PART 2 **Consolidated financial statements**

Management responsibility for consolidated financial statements

June 2, 2020

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 Routledge
President and Chief Executive Officer

Camille Ringrose
Head, Finance and Operations & 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 2020, 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 2020, 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

Independent auditor's report

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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.

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

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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, except for the change in the method of accounting for leases as explained in Note 3 to the consolidated financial statements, 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

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
2 June 2020

Consolidated financial statements and notes

Canada Deposit Insurance Corporation

Consolidated statement of financial position

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

	Notes	2020	2019
ASSETS			
Cash		3,568	2,190
Investment securities	*4*	5,730,984	5,033,815
Trade and other receivables		260	502
Amounts recoverable from estates	*5*	6	6
Prepayments		1,106	605
Right-of-use assets	*6*	11,920	—
Property, plant and equipment	*7*	3,621	3,189
Intangible assets	*8*	3,482	3,884
TOTAL ASSETS		**5,754,947**	**5,044,191**
LIABILITIES			
Trade and other payables		7,812	5,800
Current tax liability		2,941	504
Lease liabilities	*6*	12,611	—
Deferred lease inducement		—	734
Employee benefits	*17*	1,444	1,524
Provision for insurance losses	*9*	2,250,000	2,050,000
Deferred tax liability	*12*	448	303
Total liabilities		**2,275,256**	**2,058,865**
EQUITY			
Retained earnings		3,479,691	2,985,326
TOTAL LIABILITIES AND EQUITY		**5,754,947**	**5,044,191**

Contingencies and commitments (Note 16)

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

Approved by the Board of Directors on June 2, 2020

Director

Director

Canada Deposit Insurance Corporation

Consolidated statement of comprehensive income

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

	Notes	2020	2019
REVENUE			
Premium	*13*	668,360	644,576
Investment income	*4*	85,490	66,545
Other		6	31
		753,856	711,152
EXPENSES			
Net operating expenses	*14*	51,008	42,593
Increase in provision for insurance losses	*9*	200,000	—
Recovery of amounts previously written off	*5*	—	(441)
		251,008	42,152
Net income before income taxes		502,848	669,000
Income tax expense	*12*	8,661	5,989
NET INCOME		**494,187**	**663,011**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income:			
Actuarial gain (loss) on defined benefit obligations	*17*	237	(35)
Income tax effect	*12*	(59)	9
Other comprehensive income (loss), net of tax		178	(26)
TOTAL COMPREHENSIVE INCOME		**494,365**	**662,985**

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, 2018	**2,322,341**
Net income	663,011
Other comprehensive loss	(26)
Total comprehensive income	662,985
Balance, March 31, 2019	**2,985,326**
Net income	494,187
Other comprehensive income	178
Total comprehensive income	494,365
Balance, March 31, 2020	**3,479,691**

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)

	2020	2019
OPERATING ACTIVITIES		
Net income	494,187	663,011
Adjustments for:		
Depreciation and amortization	3,683	2,146
Investment income	(85,490)	(66,545)
Interest expense on lease liabilities	235	—
Income tax expense	8,661	5,989
Employee benefit expense (reversal)	164	(930)
Loss on retirement and disposal of property, plant and equipment, and intangible assets	—	3
Change in working capital:		
Decrease (increase) in trade and other receivables	242	(287)
Decrease in amounts recoverable from estates	—	76
Increase in prepayments	(501)	(288)
Increase (decrease) in trade and other payables	2,012	(259)
Decrease in deferred lease inducement	(734)	(113)
Increase in provision for insurance losses	200,000	—
Investment income received	113,446	92,093
Employee benefit payment	(7)	(385)
Interest paid on lease liabilities	(235)	—
Income tax paid	(6,138)	(5,735)
Net cash generated by operating activities	729,525	688,776
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, and intangible assets	(2,327)	(1,384)
Purchase of investment securities	(2,362,392)	(1,993,950)
Proceeds from sale or maturity of investment securities	1,637,267	1,307,167
Net cash used in investing activities	(727,452)	(688,167)
FINANCING ACTIVITIES		
Principal payment of lease liabilities	(1,429)	—
Incentive in connection with the recognition of finance lease under IFRS16	734	—
Net cash used in financing activities	(695)	—
Net increase in cash	1,378	609
Cash, beginning of year	2,190	1,581
Cash, end of year	**3,568**	**2,190**

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

Notes to the consolidated financial statements

March 31, 2020

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 Budget 2014 to modernize and enhance Canada's deposit insurance framework received Royal Assent on June 21, 2018. Certain changes relating to deposit insurance coverage came into force on April 30, 2020, while the second phase of changes is set to come into force on April 30, 2022. The changes have required, and will continue to require, amendments to certain CDIC by-laws and administrative processes.

