PART 1 **Management's Discussion and Analysis**

CDIC's operating environment

Economic environment

During 2020/2021, resurgences of COVID-19 cases and tightened public health containment measures interrupted growth and imposed renewed hardship on households and businesses. Economic activity declined as consumers and firms learned how to conduct business while complying with restrictions and public health guidelines. During this economic environment, CDIC's membership financial results remained resilient, including solid profitability and healthy capital and liquidity ratios. However, consumer indebtedness remained high and real estate prices experienced a sharp increase in several markets relative to local household income.

Going forward, the vaccination rollout, improving commodity prices and consumption, coupled with fiscal and monetary stimulus, are helping to offset the economic impacts of the pandemic. While the full impact of the COVID-19 pandemic on the economy and on 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.

CDIC increased advertising on TV, digital and social media to help maintain confidence and trust in the safety and security of depositors' hard-earned savings. As a result, measures that showed a deterioration in confidence in the wake of the pandemic in March 2020 are rebounding and back to pre-pandemic levels.

Regulatory environment

Within weeks of the start of the COVID-19 pandemic, CDIC took several actions to adjust specific regulatory expectations for its member institutions to assist them with navigating challenges posed by the pandemic. These measures, implemented throughout the year, included: the delay of CDIC's data compliance testing program; the waiving of the annual data compliance attestations and the annual notification to multi-beneficiary trust depositors; practical accommodations to permit members more time to come into compliance with *Deposit Insurance Information By-law* requirements; and a six-month delay of granular deposit data submissions.

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. These first phase changes to the deposit insurance framework have been implemented by member institutions and communicated to depositors to ensure strong awareness of this enhanced protection.

- The second phase of the Deposit Insurance Review was set to come into force on April 30, 2021. In response to the COVID-19 pandemic, the Government changed the coming into force date amendments to the CDIC Act to April 30, 2022. These changes will: extend separate coverage up to $100,000 for eligible deposits held under Registered Disability Savings Plans (RDSPs) and Registered Education Savings Plans (RESPs); remove separate coverage for deposits in mortgage tax accounts; and introduce an enhanced set of requirements for deposits held in trust.

CDIC delayed the dates upon which the amended Data and System Requirements specifications and the *Canada Deposit Insurance Corporation Co-owned and Trust Deposit Disclosure By-law* take effect to align with the new legislative coming into force date, and engaged with its membership to explain the practical implications.

CDIC continues to engage with key industry stakeholders (including member institutions, brokerage firms, trustees and other industry intermediaries) to promote strong implementation of the second phase elements of the Deposit Insurance Review. Key to this engagement has been addressing issues where clarity is needed to support the successful implementation of the new data standards and eligibility requirements. To this end, significant progress has been made to develop information for member institutions and trustee depositors, and to implement industry-focused best practices to promote robust implementation of the amended coverage framework.

Corporate environment

Digital acceleration

In recent years and during the COVID-19 pandemic, the pace of new technology adoption has continued to accelerate for Canadians—including how they communicate, bank and access their money. Fintech, digital currencies and the concept of open banking present opportunities and challenges with respect to cyber security and data privacy. Depositor expectations have evolved alongside technological advances to include access to real-time information. CDIC continues to adapt to ensure that it meets these expectations. In 2020, CDIC launched a multi-year payout modernization project to enhance the systems and processes that underpin its insurance determination and reimbursement process, and to better inform and serve Canadians in the event it is necessary to resolve any troubled member institutions.

Depositor awareness

Public awareness of CDIC or federal deposit protection helps Canadians make informed financial decisions and builds confidence in the financial system. CDIC's public awareness target range is 60%–65%. CDIC has made progress in increasing awareness with its target audiences where awareness is lowest, including amongst younger Canadians (aged 18–34), women and low-income Canadians. A survey of more than 2,400 Canadians conducted for CDIC in March 2021 showed that awareness of CDIC and/or of federal deposit protection was 61%. Average awareness for the year increased by 3 percentage points over the prior year period. The survey also showed that trust in the savings protection provided by the Government of Canada is 13 percentage points higher than it was in December 2018.

Organization and Culture Strategy and Plan

CDIC completed year two of its three-year Organization and Culture Strategy and Plan. With a renewed leadership team and a risk-oriented organizational structure underpinned by CDIC's cultural framework, the Corporation evolved its approach to total rewards (employee compensation, benefits, recognition, etc.), leadership development and succession planning, and performance management. CDIC modernized its learning and development and talent acquisition tools while pivoting the organization to a virtual work environment as a result of the COVID-19 pandemic. In doing so, employee mental health and well-being took centre stage to ensure that staff were supported and provided with flexibility to manage the blending of work and home life. This included shoring up capacity and capability in priority business areas, enhancing CDIC wellness programs and amending workplace policies as required.

Office environment and COVID-19

CDIC has offices in Ottawa and Toronto, Ontario. Throughout all of 2020/2021, CDIC employees worked from home, and office access was restricted as pandemic waves occurred and provincial and municipal lockdowns ensued. The Corporation expects that staff will continue to do work from home until pandemic risks have abated. Plans for longer-term office re-entry and the future of work have begun, with an eye on reducing the Corporation's footprint as a part of sustainable development and greening initiatives.

CDIC membership

As at March 31, 2021, CDIC had 85 member institutions, a net decrease of one institution from the prior year.

Insured deposits

As at April 30, 2020 (the annual date on which insured deposits are calculated for insurance premiums), deposits insured by CDIC increased by 14% year over year to $968 billion and accounted for 25% of total deposits held at member institutions. The growth in insured deposits reflects amendments to the deposit insurance eligibility criteria which extended coverage to include eligible deposits held in foreign currency and eligible deposits with terms greater than five years, as well as the impact of the COVID-19 pandemic that saw an increased level of savings by Canadians. Insured deposits continue to be a highly valued, cost-effective and stable source of funding for member institutions. Most deposits insured by CDIC are from individuals.

