CDIC
Canada Deposit
Insurance Corporation

CELEBRATING 50 YEARS OF DEPOSIT PROTECTION

ANNUAL REPORT • 2017

Canada

CDIC MANDATE

CDIC's mandate is to provide insurance against the loss of part or all of deposits and to promote and otherwise contribute to the stability of the financial system in Canada, for the benefit of those with deposits in CDIC member institutions while minimizing the Corporation's exposure to loss.

OUR VISION

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

CDIC DEPOSIT INSURANCE COVERAGE

What's covered?

CDIC insures eligible deposits held in each member institution up to a maximum of $100,000 (principal and interest combined) separately in each of the following:

- deposits held in one name
- joint deposits
- trust deposits
- Registered Retirement Savings Plans (RRSPs)
- Registered Retirement Income Funds (RRIFs)
- Tax-Free Savings Accounts (TFSAs)
- deposits held for paying taxes on mortgaged property

What's an eligible deposit?

Eligible deposits include:

- savings accounts and chequing accounts
- term deposits, such as Guaranteed Investment Certificates (GICs), of five years or less
- money orders and bank drafts issued by CDIC members, and cheques certified by CDIC members

Deposits must be payable in Canada, in Canadian currency.

What's not covered?

CDIC deposit insurance does not protect all accounts and financial products. For example, mutual funds, stocks, and foreign currency deposits, including those in U.S. dollars, are not covered by CDIC.

FOR MORE INFORMATION ABOUT CDIC

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

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

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

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

Catalogue number: CC391-1

1967

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the years ending March 31	2017	2016	2015	2014	2013
Selected statement of financial position items (C$ millions)					
Cash and investments	3,833	3,411	3,044	2,761	2,561
Provision for insurance losses	1,600	1,300	1,250	1,200	1,250
Retained earnings	2,236	2,116	1,801	1,569	1,316
Selected statement of comprehensive income items (C$ millions)					
Premiums	420	361	279	192	120
Investment income	40	40	40	36	39
Operating expenses	41	40	40	38	36
Increase (decrease) in provision for insurance losses	300	50	50	(50)	100
Total comprehensive income	120	316	232	252	23
Member institutions (number)					
Domestic banks and subsidiaries	50	47	47	48	49
Domestic trust and loan companies and associations	15	15	15	15	16
Subsidiaries of foreign financial institutions	17	16	16	16	18
Total number of institutions	82	78	78	79	83
Total insured deposits[a] (C$ billions)	741	696	684	665	646
Growth rate of insured deposits (%)	6.5%	1.8%	3.0%	3.0%	3.9%
***Ex ante* funding** (C$ billions)	3.8	3.4	3.1	2.8	2.6
Basis points of insured deposits	52	49	45	42	40
Permanent employees (number)[b]	126	119	114	110	102
Borrowing limit (C$ billions)	22	20	20	19	19

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

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

CREATED BY PARLIAMENT 50 YEARS AGO

THE YEAR AT A GLANCE

In 2016/2017, CDIC . . .

- Insured approximately **$741 billion in deposits** at 82 member institutions (as at March 31, 2017), including CDIC's first federal credit union member.
- **Members realized net record profits**. Nonetheless, persistent risks in the environment (i.e., consumer debt, and elevated real estate prices) highlight the continued importance of monitoring our members.
- Reviewed and assessed the first set of bank-authored resolution plans prepared by the domestic systemically important banks (D-SIBs). As Canada's bank resolution authority, **CDIC provided feedback to guide the D-SIBs** such that their plans continue to evolve and demonstrate resolvability.
- Continued to **inform Canadians about CDIC** and its deposit insurance program to contribute to financial stability in Canada.
- **Collaborated with federal safety net partners** to provide proposals and advice respecting governmental reviews of both the federal financial sector and deposit insurance frameworks, and to develop necessary regulations to support a bail-in regime in Canada.
- **Finalized memoranda of understanding** covering crisis coordination with the Investment Industry Regulatory Organization of Canada and with the United States Office of the Comptroller of the Currency to improve information sharing.
- Celebrated **50 years of providing deposit insurance**. CDIC's mandate has expanded over the years, as the Corporation continues to protect the savings of Canadians and promote financial stability in Canada.

A GLOBAL LEADER 50 YEARS IN THE MAKING

TABLE OF CONTENTS

50 YEARS OF CONTRIBUTING TO FINANCIAL STABILITY

Message from the Chair

This past year, I was honoured to be appointed Chair of CDIC. I have been impressed with the evolution of the Corporation in recent years into an organization with expanded powers and increased capacity to carry out its role in a challenging global environment. Now 50 years old, CDIC has much to be proud of as it looks to the future.

The significant investment of our Board of Directors in key policy and other initiatives has moved CDIC into a position of trust and authority in Canada's financial safety net and in the international arena. Of note is CDIC's work to ensure Canada's domestic systemically important banks (D-SIBs) have robust resolution plans in place by 2020, its contribution to a sound framework for a bail-in tool, and enhancements to the required capacity to restructure a bank under the *Canada Deposit Insurance Corporation Act*. While no Canadian banks are identified as global systemically important banks, CDIC's contributions to D-SIB resolution have established the Corporation as a leader in this area. These are powerful inputs to stability in their own right. Collectively, they set the stage for the Government's announcement in Budget 2017 of its intention to designate CDIC as the resolution authority for its members. This move will confirm CDIC's key role in the ongoing development of Canada's bank resolution regime.

I have long appreciated the important role that CDIC plays in protecting individual Canadians' savings. I was gratified to hear firsthand from members of the public at CDIC's most recent Annual Public Meeting that they value CDIC protection.

Recently, CDIC was entrusted with the responsibility for recruitment of its private sector Directors. Our Board seized this opportunity to educate itself and prepare for this significant renewal process, which will include ensuring that we engage a diverse range of skills and viewpoints. As Chair, I am committed to active support of the Board in pursuing development programs that enhance our governance capacity.

Bryan Davies, my predecessor, retired in 2016 as CDIC's longest serving Chair. I thank him sincerely for his leadership, dedication and stewardship that left the Corporation in excellent stead for the future.

I also thank Alternate *ex officio* Board members Lawrence Schembri and Rob Stewart, who left the Board in 2016. I welcome their successors, Sylvain Leduc (Bank of Canada) and Leah Anderson (Department of Finance).

Michèle Bourque, CDIC's President and CEO, has welcomed me to the organization. Her tireless support of the Board and her leadership of the Management team are clearly reflected in CDIC's recent and important achievements.

Robert O. Sanderson

PROTECTING YOUR FUTURE FOR 50 YEARS

Message from the President and CEO

In 2017, CDIC celebrates 50 years of service to Canadians. From its initial mandate in 1967 to provide deposit insurance to Canadians, CDIC's mandate has expanded to include new powers and to reflect strengthened capacity as we have adapted to the changes in the financial services environment.

Our membership as a whole continues to experience solid profitability and growth. However, this is in a global context of geo-political risk, and a Canadian economy that includes high consumer debt and elevated housing prices in some areas. CDIC has remained vigilant and focused on strengthening preparedness to address a bank failure, should such an event occur.

