Part 1 Management's Discussion and Analysis

CDIC's operating environment

Economic environment

During 2022/23, the global macroeconomic environment exhibited mixed performance despite the loosening of COVID-19 related health protocols around the world. Across most major economies, inflation peaked and has begun to decrease incrementally following monetary policy tightening. Recent banking sector stress in the United States and Europe caused temporary uncertainty in financial markets. Despite the challenging conditions of higher interest rates and recent international stress events, overall CDIC's membership remains resilient, while posting acceptable profitability and loan performance, and adequate liquidity and capital ratios.

Going forward, headwinds to the economic environment remain and warrant continued monitoring. Monetary tightening over the past year has resulted in material increases in interest rates which have yet to work their way through the financial system. Further, declining real wages, elevated costs of living, and higher debt service costs are placing a strain on household balance sheets and cash flows. Businesses are also facing uncertainty, including ongoing labour and skills shortages, and higher borrowing and input costs.

CDIC continues to monitor the resilience of its member institutions and remains focused on being ready to resolve member institutions, if necessary.

Regulatory environment

The *Canada Deposit Insurance Corporation Act* (the CDIC Act) was subject to several amendments in 2022/23, resulting from the *Budget Implementation Act, 2022, No. 1*, which received Royal Assent in June 2022, and the *Fall Economic Statement Implementation Act, 2022*, which received Royal Assent in December 2022. These amendments included:

- Strengthening CDIC's corporate governance by adding CDIC's President and CEO and one new private sector Board position to the Corporation's Board of Directors.
- Expanding CDIC's deposit insurance coverage to include separate coverage for eligible deposits held under the newly created First Home Savings Account (FHSA). Coverage for FHSAs became available as of April 1, 2023.

Previous amendments to the CDIC Act were also implemented in 2022/23. On April 30, 2022, the following changes to expand and strengthen deposit insurance came into effect:[1]

- Extending separate coverage up to $100,000 for eligible deposits held under Registered Disability Savings Plans (RDSPs) and Registered Education Savings Plans (RESPs).
- Removing separate coverage for deposits in mortgage tax accounts.
- Introducing an enhanced set of requirements for deposits held in trust.

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1 For more information, please see "Changes to expand CDIC deposit protection now in effect" at: www.cdic.ca/newsroom/news/changes-to-expand-deposit-protection-now-in-effect

CDIC is continuing its work to modernize the Differential Premium System (DPS) and *ex ante* funding framework. Throughout 2022/23, CDIC completed consultations with industry stakeholders and provided final recommendations to its Board of Directors. The goals of the reviews are to ensure that: the DPS continues to incentivize appropriate behaviours through classification of members on the basis of the risk they represent to the *ex ante* fund and CDIC's ability to execute its functions; and the *ex ante* fund target remains appropriate.

Budget 2023 announced that the Government may amend the CDIC Act to provide expanded authorities to increase deposit insurance and related measures in the event of a market disruption.

Annual Public Meeting

CDIC held its 2022 Annual Public Meeting (APM) as a bilingual live webcast on November 3, 2022. Under the theme *Facing the future: How preparedness is key to protecting depositors*, CEO Leah Anderson was joined by the CDIC Chair of the Board, Bob Sanderson, to discuss strategic highlights in building and maintaining CDIC's state of readiness and reinforcing the importance of, and trust in, deposit insurance in a complex and uncertain environment.

The APM is an opportunity for CDIC to update Canadians on its activities and to answer any questions from members of the public attending online or via social media. CDIC plans to hold its next APM in the fall of 2023.

Corporate environment

Alongside the current economic and regulatory conditions, CDIC continues to confront ongoing shifts in the financial industry and in the workplace itself.

Digitalization

In response to accelerating digitalization in the financial sector, CDIC is working proactively to ensure that the deposit insurance and resolution frameworks, as well as CDIC's operations, remain fit for purpose.

Digitalization also has implications for how Canadian depositors access their money and for the security of their data against cyber threats. To maintain depositor confidence, CDIC is transforming its technological capabilities to increase the speed, security, and convenience of access to insured deposits in the event of a member failure. As part of this work, in 2022/23, CDIC continued the development of its Payout Modernization project, which, when completed, will ensure that CDIC has a state-of-the-art ability to reimburse depositors if a member institution is closed.

CDIC is participating with the Department of Finance and other financial sector agencies in the Government of Canada's financial sector review on the digitalization of money, announced in Budget 2022. Budget 2023 reaffirmed the Government's intent to continue to work with safety net partners to advance the review and to bring forward proposals to protect Canadians from the risks of crypto-asset markets. Deposit insurance coverage and the eligibility of digital products is an important component of this review.

The Workplace of Tomorrow

The COVID-19 pandemic accelerated fundamental shifts in how people work, what they want from their workplaces, how organizations need to adapt, and what it means to lead. To support its staff, strengthen its culture, and attract and retain top talent, CDIC has developed the Workplace of Tomorrow strategy.