CDIC member peer groups

Member institutions consolidate to 54 member groups on the basis of affiliation with a parent. For the purpose of analysis, each member institution or member 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

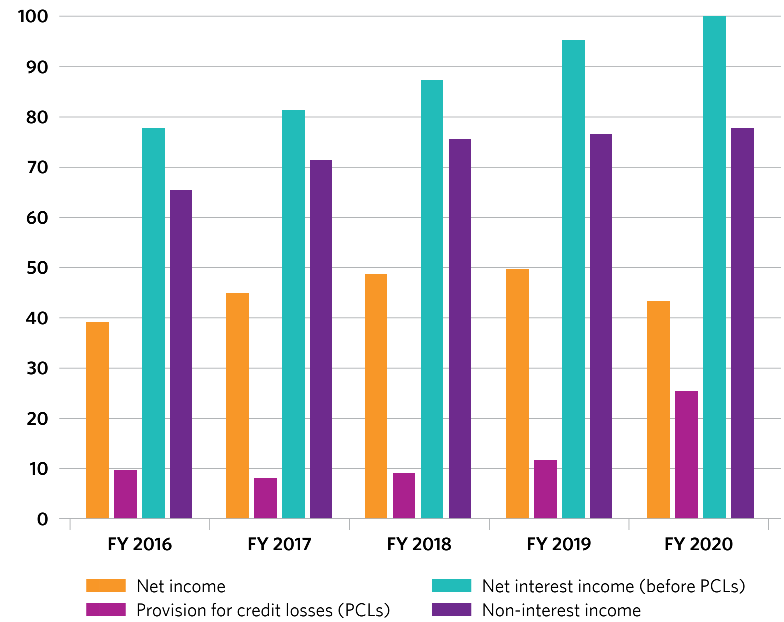
Member institution financial results

CDIC members earned a total net income of $43.4 billion in 2020. Lower profits for the membership were attributable to higher provisions for credit losses, partially offset by an increase in net interest income. Non-interest income and expenses were stable year over year. Provisions for credit losses of $25.4 billion increased 124% year over year, driven mainly by the members' need to provision for estimated credit losses due to the impact of the COVID-19 pandemic. CDIC members demonstrated resilience in the face of the COVID-19 pandemic, as they continued to support critical economic activity while maintaining rates of arrears near historical lows.

Net interest income increased by 5.2% ($4.9 billion) in 2020 due to higher loan volumes, as net interest margins fell along with benchmark interest rates in 2020. Non-interest income increased 0.7% ($0.5 billion), driven by higher revenue from trading.

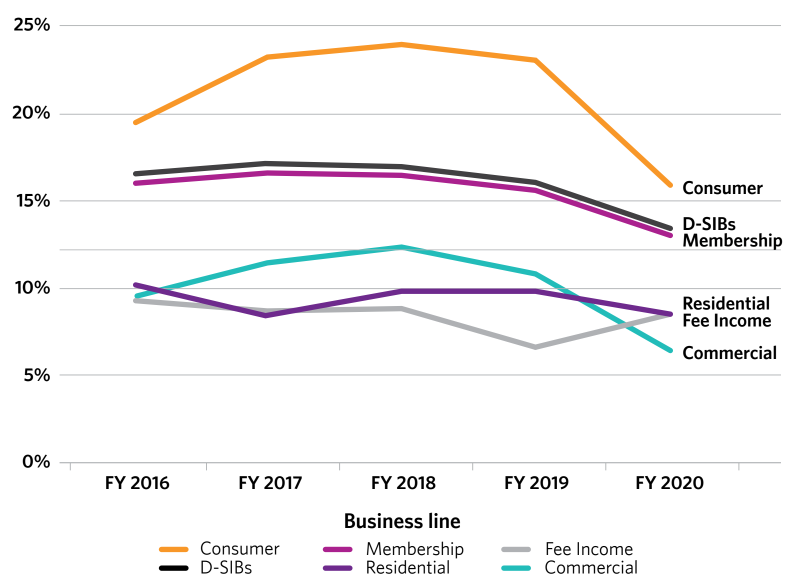
The membership's return on average shareholders' equity (ROAE), a broad-based measure looking at institutions' profitability, was 13.1%, down from 15.6% last year. Apart from the Fee Income peer group, ROAE declined across the membership as net income was impacted by higher provisions for expected credit losses flowing from the pandemic. As shown in the graph opposite, the ROAE varies by peer group, due to the type of lending and the degree of leverage utilized.

Revenue, provisions and profits for CDIC members, 2016–2020 (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, 2016–2020