This year marked a significant milestone for CDIC in advancing the resolvability of Canada's large banks (domestic systemically important banks, or D-SIBs) with the delivery of the first ever bank-authored resolution plans. Importantly, the plans reflect the banks' own identification of risks, as well as actions and timelines required to address impediments to their resolvability. CDIC recognizes the magnitude of their effort and the resources the six banks have dedicated to this process.

The roll-out of our outreach program continued this year with CDIC signing two memoranda of understanding: one with the Investment Industry Regulatory Organization of Canada, and another with the United States Office of the Comptroller of the Currency. These agreements are important markers of progress for CDIC's resolution framework, both domestically and internationally.

To sustain CDIC's core mandate of protecting Canadians' savings and the stability of the financial system, in the past year we continued to provide extensive support to the Government's comprehensive deposit insurance review and contributed to the drafting of bail-in regulations.

Research we conducted this year shone light on how we can help Canadians be more aware of CDIC and the specific benefits of our program to depositors. Armed with better information, we are set to launch a new strategy of television, digital and print advertising.

Our own landscape is changing. I am delighted to extend a warm welcome to Bob Sanderson, the new Chair of CDIC's Board of Directors. CDIC has again benefited from the expertise and commitment of the Board members, and I thank them all for their dedication to advancing our work.

I also recognize that CDIC's talented Management team and staff have worked hard again this year. The Corporation's most recent employee survey results point to CDIC being a workplace of respect and dignity for all employees. I am well aware that this accomplishment is due to the contributions of each and every employee and I thank them for making CDIC an excellent workplace.

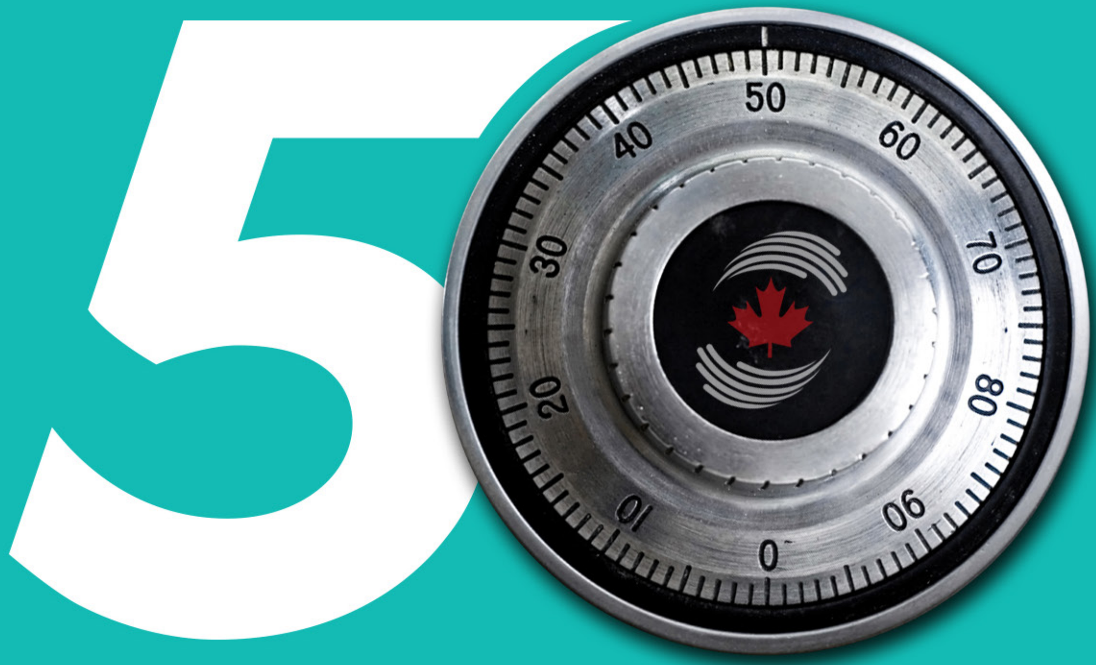
As we celebrate our 50th anniversary, it is gratifying to see the confidence the Government has placed in CDIC over the years, tasking it with an even greater role in contributing to the stability of Canada's financial system.

On a personal note, I have now been with CDIC for 25 years. Much has changed over that time both within the Corporation and in its operating environment. However, we remain unchanged in one fundamental aspect: we are always ready to protect the savings of Canadians.

I look forward to CDIC's continued growth and development. Happy 50th, CDIC!

M Bourque

Michèle Bourque



SECURING CANADIAN DEPOSITS FOR 50 YEARS

Part 1 Management's Discussion and Analysis

CDIC's operating environment

Economic environment

Economic growth in Canada during 2016 featured a recovery from the low levels experienced in 2015. Recovery was mainly driven by growth in domestic consumption and investment, and partially aided by export expansion in the second half of 2016, due to a depreciating Canadian dollar and an expanding U.S. economy. Persistently low oil prices continued to affect Canada's oil-producing provinces, resulting in declines in investment spending and jobs in these areas. Although total consumer credit growth decreased slightly during 2016, a high level of existing consumer debt and elevated real estate prices in certain key markets continue to leave Canadian households vulnerable to a sharp and sustained decline in home prices, or a rise in unemployment or interest rates, with potential impacts for CDIC's members.

Regulatory environment

CDIC remains supportive of Canada's G20 commitment to address too-big-to-fail issues associated with systemically important financial institutions. The 2017 Federal Budget announcement formally recognized CDIC as Canada's resolution authority, and required domestic systemically important banks (D-SIBs) to develop credible resolution plans. In late 2016, the D-SIBs submitted their inaugural set of bank-authored resolution plans to CDIC. The Corporation assessed these plans and delivered feedback to guide the development of the next submission.

Legislation relating to Canada's bail-in regime received Royal Assent in June 2016. Bail-in recapitalizes a non-viable bank by converting certain long-term debt to common shares while the institution remains open and operating. CDIC worked with the Department of Finance and other safety net agencies to develop the necessary regulatory framework to support a bail-in. Regulations are under development and, once established, further work and consultations will be undertaken with respect to the operational aspects of executing a bail-in conversion. CDIC will also develop by-laws to set out procedural elements, as necessary.

In August 2016, the Department of Finance issued a consultation paper with respect to the review of the federal financial sector legislative framework, which includes the *Canada Deposit Insurance Corporation Act*. Sunset provisions require financial legislation to be renewed by March 2019. This provides an opportunity to strengthen CDIC's legislative authority in support of the delivery of its mandate in an evolving banking environment.

The 2017 Federal Budget stated the Government's intent to introduce legislative amendments to modernize and enhance the Canadian deposit insurance framework so that it continues to meet its objectives, including supporting financial stability. This could lead to modifications to update Canada's deposit insurance program which, in turn, could have impacts on CDIC's operations.

Risk governance and management

CDIC maintains an Enterprise Risk Management (ERM) program to identify and manage the key risks that can prevent the Corporation from achieving its objectives. The ERM program includes a comprehensive annual assessment of CDIC's most significant risks, as well as quarterly updates.

Our Enterprise Risk Management process

- Identifies and assesses the significant risks to which CDIC is exposed
- Provides the Audit Committee of the Board of Directors and the Board of Directors with reports designed to enable them to understand these risks
- Reviews CDIC's risk policies to ensure that they continue to be appropriate and prudent
- Identifies initiatives to enhance the management of each significant risk and monitors progress in completing each initiative

Management has concluded that, overall, CDIC's risks remain acceptable at March 31, 2017. However, certain areas have been highlighted as requiring attention, as described below.