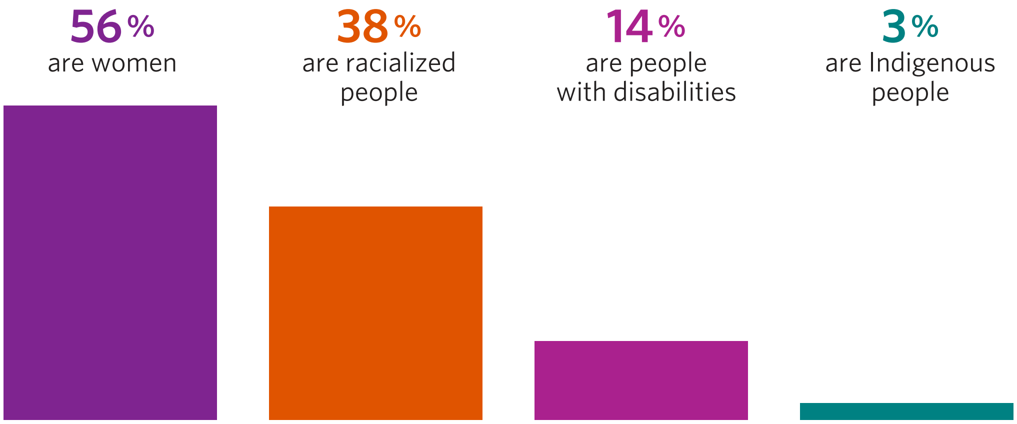
As part of its Workplace of Tomorrow strategy, CDIC evolved its hybrid work strategy through continued experimentation. At year end, CDIC launched a second experimentation phase of hybrid work, with 40%–60% of time in office to support collaboration and teamwork. CDIC will continue to experiment with premises design and the deployment of new, collaborative technologies.

With competition for talent at an all-time high, CDIC is also developing new strategies to attract top talent in a tight labour market with fewer qualified candidates available, while also working to retain and engage existing staff. A key part of this work is creating an inclusive work environment. In 2022/23, CDIC achieved official certification as a Great Place to Work® by providing a great employee experience, and given employees' high engagement and pride in CDIC and its mandate.

Diversity, Equity, and Inclusion Strategy

CDIC is dedicated to having a work force that is representative of the Canadians it serves because diverse voices make CDIC a better organization. Through its Diversity, Equity, and Inclusion Strategy, the Corporation recognizes that building an inclusive environment requires committed leadership. CDIC's senior leaders share a common performance objective in this regard and CDIC meets or exceeds representation of women and visible minorities in its work force. In addition, 67% of CDIC's Corporate Officers identify as women. CDIC also has initiatives in place to build representation in other designated groups. Inclusion will remain at the heart of CDIC's strategy for the Workplace of Tomorrow.

Self-reported gender and diversity at CDIC



Data are collected through a voluntary self-identification form available to all employees. This graphic is based on survey responses from CDIC employees collected in Q2 of fiscal 2022/23.

Sustainability

This year's Annual Report includes CDIC's inaugural set of disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The full TCFD reporting is included in Appendix A of this Annual Report. These disclosures will evolve over time with greater information, data and lessons learned. As outlined in the disclosures, CDIC has taken the initial step of measuring our operational greenhouse gas emissions inventory as a baseline for informing emission reduction efforts that could contribute to the Government of Canada's commitment to achieve net zero emissions by 2050.

CDIC membership

As at March 31, 2023, CDIC had 86 member institutions.

Overall, CDIC's membership delivered solid financial results, with adequate capital and liquidity ratios. From a macroeconomic perspective, during the year the banking sector continued to be exposed to the risks associated with elevated house prices and household indebtedness amidst a backdrop of increasing inflation. These risks underscored the need for CDIC to maintain its focus on monitoring the risk environment in order to be prepared to respond rapidly if members experience financial difficulty.

Insured deposits

As at April 30, 2022 (the annual date on which insured deposits are calculated for insurance premiums), deposits insured by CDIC increased by 5.5% year over year to $1,082 billion, representing the vast majority of personal deposits. Insured deposits continue to be a highly valued, cost-effective and stable source of funding for member institutions.

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. These peer groups are:

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

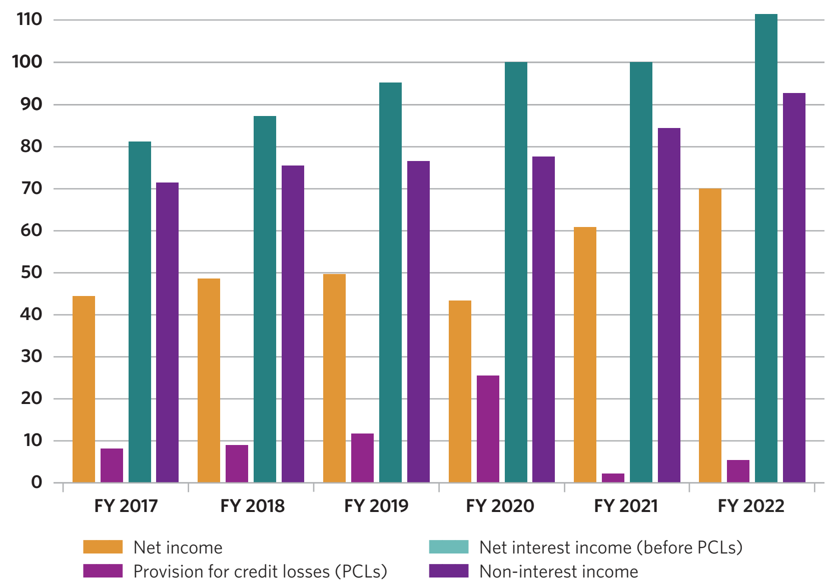
Member institution financial results

CDIC members earned a total net income of $70.0 billion in 2022. Higher profits for the membership were attributable to higher net interest and non-interest income. Net interest margins increased slightly, while non-interest expenses remained elevated.