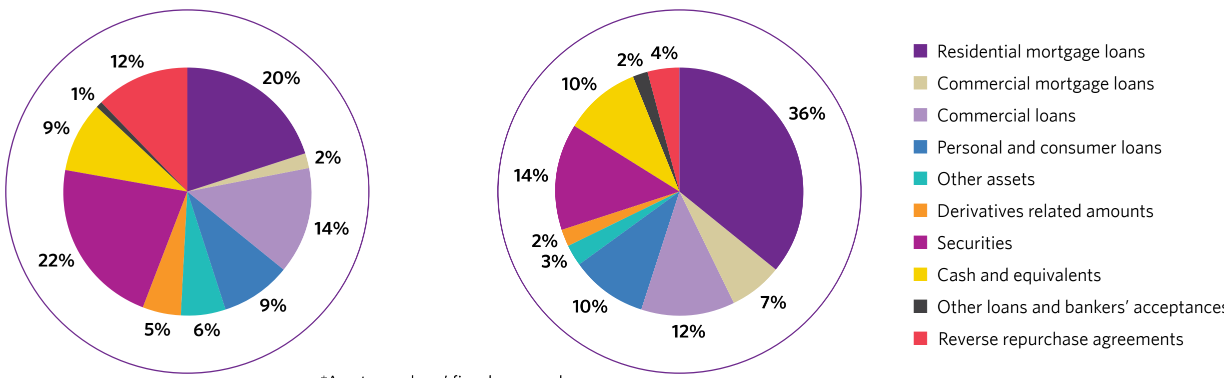


Asset composition, growth and quality

The membership's total asset base grew 13.8% year over year to $6.9 trillion, with cash and cash equivalents increasing from 4% to 9% of total assets, partly driven by the increase in deposits. Residential mortgages, one of the largest asset classes on the balance sheets of CDIC members, totalled approximately $1.5 trillion, or 21% of the membership's on-balance sheet assets. Other significant asset classes included securities (22% of total assets, 28% of which were Canadian government-issued securities), commercial loans (14%), personal and consumer loans (9%), and reverse repurchase agreements (12%).

Asset mix—D-SIB peer group (%),* 2020 (C$6.5 trillion)

Asset mix—all other peer groups (%),* 2020 (C$398 billion)



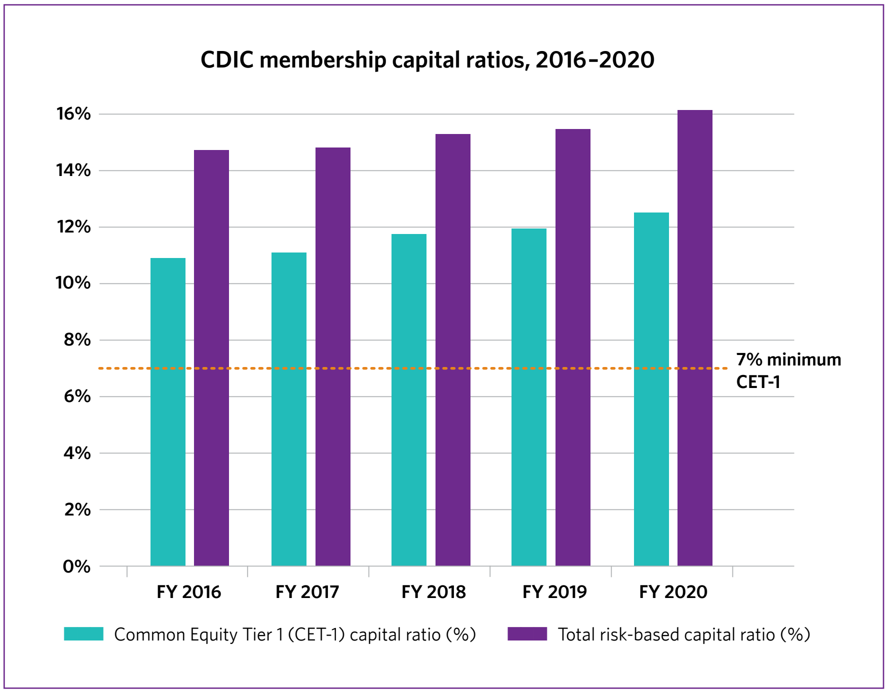
*As at members' fiscal year end
Note: Totals may not add to 100% due to rounding.

The overall quality of the membership's assets in 2020 is comparable to last year with a gross impaired loan ratio remaining at 0.52% of total loans (2019: 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 of December 31, 2020, and all CDIC member institutions complied 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 several qualitative considerations, provide CDIC with broad and deep perspectives of the liquidity adequacy of its members.

Capital ratios



Overall membership capital levels increased slightly in 2020 and remain well above the Basel III minimum requirements. The membership's average Common Equity Tier 1 (CET-1) capital ratio, as at each member's Q4 2020, was 13% (compared to the OSFI minimum requirement of 7.0%). The average total capital ratio for the membership increased slightly to 16%.

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 2020, the average leverage ratio of the membership was 4.8%, with domestic systemically important banks (D-SIBs) having the lowest leverage ratio of the membership at 4.7% and the Consumer peer group having the highest leverage ratio of the membership at 14.4%.

Risk governance and management

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

CDIC's risk philosophy and approach

CDIC will continuously improve its preparedness to take action against risks that threaten the protection of insured deposits and the stability of the Canadian financial system. CDIC is prepared to accept informed and targeted risks that will:

- Assist in fulfilling CDIC's statutory objects assigned to it by Parliament.
- Drive the development and execution of strategic objectives.
- Support operational resilience.
- Instill confidence and trust in CDIC.

CDIC's ERM Framework sets out a risk management approach to enable a common understanding of how CDIC manages risk, and provides employees with the information needed to manage risk effectively in a consistent manner. The Framework applies to every employee at CDIC, all of whom are expected to manage risk and ensure that CDIC's strategies and overall risk appetite are aligned across the organization.

Enterprise risk appetite statement

CDIC recognizes that risk avoidance is not realistic or practical, and that it cannot control, prevent or prepare for all risks; nor can it afford to do so at any cost. As a result, CDIC has adopted a balanced risk appetite that flows from its statutory mandate. This means that CDIC considers the interplay between all of the risks it faces and accepts some risks in order to avoid or mitigate other risks.

CDIC has a low risk appetite for any risk exposure that could threaten its protection of insured depositors and its promotion of financial stability. Its mandate drives all major decisions in the organization.

At the same time, CDIC cannot be execution ready to resolve *all* its member institutions at *all* times. This would result in an excessive and unnecessary financial cost for Canadians, for the Corporation, and for its member institutions. Instead, CDIC takes a balanced risk approach, maintaining a low risk appetite for being unaware of changes in the condition of its member institutions, complemented by a high risk appetite for early actions that support an orderly resolution of a troubled member institution. This means CDIC maintains an "early warning and early action" framework that links its level of preparedness using a risk-based approach to the risks presented by its member institutions.