There are significant risks in the environment (e.g., weakness in oil and other commodities, slow growth in Canada, high consumer indebtedness, elevated residential real estate prices, etc.) that could negatively impact CDIC members. As a result, initiatives have been developed to enhance our preparedness for member failures and improve the overall resolvability of Canada's D-SIBs.

CDIC's reimbursement system was initially developed 13 years ago. Given technology updates, proposed changes to our deposit insurance program and new types of members, CDIC recognizes that modifications to the system to accommodate future requirements and support faster reimbursements to depositors are necessary. To mitigate this risk, work continues to evaluate the robustness and scalability of our key systems, to bring them up to modern standards and to ensure they have the flexibility to accommodate future requirements, all in support of a rapid reimbursement to insured depositors in the event of a failure.

Given our role as Canada's resolution authority, current government initiatives to update financial sector legislation and CDIC's deposit insurance program, CDIC's by-laws must keep pace with these changes. Therefore, a comprehensive by-law review program has been launched to update all key by-laws.

CDIC is cognizant of regulatory burden for our members as we consider new by-laws, changes to existing by-laws, higher premium rates and requests for information. To this end, CDIC is developing an engagement program to strengthen relationships with key stakeholders in response to this risk.

Public awareness of deposit insurance and CDIC has declined over the past few years, which may increase the risk of bank runs. As a result, a new public awareness campaign will be launched to increase awareness of CDIC and its deposit insurance program.

CDIC will monitor progress on its programs (described in more detail later in this *Annual Report*), and will continually assess their impact on risks and when these have been mitigated to an acceptable level. We will also ensure any new risks are identified through a regular review of our risk environment and devise an appropriate plan for mitigation.

Summary of Management's assessment of CDIC's significant risks

as at March 31, 2017

	Rating	Trend
External risks		
Economic: the extent to which macroeconomic conditions have an impact on the probability of member failures and on CDIC's ability to fulfill its mandate.		Stable
Regulatory: the extent to which laws, regulations and by-laws impact CDIC's ability to fulfill its mandate.		Stable
Demographic: the extent to which changes in the population affect CDIC's ability to fulfill its mandate.		Stable
Core risks		
Assessment: the risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of risk.		Stable
Intervention and resolution: the risk that CDIC cannot or does not take timely and effective action with respect to an unacceptable level of risk posed by a member institution, or with respect to failing or failed member institutions.		Stable
Operational risks		
People: the risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel.		Stable
Process: the risk resulting from the incorrect execution of, a breakdown or gap in, a policy, procedure or control respecting CDIC's processes.		Increasing
Technology: the risk that CDIC's technical systems and capabilities do not appropriately support the achievement of its statutory objects and the conduct of its affairs.		Stable
Financial: the risk associated with managing CDIC's assets and liabilities, both on- and off-balance sheet.		Stable
Reputation risks		
Membership: the risk of an event significantly affecting the membership's perceived trust and confidence in CDIC.		Increasing
Depositor: the risk of an event significantly affecting depositor trust and confidence in CDIC.		Stable

LEGEND

Ratings:

Acceptable—meaning that the residual risk is acceptable and appropriate risk management practices are in place.
Cautionary—meaning that the residual risk warrants close monitoring and/or that previously identified initiatives to enhance the management of the risk are not yet fully implemented.
Serious concern—meaning that significant gaps may exist in risk management practices and controls and immediate action is required from Management.

Trends:

Stable—residual risk is not expected to change over the next year.
Decreasing—residual risk is expected to decline over the near year.
Increasing—residual risk is expected to increase over the next year.

CDIC membership

As at March 31, 2017, CDIC had 82 member institutions, an increase of four from the previous year. The new members added during the year were: Wealth One Bank of Canada; Street Capital Bank of Canada; Cidel Bank Canada; and Caisse Populaire Acadienne Ltée,[1] CDIC's first federal credit union member.[2]

Insured deposits

As at April 30, 2016 (the annual date on which insured deposits are calculated), deposits insured by CDIC increased by 6% year over year to $741 billion.[3] The growth in insured deposits was a result of several factors, including a concerted effort by members to increase deposit levels as an efficient source of funding, and evolving consumer preferences for deposit products in the face of volatility in financial markets. Insured deposits represented approximately 27% of total deposit liabilities held by member institutions. The vast majority of deposits insured by CDIC are from individuals; most wholesale deposits remain uninsured because of their large size (amounts over the $100,000 insurance limit). The D-SIBs peer group represented 87% of the membership's total insured deposits.

CDIC member peer groups

Member institutions consolidate to 53 distinct groups on the basis of affiliation with a parent. For the purpose of analysis, each member institution or affiliated group is assigned to a peer group based on similar size, and/or its primary business activities.

Domestic systemically important banks (D-SIBs)—includes the largest six banks designated by the Office of the Superintendent of Financial Institutions (OSFI) as domestic systemically important

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

Financial performance

Overall, CDIC's membership recorded strong financial performance in 2016 with another year of record net profits, continued favourable asset quality metrics (i.e., low loan impairments), and solid capital ratios.

Profit and return on average shareholders' equity

CDIC members earned a record total net income of $39.1 billion in 2016. Higher profits for the membership were attributable to higher net interest income and steady growth in non-interest income, which outpaced growth in operating and interest expenses. Provisions for credit losses of $9.6 billion increased 32% year over year in response to economic headwinds associated with sharply lower commodity prices.

Net interest income increased by 9% ($6.3 billion) as higher volumes of mortgages, commercial loans and securities offset the effects of lower net interest margins, which remain pressured by the low interest rate environment and intense competition. Interest costs increased by 5% ($1.7 billion), driven by higher volumes

1 Caisse Populaire Acadienne Ltée carries on business as UNI Financial Corporation.
2 Caisse Populaire Acadienne Ltée continued as a federal credit union under the provisions of the *Bank Act* July 1, 2016.
3 Includes changes in insured deposit levels as a result of changes to the membership during the fiscal year.

of borrowings, particularly fixed term deposits. Non-interest income increased 8.2% ($5.0 billion) due to higher contributions from wealth management, credit/debit card fee income and trading income.

Year over year, the membership's return on average shareholders' equity (ROAE) decreased by 70 basis points to 13.4%, while the return on average assets (ROAA) declined slightly. The membership's ROAE, while high, remains well below its 21.2% peak attained in 2006, and has been declining over the last several years due in large part to higher capital requirements and compressed net interest margins. As shown in the graph (below right), the ROAE varies considerably by peer group due to market conditions in their respective sectors of concentration, varying profitability levels, and leverage utilized.