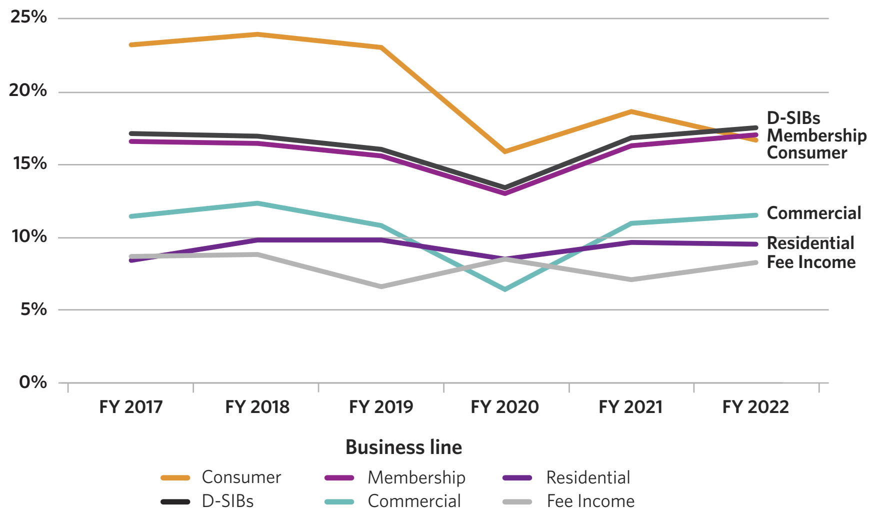
Provisions for credit losses (PCLs) increased to $5.6 billion, driven mainly by deteriorating macroeconomic conditions, and remain low by historical standards. PCLs are up substantially from $1.6 billion in 2021 when COVID-19 related PCLs were released.

Net interest income increased by 11.3% ($10.3 billion) in 2022 as higher loan volumes were accompanied by slightly increased net interest margins. Non-interest income increased 10.8% ($8.7 billion), driven largely by trading-related income.

Net income and provisions for CDIC members, 2017–2022 (C$ billions)



Return on average shareholders' equity (ROAE) by peer group, 2017–2022

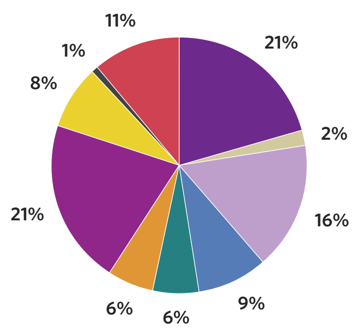


The membership's return on average shareholders' equity (ROAE), a broad-based measure looking at institutions' profitability, was 17.2%, up from 16.6% last year. The ROAE increased across the membership as net income was driven by increased loan volumes but was somewhat offset by higher provisions for expected credit losses. The Consumer peer group, however, saw the ROAE fall due to higher provisions for expected credit losses relative to the other peer groups. As shown in the graph above, the ROAE varies by peer group, due to the type of lending and the degree of leverage utilized.

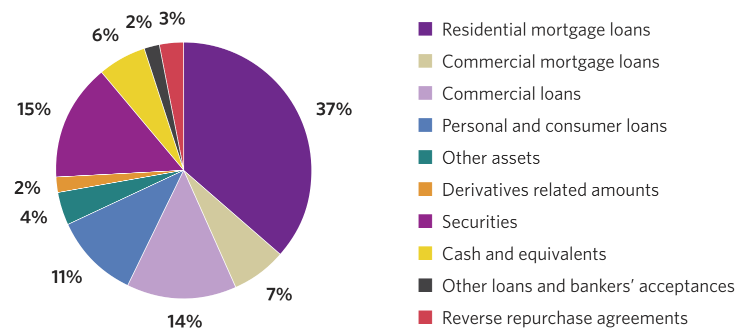
Asset composition, growth and quality

The membership's total asset base grew 12.7% year over year to $8.1 trillion, driven by the increase in residential mortgages, securities and commercial loans. Residential mortgages, one of the largest asset classes on the balance sheets of CDIC members, totalled approximately $1.8 trillion, or 21.7% of the membership's on-balance sheet assets. Other significant asset classes included: securities (20.8% of total assets, 24.2% of which were Canadian government-issued securities); commercial loans (16.1%); personal and consumer loans (8.8%); and reverse repurchase agreements (11.0%).

Asset mix—D-SIB peer group (%),* 2022 (C$7.67 trillion)



Asset mix—all other peer groups (%),* 2022 (C$458 billion)



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

The domestic systemically important bank (D-SIB) group is broken out from the rest of CDIC's membership due to its size and the disproportionately large impact these institutions have on the overall composition of the Canadian financial sector. The D-SIB peer group also has a unique asset composition with a lower reliance on residential mortgage lending relative to other CDIC members.

