Canada Deposit Insurance Corporation

2020 Annual Report

We protect your deposits.

Canada

CDIC'S MANDATE

CDIC's mandate is composed of these four objects in the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*):

- 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.
- To pursue these objects for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss.
- To act as the resolution authority for its members.

CDIC'S VISION

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

CDIC'S RISK PHILOSOPHY

CDIC is fundamentally focused on anticipating and being prepared to act against risks that threaten the protection of Canadian insured deposits 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.

FOR MORE INFORMATION ABOUT CDIC

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

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

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

Toll-free telephone service:
1-800-461-CDIC (2342)
TTY: 613-943-6456
Fax: 613-996-6095
Website: **www.cdic.ca**
E-mail: info@cdic.ca

Catalogue number: CC391-1

Protecting your deposits

CDIC is a federal Crown corporation that protects your deposits for up to $100,000 per insured category at financial institutions that are CDIC members. Coverage is free and automatic.

What's covered?

- Savings and chequing accounts
- Guaranteed Investment Certificates (GICs) and other term deposits
- Foreign currency deposits

What's not covered?

- Mutual funds, stocks, and bonds
- Exchange Traded Funds (ETFs)
- Cryptocurrencies

Not every deposit is eligible for CDIC protection. Visit **www.cdic.ca** to learn more.

Add up your coverage

We protect deposits in CDIC member institutions. If you deposit money in **savings accounts**, **chequing accounts**, or **GICs** and **other term deposits**, it is protected for up to $100,000.

You	$100,000 (in your name alone)
+ You and another	$100,000 (joint total)
+ Your savings in trust	$100,000 (for each beneficiary, includes RESPs)
+ Your tax-free savings	$100,000 (TFSA)
+ Your retirement savings	$100,000 (RRSP)
+ Your retirement income	$100,000 (RRIF)
+ Your property taxes	$100,000 (for mortgaged properties)

= Your total protection in *each* CDIC member

What happens if a CDIC member fails?

CDIC works hard to protect your savings and your access to financial services. If your institution closes, we will provide access to your insured funds (including interest) within days. It's automatic—we will contact you.

What can you do?

- Know what is covered and what is not.
- Keep your contact information up-to-date at your financial institution.
- Make sure your broker or financial advisor knows about CDIC's rules for deposit protection.

Want to know more?

CDIC is a federal Crown corporation, and is fully funded by CDIC members.

Visit our website
www.cdic.ca

Call us
1-800-461-2342

Follow us

This is general information about deposit insurance and is not intended as legal or financial advice. The Government of Canada has announced that certain changes to the *CDIC Act* will come into force on April 30, 2022. For more information, please visit our website at **www.cdic.ca**.

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the years ending March 31	2020	2019	2018	2017	2016
Selected statement of financial position items (C$ millions)					
Cash and investments	**5,735**	5,036	4,374	3,833	3,411
Provision for insurance losses	**2,250**	2,050	2,050	1,600	1,300
Retained earnings	**3,480**	2,985	2,322	2,236	2,116
Selected statement of comprehensive income items (C$ millions)					
Premiums	**668**	645	535	420	361
Investment income	**86**	66	46	40	40
Total revenue	**754**	711	582	461	401
Operating expenses	**51**	43	46	41	40
Increase in provision for insurance losses	**200**	—	450	300	50
Income tax expense	**9**	6	—	—	—
Total comprehensive income	**494**	663	86	120	316
Member institutions (number)					
Domestic banks and subsidiaries	**54**	53	50	50	49
Subsidiaries of foreign financial institutions	**15**	16	17	17	16
Domestic trust and loan companies and associations	**15**	14	14	14	13
Federally regulated credit unions	**2**	2	1	1	0
Total number of institutions	**86**	85	82	82	78
Total insured deposits[a] (C$ billions)	**852**	807	774	741	696
Growth rate of insured deposits (%)	**5.5**	4.3	4.4	6.5	1.8
***Ex ante* funding** (C$ billions)	**5.7**	5.0	4.4	3.8	3.4
Basis points of insured deposits	**67**	62	55	52	49
Borrowing limit (C$ billions)[b]	**25**	23	23	22	20
Basis points of insured deposits	**293**	285	297	297	287
Permanent employees (number)[c]	**135**	116	126	126	119

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

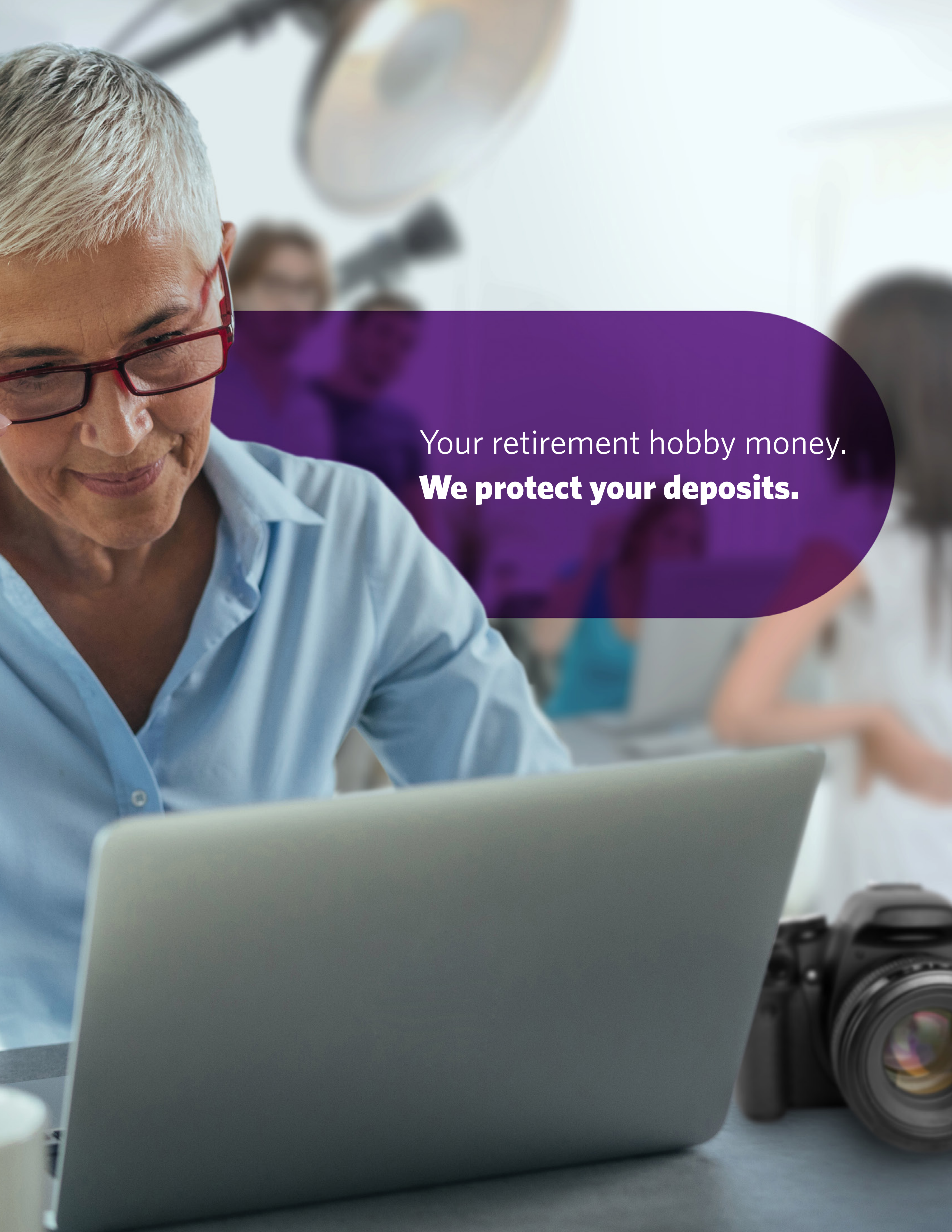
[b] Under the *CDIC Act*, CDIC has the authority to access additional funds through borrowing, subject to ministerial approval. The borrowing limit is indexed to the growth of insured deposits.