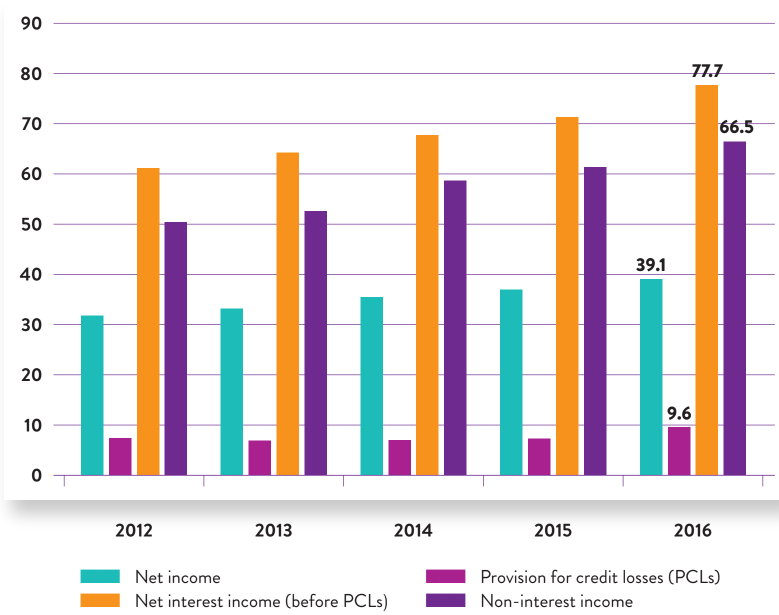
Asset growth and quality

The membership's total asset base grew 7% to $5.0 trillion since last year, while the asset mix was virtually unchanged compared to 2015.

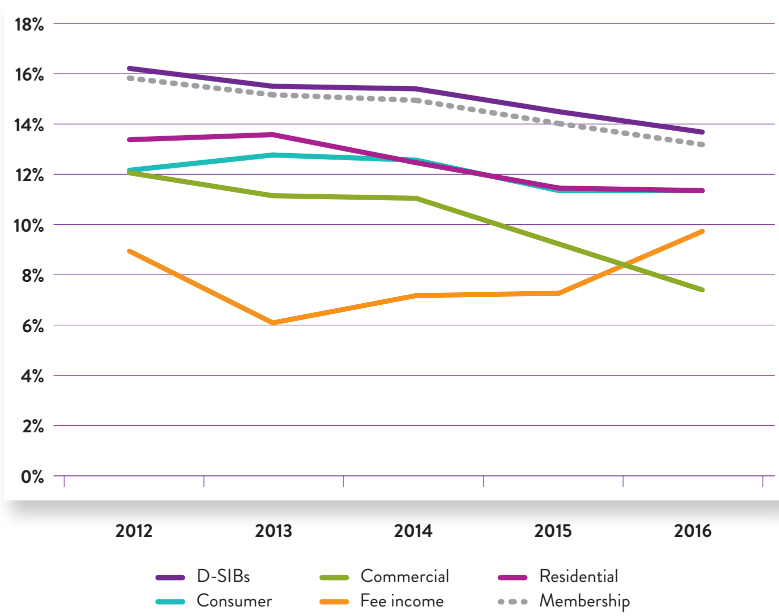
The majority of asset growth was driven by increases in commercial lending (21%), holdings of non-government securities (16%), and uninsured residential mortgage lending (9%).

Residential mortgages, the single largest asset class on the balance sheet of CDIC members, totalled approximately $1.2 trillion, or 23% of the membership's on-balance sheet assets. Other significant asset classes included securities (21% of total assets, 27% of which were Canadian government securities), personal loans (12%) and commercial loans (13%).

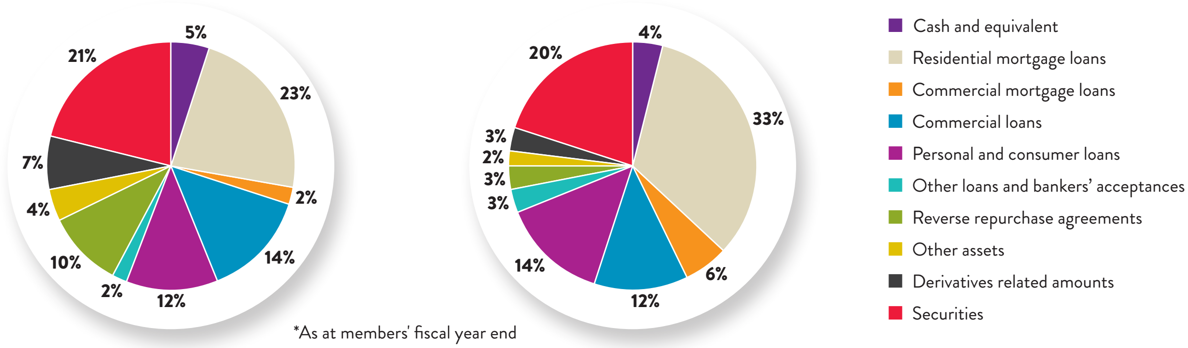
Revenue, provisions and profits for CDIC members, 2012–2016 (C$ billions)



Return on average shareholders' equity (ROAE) by peer group, 2012–2016



Asset mix—D-SIB peer group (%),* 2016 (C$4.7 trillion) **Asset mix—all other peer groups (%),* 2016 (C$311 billion)**



*As at members' fiscal year end

The overall quality of the membership's assets was relatively stable during 2016 with a gross impaired loan ratio of 0.59% of total loans (2015: 0.52%). As mentioned previously, loan loss provisions in 2016 increased mainly due to lower commodity prices in the early part of the year. Although these issues largely stabilized in the latter half of 2016, certain asset segments saw increased impairment rates in 2016—in particular, loans to oil and gas companies, and loans to individuals and businesses in commodity-focused regions. Further, some members have high concentrations of riskier assets (relative to their capital) such as construction loans, commercial mortgages, or residential mortgages to weaker borrowers. These asset classes would likely experience greater than average impairment under persistently challenged economic conditions.

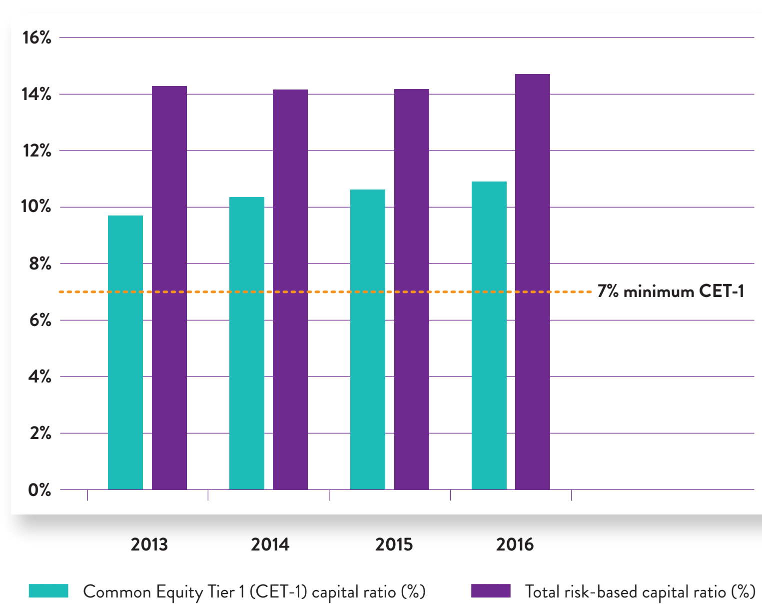
Liquidity levels

Overall, the membership maintained satisfactory levels of liquid assets in 2016 in response to the *Liquidity Adequacy Requirements* set by the Office of the Superintendent of Financial Institutions (OSFI), which came into effect in January 2015. Demand deposits continue to comprise approximately 54% of total deposits for 2016, while brokered deposits (excluding D-SIBs) remain fairly stable at 32% of overall deposits, underscoring the importance of deposit insurance awareness and strong depositor confidence in order to maintain adequate liquidity.

