabilities, to overhaul CDIC's ERM Framework, and to support the Corporation's new Organization and Culture Strategy and Plan.



**Income tax expense**

The Corporation is subject to federal income tax. The Corporation's source of taxable income is its interest income. From this amount, allowable expenditures are deducted 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 because the Corporation did not previously claim a deduction for tax purposes.

The Corporation's income tax expense increased by \$3 million (50%) to \$9 million in fiscal 2019/2020 from fiscal 2018/2019, due to an increase in investment and other income partially offset by increased net operating expenses.

## Consolidated statement of cash flows

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

| <i>For the year ended March 31 (C\$ thousands)</i> | <b>2020</b>  | <b>2019</b>  |
|--|--------------|--------------|
| Increase in cash from operating activities         | 729,525      | 688,776      |
| Decrease in cash from investing activities         | (727,452)    | (688,167)    |
| Decrease in cash from financing activities         | (695)        | —            |
| Net increase in cash balance                       | 1,378        | 609          |
| <b>Cash, end of year</b>                           | <b>3,568</b> | <b>2,190</b> |

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

## Comparison with 2019/2020 to 2023/2024 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2019/2020 with the Corporate Plan for the same year.

### Consolidated statement of financial position

**Total assets** as at March 31, 2020, were \$5,755 million, \$14 million higher than the planned amount of \$5,741 million. This slight increase is primarily due to the higher than planned premium revenue, which also contributed to the increase in investment securities, as well as higher than planned right-of-use assets as a result of exercising the renewal option for the Ottawa office.

**Total liabilities** as at March 31, 2020, were \$2,275 million, \$109 million (5%) higher than the planned amount of \$2,166 million. The increase is mainly due to the variance in the provision for insurance losses. The balance as at March 31, 2020, was \$2,250 million versus the planned amount of \$2,150 million. The calculation of the planned provision for insurance losses only assumes an estimated growth in insured deposits, with all other factors—including 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 \$754 million, relatively consistent with the planned amount of \$750 million. The variance was primarily due to a slight increase in premium revenue and investment income.

**Net operating expenses** for the year were \$51 million, relatively consistent with the planned amount of \$50 million.

**Total comprehensive income** for the year ended March 31, 2020, was \$494 million compared to planned total comprehensive income of \$591 million, a variance of \$97 million (16%) mainly due to an increase in the provision for insurance losses, as discussed above.

| <i>(C\$ millions)</i>                                 | 2020/2021<br>Corporate Plan <sup>a</sup> | 2019/2020<br>Actual results | 2019/2020<br>Corporate Plan <sup>a</sup> |
|---|--|-----------------------------|--|
| <b>Consolidated statement of financial position</b>   |  |                             |  |
| <i>(as at March 31)</i>                               |  |                             |  |
| Cash and investments                                  | 6,487                                    | 5,735                       | 5,720                                    |
| Capital assets  | 9  | 7                           | 15                                       |
| Right-of-use assets                                   | 11                                       | 12                          | 6  |
| Other current assets                                  | —  | 1                           | —  |
| <b>Total assets</b>                                   | <b>6,507</b>                             | <b>5,755</b>                | <b>5,741</b>                             |
| Trade and other payables                              | 5  | 8                           | 5  |
| Provision for insurance losses                        | 2,000                                    | 2,250                       | 2,150                                    |
| Lease liabilities                                     | 11                                       | 13                          | 6  |
| Other non-current liabilities                         | 5  | 4                           | 5  |
| Retained earnings                                     | 4,486                                    | 3,480                       | 3,575                                    |
| <b>Total liabilities and equity</b>                   | <b>6,507</b>                             | <b>5,755</b>                | <b>5,741</b>                             |
| <b>Consolidated statement of comprehensive income</b> |  |                             |  |
| <i>(for the year ended March 31)</i>                  |  |                             |  |
| <b>Revenue</b>  |  |                             |  |
| Premiums  | 728                                      | 668                         | 665                                      |
| Investment and other income                           | 100                                      | 86                          | 85                                       |
|   | 828                                      | 754                         | 750                                      |
| <b>Expenses</b>                                       |  |                             |  |
| Net operating expenses                                | 62                                       | 51                          | 50                                       |
| Increase in provision for insurance losses            | —  | 200                         | 100                                      |
|   | 62                                       | 251                         | 150                                      |
| Net income before income tax                          | 766                                      | 503                         | 600                                      |
| Income tax expense                                    | (9)                                      | (9)                         | (9)                                      |
| <b>Total comprehensive income</b>                     | <b>757</b>                               | <b>494</b>                  | <b>591</b>                               |

<sup>a</sup> The Corporate Plans 2019/2020 to 2023/2024 and 2020/2021 to 2024/2025 were developed based on information as at December 31, 2018, and December 31, 2019, respectively.