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

THE YEAR AT A GLANCE

In 2019/2020 . . .

- CDIC's **membership reached 86 members**. Deposits insured by CDIC increased by 6% year over year to $852 billion.
- **Total net income earned by CDIC members increased to $49.4 billion**. 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.
- While the full impact of the COVID-19 pandemic on the health of Canadians, the Canadian economy and CDIC member institutions remains highly uncertain, **CDIC stands ready to fulfill its objects** with a particular emphasis on protecting the deposits of Canadians, promoting financial stability, and serving as the resolution authority for CDIC's member institutions.
- 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 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 its leadership and organizational structure. As part of this transformation, CDIC established a new cultural framework with renewed values and competencies.
- CDIC **continued to work with the Department of Finance to implement the deposit insurance framework review**. 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.
- The Corporation **completed its existing three-year public awareness strategy**. Its surveys show that 61% of Canadians were aware of CDIC or federal deposit protection as of March 2020. Awareness grew steadily during the span of the three-year strategy, particularly in target demographics such as Canadians aged 18–34 and low-income Canadians. When the COVID-19 pandemic began, CDIC increased its advertising presence to bolster the confidence of Canadians in the safety of their deposits and to contribute to financial stability.
- The Office of the Auditor General (OAG) conducted a **Special Examination of CDIC**, as is required at least once every 10 years under the *Financial Administration Act*. 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.
- CDIC welcomed **one new private sector Director and one new *ex officio* Director** to its Board of Directors: J. Martin Castonguay and Judith Robertson, respectively.


Your retirement hobby money.
We protect your deposits.

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Your fishing trip money.
We protect your deposits.

Message from the Chair

This past year has been one of transformation for the world and CDIC. Our focused initiatives implemented during this time have been critical to how we face the challenges ahead. We find ourselves amid a pandemic that has required an unprecedented response from business, individuals and government, including CDIC. This is an environment that will challenge the resiliency of the financial system. Clearly there are stresses being placed on members of society and their financial well-being. As always, CDIC sees it as vitally important to be there to help Canadians and ensure we are ready to step in quickly and responsibly to contribute to financial stability. The work we have done over the past year has positioned CDIC well to respond.

The continuum started with the arrival of CEO Peter Routledge some four months before the beginning of the year, the appointment of a Chief Risk Officer and the recognition of the need to transform its existing Enterprise Risk Management (ERM) structure for the organization. That was step one.

The second step in the continuum was reorganizing the Board committee structure, including new charters to place a focus on risk. To this end, we established a new Risk Committee and then, working with the Chief Risk Officer, the Board approved the ERM Framework and CDIC's first risk appetite statement in December 2019. This statement acknowledges that CDIC operates in an environment where there are a number of risks that could impact its ability to meet its mandate and vision. CDIC recognizes that risk avoidance is not realistic or practical, that we cannot control, prevent or prepare for all risks, nor can we afford to do so at any cost. This statement provides a lens through which the Board can take a governance perspective in its stewardship of CDIC, including overseeing and providing guidance on CDIC's strategy and weighing its inherent risks. It also provides the guide rails within which the organization delivers on its mandate.

The Board also took steps to enhance transparency and improve its effectiveness, notably through an initiative to improve its decision making and meeting effectiveness, and through an improved two-way flow of information with Leadership. Its goals include a greater focus on the Board and its committees' specific governance objectives; an emphasis on strategy and strategic issues; and ensuring a productive relationship with Leadership, in which both groups support, challenge and provide constructive feedback. This supports our oversight and stewardship functions.

The third step in the continuum was critical—the work that was undertaken on workplace culture and the redefinition of our promises and commitments. The Board encouraged and endorsed this initiative and had already commenced performance self-assessments at its meetings to update its own culture model at the Board level. This step led to the restructuring of CDIC, on the direction of the Board of Directors, to allow us to address our main risks and the level of tolerance we have with them in the most efficient and effective manner.

These three steps have positioned CDIC well for the tumultuous year before us. They will allow the Board to focus on big issues, including strategy. As a Board, we are fortunate to enjoy open access to CDIC Leadership, and our members have engaged with staff on several fronts during the year. The fact that CDIC staff have responded to us as Directors has been very gratifying and this helps the Board with a better understanding of the business. I am thankful for it.

I would also like to note some significant events that took place over the past year.

The results of a Special Examination by the Office of the Auditor General of Canada (OAG) show that CDIC has sound practices and systems in place to oversee the management of the Corporation. The **report** 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 action plans to three OAG recommendations for improvement.

Several membership changes to our Board occurred during the year. I would like to thank Lucie Tedesco, former Commissioner of the Financial Consumer Agency of Canada, for her service. During her tenure, Commissioner Tedesco made an outstanding contribution to CDIC, its Board of Directors and the Canadian public, by providing invaluable insight on the perspectives of Canadian financial consumers and the importance of financial literacy to awareness of CDIC deposit insurance. I welcome her successor Judith Robertson to this *ex officio* membership to the Board.

Likewise, I wish to thank Bank of Canada Governor Stephen Poloz for his years of service. During his tenure, Governor Poloz provided invaluable advice, insights, strategic thinking and innovation to the Board, responding to crisis events, including the unprecedented COVID-19 pandemic and its effects on financial services, and contributing to CDIC's object to promote the stability of the financial system in Canada. And I welcome his successor Tiff Macklem to our ranks.

Lastly, I would like to commend CDIC's staff for demonstrating flexibility and agility in making the shift to working from home during this COVID-19 pandemic. It is difficult to balance the needs of our families and health with our work lives, but I am confident the CDIC team will continue to deliver the high quality of service that Canadians enjoy from the Corporation.

Robert O. Sanderson

Message from the President and CEO

Spring 2020 marks the completion of my first full year as President and Chief Executive Officer of CDIC. It has been a year of transformation. I would like to thank my colleagues for embracing a vision for cultural renewal and for bolstering the competencies that we will draw on to protect Canadians' deposits through all economic conditions. And I want to thank our Board of Directors for articulating a clear course of action for CDIC and for their support for our Leadership team as we drive towards the Board's bold new direction.

Amid CDIC's transformation, the COVID-19 pandemic arrived, posing risks to the health of Canadians and to our economy. By virtue of the objects established by Parliament for CDIC, this Corporation has a limited but crucial role to play in protecting Canadians and providing them with the financial confidence to rebound. When considering how we will respond to the crisis, I am confident that CDIC's repositioning in 2019/2020 has established a firm foundation on which to fulfill our promises and commitments to Canadians in the unpredictable days ahead.

Let me summarize our transformation along five key themes.

Culture. Great organizations sustain themselves by defining their cultural values bottom-up and living them top-down. During the year, our staff members collaborated to define our cultural promises and commitments, and our Leadership will embed these in CDIC's culture by our top-down pursuit of them in the years to come. Our four key promises are:

- We serve Canadians.
- We are accountable.
- We work as one.
- We anticipate and respond.

Strategic decision making. Good strategic decision making at CDIC requires a deep understanding of how risks interplay with the objects in our mandate. And so, at the direction of our Board of Directors, we built an Enterprise Risk Management (ERM) Framework as the platform for better strategic decision making at CDIC. This framework underpins the dialogue between the Board and Management and ensures that CDIC's strategies and risk appetite are aligned across the organization.

Organization. To embed our culture and enable our ERM Framework, with the support of our Board, we restructured CDIC's organization. This included re-assembling teams within the organization into a structure that is better positioned against CDIC's objects and the evolving risks in our operating environment. Internal "pulse" surveys tell us that employees are feeling very positive about these changes and the organization is more confident as a result.