Capital ratios

In general, member institutions maintained good capital levels in 2016 and were above Basel III minimum requirements. The membership's average Common Equity Tier 1 (CET-1) capital ratio, as at each member's Q4 2016, was 10.9% (compared to the OSFI minimum requirement of 7.0%). The average total capital ratio for the membership increased slightly to 14.7%.

CDIC membership capital ratios, 2013–2016



Further, under the terms of OSFI's *Leverage Requirements Guideline*,[4] all institutions are required to maintain a leverage ratio that meets or exceeds 3% at all times. As at each member's Q4 2016, the average leverage ratio of the membership was 4.4%, with D-SIBs having the lowest leverage ratio of the membership at 4.2% and the Consumer peer group having the highest leverage ratio of the membership at 14.4%.

Membership risk

Despite a slower growth environment, the membership as a whole performed strongly in fiscal 2016 with record net income, acceptable asset quality in terms of arrears and impairments, and strong capital ratios. Notwithstanding the performance of CDIC members, a number of risks persist in the environment, including high consumer indebtedness and elevated residential real estate prices, sectoral exposures (e.g., oil and gas), and members with concentrations in riskier asset classes. A challenging funding environment emerged in early 2017 for certain members reliant on demand deposits and reinforced the importance of adequate public awareness of the role of CDIC. CDIC will continue to monitor its members closely to ensure that it effectively manages risk and can anticipate/respond to the potential failure of any member.

Performance against Plan

Consistent with its 2016/2017 to 2020/2021 Corporate Plan, CDIC focused its efforts this year on three strategic objectives:

- Modernize CDIC's deposit insurance program
- Build preparedness to resolve the failure of domestic systemically important banks
- Foster innovative thinking and adaptability

These strategies support the Corporation's mandate to provide insurance against the loss of part or all of deposits and to promote and otherwise contribute to the stability of the financial system in Canada. Following is a summary of the key activities and achievements carried out this year in support of each of these objectives.

Modernize CDIC's deposit insurance program

CDIC continued to modernize its payout capabilities and to maintain readiness to pay deposit insurance. In the context of technology advances, evolving depositor expectations, and onboarding of new members (including a federal credit union), CDIC is modifying its systems and processes to provide greater flexibility and capacity to deliver a rapid payout.

CDIC has put in place a new risk assessment methodology that is supported by improved data analytics and reporting tools. It more closely links risk assessment information and intervention and resolution planning activities for members. It enhances the consistency and responsiveness of CDIC's member risk monitoring, and continues to be informed by OSFI's supervisory data.

[4] The *Leverage Requirements Guideline* and the Basel III Leverage Ratio were implemented by OSFI in Q1 2015, replacing the long-standing asset-to-capital multiple as an additional non-risk weighted measure to constrain leverage at deposit-taking institutions.

This year, CDIC provided proposals and advice to the Department of Finance on government reviews of both the federal financial sector legislation and deposit insurance frameworks. Our proposals included suggested amendments to enhance CDIC's deposit insurance and resolution framework, in line with evolving depositor expectations and banking habits.

It was the second year of CDIC's existing three-year public awareness strategy. Given the declining trend in public awareness of CDIC deposit insurance over the past few years, and the fact that awareness levels at 48% remained below our target of one in two Canadians, CDIC conducted a research study into optimal awareness targets and audience. The results of the study suggested that CDIC's target awareness levels be increased and changes be made to its target audience, to enhance depositor protection. A proposed new three-year public awareness strategy that reflects these findings was approved by CDIC's Board of Directors in the fall of 2016 and will be implemented starting in 2017/2018.

Build preparedness to resolve the failure of domestic systemically important banks

As the bank resolution authority, CDIC's resolution planning work is focused on ensuring that Canada's largest and most complex institutions are resolvable. The measures announced in the 2017 Federal Budget reaffirm the Government's commitment to promoting financial stability through strengthening Canada's bank resolution regime, including the ongoing development of resolution plans for Canada's D-SIBs. Over the past year, CDIC guided and set expectations for the development of the D-SIBs' first ever bank-authored resolution plans, which were submitted in late 2016. CDIC reviewed and assessed these plans, providing feedback to guide the D-SIBs towards addressing gaps and developing plans that demonstrate resolvability.

Legislation relating to Canada's bail-in regime received Royal Assent in June 2016. Work continues in developing a regulatory framework to support a bail-in regime in Canada. Regulations are being drafted that will set out the scope of bank liabilities eligible for bail-in, the conversion terms if a bail-in were to be carried out, the issuance requirements for bail-in debt, and an updated compensation regime for shareholders and creditors. Once regulations are in place, further work and consultations will be undertaken with respect to the operational aspects of a bail-in conversion (including, for example, securities implications, valuation and the mechanics of a bail-in). CDIC may also develop by-laws to set out procedures for bail-in and the new compensation regime.

CDIC's readiness to resolve any one of its member institutions, large or small, in the event of failure remained a key focus of its work. Building on past accomplishments, we continued to develop our operational playbook, including our funding approach to resolution. CDIC conducted a tabletop exercise to test our processes and readiness, as well as our new operational model.

The Corporation continued to progress with CDIC's outreach program, including through ongoing dialogue with key U.S., European and domestic regulators. A memorandum of understanding (MOU) covering crisis coordination was finalized with the Investment Industry Regulatory Organization of Canada, and another MOU was also finalized with the United States Office of the Comptroller of the Currency, to improve information sharing. We engaged with other key stakeholders, including provincial securities regulators, market exchanges, and applicable financial services protection schemes, to enhance coordination and collaboration in the event of a failure.

Foster innovative thinking and adaptability

CDIC launched a new leadership program in 2016/2017 aimed at developing adaptable and innovative business leaders and building organizational succession depth. We also expanded and implemented training and development programs, tools and resources to provide all employees with opportunities for growth and development. Our most recent employee survey demonstrated results that exceeded the industry benchmarks for overall employee engagement.

CDIC examined its staffing, structures and processes with a view to enable the Corporation to respond more effectively and efficiently to an intervention or resolution event for any member, regardless of size. As a result, we implemented a new organizational model in early 2016 to enhance support of resolution and intervention activities.

In 2016/2017, CDIC launched a multi-year strategy to enhance how we organize and provide internal access to member data and information. The first phase was completed and resulted in an operational standard for employees that provides guidance on the use of a new portal for member data and information. A second phase (in 2017/2018) will see broad implementation of the new standard, and a migration of existing member data and information to the new portal for the entire membership. We will continue to refine the strategy and operations to reflect lessons learned and business needs.

CDIC established an executive-level committee to improve monitoring and coordination of the Corporation's strategic programs and projects. Launched in 2016/2017, the committee brings an enterprise-wide perspective to key initiatives, fosters better collaboration across functions, supports detailed planning and follow-up on objectives of various organizational functions, and provides input into CDIC's Enterprise Risk Management activities.