The overall performance of the membership's assets in 2022 improved compared to last year, with the gross impaired loan ratio decreasing to 0.33% of total loans (2021: 0.37%). This measure remained low both relative to historical levels and to Canadian lenders' international peers.

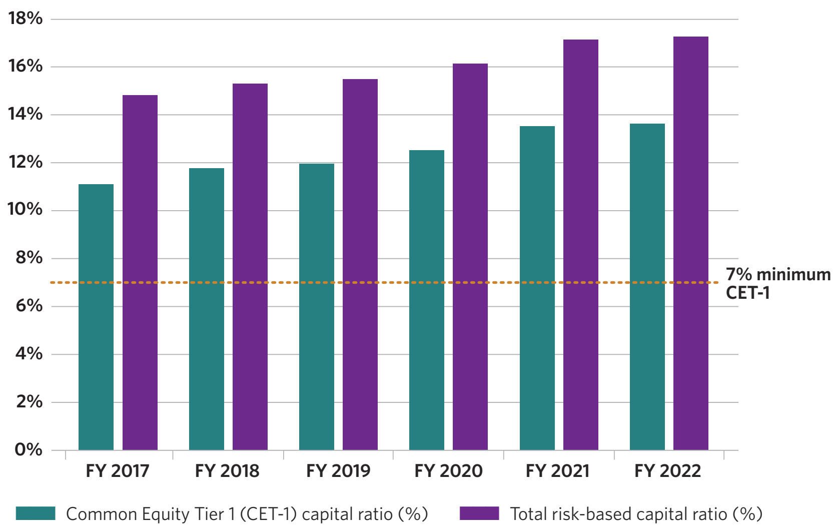
Liquidity levels

The membership maintained satisfactory levels of liquid assets as of December 31, 2022, 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. Overall, members continue to hold historically elevated levels of liquidity relating to higher deposit levels built up during the pandemic.

Capital ratios

Overall membership capital levels increased through 2022 and remain well above the Basel III minimum requirements. The membership's average Common Equity Tier 1 (CET-1) capital ratio was 13.8%, as at each member's Q4 2022 (relative to the OSFI minimum requirement of 7.0%), up from 13.6% at each member's Q4 2021. The average total capital ratio for the membership was 17.3%, up from 17.1% in 2021.

CDIC membership capital ratios, 2017–2022



Further, under the terms of OSFI's *Leverage Requirements Guideline*, all institutions are required to maintain a capital adequacy leverage ratio that meets or exceeds 3.0%. As of each member's Q4 2022, the average leverage ratio of the membership was 4.8%, with 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 16.2%.

Management of enterprise risk

CDIC employs an Enterprise Risk Management (ERM) governance structure that emphasizes and balances strong central oversight and control of risk with clear accountability for, and ownership of, risk within business lines. The Board oversees CDIC's ERM program, and the Board's risk oversight mandate is accomplished through its Risk Committee. The Management Risk Committee (MRC) provides oversight of governance, risk and control matters, and supports Management's accountability to guide, challenge, and advise decision makers.

Key risks to CDIC

CDIC actively identifies and monitors risks that are present within the current operating environment. Key risks are those that may materially affect CDIC's ability to deliver on its mandate, and are subject to greater oversight from the MRC and Risk Committee of the Board. CDIC's key risks include:

- *Preparedness risk:* The ongoing changes to the financial sector, business models and risks profiles of CDIC's members could impact CDIC's state of preparedness to deliver deposit insurance or act as the resolution authority for its member institutions. This risk is mitigated through CDIC's strategies to *Be resolution ready* and *Reinforce trust in depositor protection*. Initiatives include CDIC's continuous monitoring of its membership and environment, and strengthening its readiness to respond to a variety of stress scenarios.

- *Strategic risk:* The changing environment due to financial innovation (e.g., evolution of products and new technology-focused deposit taking) could affect CDIC's ability to achieve its strategies and related initiatives. As part of its *Reinforce trust in depositor protection* strategy, CDIC will continue its ongoing collaboration with its financial safety net partners in respect of various financial sector issues, including assessing opportunities to continue to modernize the federal deposit insurance framework, and deepen public awareness of deposit insurance protection, to ensure that the current deposit insurance framework continues to adequately respond to the evolving financial sector landscape.
- *Operational risk:* Top operational risks include resilience to cyber threats and risks associated with outdated infrastructure. Operational risk is mitigated through CDIC's strategies to *Strengthen organizational resilience* and *Reinforce trust in depositor protection*. For example, the implementation of CDIC's Cyber Security Plan, and the delivery of the Payout Modernization project to ensure timely access to insured funds in the event of a member failure.
- *Organizational risk:* The Corporation is facing a competitive labour market. Organizational risk is mitigated through CDIC's strategy to *Strengthen organizational resilience*. This includes adapting its employment brand awareness, skills training, and employee value proposition to ensure that CDIC continues to fulfill its mandate.

CDIC's strategic response—a look ahead to 2023/24

CDIC's decision making is driven by its mandate, its operating environment, and the key risks it faces. In response to these factors, CDIC will continue its focus on strategic and operational priorities, while proactively preparing and adapting to shifts in the economic, financial, environmental, and social landscape to deliver a fit-for-purpose deposit insurance and resolution regime.