In the pursuit of its statutory objects, CDIC is willing to accept higher risks that allow it to remain nimble and capable of responding quickly to changes in the financial system and CDIC member institutions. CDIC will pursue proactive resolution options, foster an inclusive culture, and take on operational strategies that support innovation and the continuous enhancement of its people, tools, processes, data and systems. These activities may require the acceptance of a certain degree of financial and/or operational risk.

CDIC strives to earn the trust of Canadians, as the global leader in deposit insurance and resolution. It has a low risk appetite for any negative impact on its reputation, with depositors or any of its other key stakeholders.

Risk taxonomy

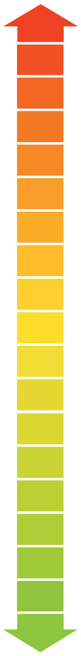
CDIC categorizes its risks according to the taxonomy below.

Strategic	Preparedness	Operational	Financial	Organizational
Strategic risk	Assessment risk	Information, cyber 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 three strategic objectives for the 2021/2022 fiscal year. CDIC will monitor the progress of its initiatives and will continually assess their impact on key risks to 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, still remains uncertain as of April 2021 due to many variable and counter-balancing factors that could affect the health of Canadians, the economy and CDIC member institutions.

Emerging risk factors as of March 31, 2021



Increasing risk factors

- Continuation or further deterioration of COVID-19 waves in major economies could stress specific regions and hamper overall economic recovery
- Stress in impacted sectors, commercial real estate and other hard-hit industries may further amplify as the Government implements stringent containment measures in response to COVID-19

Uncertain risk factors

- Path of economic recovery/restrictions
- Consumer and business confidence, especially for certain sectors
- Stimulus transition gaps

Decreasing risk factors

- Medical vaccine/treatment timing more certain
- Overall monetary policy and rapid response
- High level of policy coordination among domestic and international policy makers

A look ahead to 2021/2022

As set out in the Corporation's 2021/2022 to 2025/2026 Corporate Plan, to mitigate the emerging risks discussed in the previous section, CDIC's work will focus over the short, medium and long term on three areas with corresponding strategic objectives and outcomes for the planning period.

1. Advance CDIC's readiness to respond effectively to a crisis.

CDIC must grow its strong state of preparedness to respond if one or more members experience difficulties. This goes with being part of Canada's financial safety net during times of economic uncertainty. CDIC must be prepared to safeguard the savings of Canadians and the stability of the financial system.

Preparedness involves having the necessary processes, tools, systems, financial capacity and the right people to allow CDIC to act in concert with its financial safety net partners and for its stakeholders. In line with its unique mandate, CDIC's people resourcing strategies include flexibility to adjust if the economic environment improves.

Initiatives supporting this strategy include:

- Strengthening and testing CDIC's overall resolution preparedness, ensuring that CDIC can effectively utilize its full suite of resolution tools.
- Foreseeing emerging risks to depositor protection and financial stability before they materialize.
- Developing a comprehensive stakeholder engagement strategy to ensure a proactive, coordinated and consistent approach to engaging with external stakeholders critical to achieving CDIC's mandate.

2. Enhance organizational resiliency by transforming CDIC's culture and workplace.

As is the case for many organizations, the global pandemic represents an opportunity for CDIC to learn and break away from existing organizational constructs, by taking the best options from the different ways of working that CDIC employees adopted in 2020. This means continuing to foster a people-first organization that supports balancing work and personal life.

CDIC will enhance employee mental health and wellness programs to build and sustain resiliency by continuing the cultural transformation that began in 2019 with its multi-year Organization and Culture Strategy and Plan. This involves envisioning and planning for the next long-term strategy addressing the future of work. Among other things, the strategy will bring to bear new leadership skills, employee choice and flexibility, as well as changes to the physical workplace. In addition, CDIC will ensure that its enterprise technology strategy, data systems and operational processes are able to support productivity, flexibility and accessibility, while safeguarding privacy and security.

Initiatives supporting this strategy include:

- Expanding CDIC's Organization and Culture Strategy and Plan to promote employee resilience and inclusion and to adapt proactively to the future of work.
- Implementing a multi-year enterprise technology strategy with a focus on flexibility, data governance and security, continued Cloud migration to support the future of work, and digital transformation.

3. Innovate to meet evolving depositor expectations.

In 2019, CDIC's Board approved a bold, multi-year modernization program to enhance the systems and processes that underpin CDIC's insurance determination and reimbursement process. Modernization will also address CDIC's need to support new channels of payment delivery and communications between CDIC and depositors, to better inform and serve Canadians in the event of member non-viability.

Looking to the future, CDIC must continue to embrace innovation and technological advances. It must keep step with the financial industry in order to deliver a timely and accurate insurance determination and payout in the event of a member failure. This means expanding CDIC's insurance payment options beyond mailed cheque payments, supported by the deposit data necessary to calculate insurance eligibility. It also means considering new ways of promoting public awareness and understanding new innovative trends in the financial sector.

Initiatives supporting this strategy include:

- Conducting comprehensive multi-year reviews of CDIC's differential premiums and *ex ante* funding frameworks.
- Implementing a new three-year strategy to promote public awareness of CDIC and federal deposit protection.
- Enhancing CDIC's understanding of emerging financial sector trends, products and technologies.

2021/2022 to 2025/2026 financial plan

The financial projections included in CDIC's 2021/2022 to 2025/2026 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 include the following:

- A growth of 3.5% in insured deposits year over year.
- The premium rates as well as the distribution of members across the differential premium categories will remain unchanged from 2020/2021.
- Investment income is based on an assumed average yield on cash and investments of 1.1% for fiscal 2021/2022, declining to 0.81% by fiscal 2022/2023, followed by a gradual increase to a yield of 0.97% in fiscal 2025/2026.
- No member institution failures are assumed during the planning period.
- The provision for insurance losses is forecasted 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.