CDIC's Corporate Scorecard—2016/2017 to 2020/2021

The following Scorecard summarizes progress as at March 31, 2017, in support of CDIC's three strategies identified in its 2016/2017 to 2020/2021 Corporate Plan. Most of CDIC's corporate targets are on track and key initiatives are proceeding as planned, with the following exceptions:

Strategy: Modernize CDIC's deposit insurance program

- Continue to implement a payout transformation plan focusing on payment channels and methods, and on communications with depositors.
- Continue to develop and roll out resolution plans for mid-sized members.
- Implement year two of CDIC's three-year public awareness strategy, taking current and future Canadian banking habits into consideration, and communicating more broadly the Corporation's role with respect to large bank resolution.

CDIC's Corporate Scorecard—2016/2017 to 2020/2021

(as at March 31, 2017)

Corporate strategy: Modernize CDIC's deposit insurance program

Corporate targets:

- CDIC has the capability to reimburse depositors in a manner (including speed, convenience and security) that reflects depositor expectations and advancements in technology.
- CDIC has a robust risk assessment process that leverages data analytics and feeds into domestic systemically important bank (D-SIB) resolution planning.
- Proposals to further improve CDIC's deposit insurance program are grounded in thorough research and analysis.
- CDIC leverages technology and new tools to sustain awareness of the Corporation.

Key corporate initiatives	Status ▲▼●	Update
Continue to implement a payout transformation plan focusing on payment channels and methods, and on communications with depositors.	▼	Completion of this initiative is experiencing time slippage due to challenges with some original plans to update payout processes. For instance, progress has been made in establishing requirements which could facilitate transfer to a payout agent; however, more work is required to determine if this would be an efficient option. An updated vision for CDIC's future payout process and system is in development with requirements setting commencing in the 2017/2018 fiscal year.
Review and update risk assessment processes, including creating stronger linkages with member intervention and resolution planning, and enhancements to data collection and analysis.	▲	An updated risk assessment methodology, including new internal member ratings and enhanced reporting, was completed and will be implemented beginning in April 2017. Stronger linkages to intervention and resolution planning remain under development and were assessed as part of a tabletop exercise held in March 2017.
Continue to develop and roll out resolution plans for mid-sized members.	▼	Some plans were updated this fiscal year, and others will be completed in 2017/2018. Delays have been experienced in updating plans due to staffing changes.
Provide recommendations to the Government in the context of legislative reviews.	▲	CDIC developed a number of policy proposals with respect to the Department of Finance's review of financial legislation, and will be working closely with the Department of Finance to advance these proposals. CDIC continued to work with Department of Finance officials on the Government's deposit insurance review, including through participation in stakeholder consultations, during the fall of 2016.
Implement year two of CDIC's three-year public awareness strategy, taking current and future Canadian banking habits into consideration, and communicating more broadly the Corporation's role with respect to large bank resolution.	▼	Although awareness levels have been stable over the past year, they remain below the target awareness level of 50% (one in two Canadians). Research conducted highlights risks associated with low awareness levels. Research results and a proposed strategy to change our target audience and targets were presented to the Board in fall 2016. A new public awareness strategy has been developed to increase awareness levels and will be launched in 2017/2018.

LEGEND

▲ Planned progress on schedule and within budget

▼ Slippage in terms of time to completion, budget and/or target variances

● Cancelled or deferred

CDIC's Corporate Scorecard—2016/2017 to 2020/2021

(as at March 31, 2017)

Corporate strategy:
Build preparedness to resolve the failure of domestic systemically important banks

Corporate targets:

- All D-SIBs have credible resolution plans in place by the end of the planning period.
- CDIC has a tested operational framework in place to respond to a D-SIB failure.
- CDIC has developed relationships with strategically important stakeholders, necessary to the resolution of a Canadian D-SIB.

Key corporate initiatives	Status ▲ ▼ ●	Update
Continue to advance the resolvability of failing D-SIBs by guiding the development of bank-authored resolution plans and the process to assess the feasibility and credibility of those plans.	▲	The six D-SIBs delivered their inaugural resolution plans in early December 2016. CDIC reviewed and assessed these plans, providing feedback to guide the D-SIBs towards addressing their material resolvability risks and developing a credible resolution plan.
Continue to work with other federal safety net agencies to enhance Canada's resolution framework, and evaluate and plan for the impact of proposed new powers (including the bank recapitalization regime) on CDIC's operations.	▲	Management is working closely with the Department of Finance and the other safety net agencies to develop the bank recapitalization (bail-in) regime, including drafting required regulations and related stakeholder consultations.
Further develop CDIC's operational playbook, detailing roles, responsibilities and key decisions in a failing D-SIB resolution scenario, and validate it through internal and external tabletop and testing exercises.	▲	Management continues to develop its operational playbook, including its funding approach, and roles and responsibilities during a resolution. Work on decision-making frameworks was completed during the final quarter of 2016/2017. D-SIBs continue to evaluate their operational capabilities and ability to execute key aspects of their resolution plans.
Implement CDIC's outreach program to engage with key domestic and international resolution authorities, regulators, protection schemes and financial market infrastructure organizations, to advance resolution planning and preparedness.	▲	Management continues to make progress with its outreach program and is in ongoing dialogue relevant to CDIC's resolution activities with key U.S., European and domestic regulators. A memorandum of understanding (MOU) covering crisis coordination was finalized with the Investment Industry Regulatory Organization of Canada. An MOU was also finalized with the U.S. Office of the Comptroller of the Currency to improve information sharing.

LEGEND

▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion, budget and/or target variances
● Cancelled or deferred

CDIC's Corporate Scorecard—2016/2017 to 2020/2021

(as at March 31, 2017)

Corporate strategy: Foster innovative thinking and adaptability

Corporate targets:

- CDIC's work force is innovative and adaptable.
- CDIC attracts, retains and develops engaged employees, and has a strong leadership cadre.
- CDIC invests strategically in its supporting functions while prudently managing its budget and key corporate risks.

Key corporate initiatives	Status ▲ ▼ ●	Update
Implement CDIC's talent management strategy with a focus on empowering business leaders to be innovative, and on attracting, developing and retaining a well-trained and engaged work force.	▲	The leadership development program was rolled out in 2016. Results have been reviewed to assess and identify future training and development opportunities for the senior management group. A work force study was completed in the fall of 2016. The findings will inform the development of the next talent management strategy. Employee engagement was measured through a survey, and above best-in-class levels were achieved.
Implement an organizational model that integrates intervention and resolution capabilities and supports a quick and effective response in any failure scenario.	▲	CDIC's intervention group has transferred to its Resolution Division (RD). Clear roles and responsibilities are being developed to align risk assessment, planning and preparedness activities. Resolution-related legal and communications responsibilities are now centralized in RD. A tabletop exercise was held in March 2017 which tested and validated the new operational model.
Develop and implement a strategy to enhance CDIC's data management, including improving accessibility to, and security and governance of, CDIC's data assets.	▲	A governance structure for CDIC's data management strategy has been established. A pilot information portal to improve accessibility within CDIC to key information was tested during the fourth quarter of 2016/2017 and is functioning as expected. A preliminary set of requirements for the design and implementation of a new data warehouse is being developed.
Implement a centralized governance process to manage key corporate initiatives and projects, to empower staff and generate stronger accountability over the successful completion of projects.	▲	An executive-level committee was formed to monitor CDIC's key projects. The monitoring process began in July 2016 and results are being reported monthly to CDIC's Executive Team and, at a minimum, quarterly to the CEO. This committee also provides input to Enterprise Risk Management activities by regularly reviewing and evaluating the status of key risks and ensuring initiatives and action plans are in place to mitigate these risks.