CDIC will pursue the following three strategic objectives, as set out in the Corporation's 2023/24 to 2027/28 Corporate Plan:

1. Be resolution ready.

Being resolution ready involves having the necessary people, processes, tools, systems, and financial capacity for CDIC to resolve a member institution, if necessary. CDIC's role within Canada's financial safety net is amplified during times of economic hardship or uncertainty; being resolution ready is key in promoting financial stability.

This strategic objective is underpinned by three key initiatives:

- Early and continuous identification of risks and financial conditions of member institutions.
- Strengthen resolution frameworks, policies and plans.
- Modernize the funding and premium framework for deposit insurance and resolution.

2. Reinforce trust in depositor protection.

Depositor confidence in the safety of their deposits is essential to the resilience of the financial sector. CDIC will reinforce trust in depositor protection by anticipating and responding to innovation in the financial system to ensure that the deposit insurance and resolution frameworks, as well as CDIC operations, remain fit for purpose.

This strategic objective responds to factors related to maintaining depositor confidence, and to the increased digitalization of the financial products and services.

CDIC's work to reinforce trust in depositor protection among Canadians and within the financial system is underpinned by three key initiatives:

- Anticipate and respond to digitalization and transformation of financial services.
- Advance the multi-year Payout Modernization project.
- Launch renewed three-year Public Awareness Strategy and foster stakeholder partnerships.

3. Strengthen organizational resilience.

Strengthening organizational resilience involves addressing CDIC's organizational risks and internal and external factors that can impact CDIC's operating environment, including its technologies, people, and culture. CDIC will enhance the efficiency and effectiveness of its systems, technology, operations, and skills training to ensure that it can continue to fulfill its mandate while being prepared for the workplace of the future.

This objective is underpinned by four key initiatives:

- Growing our people and culture.
- Enhance cyber security maturity.
- Establish Environmental, Social and Governance (ESG) principles and strategy.
- Continue to implement a multi-year Enterprise Technology Strategy.

2023/24 to 2027/28 financial plan

The financial projections included in CDIC's 2023/24 to 2027/28 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 5.7% in insured deposits during fiscal 2023/24, 6.0% during fiscal 2024/25, followed by a gradual decrease to 4.4% in fiscal 2027/28.
- The premium rates as well as the distribution of members across the differential premium categories will remain unchanged from fiscal 2022/23.
- Investment income is based on an assumed average yield on cash and investments of 2.2% for fiscal 2023/24, followed by a gradual increase to a yield of 2.4% in fiscal 2027/28.
- 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, were kept constant.

2023/24 fiscal year[2]

Total comprehensive income is planned at $774 million for the 2023/24 fiscal year.

Total revenues are planned to be $1,035 million in the 2023/24 fiscal year, including $861 million of premium revenue and $174 million of investment income.

Planned **premium revenue** of $861 million is $46 million higher than fiscal 2022/23 premium revenue of $815 million. The increase is primarily as a result of the expected growth in insured deposits.

Expected **investment income** of $174 million is $49 million higher than investment income of $125 million in fiscal 2022/23, resulting from the impact of a higher assumed average yield on investments.

Net operating expenses are planned to be $90 million in fiscal 2023/24, compared to $81 million actual operating expenses in fiscal 2022/23. The fiscal 2023/24 budget increased mainly due to an increase in personnel and operating costs to support key initiatives in the areas of resolution preparedness, enterprise technology, and cybersecurity.

Cash and investments are planned to be $9.1 billion at the end of the 2023/24 fiscal year due to the investment of premiums received.

The **provision for insurance losses** is planned to be $2.25 billion at the end of the 2023/24 fiscal year based on the calculations using assumptions as at December 31, 2022.

The near term ***ex ante* fund** target remains on track to exceed 85 basis points of insured deposits by the 2026/27 fiscal year.

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2 Figures as of April 1, 2023.

Performance against Plan

As at the end of Q3 (December 31, 2022), performance against most of CDIC's planned corporate activities from the 2022/23 Corporate Plan are on track and progressing well. Overall, all 10 of CDIC key initiatives are classified as progressing well and "On Track." Of the 23 activities underlying the 10 key initiatives, 20 are progressing well and "On Track," and 3 have been slightly delayed due to external factors, or otherwise reprioritized.

CDIC's Corporate Scorecard—2022/23

(as at March 31, 2023)

Be resolution ready		
Initiative	**2022/23 activity/outcome**	**Year-end results**
Early and continuous identification of risks within the membership.	Proactive risk identification including identification of environmental and emerging risk factors that could impact member institutions (e.g., climate, cyber, technology).	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
	Continue to develop and implement research-based stress-testing capabilities.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
Modernize funding and premium framework for deposit insurance and resolution.	Consult on the recommendations from the comprehensive review of CDIC's premium and *ex ante* funding framework.	• Completed—2022/23 activities completed with next steps ongoing.
Strengthen resolution frameworks, policies and plans.	Credible resolution strategies and operational plans maintained at an individual member and system level to ensure that CDIC's resolution tools can be effectively implemented in response to different scenarios.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
	Conduct simulations and other exercises to enhance operational readiness across CDIC staff, key stakeholders, and standby firms.	• Partially completed due to reprioritization—Delivered 4 simulation exercises (target was 6).
	Complete operationalization of recent deposit insurance framework changes for deposits held "in trust" by brokers in nominee name for their clients (Nominee Broker Deposits) by testing against revised data and compliance standards.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).