Preparedness. Our most important competency, as Canada's deposit insurer, is to be ready to manage through situations in which one or more of our member institutions transit through periods of financial instability or distress. The changes to our culture, strategic decision making and organization have dramatically improved CDIC's preparedness to serve Canadians through the entirety of the economic cycle. As an example, we have made significant strides in the modernization of our insurance and payout processes, which will ultimately enhance our service to Canadians using modern, fast and secure technologies that will adapt to the evolving banking landscape. We have also completed our first formal evaluation of the resolution plans of Canada's domestic systemically important banks, a process that CDIC had undertaken annually on an informal basis for a number of years. And we have extended the resolution planning exercise to our medium-sized members to ensure the resolvability of all member institutions, regardless of size. These initiatives leave CDIC very well positioned to manage through the financial uncertainty that may attend Canada's COVID-19 recovery.

Financial strength. As Canada's deposit insurer and resolution authority, CDIC continues to build on its exceptional financial strength at a low cost to Canadians. Our premiums of 7.85 basis points of insured deposits remain near global lows. Despite our modest premiums, the growth of our *ex ante* fund, which is designed to cover possible insurance losses, remains on track. As at March 31, 2020, the minimum target level of the Corporation's *ex ante* funding was 100 basis points of insured deposits by fiscal year 2025/2026. This is so because CDIC has a very low expense base relative to its premiums. Our borrowing authority, combined with our *ex ante* fund, gives CDIC ample financial flexibility to serve Canadians effectively through all periods of financial instability.

We understand that it's important for Canadians to be aware they are protected so they can benefit from the confidence that CDIC deposit protection provides. That is why CDIC has leveraged its financial strength to increase its advertising and marketing presence, and why I have personally delivered messages through the news media and social media to reassure Canadians about the safety of their deposits.

The COVID-19 pandemic presents significant risks to Canadians and to our economy. We at CDIC remain optimistic that Canada will overcome this challenge, as our country has done when faced with different challenges throughout its history. CDIC's contribution to this effort is focused but it is important, and we stand ready to fulfill our responsibilities to Canadians.

While Canadians will face many challenges in the months and years ahead, we can take one concern off our list. We ***do not*** have to worry about the safety of our deposits when we save at a CDIC member institution, which includes banks and other federal deposit-taking institutions. For more than 50 years, Canadians have relied on CDIC to protect their savings. And through both good times and difficult times, no one has ever lost a dollar under CDIC protection.

I would also like to commend and thank the dedicated and talented CDIC team, who made a swift and effective transition to working from home under COVID-19 pandemic restrictions. Regardless of where we work, we continue to serve Canadians as one.

As we get through these challenging times together, please know that CDIC will keep your money safe, always.

Peter D. Routledge


Your yoga class money.
We protect your deposits.

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**.

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

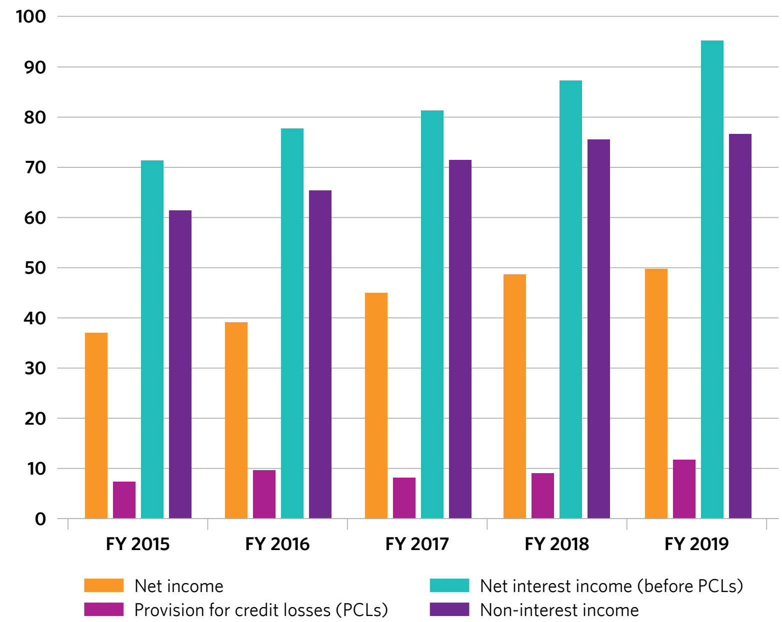
Profit and return on average shareholders' equity

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.

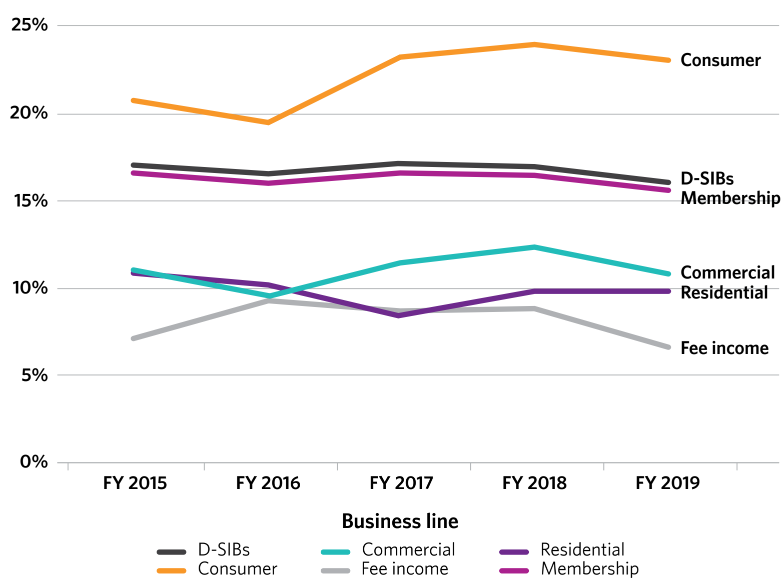
The membership's return on average shareholders' equity (ROAE), a broad-based measure looking at institutions' profitability, remained solid at 15.6%, down from 16.5% last year. The ROAE of the membership has been relatively stable over the last several years,

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



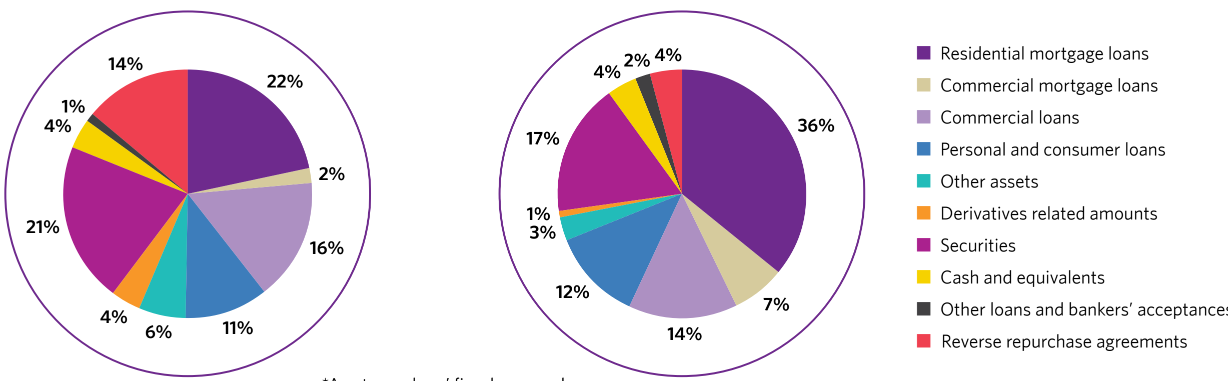
driven by the performance of the institutions in the domestic systemically important bank (D-SIB) peer group. As shown in the graph on the previous page, the ROAE varies considerably by peer group, mainly due to the type of lending and the degree of leverage utilized.