As a part of the *COVID-19 Emergency Response Act*, which received Royal Assent on March 25, 2020, the *CDIC Act* was amended to allow the Minister of Finance to increase the deposit insurance coverage limit until September 30, 2020.

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 2, 2020.

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 lease liability, provision for insurance losses and certain employee benefits (see Note 17) 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.

With the exception of the new application of IFRS 16, the accounting policies set out in Note 2 were consistently applied to all the periods presented.

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
- Developing appropriate models and assumptions for the measurement of ECLs
- Determining 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.

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 9 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 7 and 8.

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 17.

Financial instruments

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 the above 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 of 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 *Financial Instruments: 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 expected to be received, 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 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 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 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

The Corporation adopted IFRS 16 effective April 1, 2019, using the modified retrospective method; therefore, the comparative information has not been restated. As such, IAS 17 *Leases* (IAS 17), International Financial Reporting Issues Committee (IFRIC) 4 *Determining Whether an Arrangement Contains a Lease* (IFRIC 4), Standard Interpretations Committee (SIC) 15 *Operating Leases—Incentives* (SIC 15), and SIC 27 *Evaluating the Substance of Transitions Involving the Legal Form of a Lease* (SIC 27) continue to be applicable to the comparative information.

Accounting policy before date of transition

The following policy is applied to contracts entered into before April 1, 2019.

IAS 17 requires a lease to be classified as a finance lease 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. If this criterion is not satisfied, the lease should be classified as an operating lease.

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

Rentals payable under 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.

Accounting policy after date of transition

The following policy is applied to contracts entered into on, or after, April 1, 2019.

At the inception of a contract, the Corporation determines if a contract, or part of a contract, contains a lease. A contract contains a lease if it conveys the right to use an identified asset for a period of time in exchange for consideration. The Corporation uses the following criteria to assess whether a contract conveys the right to control the use of an identified asset:

- The Corporation has the right to obtain substantially all of the economic benefits from the use of the identified assets.
- The supplier does not have the substantive right to substitute the asset through the period of use.
- The Corporation has the right to direct the use of the identified asset.

For a contract that contains multiple lease components or one or more lease components and non-lease components, the Corporation allocates, at inception, the consideration in the contract to each lease or non-lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease component.

At the commencement of a lease, the Corporation recognizes a right-of-use asset and a lease liability.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date, and the cost of dismantling and removing the asset, including the cost of restoring the site less any lease incentives received. These recognized assets are depreciated on a straight-line basis over the shorter of its estimated useful life consistent with those of property, plant and equipment and the lease term, unless the Corporation is reasonably certain to obtain ownership of the leased asset at the end of the lease term.

Lease liabilities

Lease liabilities are measured at the present value of lease payments to be made over the lease term discounted using the interest rate implicit in the lease, unless it cannot be readily determined, in which case the Corporation's incremental borrowing rate is used. The lease payments include fixed payments less any lease incentives, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option or penalties for terminating a lease reasonably certain to be exercised or terminated by the Corporation. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

The lease liability is subsequently measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured to reflect any reassessment or lease modifications specified, or to reflect revised in-substance fixed lease payments.

Short-term leases and leases of low-value assets

The Corporation applies the short-term lease recognition exemption to contracts with no purchase option with a lease term of 12 months or less from the commencement date of the contract. The Corporation also applies the low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

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

The following IFRS issued by the International Accounting Standards Board (IASB) is mandatory and effective for accounting periods beginning on or after January 1, 2019.

IFRS 16 Leases (IFRS 16)

IFRS 16 supersedes IAS 17, IFRIC 4, SIC 15 and SIC 27. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Effective April 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective method and recognized $13,263 thousand of right-of-use assets and $13,997 thousand of lease liabilities, the difference being deferred lease inducements, with no impact on opening retained earnings. When measuring lease liabilities, future lease payments are discounted using zero-coupon Government of Canada bond yields with durations equal to the remaining lease term as at April 1, 2019. No risk premium was added to the discount rates. The weighted average incremental borrowing rate applied as at April 1, 2019, was 1.72%.