Reinforce trust in depositor protection		
Initiative	**2022/23 activity/outcome**	**Year-end results**
Advance multi-year Payout Modernization project.	Complete the development phase of the first software release of the Payout Modernization project. Begin the development phase for the second software release of the project.	• Partially completed because delays from external contractor pushed back the completion date for the first software release by two quarters from the original schedule.
Anticipate and respond to digitalization and transformation of financial services.	Impact of financial innovation and fintechs on the deposit insurance and resolution frameworks is assessed, and risks, gaps, and opportunities addressed.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
Maintain public awareness and confidence.	Maintain public awareness of CDIC protection within 60%–65% target range and evolve strategy to increase awareness among women.	• Completed—Public awareness reached record levels among Canadians (64%), women (55.5%) and francophones (60.6%).

Strengthen organizational resilience		
Initiative	**2022/23 activity/outcome**	**Year-end results**
Enhance cyber security.	Implement enhancements to cyber risk defences and broaden threat monitoring and incident response capabilities.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
Continue to develop and implement multi-year Enterprise Technology Strategy.	Ready CDIC's Cloud infrastructure for remaining migration of corporate workloads and data warehousing.	• Completed.
	Undertake a review of CDIC's technology operations to support long-term cost optimization and resourcing model, and make recommendations to the Board.	• Partially completed due to reprioritization. The review was completed in Q4 2022/23, but the recommendations are scheduled to be presented to the Board in Q1 2023/24.
Prepare for the workplace of tomorrow including Future of Work.	Review of employee benefits to determine fit for purpose in light of the workplace of tomorrow.	• Completed.
	Conduct skills review.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).
	Support CDIC's hybrid model and transformed culture by continued experimentation of premises design, and deployment of further collaborative technologies and training.	• Completed—2022/23 activities completed with next steps ongoing (multi-year initiative).

Strengthen organizational resilience *(continued)*		
Initiative	**2022/23 activity/outcome**	**Year-end results**
Reinforce Environmental, Social and Governance (ESG) principles within the organization and its activities.	Identify measures to bolster sustainable practices and improve overall environmental performance.	• Majority completed—2022/23 Task Force on Climate-related Financial Disclosures (TCFD) activities completed with TCFD report included in this Annual Report. ESG Strategy scope and development timeline have shifted but the Strategy is still scheduled for inclusion in the 2024/25 Corporate Plan.
	Promote a culture that is reflective of the Canadians it serves by executing a Diversity, Equity, and Inclusion Strategy.	• Majority completed—CDIC meets or exceeds representation of women and visible minorities in its work force. In addition, 67% of CDIC's Corporate Officers identify as women. The creation of Diversity, Equity, and Inclusion targets in succession planning was completed, but the BIPOC (Black, Indigenous, People of Colour) mentorship program work was otherwise delayed and will recommence in Q1 2023/24.

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 2022/23 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 affect the failure of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. (See Note 2 of the Corporation's fiscal 2022/23 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 $648 million for the year ended March 31, 2023.

Premium revenue was $815 million for the year, an increase of $42 million (5%) from the previous fiscal year. The increase in premium revenue was mainly due to growth in insured deposits.

Investment income was $125 million for the year, an increase of $32 million (35%) from the previous fiscal year. The increase was mainly due to higher yield and growth in the investment portfolio.

Net operating expenses were $81 million for the year, $13 million (19%) higher than the previous fiscal year, primarily due to the advancement of the Payout Modernization project and an increase in personnel costs to support the Corporation's key initiatives.

The Corporation's asset base continued to grow during the year. Total assets were $8.2 billion as at March 31, 2023, an increase of $855 million (12%) over the previous fiscal year. The majority of the Corporation's assets are investment securities which was the primary driver of the total asset increase from the previous fiscal year.

The Corporation's provision for insurance losses was $2.1 billion as at March 31, 2023, $200 million (11%) higher than the previous fiscal year. This increase is mainly due to an increase in exposure to losses.

The Corporation's premium revenue is not taxable for income tax purposes. However, the investment and other income is subject to income taxes. Income tax expense was $11 million for the year, an increase of $5 million (78%) higher than the previous fiscal year mainly due to an increase in investment income.

The Corporation's *ex ante* funding is designed to cover possible deposit insurance losses. The balance stood at $8.1 billion or 75 basis points of insured deposits as at March 31, 2023, an increase of 4 basis points from March 31, 2022.

Consolidated statement of financial position

Assets

The total assets of the Corporation increased to $8.2 billion as at March 31, 2023, from $7.3 billion as at March 31, 2022, representing an increase of 12%. The following table summarizes CDIC's assets.