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)



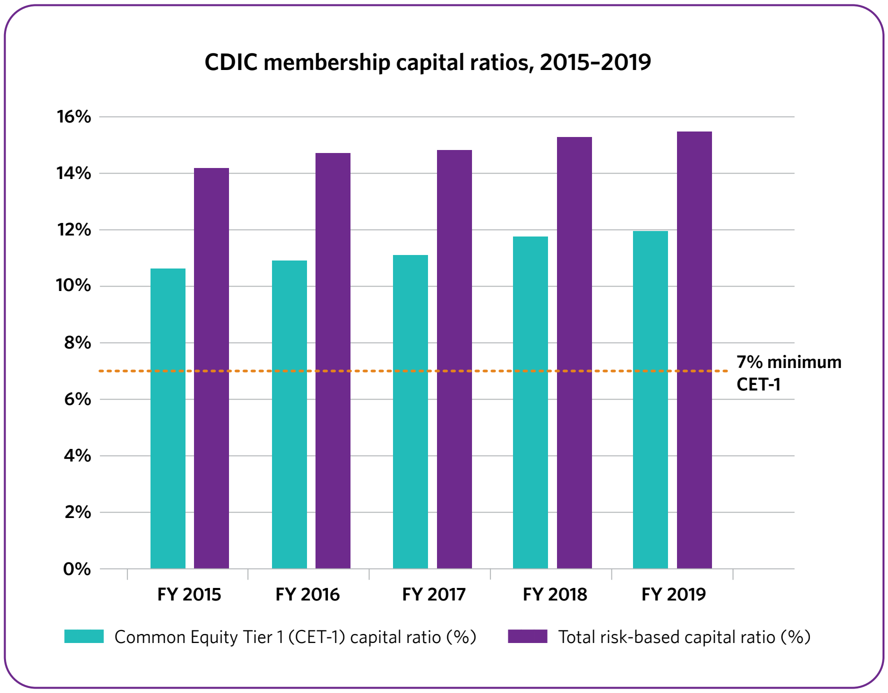
*As at members' fiscal year end
Note: Totals may not add to 100% due to rounding.

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

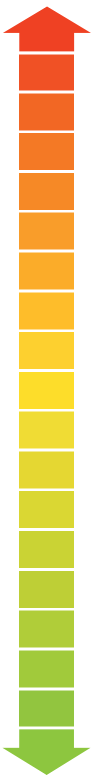
CDIC categorizes its risks according to the taxonomy below.

Strategic	Preparedness	Operational	Financial	Organizational
Strategic risk	Assessment risk	Information and technology risk	Liquidity risk	Culture risk
External risk	Resolution risk	Security risk	Market risk	People risk
Execution risk	Legal powers risk	Natural and physical hazard risk	Credit risk	Succession planning risk
	Member compliance risk	Fraud risk	Funding risk	
		Compliance and legal risk		
Reputational				

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



Increasing risk factors

- Virus spread and containment uncertain
- Unemployment rates increasing
- Market volatility continuing
- Consumer and business confidence eroded

Uncertain risk factors

- Medical vaccine/treatment and health of Canadians
- Duration of economic impacts
- The impact of COVID-19 on the financial resiliency of Canadian households and businesses

Decreasing risk factors

- Fiscal stimulus to support households and businesses
- Member institution liquidity support:
  - Bank of Canada programs
  - Canada Mortgage and Housing Corporation Insured Mortgage Purchase Program
- Market/credit support (Bank of Canada)
- Overall monetary policy and rapid response

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
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.	**2020/2021 key deliverables:** • Finalize and then operationalize ERM Guideline and policies. • Establish a new Enterprise Program Management Office to monitor corporate performance and rapidly adapt to COVID-19 risks and changing circumstances. • More robust reporting to CDIC's Leadership Council, the Risk Committee and the Board. • Complete internal process review and update operational risk management policies. **Desired long-term outcome/result indicator:** 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.

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
Enhance CDIC's resolution readiness by: i) undertaking intensive, early stage preparatory activities for troubled members, supported by efficient, targeted risk assessment; ii) maintaining simple, clear, implementable resolution plans for all small and mid-sized members commensurate with their risk and resolvability profile; and iii) maturing the D-SIB/G-SIB planning efforts into a credible, sustainable model for crisis readiness amongst the industry and safety net stakeholders.	**2020/2021 key deliverable:** • 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. **Desired long-term outcome/result indicator:** 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.
Review and strengthen CDIC's capacity to manage the operational risks posed by multiple member institution failures.	**2020/2021 key deliverable:** • CDIC refines its crisis model for responding to multiple member institution failures, including cross-training of necessary internal and standby resources. **Desired long-term outcome/result indicator:** 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.

Planned initiatives	Desired outcomes
Engage internally and with external stakeholders to ensure that regulatory changes are effectively implemented by the coming into force date.	**2020/2021 key deliverables:** • 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. • 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. • Monitor broker progress towards compliance with the revised coverage rules and assess and consider options to deal with any residual coverage risk. **Desired long-term outcome/result indicator:** CDIC can validate through testing and other means that all member institutions and other stakeholders are compliant with the *CDIC Act* 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.
Advance preparedness activities through the newly created Simulation Centre of Excellence by implementing a risk-based simulation testing program.	**2020/2021 key deliverables:** • 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. • Adapt test plan to prioritize readiness test activities to respond to COVID-19 circumstances. **Desired long-term outcome/result indicator:** Test exercise findings are incorporated into the annual ERM cycle and drive continuous improvement in CDIC's response capabilities and overall readiness.

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
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.[1]	**2020/2021 key deliverable:** • CDIC defines strategy details and commences implementation of a payout execution strategy, including key vendor selection and industry alignment. **Desired long-term outcome/result indicator:** 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.
Enhance CDIC's information security to ensure the protection of CDIC's information and infrastructure assets by leveraging new technologies and industry best practices.	**2020/2021 key deliverables:** • Enhanced secure and resilient information security program is in place, ensuring that best practices (including privacy protection) and emerging risks are identified and mitigated. • Strategic partnerships are created to enhance CDIC's security capabilities. **Desired long-term outcome/result indicator:** 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.

[1] 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
Continue implementation of CDIC's Organization and Culture Strategy and Plan, which is to *Serve Canadians as One*. 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.	**2020/2021 key deliverables:** • 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. • Develop key metrics to conduct a culture effectiveness assessment to measure the degree of transformation. **Desired long-term outcome/result indicator:** 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.

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
Implement a new three-year public awareness strategy to increase public awareness of CDIC or of federal deposit protection. Intensify public awareness efforts in 2020/2021 given the economic uncertainty created by the COVID-19 pandemic.	**2020/2021 key deliverable:** • Steadily increase public awareness levels to at least 60% awareness of CDIC or of federal deposit protection by March 31, 2021. **Desired long-term outcome/result indicator:** 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.

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[2] 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.

[2] 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[3]

(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	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. Additional enhancements to CDIC's application technology are underway in response to the revised deposit insurance coverage framework spelled out in the *Budget Implementation Act, 2018, No. 1*. 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. Over the next fiscal year, CDIC will begin its multi-year modernization initiative across its insurance and reimbursement processes.

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

[3] 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
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.	ON TARGET	The *CDIC Resolution Planning By-law* 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 **www.cdic.ca**. 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.
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.	ON TARGET	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 *CDIC Joint and Trust Account Disclosure By-law*. 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. 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. 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).