On initial application of IFRS 16, the Corporation elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. CDIC also elected to use the recognition exemptions for short-term leases and low-value assets. The Corporation has applied the definition of a lease under IFRS 16 to contracts entered into on or after April 1, 2019.

All the Corporation's leases were accounted for as operating leases prior to the date of initial application of IFRS 16. Under IFRS 16, CDIC recognizes a lease liability and right-of-use asset for all leases except short-term leases and low-value assets. At the date of initial application, lease liabilities were measured at the present value of the lease payments that were not yet paid as at that date, discounted using the Corporation's incremental borrowing rate. Right-of-use assets were measured on a lease-by-lease basis, at an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments or deferred inducements.

More information on IFRS 16 can be found in Note 6 to these consolidated financial statements.

New and revised IFRS issued but not yet effective

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 was stated to be effective for annual periods beginning on or after January 1, 2021. However, in June 2019, the IASB issued an Exposure Draft containing proposed amendments responding to concerns and implementation challenges raised by stakeholders.

On March 17, 2020, the IASB's Board met and tentatively decided to confirm most of the proposals in the Exposure Draft with some changes to address feedback on those proposals. These amendments are expected to be issued in the second calendar quarter of 2020. It was also decided that IFRS 17, including the proposed amendments, will be effective for annual periods beginning on or after January 1, 2023. The Corporation will evaluate the potential impact of this new standard including the coming amendments on its consolidated financial statements once these amendments are finalized; therefore, the impact is not known at this time.

4—Investment securities

	Remaining term to maturity			
As at March 31, 2020 (C$ thousands)	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	25,639	—	—	25,639
Weighted average effective yield (%)	1.03	—	—	1.03
Bonds	311,138	837,602	4,556,605	5,705,345
Weighted average effective yield (%)	1.29	1.17	1.75	1.64
Total investment securities	**336,777**	**837,602**	**4,556,605**	**5,730,984**
Weighted average effective yield (%)	**1.27**	**1.17**	**1.75**	**1.64**

	Remaining term to maturity			
As at March 31, 2019 (C$ thousands)	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**

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.

			Fair values			
As at March 31, 2020 (C$ thousands)	Amortized cost	Unrealized gains	Level 1	Level 2	Level 3	Total
Treasury bills	25,639	—	25,639	—	—	25,639
Bonds	5,705,345	132,994	4,249,362	1,588,977	—	5,838,339
Total investment securities	**5,730,984**	**132,994**	**4,275,001**	**1,588,977**	**—**	**5,863,978**

			Fair values			
As at March 31, 2019 (C$ thousands)	Amortized cost	Unrealized (losses) gains	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**

The Corporation's total investment income from financial assets measured at amortized cost was $85,490 thousand for the year ended March 31, 2020 (2019: $66,545 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, 2020 (2019: 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, 2020 (2019: nil).

The Corporation did not record any loss allowances on its investment securities at March 31, 2020 (2019: nil).

5—Recovery of amounts previously written off

During the year ended March 31, 2020, ACC, the structured entity controlled by the Corporation, did not recognize any recovery in relation to amounts previously written off (2019: nil). As at March 31, 2020, $6 thousand remains receivable (2019: $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, 2020, CDIC did not receive any distributions from the liquidator of Standard Trust Company, a member institution that failed in 1991 (2019: $517 thousand), and therefore did not recognize any recovery in relation to amounts previously written off (2019: $441 thousand).

As at March 31, 2020, no amount has been recorded as receivable from the estate of Standard Trust Company in the consolidated statement of financial position (2019: nil). There may be additional immaterial final recoveries from the estate upon dissolution.

6—Right-of-use assets and lease liabilities

The Corporation leases office space in Ottawa and Toronto. The Ottawa lease ends in September 2030, with an option to renew for an additional five years. The Toronto lease ends in October 2021, with an option to renew for an additional five years. The extension options for both the Ottawa and Toronto offices are exercisable solely at the discretion of the Corporation. Upon implementation of the standard, CDIC assessed that it was not reasonably certain to exercise any extension options. However, the option to renew the existing Toronto office space, as well as a new lease for adjacent office space in Toronto for three years, is under discussion as at March 31, 2020.

The Corporation leases equipment under a five-year term ending in March 2020, which was extended in March 2020 by three months to June 2020. The Corporation also entered into a new lease for equipment commencing in June 2020 for a term of five years, to replace the existing equipment. This lease has been reflected in the Corporation's commitments and will be recognized in accordance with IFRS 16 on the date of commencement.