2021/2022 fiscal year

Total comprehensive income is planned at $671 million for the 2021/2022 fiscal year.

Total revenues are planned to be $841 million in the 2021/2022 fiscal year, including $765 million of premium revenue and $76 million of investment income.

Planned **premium revenue** of $765 million is $26 million higher than fiscal 2020/2021 premium revenue of $739 million. The increase is primarily as a result of the expected increase in insured deposits.

Expected **investment income** of $76 million is $14 million lower than investment income of $90 million in fiscal 2020/2021, resulting from the impact of the decline in the assumed average yield on investments.

Net operating expenses are planned to be $68 million in fiscal 2021/2022, compared to $60 million actual operating expenses in fiscal 2020/2021. The $68 million budget reflects a full staffing complement, furthering preparedness and resolution capabilities and a $7 million public awareness budget.

Cash and investments are planned to be $7.3 billion at the end of the 2021/2022 fiscal year.

The **provision for insurance losses** is planned to increase to $2.7 billion[1] at the end of the 2021/2022 fiscal year based on the calculations using assumptions as at December 31, 2020.

The level of ***ex ante* funding** is planned to be $7.3 billion at the end of the 2021/2022 fiscal year, representing 72 basis points of forecast insured deposits, an increase of 5 basis points from March 31, 2021.

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1 As at March 31, 2021, the provision for insurance losses was $2.65 billion.

Performance against Plan

The following Scorecard summarizes progress as at March 31, 2021, in support of the five corporate strategic objectives identified in CDIC's 2020/2021 to 2024/2025 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.

In response to the uncertain impacts of the COVID-19 pandemic, CDIC undertook a strategic review exercise to ensure that CDIC heightened its focus on being ready to resolve any troubled member institutions and CDIC's operational response to the pandemic. Although some deliverables or deadlines were extended to create flexibility, progress against CDIC's fiscal 2020/2021 corporate strategic objectives and initiatives were completed, exceeded, or otherwise proceeding as planned as at March 31, 2021.

The Corporate Scorecard that follows provides information on the specific measures adjusted in response to the COVID-19 pandemic and includes details on all key corporate initiatives.

CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

<table>
<tr><th>Strategic</th><th colspan="2">Transform CDIC's Enterprise Risk Management program</th></tr>
<tr><th>Key initiatives and outcomes</th><th>Status</th><th>Update</th></tr>
<tr><td rowspan="2">Implement Enterprise Risk Management (ERM) program.

2020/2021 key deliverables:
• Finalize and then operationalize ERM Framework and policies.
• Provide more robust reporting to CDIC's Leadership Council, the Risk Committee and the Board.
• Complete internal process review and update operational risk management policies.</td><td>On track</td><td>CDIC continued to implement the ERM program, with an annual review of the ERM Framework and Risk Appetite by Major Risk approved by the Board, ERM training completed, and an updated Quarterly Risk Report completed.

The ERM function completed a broad, rapid risk identification and assessment with business teams, to report and undertake ongoing monitoring for any impacts from the COVID-19 pandemic.

The build of the Enterprise Program Management Office is progressing well, with a pilot launched for the current telework environment by fiscal year end.</td></tr>
<tr><td>Progressing, but partial delays implemented in response to COVID-19</td><td>CDIC's Risk Register build commenced in 2020/2021 and is on track for completion, but was extended to support other operational priorities while maintaining regular quarterly reporting to the Risk Committee. The Board risk policy review is scheduled to commence in 2021/2022 to ensure alignment with, and to build on, the Board of Directors' governance review.

The operational risk management policy review commenced in 2020/2021 and will be completed in 2021/2022 to maintain alignment with Board risk policies, while further strategic reviews will be conducted on targeted operational risk areas.</td></tr>
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CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

<table>
<tr><th>Preparedness</th><th colspan="2">Refine CDIC's capability to respond quickly and effectively to member institution failures</th></tr>
<tr><th>Key initiatives and outcomes</th><th>Status</th><th>Update</th></tr>
<tr><td rowspan="2">Enhance CDIC's resolution readiness:
• Intensive, early stage preparatory activities for higher risk members.
• Maintaining resolution plans for small and mid-size members.
• Maturing the domestic and global systemically important bank (D-SIB/G-SIB) resolution planning efforts.
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 failure risk and resolvability profile.</td><td>On track</td><td>In accordance with CDIC's Graduated Preparedness Framework, CDIC engaged with higher risk members to reach appropriate preparedness according to their risk profiles. CDIC received resolution information packages from relevant members and provided feedback, conducted follow-up operational planning and payout preparedness activities with individual members as needed, and now has resolution plans in place for these members.
CDIC made data testing services available to members to support their data and system compliance attestation procedures. To improve data quality and payout processes for brokered deposits, CDIC partnered with a member institution and brokers to conduct an internal testing exercise of data gathering systems and developed recommendations for continued improvement.</td></tr>
<tr><td>Progressing, but partial delays implemented in response to COVID-19</td><td>CDIC issued supplemental guidance to the D-SIBs and G-SIBs to support further development of resolution planning efforts and the next resolution plans. However, to ensure members could focus resources on responding to the COVID-19 pandemic, the submission of the next resolution plans has been rescheduled to fall 2021.</td></tr>
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CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

Preparedness (continued)	Refine CDIC's capability to respond quickly and effectively to member institution failures	
Key initiatives and outcomes	**Status**	**Update**
Strengthen CDIC's capacity to manage multiple member failures. ***2020/2021 key deliverable:*** • Refine CDIC's crisis model for responding to multiple member institution failures, including cross-training of necessary internal and standby resources.	**Completed**	CDIC continues to strengthen its capacity to manage multiple member failures. To help refine the crisis model, CDIC completed an assessment of baseline preparedness and took measures to close identified gaps. It completed additional planning to operationalize its financial assistance and bridge bank powers. Through simulation exercises, CDIC identified further actions to bolster preparedness for payout, liquidation and assisted transaction scenarios. To bolster preparedness at the employee level, CDIC filled all preparedness roles, identified backups for key roles and employees who can provide swing capacity in an intervention. Training and awareness plans were established, with intense training activities completed through 2020/2021.

CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

Preparedness (continued)	Refine CDIC's capability to respond quickly and effectively to member institution failures	
Key initiatives and outcomes	**Status**	**Update**
Engage stakeholders on regulatory implementation (Brokered Deposit Advisory Group (BDAG)) and nominee broker data compliance efforts. ***2020/2021 key deliverables:*** • Lead the 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 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.	**On track**	Work to support industry's transition towards the new insurance regime is progressing, in preparation for the implementation of new legislative data requirements for trust deposits on April 30, 2022. Significant advancements were made to develop industry best practices and guidelines related to key implementation issues, develop a brokered deposits compliance framework, and work with member institutions regarding related data and system requirements.
Advance preparedness through Centre of Excellence crisis simulations program. ***2020/2021 key deliverable:*** • At least one simulation test per quarter, as aligned with risk areas, with varying levels of participation from the CDIC Board, Management, safety net partners and CDIC employees.	**Completed**	CDIC conducted nine simulation exercises, more than twice the target number for 2020/2021. Simulation exercises aligned with key risk areas, and included varying levels of participation amongst CDIC employees, Board members and financial safety net partners.

CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

Operational	Modernize CDIC's payout systems and enhance its information security practices	
Key initiatives and outcomes	**Status**	**Update**
Modernize payout systems. ***2020/2021 key deliverable:*** • CDIC defines strategy details and commences implementation of a payout execution strategy, including key vendor selection and industry alignment.	**On track**	CDIC launched the multi-year payout modernization project in 2020/2021. The project is on schedule with strategic design details being defined, the selection of a technology partner and the establishment of a Project Management Office completed.
Enhance CDIC's information security. ***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.	**On track**	CDIC has made substantial progress towards enhancing information security. CDIC's Modern Workplace project is substantially completed and the organization has fully migrated to SharePoint Online. The enhanced cyber framework build continued in 2020/2021 and is scheduled to be finalized in Q1 2021/2022, with a training and awareness campaign completed for employees. As a result of the COVID-19 pandemic, information security and systems pivoted to support the entire organization in a virtual work environment throughout 2020/2021.
	Progressing but partial delays implemented in response to COVID-19	CDIC experienced some delays in the Cloud migration initiative, as the Corporation prioritized virtual workplace supports during the COVID-19 pandemic. A revised plan is expected to be completed in 2022/2023.

CDIC's Corporate Scorecard—2020/2021

(as at March 31, 2021)

Organizational	Implement the Organization and Culture Strategy and Plan	
Key initiatives and outcomes	**Status**	**Update**
Continue implementation of CDIC's Organization and Culture Strategy and Plan: a) Develop key metrics to conduct a culture effectiveness assessment to measure the degree of transformation. b) Redesign the 360° feedback leadership program and revamp talent management and succession planning. c) Undertake compensation review. ***2020/2021 key deliverable:*** • Implement year two of CDIC's three-year Organization and Culture Strategy and Plan.	**Completed**	CDIC completed year two of its three-year Organization and Culture Strategy and Plan on schedule. CDIC modernized its learning and development and talent acquisition tools to support CDIC's virtual work environment in response to COVID-19. In addition to planned deliverables, mental health and employee well-being took centre stage to ensure staff were supported and provided with flexibility to manage the blending of work and home life. This included shoring up capacity and capability in priority business areas, enhancing CDIC wellness programs and amending workplace policies. Culture effectiveness metrics improved by 15%.
Reputational	**Increase public awareness of CDIC's deposit protection**	
Key initiatives and outcomes	**Status**	**Update**
Maintain at least 60% public awareness of CDIC/deposit insurance protection. ***2020/2021 key deliverable:*** • Steadily increase public awareness levels to at least 60% awareness of CDIC or federal deposit protection by March 31, 2021.	**Completed**	To bolster Canadians' confidence and trust in the safety and security of their deposits during the COVID-19 crisis, CDIC increased its public awareness advertising on TV, digital and social media. Quarterly surveys showed that public confidence rebounded since the beginning of the pandemic. Awareness of CDIC's role in protecting deposits reached 61% as of March 2021, which was within the key deliverable target range of 60%–65% this fiscal year. As part of its increased advertising presence, CDIC tested several new media channels with a focus in key regions that had lower than average awareness levels (the Prairies and Québec, with a skew towards women) with strong positive results.

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 2020/2021 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.

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 2020/2021 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 $362 million for the year ended March 31, 2021.

Premium revenue was $739 million for the year, an increase of $71 million (11%) 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 $90 million for the year, an increase of $4 million (5%) from the previous fiscal year. The increase was due to growth in the investment portfolio as a result of increased premium revenue offset by a decrease in the weighted average effective investment yield during the year (1.37% as at March 31, 2021, compared to 1.64% as at March 31, 2020).

Net operating expenses were $60 million for the year, $9 million (17%) higher than the previous fiscal year, mainly due to an increase in professional fees to support various new projects, an overall increase in staffing requirements to support the Corporation's objects and an increased focus on public awareness.