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	CDIC established a Brokered Deposit Advisory Group (BDAG) to support implementation of the new *CDIC Act* and by-law requirements. The BDAG facilitates discussions among industry stakeholders to develop and implement the new requirements. CDIC also initiated extensive ongoing internal work to prepare for the coming into force of the new *CDIC Act* and by-law requirements, including: • Updating CDIC's internal systems and processes (i.e., for premiums and payout). • Developing responses to enquiries from member institutions and other stakeholders on the new rules. • Developing a compliance approach to enhance broker adherence to the new rules. • Updating communication tools (e.g., website information, brochures, calculator) to raise awareness of the changes to the deposit insurance framework.

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 *Deposit Insurance Policy By-law* and a multi-year comprehensive review of the *Differential Premiums By-law* and framework in 2019.
Assess the progression of *ex ante* funding toward the minimum target in light of insurance coverage changes and evolving membership risks.	ON TARGET	CDIC continues to assess *ex ante* funding progression toward the minimum target of 100 basis points of insured deposits. Management forecasts that *ex ante* 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
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)

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	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). 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.

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
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.	ON TARGET	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. 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. CDIC will develop an integrated stakeholder engagement strategy to support the achievement of its mandate and to optimize its stakeholder relationships.
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.	ON TARGET	CDIC continued to publish articles on resolution in the *Industry News* section of its website (formerly *CDIC Matters*) 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. Planned activities include videos and information about pending updates to insurance coverage, as well as additional information regarding CDIC's resolution toolkit.

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)

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	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. 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. 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.

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
Conduct a comprehensive review of CDIC's Enterprise Risk Management (ERM) program.	ON TARGET	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. 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.
Enhance the work environment, including adapting CDIC's policies, practices and technology to align with work force changes and trends.	ON TARGET	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. 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.
Review CDIC's data assets and ensure that they are streamlined, effective and secure.	ON TARGET	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. 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. 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.

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

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.

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
Prepayments	1,106	605
Right-of-use assets	11,920	—
Property, plant and equipment	3,621	3,189
Intangible assets	3,482	3,884
Total assets	**5,754,947**	**5,044,191**

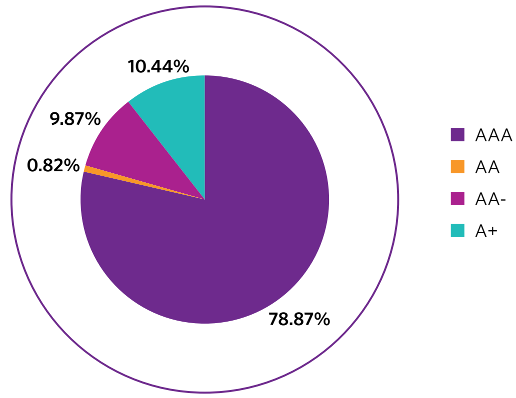
Investment securities

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.

Investment securities credit profile, as at March 31, 2020



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.

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.

As at March 31 (C$ thousands)	**2020**	**2019**
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
Total liabilities	**2,275,256**	**2,058,865**

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.

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

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.

For the year ended March 31 (C$ thousands)	**2020**	**2019**
Revenue		
Premium	668,360	644,576
Investment income	85,490	66,545
Other	6	31
Expenses		
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)
Total comprehensive income	**494,365**	**662,985**

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[4] 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 *(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

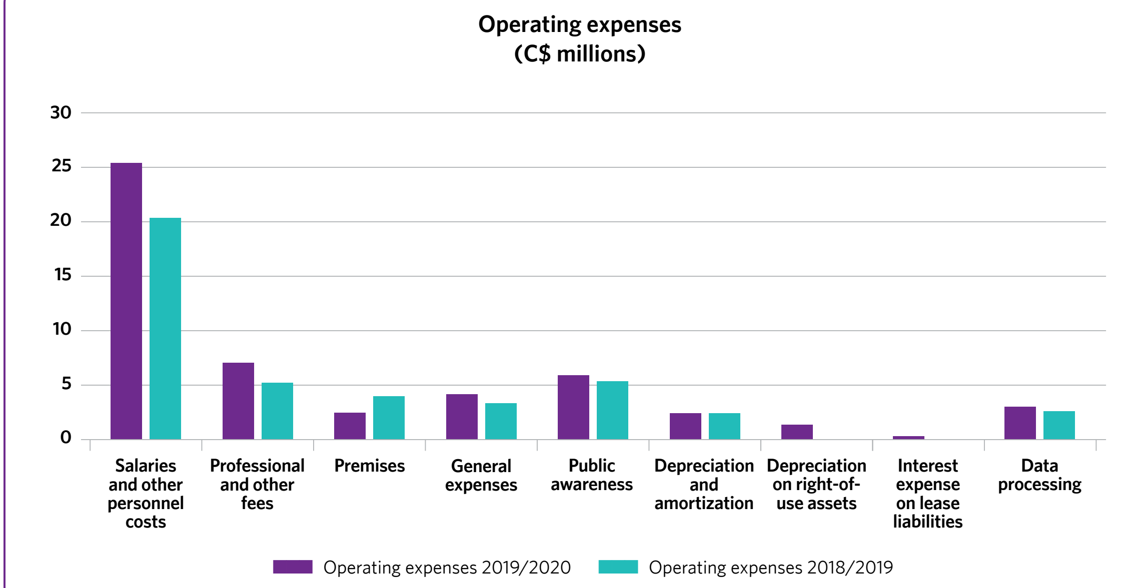
Investment income

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.

[4] 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.

For the year ended March 31 (C$ thousands)	**2020**	**2019**
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
Cash, end of year	**3,568**	**2,190**

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

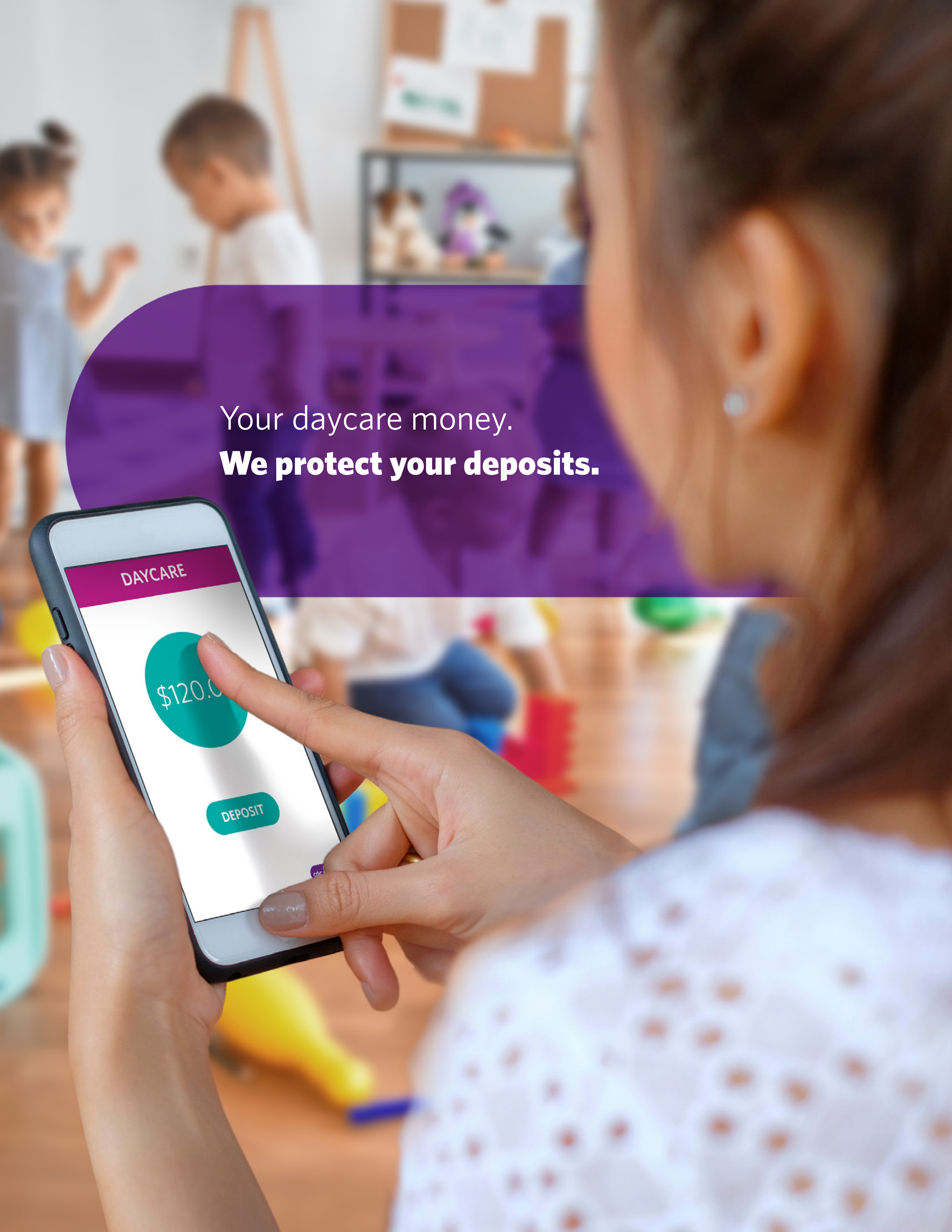
Total revenue during the year was $754 million, relatively consistent with the planned amount of $750 million. The variance was primarily due to a slight increase in premium revenue and investment income.