Carrying value of right-of-use assets

(C$ thousands)	**Leased office space**	**Equipment**	**Total**
Cost			
Balance, April 1, 2019	**13,244**	**19**	**13,263**
Additions	—	5	5
Adjustments	38	—	38
Balance, March 31, 2020	**13,282**	**24**	**13,306**
Accumulated depreciation			
Balance, April 1, 2019	**—**	**—**	**—**
Depreciation	1,367	19	1,386
Balance, March 31, 2020	**1,367**	**19**	**1,386**
Carrying amounts			
Balance, April 1, 2019	13,244	19	13,263
Balance, March 31, 2020	**11,915**	**5**	**11,920**

Carrying value of lease liabilities

(C$ thousands)	Leased office space	Equipment	Total
Balance, April 1, 2019	**13,978**	**19**	**13,997**
Additions	—	5	5
Adjustments	38	—	38
Finance charges	235	—	235
Lease payments	(1,645)	(19)	(1,664)
Balance, March 31, 2020	**12,606**	**5**	**12,611**

Interest expense on lease liabilities of $235 thousand was recorded in the statement of comprehensive income during the year ended March 31, 2020. The Corporation recognized no expenses related to short-term leases and the amount recognized for low-value assets during the year ended March 31, 2020, was insignificant. Cash payments for the interest portion of $235 thousand and the principal portion of $1,429 thousand of the lease liability were recognized in the statement of cash flows under operating activities and financing activities, respectively.

During the year ended March 31, 2020, the lease liability for printers was remeasured due to an extension in the lease term by three months, to June 2020. A rate of 0.52% was used as the incremental borrowing rate to discount the lease liability recognized in these consolidated financial statements.

Maturity analysis for lease liabilities (undiscounted)

(C$ thousands)	Leased office space	Equipment	Total
Not later than one year	1,509	5	1,514
Later than one year and not later than five years	5,228	—	5,228
Later than five years	7,048	—	7,048
Total	**13,785**	**5**	**13,790**

7—Property, plant and equipment

(C$ thousands)	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost				
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**
Additions	154	222	775	1,151
Balance, March 31, 2020	**3,885**	**1,760**	**5,184**	**10,829**
Accumulated depreciation				
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**
Depreciation	205	153	361	719
Balance, March 31, 2020	**3,355**	**1,167**	**2,686**	**7,208**
Carrying amounts				
Balance, March 31, 2019	581	524	2,084	3,189
Balance, March 31, 2020	**530**	**593**	**2,498**	**3,621**

8—Intangible assets

(C$ thousands)	Computer software	Computer software under development	Total
Cost			
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**
Additions—internal development	1,140	36	1,176
Balance, March 31, 2020	**13,980**	**274**	**14,254**
Accumulated amortization			
Balance, March 31, 2018	**7,765**	**—**	**7,765**
Amortization	1,429	—	1,429
Balance, March 31, 2019	**9,194**	**—**	**9,194**
Amortization	1,578	—	1,578
Balance, March 31, 2020	**10,772**	**—**	**10,772**
Carrying amounts			
Balance, March 31, 2019	3,646	238	3,884
Balance, March 31, 2020	**3,208**	**274**	**3,482**

The carrying amount of computer software as at March 31, 2020, consists primarily of the Regulatory Reporting System (RRS) and mandate applications. The carrying amount for RRS as at March 31, 2020, was $663 thousand, with a remaining amortization period of four years (2019: $1,109 thousand, with a remaining amortization period of 1.5 years). The carrying amount for mandate applications as at March 31, 2020, was $2,181 thousand, with a remaining amortization period of four years (2019: $2,072 thousand, with a remaining amortization period of four years).

9—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.

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

As at March 31 (C$ thousands)	**Provision for insurance losses**
Balance, March 31, 2019	**2,050,000**
Changes in provision	200,000
Balance, March 31, 2020	**2,250,000**

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, 2020, was 0.60% (2019: 1.52%). Discount rate sensitivity analysis is performed by the Corporation as its impact on the provision for insurance losses is considered significant. An increase of 25 basis points in the discount rate will decrease the provision by $28 million (2019: $99 million decrease due to an increase of 100 basis points), while a decrease of 25 basis points in the discount rate will increase the provision by $28 million (2019: $105 million increase due to a decrease of 100 basis points).