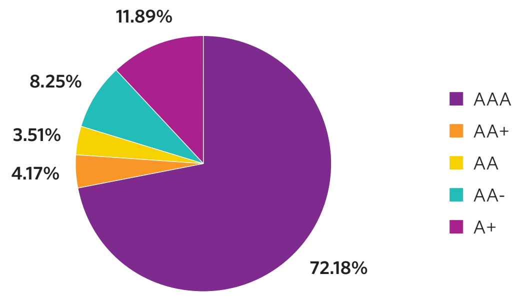
As at March 31 (C$ thousands)	2023	2022
Cash	15,712	22,726
Investment securities	8,123,679	7,261,749
Current tax asset	—	1,215
Trade and other receivables	472	742
Prepayments	1,636	1,074
Right-of-use assets	7,416	8,660
Property, plant and equipment	3,452	3,606
Intangible assets	6,934	4,460
Total assets	**8,159,301**	**7,304,232**

Investment securities

CDIC's $8.1 billion investment portfolio forms the majority of its assets. The Corporation's investment strategy is based on two key principles:

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

Investment securities credit profile, as at March 31, 2023



These principles require that CDIC maintain a conservatively structured portfolio. CDIC's treasury activity follows the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance. CDIC's Board financial risk policies further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument.

CDIC is restricted under these policies to the obligations of the Government of Canada and agent Crowns and the obligations of provincial governments or municipal financing authorities. Investment securities are restricted to securities having a minimum credit rating of A- with a term 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.

CDIC's investments as at March 31, 2023, carry a weighted average effective yield of 1.90% (March 31, 2022: 1.36%).

Liabilities

The total liabilities of the Corporation increased to $2.1 billion as at March 31, 2023, from $1.9 billion as at March 31, 2022, representing an increase of 11%. The following table summarizes the liabilities of the Corporation.

As at March 31 (C$ thousands)	**2023**	**2022**
Trade and other payables	13,579	9,764
Current tax liability	4,954	—
Lease liabilities	8,816	10,176
Employee benefits	1,291	1,461
Provision for insurance losses	2,100,000	1,900,000
Deferred tax liability	148	289
Total liabilities	**2,128,788**	**1,921,690**

Provision for insurance losses

CDIC's provision for insurance losses is estimated based on a number of assumptions. The $2.1 billion provision for insurance losses as at March 31, 2023, 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 $200 million in 2022/23 primarily due to an increase in exposure to losses.

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.

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. During 2022/23, the Corporation conducted a review of the *ex ante* funding framework and established a near-term fund target to exceed 85 basis points of insured deposits by the 2026/27 fiscal year.

The actual level of *ex ante* funding as at March 31, 2023, was $8.1 billion, or 75 basis points of insured deposits. The near term *ex ante* fund target remains on track to exceed 85 basis points of insured deposits by the 2026/27 fiscal year.

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.

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, 2023, CDIC had the legislative authority to borrow up to $32 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, 2023.

As at March 31 (C$ millions)	**2023**	**2022**
Available liquid funds:		
Cash	16	23
Fair value of high quality, liquid investment securities	7,862	7,058
Availability of borrowings:		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	32,000	30,000
Total available funds	**39,878**	**37,081**
Insured deposits	**1,081,987**	**1,025,235**
Total basis points of insured deposits	**369**	**362**

Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2022/23 totalled $648 million, a decrease of $893 million from 2021/22. The Corporation's financial performance is summarized in the following table.

For the year ended March 31 (C$ thousands)	**2023**	**2022**
Revenue		
Premium	814,723	772,318
Investment income	125,274	92,628
Other	153	208
Expenses		
Net operating expenses	81,211	67,977
Increase (decrease) in the provision for insurance losses	200,000	(750,000)
Income tax expense	11,075	6,225
Net income	647,864	1,540,952
Other comprehensive income	107	85
Total comprehensive income	**647,971**	**1,541,037**

Premium revenue

In the 2022/23 fiscal year, premium revenue increased by $42 million (5%) to $815 million. Growth in insured deposits contributed to the increase in premium revenue. Insured deposits increased to $1.082 trillion as at April 30, 2022, from $1.025 trillion as at April 30, 2021, 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.

During 2022/23, CDIC launched a public consultation to seek input on proposed changes to modernize and improve the effectiveness of the Differential Premium System (DPS). The objective of the review is to modernize and improve the effectiveness of the system and process which determines the risk-based premiums payable by members to CDIC on an annual basis. The DPS review is ongoing; revisions to the DPS may result in changes to the quantum and composition of premium rates in the future.

The 2022/23 premium rates are consistent with CDIC's existing strategy that would see the Corporation exceed its near term target *ex ante* funding level by the 2026/27 fiscal year. Premium rates, expressed as basis points of insured deposits, are presented below.

Premium category *(basis points of insured deposits)*	**2022/23**	**2021/22**
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 2022/23 amounting to $815 million is approximately 7.5 basis points of insured deposits.