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.

(C$ millions)	2020/2021 Corporate Plan[a]	2019/2020 Actual results	2019/2020 Corporate Plan[a]
Consolidated statement of financial position *(as at March 31)*			
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	—
Total assets	**6,507**	**5,755**	**5,741**
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
Total liabilities and equity	**6,507**	**5,755**	**5,741**
Consolidated statement of comprehensive income *(for the year ended March 31)*			
Revenue			
Premiums	728	668	665
Investment and other income	100	86	85
	828	754	750
Expenses			
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)
Total comprehensive income	**757**	**494**	**591**

[a] 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.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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

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

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

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

Ottawa, Canada
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.


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PART 3 **Corporate governance**

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

More about governance

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

Board of Directors

CDIC's affairs are administered by its Board, made up of a Chairperson, five other private sector Directors and five *ex officio* Directors (the Governor of the Bank of Canada, the Deputy Minister of Finance, the Commissioner of the Financial Consumer Agency of Canada (FCAC), the Superintendent of Financial Institutions, and a Deputy Superintendent of Financial Institutions or another officer of the Office of the Superintendent of Financial Institutions (OSFI) appointed by the Minister of Finance).

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

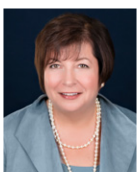
Board of Directors composition

as at March 31, 2020

Robert O. Sanderson
Chair
Joined: June 2016
Re-appointed as Chair for a one-year term, effective December 14, 2019

Private sector Directors

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



Linda Caty
Lawyer
Carignan, Québec
Joined: June 2018
Re-appointed June 21, 2020, for a four-year term expiring on June 20, 2024

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

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

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

Ex officio Directors

Stephen S. Poloz
Governor
Bank of Canada[5]
Joined: June 2013
Appointed for a seven-year term

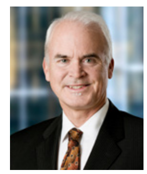
Paul Rochon
Deputy Minister
Department of Finance
Joined: April 2014
Appointed to hold office during pleasure

Judith Robertson
Commissioner
Financial Consumer Agency of Canada
Joined: August 2019
Appointed for a five-year term

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

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

Alternates (for *ex officio* Directors)



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

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

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5 On May 1, 2020, the Government of Canada announced that Tiff Macklem was being appointed as Governor of the Bank of Canada effective June 3, 2020. Mr. Macklem will succeed Stephen S. Poloz, when his term at the Bank of Canada concludes on June 2, 2020.

Board committees

In March 2019, the Board reorganized the committee structure to reflect changes in CDIC's mandate and its operating environment. As a result, three standing committees support the Board in its activities: the Audit Committee, the Risk Committee, and the Governance and Human Resources Committee.

Audit Committee

The Audit Committee assists with the Board's oversight of the integrity of CDIC's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of CDIC's internal audit function; and the performance of any special examinations pursuant to the *Financial Administration Act*.

Composition*

- **A. Kriegler (Chair)**—Member since September 2018; Chair since April 2019
- **J.M. Castonguay**—Member since June 2019
- **D. Dominy**—Member since August 2018
- J. Hubbs—Member from May 2015 to March 2020
- **J. Robertson**—Member since September 2019

* **Names in bold** denote current committee members as at March 31, 2020. Mr. Hubbs ceased to be a member of the Audit Committee effective March 4, 2020.

Governance and Human Resources Committee

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

Composition

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

Risk Committee

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

Composition

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

Board and committee meetings and attendance

(April 1, 2019 to March 31, 2020)

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

		Board committees		
	Board of Directors[b]	Audit Committee[c]	Governance and Human Resources Committee	Risk Committee
Number of meetings[a]	9	7	6	4
Attendance				
Private sector Directors				
R.O. Sanderson—Chair	9	7	6	4
J.M. Castonguay[d]	8	6	4	N/A
L. Caty	9	N/A	6	4
D. Dominy	9	7	6	N/A
A. Kriegler[e]	9	7	N/A	4
W. Millar	9	N/A	6	4
***Ex officio* Directors (Alternates)**				
Bank of Canada: S. Poloz (P. Beaudry)	7 (7)	N/A	N/A	4
Department of Finance: P. Rochon (L. Anderson)	0 (7)	N/A	N/A	N/A
Financial Consumer Agency of Canada: J. Robertson[f]	6	4	N/A	N/A
Superintendent of Financial Institutions: J. Rudin	7	N/A	6	N/A
Office of the Superintendent of Financial Institutions—Second Director: J. Hubbs	8	7	N/A	4
Directors who departed during the year				
J. Charbonneau[g]	1			
L. Tedesco[h]	1			

[a] Also includes meetings attended by telephone.

[b] Includes Board Strategic Planning Session and two Board Tabletop Simulation Sessions.

[c] The Chair is invited to Audit Committee and Risk Committee meetings but is not a Committee member.

[d] Appointed to the Board of Directors effective May 21, 2019; joined Audit Committee effective June 5, 2019; joined Governance and Human Resources Committee effective September 16, 2019.

[e] Appointed Chairperson of Audit Committee effective April 25, 2019.

[f] Appointed as Commissioner of the Financial Consumer Agency of Canada and *ex officio* Board member effective August 19, 2019; joined Audit Committee effective September 16, 2019.

[g] Resigned from the Board effective April 18, 2019.

[h] Term as Commissioner of the Financial Consumer Agency of Canada and *ex officio* Board member ended effective May 31, 2019.