The Corporation is implementing the Deposit Insurance Review that was announced in Budget 2014 to modernize and enhance Canada's deposit insurance framework. Certain changes relating to deposit insurance coverage came into force on April 30, 2020, while the second phase of changes is set to come into force on April 30, 2022. The changes have required and will continue to require amendments to certain CDIC by-laws and administrative processes. A preliminary estimate of these changes has been included in the provision calculation by applying an expected growth rate to the insured deposits of member institutions, excluding domestic systemically important banks (D-SIBs) as their provision is based on total Canadian assets, based on the Return of Insured Deposits filed as of April 30, 2019. Future coverage due to legislative changes was not reflected in the provision calculation as their impacts are not known and, therefore, the actual growth resulting from these changes may differ significantly from this estimate.

10—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)	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
Financial assets	**5,734,818**	**5,036,513**
Trade and other payables	7,812	5,800
Financial liabilities	**7,812**	**5,800**

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: providing liquidity 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.

Formal policies are in place for all significant financial risks to which CDIC is exposed. The policies are reviewed 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, 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 the Corporation 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 Corporation*s in order to minimize its credit risk.

The following table summarizes the credit quality of CDIC's investment securities by credit rating.

As at March 31 (C$ thousands)	**2020**	**2019**
AAA	4,520,283	4,385,778
AA	46,741	10,779
AA-	565,412	366,027
A+	598,548	271,231
Total investment securities	**5,730,984**	**5,033,815**

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 and value of assets held within the estates of failed member institutions, thus exposing CDIC to additional credit risk. The Corporation remains closely involved in the asset realization process of these failed institutions in order to mitigate credit risk and minimize any potential loss to CDIC. As at March 31, 2020, CDIC does not have significant amounts recoverable from the estates of failed member institutions.

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 of 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 $25 billion (2019: $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, 2020 and 2019. Under the *CDIC Act*, 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 the market value of its investments.

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)	**2020**	**2019**
100 basis point increase	4,312	3,377
25 basis point decrease	(1,078)	(844)

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.

11—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, 2020, 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)	**2020**	**2019**	**2020**
Retained earnings	3,479,691	2,985,326	
Provision for insurance losses	2,250,000	2,050,000	
Total *ex ante* funding	**5,729,691**	**5,035,326**	**8,519,033**
Total basis points of insured deposits	**67**	**62**	**100**

12—Income taxes

The Corporation is subject to federal income tax. CDIC'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)	**2020**	**2019**
Current income tax:		
Current income tax expense	8,628	5,739
Adjustments in respect of current income tax of previous years	(53)	(42)
Deferred tax:		
Relating to the origination of temporary differences	86	292
Income tax expense recognized in net income	**8,661**	**5,989**

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)	**2020**	**2019**
Net income before income taxes	502,848	669,000
Expected income tax at the 25% federal tax rate (2019: 25%)	125,712	167,250
Non-deductible adjustments:		
Premium revenue	(167,090)	(161,144)
Increase in non-deductible provision for insurance losses	50,000	—
Recovery of amounts previously written off	—	(110)
Other	39	(7)
Income tax expense recognized in net income	**8,661**	**5,989**

The tax effects of temporary differences that gave rise to deferred assets and liabilities during the years ended March 31, 2020 and 2019, are as follows:

As at March 31, 2020 (C$ thousands)	Opening balance	IFRS 16 adoption	Recognized in net income	Recognized in other comprehensive income	Closing balance
Deferred tax assets					
Lease incentives	184	(184)	—	—	—
Remuneration payable	41	—	86	—	127
Defined benefit obligations	210	—	39	(59)	190
Lease liability	—	3,509	(356)	—	3,153
Deferred tax liabilities					
Property, plant and equipment, and intangible assets	(738)	—	(200)	—	(938)
Right-of-use assets	—	(3,325)	345	—	(2,980)
Net deferred tax liability	**(303)**	**—**	**(86)**	**(59)**	**(448)**

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)	—	—
Deferred tax liabilities				
Property, plant and equipment, and intangible assets	(822)	84	—	(738)
Net deferred tax liability	**(20)**	**(292)**	**9**	**(303)**

13—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 2019/2020 fiscal year are as follows:

Premium category *(basis points of insured deposits)* *For the year ended March 31*	**2020**	**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

Premium revenue of $668,360 thousand was recorded during the year ended March 31, 2020 (2019: $644,576 thousand). Premium revenue is higher year over year due to changes in the categorization of certain member institutions and an increase in total insured deposits held at member institutions.