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

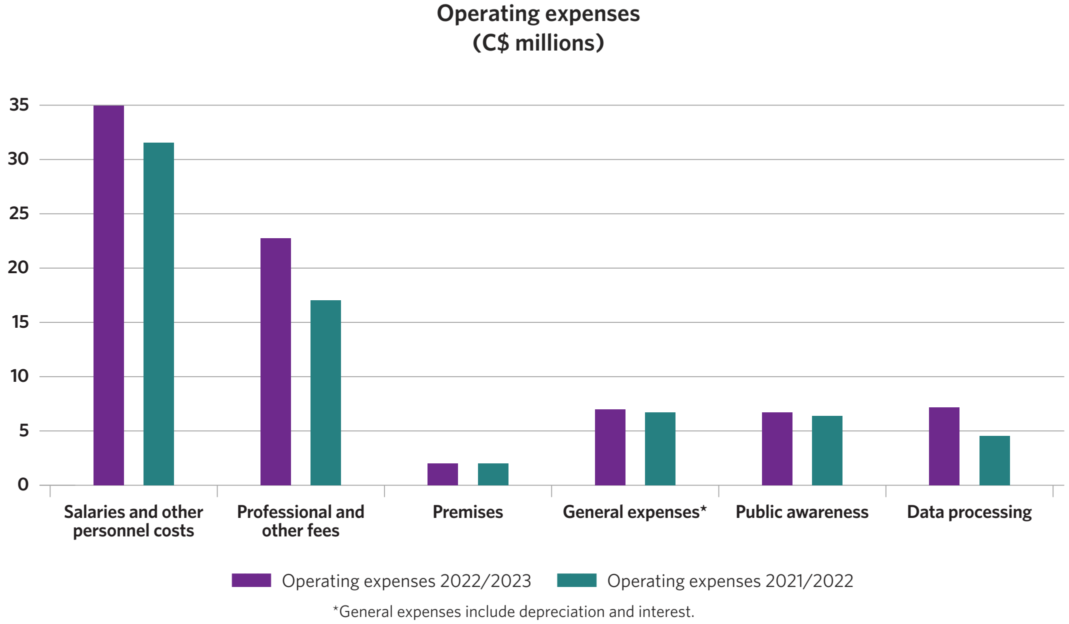
Distribution of member institutions by premium category (% of members)

Premium category	**2022/23**	**2021/22**	**2020/21**	**2019/20**	**2018/19**
1	92	91	89	83	81
2	6	6	10	14	15
3	2	3	1	3	4
4	—	—	—	—	—

Investment income

Investment income was $125 million for the year, an increase of $32 million (35%) from the previous fiscal year. The increase was mainly due to a higher average yield (1.90% and 1.36%, as at March 31, 2023, and March 31, 2022, respectively) and growth in the investment portfolio as a result of increased premium revenue.

Operating expenses



Operating expenses increased by $13 million (19%) to $81 million in fiscal 2022/23 from fiscal 2021/22. The increase was primarily driven by the advancement of the Payout Modernization project ($9 million) and an increase in personnel costs ($3 million) to support the Corporation's key initiatives.

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 $5 million (78%) to $11 million in fiscal 2022/23 from fiscal 2021/22, mainly due to increased investment income.

Consolidated statement of cash flows

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

For the year ended March 31 (C$ thousands)	2023	2022
Increase in cash from operating activities	884,568	835,475
Decrease in cash from investing activities	(890,100)	(814,940)
Decrease in cash from financing activities	(1,482)	(289)
Net (decrease) increase in cash balance	(7,014)	20,246
Cash, end of year	**15,712**	**22,726**

Comparison with 2022/23 to 2026/27 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2022/23 with the Corporate Plan for the same year.

Consolidated statement of financial position

Total assets as at March 31, 2023, were $8.2 billion, consistent with the planned amount.

Total liabilities as at March 31, 2023, were $2.1 billion, $489 million (19%) lower than the planned amount primarily due to a lower provision for insurance losses of $500 million. At the time of Plan development provision was $2.65 billion.

Consolidated statement of comprehensive income

Total revenue during the year was $940 million, $29 million (3%) higher than the planned amount of $911 million. This increase is primarily due to higher than planned investment income.

Net operating expenses for the year were $81 million, lower than the planned amount of $88 million mainly due to timing of spending for the Payout Modernization project and lower than planned spending on professional fees.

Total comprehensive income for the year ended March 31, 2023, was $648 million compared to planned total comprehensive income of $723 million. The variance is mainly due to a higher than planned increase in the provision for insurance losses of $100 million.

(C$ millions)	2023/24 Corporate Plan[a]	2022/23 Actual results	2022/23 Corporate Plan[a]
Consolidated statement of financial position *(as at March 31)*			
Cash and investments	9,052	8,139	8,101
Capital assets	13	11	14
Right-of-use assets	6	7	6
Other current assets	—	2	—
Total assets	**9,071**	**8,159**	**8,121**
Trade and other payables	5	13	5
Provision for insurance losses	2,250	2,100	2,600
Lease liabilities	8	9	8
Other non-current liabilities	5	6	5
Retained earnings	6,803	6,031	5,503
Total liabilities and equity	**9,071**	**8,159**	**8,121**
Consolidated statement of comprehensive income *(for the year ended March 31)*			
Revenue			
Premiums	861	815	822
Investment and other income	174	125	89
	1,035	940	911
Expenses			
Net operating expenses	90	81	88
Increase in provision for insurance losses	150	200	100
	240	281	188
Net income before income tax	795	659	723
Income tax expense	(21)	(11)	—
Total comprehensive income	**774**	**648**	**723**

[a] The Corporate Plans 2022/23 to 2026/27 and 2023/24 to 2027/28 were developed based on information as at December 31, 2021, and December 31, 2022, respectively.