Professional background of Board members—Expertise and experience

Board member	Education/ Designations	Accounting	Comms	Crisis	Financial services	Governance/ Leadership	IT/ Fintech	Law	M&A/ Insolvency	Regulatory	Risk management	Talent management	Other
Sanderson, Robert Chair, CDIC	BA, FCPA, FCA, FIIC, FCIRP (ret)	✓		✓	✓	✓			✓	✓	✓	✓	
Castonguay, J. Martin Director	BSc, BComm, CPA, ICD.D	✓		✓	✓	✓			✓	✓	✓	✓	
Caty, Linda Director	LLB		✓	✓	✓	✓		✓		✓	✓	✓	
Dominy, David CEO, Firma Foreign Exchange Corp.	BA, MoM, ICD.D	✓		✓	✓	✓	✓		✓	✓	✓	✓	
Hubbs, Jamey Assistant Superintendent, OSFI	BA, M.Cert, PM, ICD.D			✓	✓	✓				✓	✓	✓	
Kriegler, Andrew President and CEO, IIROC	BSc, MBA	✓		✓	✓	✓				✓	✓	✓	
Millar, Wendy Director	BA, MA, ICD.D	✓		✓	✓	✓	✓		✓	✓	✓	✓	
Poloz, Stephen Governor, Bank of Canada	BA, MA, PhD, Cert Int'l TP SEP		✓	✓	✓	✓	✓			✓	✓	✓	
Robertson, Judith Commissioner, FCAC	BA, MBA, CFA	✓			✓	✓	✓			✓	✓	✓	
Rochon, Paul Deputy Minister, Department of Finance	BA, MA	✓	✓	✓	✓	✓				✓	✓	✓	
Rudin, Jeremy Superintendent, OSFI	BA, MCRP, PhD		✓	✓	✓	✓				✓	✓	✓	**Policy**

Directors' fees

In 2019/2020, private sector Directors' fees for the performance of their services totalled $245,663 (compared to $231,836 in 2018/2019).

2019/2020—Fees for private sector Directors	
R.O. Sanderson	$128,000
J.M. Castonguay (from May 21, 2019)	24,397
L. Caty	20,940
J. Charbonneau (until April 18, 2019)	1,106
D. Dominy	22,620
A. Kriegler	12,960
W. Millar	35,640
Total	**$245,663**

Governance Council

CDIC's Governance Council is comprised of its President and Chief Executive Officer (CEO), along with seven Corporate Officers. The President and CEO is appointed by the Governor in Council, which also approves compensation for this position. CEO performance objectives are set and evaluated annually by the Board of Directors and submitted to the Minister of Finance. Corporate Officers are appointed by the Board of Directors. The Board also approves the salary range for these individuals. CDIC's Officers, as of March 31, 2020, are set out below.

Peter D. Routledge
President and Chief Executive Officer

Chantal M. Richer
Chief Operating Officer

Gina Byrne
Chief Member Risk and Resolution Officer

Michael Mercer
Chief Data and Insurance Officer

Tara Newman
Head, Corporate Strategy and Risk Management & Chief Risk Officer

Camille Ringrose
Head, Finance and Operations & Chief Financial Officer

Angela Roberge
Head, People and Culture & Chief Human Resources Officer

Christa Walker
General Counsel and Corporate Secretary & Chief Legal Officer

Officer compensation

2019/2020 compensation range disclosure for Corporate Officers, as at March 31, 2020			
Cash compensation[6,7]	**President and CEO**	**Category 1 Officers**	**Category 2 Officers**
Base salary range	$226,000–$265,800	$219,492–$292,638	$165,383–$237,781
Incentive program range	6.5%–26%	0%–25%	0%–18%
Total compensation range per fiscal year	$240,690–$334,908	$219,492–$365,798	$165,383–$280,582

Perquisites program		
Item	**President and CEO**	**Category 1 Officers**
Car allowance expense reimbursement[8]	$12,000	—
Health care spending account and financial planning services expense reimbursement[8]	$12,000	$10,000
Comprehensive medical exams	$3,432	$3,432
Total	$27,432	$13,432

In its Special Examination **report** discussed above, the Office of the Auditor General found "that the compensation range for the President and Chief Executive Officer was lower than the compensation ranges for the Corporation's other executives." In its response, the Corporation said it will "continue to engage with its responsible Minister and the Privy Council Office to review the total compensation structure of the President and Chief Executive Officer position in light of the expansion of the Corporation's mandate, legislative framework, and powers."

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

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

6 The cash compensation does not report the actual salary and incentives paid to Corporate Officers but rather the range for their respective positions.

7 As at March 31, 2020, Category 1 Officer roles included: Chief Operating Officer; Chief Member Risk and Resolution Officer; and Chief Data and Insurance Officer. Category 2 Officer roles included: Head, Corporate Strategy and Risk Management & Chief Risk Officer; Head, Finance and Operations & Chief Financial Officer; Head, People and Culture & Chief Human Resources Officer; and General Counsel and Corporate Secretary & Chief Legal Officer.

8 These amounts represent the maximum allowance if receipts are submitted.

Disclosure of expenditures for travel, hospitality and conferences

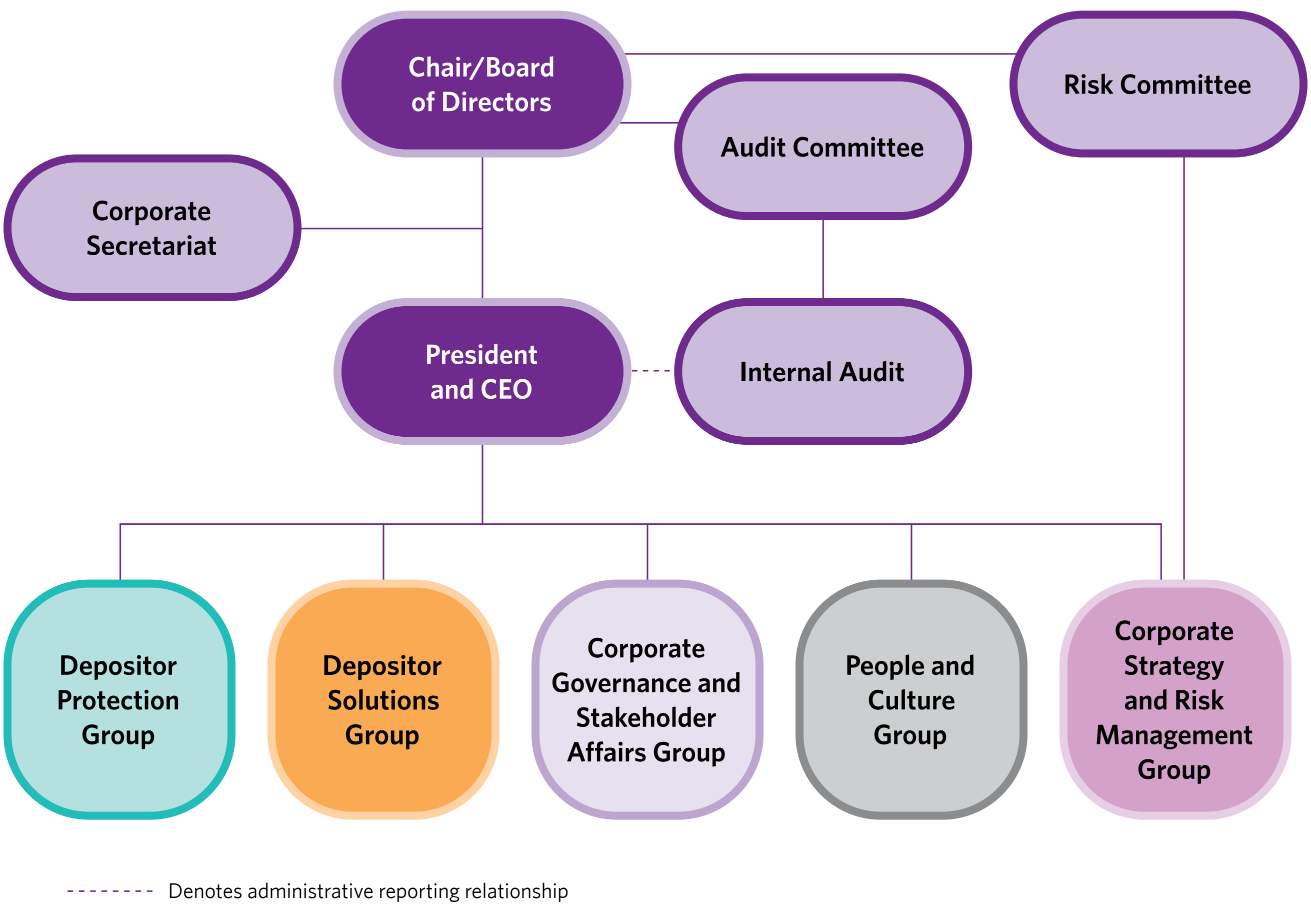
Since 2010, CDIC has proactively disclosed on its website the travel and hospitality expenses for its senior executives. Since June 2019, CDIC has published the details of travel and hospitality expenses of senior officers or employees reimbursed in a particular month within 30 days after the month of the reimbursement.