LEGEND

▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion, budget and/or target variances
● Cancelled or deferred

Financial overview

This section of CDIC's Management's Discussion and Analysis provides a narrative context in which to interpret the Corporation's financial position, financial performance and cash flows. It should be read in conjunction with CDIC's fiscal 2016/2017 consolidated financial statements and notes.

CDIC's statutory objects are: to provide insurance against the loss of part or all of deposits; to promote or otherwise contribute to the stability of the financial system in Canada; and to pursue these objects for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss. The Corporation's financial position, financial performance and cash flows are influenced by the pursuit of these objects.

Basis of preparation

As a publicly accountable Corporation, CDIC prepares its consolidated financial statements using International Financial Reporting Standards (IFRS) as per the requirements of the Canadian Accounting Standards Board.

CDIC's significant accounting policies are described in Note 2 to the consolidated financial statements. There were no new accounting policies adopted, nor were there any significant changes to existing accounting policies during the year ended March 31, 2017.

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. (Please see Note 2 to the Corporation's fiscal 2016/2017 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 $120 million for the year ended March 31, 2017.

Premium revenue was $420 million for the year, an increase of $59 million (16%) from the previous fiscal year. The increase in premium revenue is primarily the result of an increase in premium rates, with growth in insured deposits held at member institutions and changes in the premium categorization of certain members also contributing to the variance.

Investment income was $40 million for the year, consistent with the previous fiscal year. This was the result of the decline in investment yields during the period (1.08% as at March 31, 2017, compared to 1.17% as at March 31, 2016), which offset the growth in the investment portfolio.

Net operating expenses were $41 million for the year, $1 million higher than the previous fiscal year, due primarily to an increase in professional fees in relation to projects undertaken to meet corporate initiatives, such as D-SIB and other resolution capabilities and the Corporation's treasury model redevelopment.

The Corporation's asset base continued to grow during the year. Total assets were $3,845 million as at March 31, 2017, an increase of $420 million (12%) over the 2015/2016 fiscal year. The majority of the Corporation's assets are investment securities, which totalled $3,831 million.

The Corporation's provision for insurance losses was $1,600 million as at March 31, 2017, an increase of $300 million compared to last year. Numerous factors contributed to the overall net increase in the provision for insurance losses, including:

- The growth in the level of insured deposits as at April 30, 2016,[5] as compared to April 30, 2015 ($741 billion compared to $696 billion), including new member institutions
- The change in the categorization and risk profile of some member institutions
- The increase in the discount rate (1.12% at March 31, 2017, compared to 0.68% at March 31, 2016)
- Fluctuations in the calculated probability of default of member institutions

The Corporation's *ex ante* funding is a measure of CDIC's ability to fund interventions. The balance stood at $3,836 million, or 52 basis points of insured deposits as at March 31, 2017, a year over year increase of $420 million, or 3 basis points.

Consolidated statement of financial position

Assets

The total assets of the Corporation increased to $3,845 million as at March 31, 2017, from $3,425 million as at March 31, 2016, representing an increase of 12%. The following table summarizes CDIC's assets:

As at March 31 (C$ thousands)	**2017**	**2016**
Cash	1,771	919
Investment securities	3,831,184	3,410,247
Trade and other receivables	223	204
Amounts recoverable from estates	2,882	3,469
Prepayments	173	193
Property, plant and equipment	4,948	5,263
Intangible assets	3,872	4,918
Total assets	**3,845,053**	**3,425,213**

5 Includes changes in insured deposit levels as a result of changes to the membership during the fiscal year.

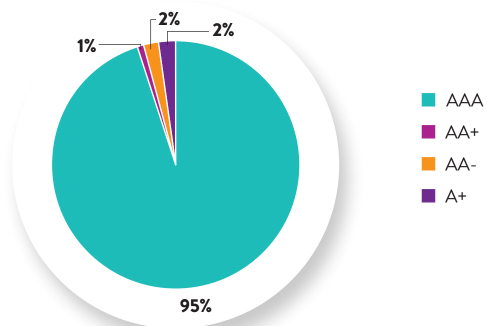
Investment securities

CDIC's $3.8 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.

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, 2017



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. Counterparties for investments of less than three years must have a minimum credit rating of A. The Corporation's investment securities with a term of more than three years but less than five years are restricted to securities having a minimum credit rating of AA-. Securities with a term of more than five years are not permitted. The Corporation invests in a ladder-style structure, requiring investments to be evenly distributed, within tolerance bands, over five, one-year time rungs.

The duration of the Corporation's portfolio is 2.5 years as at March 31, 2017, compared to 2.4 years as at March 31, 2016. CDIC's investments as at March 31, 2017, carry a weighted average yield to maturity of 1.08% (March 31, 2016: 1.17%).

Recoveries

From time to time, CDIC receives recoveries from the estates of failed members. These potential recoveries relate primarily to recoveries of amounts that were previously written off and are not reflected in CDIC's 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.

No recoveries were recognized during 2016/2017 by ACC (the structured entity controlled by the Corporation). ACC is in the process of settling litigation relating to the failure of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation. There may be additional immaterial final recoveries to be received.

A receivable in the amount of $2.9 million remains outstanding from Standard Trust Company, a member institution that failed in 1991, and for which all recoverable amounts had been previously written off. The Standard Trust Company estate is in the process of winding down as all outstanding litigation has been resolved. There may be additional immaterial final recoveries to be received in addition to the amount recognized as a receivable.

Liabilities

The total liabilities of the Corporation increased to $1,609 million as at March 31, 2017, from $1,309 million as at March 31, 2016, representing an increase of 23%. The following table summarizes the liabilities of the Corporation:

As at March 31 (C$ thousands)	**2017**	**2016**
Trade and other payables	5,056	4,734
Deferred lease inducement	960	1,073
Employee benefits	2,698	2,474
Provision for insurance losses	1,600,000	1,300,000
Tax liabilities	360	666
Total liabilities	**1,609,074**	**1,308,947**

Provision for insurance losses

The $1,600 million provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits at member institutions. The provision increased by $300 million in fiscal 2016/2017.

CDIC's provision for insurance losses is estimated based on a number of inputs, including: the level of insured deposits; the expectation of default derived from probability statistics; CDIC's specific knowledge of its members; and an expected loss given default.

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

- A 6.5% growth in the level of insured deposits as at April 30, 2016, as compared to April 30, 2015 ($741 billion compared to $696 billion), including new member institutions
- The change in the categorization and risk profile of some member institutions
- The increase in the discount rate (1.12% at March 31, 2017, compared to 0.68% at March 31, 2016)
- Fluctuations in the calculated probability of default of 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 a 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 loss given default estimate is based on the cumulative unweighted average loss sustained by CDIC in member failures since 1987, adjusted for measurement uncertainty as required by IFRS. In 1987, CDIC's legislation was changed to require that it pursue its objects in a manner so as to minimize the Corporation's exposure to loss. Accordingly, the losses associated with failures since that time are significantly lower than those incurred by CDIC prior to 1987 and are more indicative of the losses the Corporation can expect to incur in the future.