14—Operating expenses

For the year ended March 31 (C$ thousands)	**2020**	**2019**
Salaries and other personnel costs	25,359	20,483
Professional and other fees	6,794	5,006
Premises	2,333	3,806
General expenses	4,201	3,435
Public awareness	5,743	5,431
Depreciation and amortization	2,297	2,146
Depreciation on right-of-use assets	1,386	—
Interest expense on lease liabilities	235	—
Data processing	2,831	2,438
	51,179	42,745
Expense recoveries from related parties*	(171)	(152)
Total operating expenses	**51,008**	**42,593**

* 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, 2020.

15—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, 2020, CDIC recognized an amount of $2,185 thousand (2019: $2,005 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 17 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. During the year ended March 31, 2020, the system was upgraded and an additional amount of $244 thousand was capitalized as computer software (2019: nil).

Key Management personnel

Key Management personnel include all members of the Board of Directors and Corporate 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)	**2020**	**2019**
Wages, bonuses and other short-term benefits	2,190	2,163
Post-employment benefits	446	399
Termination benefits	661	—
Total key Management personnel remuneration	**3,297**	**2,562**

16—Contingencies and commitments

There were no claims pending against the Corporation as at March 31, 2020.

As at March 31, 2020, CDIC had commitments of $515 thousand in relation to the development of internally generated assets (2019: $806 thousand). The Corporation has various other contractual agreements for services. As at March 31, 2020, these future commitments are $9,211 thousand in total (2019: $13,482 thousand).

17—Employee benefits

For the year ended March 31 (C$ thousands)	**2020**	**2019**
Defined benefit obligations	1,444	1,524
Employee benefits	**1,444**	**1,524**

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 3.8 times (2019: 3.79 times) the employees' contribution on amounts of salaries in excess of $173 thousand (2019: $169 thousand). For amounts on salaries below $173 thousand (2019: $169 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 (2019: 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 15. The estimated expense for fiscal 2020/2021 is $2,702 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, with employment start dates before January 1, 2013, upon retirement based on years of service and final salary. Resignation benefits are provided to certain employees, with employment start dates before January 1, 2013, 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, 2020, 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	**2020**	**2019**
Discount rate	3.16%	3.65%
Rate of compensation increase:		
Fiscal 2019/2020	2.0% + merit	2.0% + merit
Fiscal 2020/2021	1.5% + merit	2.0% + merit
Thereafter	1.5% + merit	2.0% + 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)	**2020**	**2019**
Current service cost	114	114
Interest on obligation	50	53
Defined benefit obligations expense	**164**	**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, 2018	**452**
Recognized during the period	(35)
Cumulative amount at March 31, 2019	**417**
Recognized during the period	237
Cumulative amount at March 31, 2020	**654**

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, 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
Balance, March 31, 2019	**1,524**
Current service cost	114
Interest cost	50
Benefit payments	(7)
Actuarial gain arising from changes in demographic and other assumptions	(102)
Actuarial gain arising from changes in financial assumptions	(135)
Cumulative amount at March 31, 2020	**1,444**

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)	**2020**	**2019**
Increase (decrease) in defined benefit obligations		
Effect of an increase of 1%:		
Discount rate	(116)	(142)
Rate of compensation increase	142	174
Effect of a decrease of 1%:		
Discount rate	133	165
Rate of compensation increase	(126)	(152)

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, 2020, the weighted average duration of the defined benefit obligations was 8.9 years (2019: 10.4 years).

18—Events after reporting period

The provision for insurance losses is an estimate, which is determined by assessing the aggregate risk of the Corporation's member institutions based on the inputs discussed in Note 2. CDIC has had to use judgment in determining adjusting and non-adjusting subsequent event impacts due to the COVID-19 pandemic, the significant decline in oil prices and volatility and uncertainty in financial markets.

The impact of events and changes which occurred prior to March 31, 2020, as well as the impact of adjusting subsequent events, has been reflected in the provision for insurance losses balance as at March 31, 2020 (see Note 9). Non-adjusting subsequent events would further increase the provision for insurance losses disclosed in Note 9 by an estimated amount of $150 million if the provision were to be measured as at the date of approval of these consolidated financial statements. This estimate is as a result of further changes in conditions which occurred after March 31, 2020, regarding the risk profile of certain member institutions, increased expectations of default derived from probability statistics for certain member institutions, changes in the credit ratings of certain member institutions and a decrease to the discount rate applied to the provision for insurance losses. These are new facts and events that were not known and did not exist as at March 31, 2020. Adjusting and non-adjusting impacts are estimates and actual results may differ significantly from these estimates.