Since the first quarter of 2017/2018, CDIC has also published the travel and hospitality expenses for the Chair of the Board of Directors and the private sector Directors.

Commencing with the 2016/2017 fiscal year, the Corporation has disclosed the total annual expenditures for each of travel, hospitality and conference fees for the Corporation. The Corporation reviews its disclosures on a regular basis and makes changes when warranted.

These disclosures can be viewed on our website at **www.cdic.ca**.

CDIC's organizational structure[9]



[9] In January 2020 CDIC's organizational structure was redesigned. The new structure comprises five groups built around business lines, as illustrated above. These groups replace the former: Corporate Affairs Division; Corporate Risk, Strategy, and Insurance Division; Finance, Technology and Depositor Solutions Division; and Member Risk and Resolution Division.

Addressing public service expectations

Ethical behaviour and integrity

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

Ethics training

CDIC undertakes annual mandatory employee ethics training with required attestations. Corporate-wide ethics training is scheduled for April 2020.

Diversity and inclusivity, and harassment in the workplace

CDIC is committed to a diverse work force reflective of the Canadians it serves, and to sustaining a workplace culture that is inclusive, welcoming and supportive. In 2019/2020, CDIC's ongoing commitment to diversity and inclusion saw the development of a new cultural framework setting out the values and competencies expected of employees. Putting people first and valuing diversity and linguistic duality are fundamental tenets. In addition, CDIC launched an awareness and development program that included:

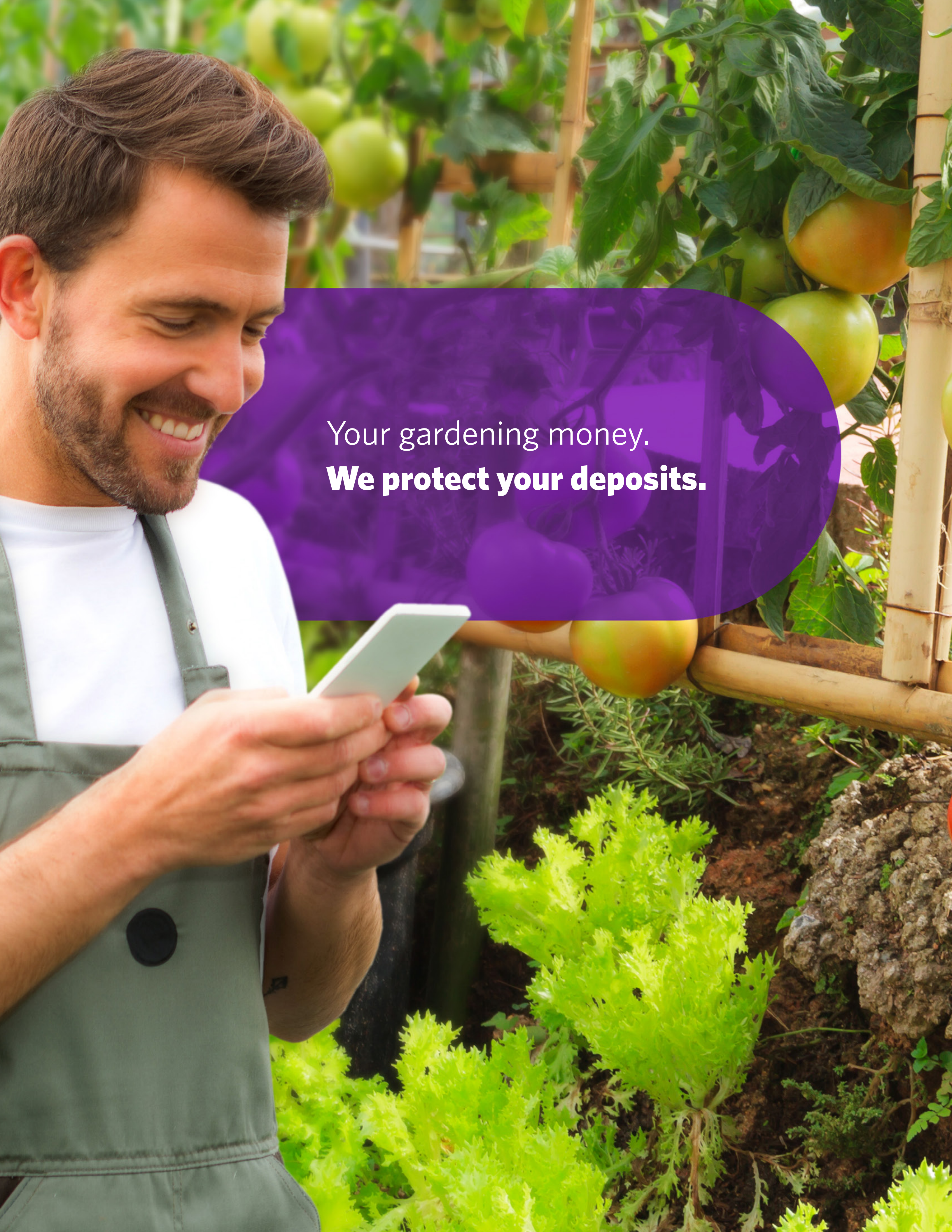
- Annual mandatory ethics training that incorporates diversity and inclusion learning
- Recruitment relationships with organizations that support/target visible minorities and persons with disabilities
- Diversity training for the Board of Directors, including new Board members—*The Critical Importance of Workplace Awareness, Diversity and Respect*—in December 2019
- Review of website, job postings and policies to ensure gender-neutral and inclusive language
- Development of mandatory employee training on psychological safety and harassment
- Formal training in the areas of LGBTQ+, Unconscious Bias, and Mindfulness
- Official Languages Reward and Recognition Program

CDIC also leveraged experts and employees alike to keep the conversation going, along with a comprehensive calendar of diversity and inclusion activities.

In 2020/2021 CDIC intends to continue its emphasis on diversity and inclusivity.

Annual Public Meeting

CDIC held its most recent Annual Public Meeting (APM) on May 15, 2019, in Toronto. The APM is an opportunity for CDIC to provide information to stakeholders and the public on our services and mandate, as well as to answer any questions from members of the public in attendance, online or via social media. CDIC will hold its next APM in 2020 in compliance with the *Financial Administration Act*. The planned date is August 11, 2020, although this may need to be adjusted in light of the COVID-19 pandemic and any required physical distancing measures.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Glossary

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

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

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

Deposit: As defined in the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*), a deposit is the unpaid balance of money received or held by a CDIC member institution from or on behalf of a person in the usual course of deposit-taking business for which the member:

(a) is obliged to give credit to that person's account or is required to issue an instrument for which the member is primarily liable; and

(b) is obliged to repay on a fixed day or on demand by that person or within a specified period of time following demand by that person, including any interest that has accrued or which is payable to that person. (*Dépôt*)

Domestic systemically important bank (D-SIB):[10] A bank designated by the Superintendent of Financial Institutions whose distress or failure could have adverse effects on the Canadian financial system or economy. Banks designated as such are subject to more intensive supervision and additional requirements to minimize the likelihood of failure. (*Banque d'importance systémique nationale (BISN)*)

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

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

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

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

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

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

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

Payout: The process undertaken by CDIC to make deposit insurance payments to the insured depositors of a failed member institution. (*Remboursement des dépôts assurés*)

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

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

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

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