The Corporation's asset base continued to grow during the year. Total assets were $6,512 million as at March 31, 2021, an increase of $757 million (13%) over the previous fiscal year. The majority of the Corporation's assets are investment securities, which totalled $6,490 million as at March 31, 2021, an increase of $759 million (13%) from the previous fiscal year.

The Corporation's provision for insurance losses was $2,650 million as at March 31, 2021, $400 million (18%) higher than the previous fiscal year. This net increase is due to an increase in exposure to losses, changes to the risk profile of certain member institutions and increased probabilities of default.

The Corporation's premium revenue is not taxable for income tax purposes. However, the investment and other income is subject to income taxes. Increased net operating expenses has led to a decreased income tax expense amounting to $7 million (15%) lower 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 $6,492 million, or 67 basis points of insured deposits as at March 31, 2021. The 67 basis points level of insured deposits remains unchanged from the prior year ended March 31, 2020.

Consolidated statement of financial position

Assets

The total assets of the Corporation increased to $6,512 million as at March 31, 2021, from $5,755 million as at March 31, 2020, representing an increase of 13%. The following table summarizes CDIC's assets.

As at March 31 (C$ thousands)	**2021**	**2020**
Cash	2,480	3,568
Investment securities	6,490,225	5,730,984
Current tax asset	1,130	—
Trade and other receivables	166	260
Amounts recoverable from estates	6	6
Prepayments	1,302	1,106
Right-of-use assets	9,700	11,920
Property, plant and equipment	4,163	3,621
Intangible assets	2,999	3,482
Total assets	**6,512,171**	**5,754,947**

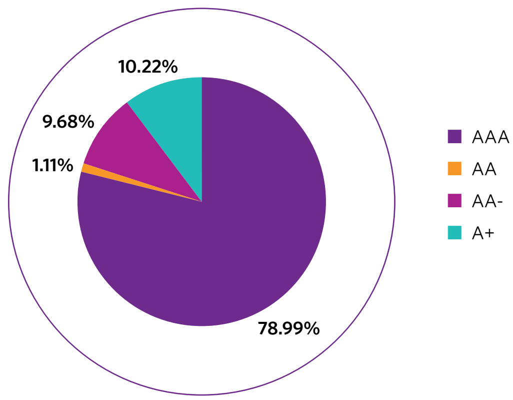
Investment securities

CDIC's $6,490 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, 2021



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 no greater than 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, 2021, unchanged from the prior year. CDIC's investments as at March 31, 2021, carry a weighted average effective yield at maturity of 1.37% (March 31, 2020: 1.64%).

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 2020/2021, no recoveries were received by the Corporation with respect to 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 2020/2021 against losses written off in its name. There may be additional immaterial final recoveries from the estate prior to dissolution.

Liabilities

The total liabilities of the Corporation increased to $2,671 million as at March 31, 2021, from $2,275 million as at March 31, 2020, representing an increase of 17%. The following table summarizes the liabilities of the Corporation.

As at March 31 (C$ thousands)	**2021**	**2020**
Trade and other payables	8,465	7,812
Current tax liability	—	2,941
Lease liabilities	10,390	12,611
Employee benefits	1,508	1,444
Provision for insurance losses	2,650,000	2,250,000
Deferred tax liability	303	448
Total liabilities	**2,670,666**	**2,275,256**

Provision for insurance losses

CDIC's provision for insurance losses is estimated based on a number of assumptions. The $2,650 million provision for insurance losses as at March 31, 2021, represents CDIC's best estimate of the future losses it is likely to incur as a result of resolving non-viable member institutions. The provision increased by $400 million in 2020/2021.

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

- Growth in the estimated level of exposure to losses.
- Changes in the categorization and risk profile of some member institutions.
- 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 any 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, 2021, 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, 2021, was $6,492 million, or 67 basis points of insured deposits. Based on the level of insured deposits as at March 31, 2021, the 100 basis point minimum target level would amount to $9,680 million. The Corporation has developed a funding plan that would see *ex ante* funding reach the minimum funding target in the Corporation's 2027/2028 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, 2021, CDIC had the legislative authority to borrow up to $28 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. If such additional 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 March 31, 2021.

As at March 31 (C$ thousands)	**2021**	**2020**
Available liquid funds:		
Cash	2	4
Fair value of high quality, liquid investment securities	6,586	5,864
Availability of borrowings:		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	28,000	25,000
Total available funds	**34,588**	**30,868**
Insured deposits	**967,981**	**851,903**
Total basis points of insured deposits	**357**	**362**

Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2020/2021 totalled $362 million, a decrease of $133 million or 27% from 2019/2020. The Corporation's financial performance is summarized in the following table.

For the year ended March 31 (C$ thousands)	**2021**	**2020**
Revenue		
Premium	739,100	668,360
Investment income	89,936	85,490
Other	78	6
Expenses		
Net operating expenses	59,829	51,008
Increase in provision for insurance losses	400,000	200,000
Income tax expense	7,367	8,661
Net income	361,918	494,187
Other comprehensive income (loss)	(104)	178
Total comprehensive income	**361,814**	**494,365**

Premium revenue

In the 2020/2021 fiscal year, premium revenue increased by $71 million (11%) to $739 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 $968 billion as at April 30, 2020, from $852 billion as at April 30, 2019, an increase of 14%.

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 2020/2021 premium rates are consistent with CDIC's strategy to achieve its minimum target *ex ante* funding level by 2027/2028. Premium rates, expressed as basis points of insured deposits, are presented below.

Premium category *(basis points of insured deposits)*	**2020/2021**	**2019/2020**
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 2020/2021 amounting to $739 million is approximately 7.6 basis points of insured deposits.

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

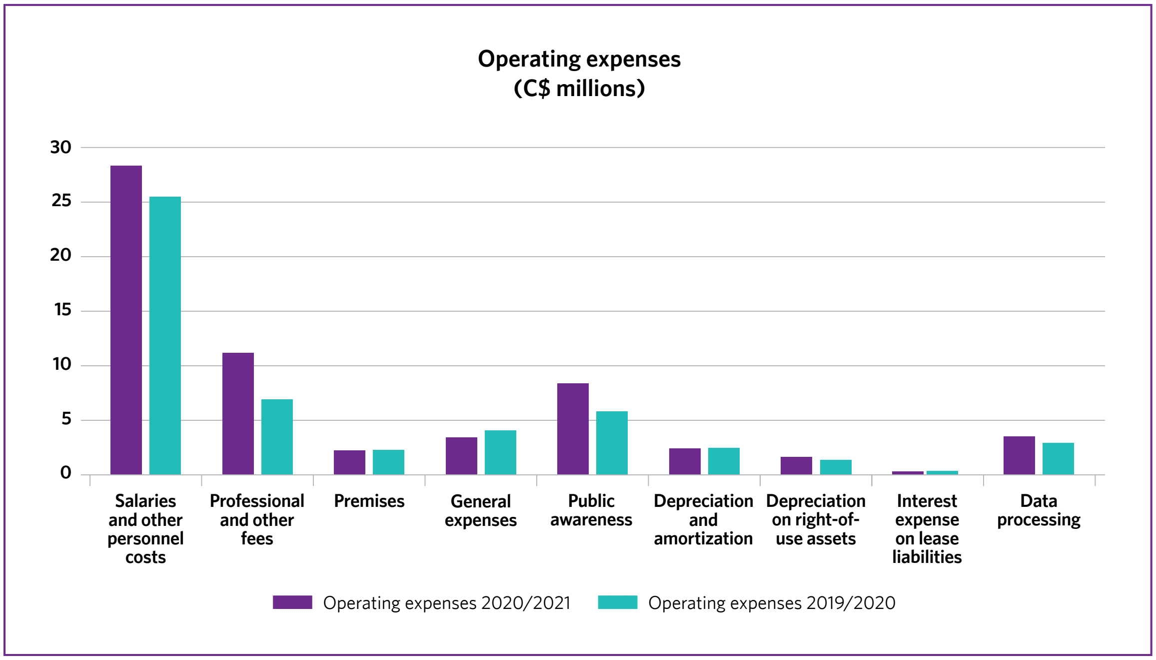
Distribution of member institutions by premium category (% of members)

Premium category	**2020/2021**	**2019/2020**	**2018/2019**	**2017/2018**	**2016/2017**
1	89	83	81	83	78
2	10	14	15	11	18
3	1	3	4	5	4
4	—	—	—	1	—

Investment income

Investment income was $90 million for the year, an increase of $4 million (5%) from the previous fiscal year. The increase was due to growth in the investment portfolio as a result of increased premium revenue partly offset by a decrease in the weighted average effective investment yield during the year (1.37% as at March 31, 2021, compared to 1.64% as at March 31, 2020).

Operating expenses



Operating expenses increased by $9 million (17%) to $60 million in fiscal 2020/2021 from fiscal 2019/2020. The increase is mainly due to an increase in professional fees to support various new projects, an overall increase in staffing requirements to support the Corporation's objects and an increased focus on public awareness.

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 decreased by $1 million (15%) to $7 million in fiscal 2020/2021 from fiscal 2019/2020, due to 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)	2021	2020
Increase in cash from operating activities	794,934	729,525
Decrease in cash from investing activities	(794,542)	(727,452)
Decrease in cash from financing activities	(1,480)	(695)
Net increase (decrease) in cash balance	(1,088)	1,378
Cash, end of year	**2,480**	**3,568**

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

Comparison with 2020/2021 to 2024/2025 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2020/2021 with the Corporate Plan for the same year.

Consolidated statement of financial position

Total assets as at March 31, 2021, were $6,512 million, $5 million higher than the planned amount of $6,507 million. This slight increase is primarily due to the higher than planned premium revenue which contributed to the increase in investment securities.

Total liabilities as at March 31, 2021, were $2,671 million, $650 million (32%) higher than the planned amount of $2,021 million. The increase is mainly due to the variance in the provision for insurance losses.

Consolidated statement of comprehensive income

Total revenue during the year was $829 million, relatively consistent with the planned amount of $828 million.

Net operating expenses for the year were $60 million, relatively consistent with the planned amount of $62 million.

Total comprehensive income for the year ended March 31, 2021, was $362 million compared to planned total comprehensive income of $757 million, a variance of $395 million mainly due to an increase in the provision for insurance losses larger than planned.

(C$ millions)	2021/2022 Corporate Plan[a]	2020/2021 Actual results	2020/2021 Corporate Plan[a]
Consolidated statement of financial position *(as at March 31)*			
Cash and investments	7,256	6,493	6,487
Capital assets	18	7	9
Right-of-use assets	8	10	11
Other current assets	—	2	—
Total assets	**7,282**	**6,512**	**6,507**
Trade and other payables	5	8	5
Provision for insurance losses	2,700	2,650	2,000
Lease liabilities	9	10	11
Other non-current liabilities	5	2	5
Retained earnings	4,563	3,842	4,486
Total liabilities and equity	**7,282**	**6,512**	**6,507**
Consolidated statement of comprehensive income *(for the year ended March 31)*			
Revenue			
Premiums	765	739	728
Investment and other income	76	90	100
	841	829	828
Expenses			
Net operating expenses	68	60	62
Increase in provision for insurance losses	100	400	—
	168	460	62
Net income before income tax	673	369	766
Income tax expense	(2)	(7)	(9)
Total comprehensive income	**671**	**362**	**757**

[a] The Corporate Plans 2020/2021 to 2024/2025 and 2021/2022 to 2025/2026 were developed based on information as at December 31, 2019, and December 31, 2020, respectively.