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 potential losses during periods of economic stress, 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, 2017, 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 at March 31, 2017, was $3,836 million, or 52 basis points of insured deposits. Based on the level of insured deposits as at April 30, 2016, the 100 basis point minimum target level would amount to $7,413 million. The Corporation has developed a funding plan that would see *ex ante* funding progress to the minimum funding target in approximately eight years.

Ex ante funding comprises one component of CDIC's entire funding envelope. The Corporation 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, 2017, CDIC had the legislative authority to borrow $22 billion, subject to ministerial approval. Additional borrowings, if required, could be authorized by Parliament through an appropriation act.

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

As at March 31 (C$ millions)	2017	2016
Available liquid funds:		
Cash	2	1
Fair value of high quality, liquid investment securities	3,835	3,449
Availability of borrowings:		
Borrowings authorized under the *CDIC Act*, either from market sources or from the Consolidated Revenue Fund	22,000	20,000
Total available funds	**25,837**	**23,450**

Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2016/2017 totalled $120 million, a decrease from $316 million (62%) in fiscal 2015/2016. The Corporation's financial performance is summarized in the following table:

For the year ended March 31 (C$ thousands)	2017	2016
Revenue		
Premium	420,399	361,176
Investment income	40,273	39,764
Other	5	27
Expenses		
Operating expenses	41,109	39,982
Increase in provision for insurance losses	300,000	50,000
Recovery of amounts previously written off	–	(4,406)
Income tax recovery	(137)	(61)
Net income	119,705	315,452
Other comprehensive income	8	187
Total comprehensive income	**119,713**	**315,639**

Premium revenue

In the 2016/2017 fiscal year, premium revenue increased by $59 million to $420 million. Increases in the premium rates, changes in the categorization of member institutions and the growth in insured deposits contributed to the increase in premium revenue. Insured deposits increased to $741 billion as at April 30, 2016, from $696 billion as at April 30, 2015, an increase of 6.5%.

Premium rates are a key determinant of how quickly CDIC's *ex ante* funding progresses to the minimum target of 100 basis points of insured deposits. CDIC has developed a funding plan that contemplates a series of measured increases in premium rates to reach the minimum target level by 2024/2025.

Premiums are based on the total amount of insured deposits held by members as of April 30th each year, calculated in accordance with the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) and its *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 increase in premium rates for 2016/2017, as compared to 2015/2016, is consistent with CDIC's strategy to achieve its minimum target *ex ante* funding level. Premium rates, expressed as basis points of insured deposits, are presented below.

Premium category *(basis points of insured deposits)*	**2016/2017**	**2015/2016**
Category 1	5.5	4.5
Category 2	11.0	9.0
Category 3	22.0	18.0
Category 4	33.3	33.3

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	**2016/2017**	**2015/2016**	**2014/2015**	**2013/2014**	**2012/2013**
1	78	79	76	79	76
2	18	13	15	14	17
3	4	5	5	6	5
4	0	3	4	1	2

Investment income

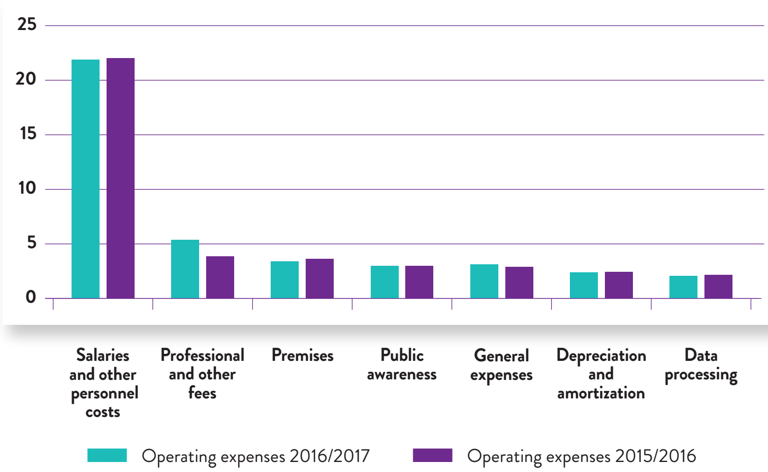
Investment income was $40 million during the 2016/2017 fiscal year, consistent with the previous year. This was the result of the decline in investment yields during the period (1.08% as at March 31, 2017, compared to 1.17% as at March 31, 2016), which offset the growth in the investment portfolio.

Operating expenses

Operating expenses increased by $1 million to $41 million in fiscal 2016/2017. The increase is primarily due to an increase in professional fees in relation to projects undertaken to advance corporate initiatives, such as D-SIB and other resolution capabilities and the Corporation's treasury model redevelopment.

The variances within operating expenses (see Note 13 of the Corporation's fiscal 2016/2017 consolidated financial statements) indicate an increase in professional fees of $1.5 million.

Operating expenses (C$ millions)



Consolidated statement of cash flows

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

For the year ended March 31 (C$ thousands)	2017	2016
Increase in cash from operating activities	453,601	404,089
Decrease in cash from investing activities	(452,749)	(404,754)
Net increase (decrease) in cash balance	852	(665)
Cash, end of year	**1,771**	**919**

Comparison with 2016/2017 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2016/2017 with the Corporate Plan for the same year.

Consolidated statement of financial position

Total assets as at March 31, 2017, were $3,845 million, $22 million higher than the planned amount of $3,823 million. The increase is primarily due to the higher than planned premium revenue which contributed to the investment securities.

Total liabilities as at March 31, 2017, were $1,609 million, $250 million higher than the planned amount of $1,359 million. The variance is due to the $300 million increase to the provision for insurance losses versus a planned increase of $50 million.

Consolidated statement of comprehensive income

Total revenue during the year was $461 million, or $20 million higher than Plan of $441 million. The primary sources of revenue were premiums and investment income:

- *Premiums:* Actual premium revenue was $420 million, compared to the planned amount of $400 million. The Corporate Plan was based on certain assumptions regarding the classification of members under the Differential Premiums system, as well as the growth in insured deposits. Actual results have differed from the assumptions, resulting in the variance between the planned and actual amounts.
- *Investment income:* Actual investment income was $40 million, compared to the planned amount of $41 million. The variance was primarily attributable to a lower investment yield compared to the yield included in the Plan.

Net operating expenses for the year were $41 million, or $3 million below Plan of $44 million. The variance was primarily due to lower personnel costs as a result of a slower pace of hiring than planned for vacant positions, as well as the composition of positions within the Corporation.

Total comprehensive income for the year ended March 31, 2017, was $120 million compared to planned total comprehensive income of $398 million, a variance of $278 million.

A look ahead to 2017/2018

As set out in the Corporation's 2017/2018 to 2021/2022 Corporate Plan, CDIC's work will focus on four areas with corresponding strategic objectives and programs for the planning period:

1. Member risk management and failure resolution preparedness
2. Deposit insurance program
3. Stakeholders
4. People

1. Member risk management and failure resolution preparedness

Strategic objective:

Enhance and integrate resolution planning and preparedness processes with risk assessment activities to manage risk effectively, and to be able to respond to the failure of any member, regardless of size.

Key programs:

- Modernize key systems and processes to support a more streamlined, scalable and rapid reimbursement to all insured depositors.
- Improve the overall resolvability of Canada's D-SIBs by assessing and further developing CDIC's resolution plan testing activities and its preparedness to respond to any member failure.
- Continue to advance a number of initiatives relating to the implementation of a bail-in regime in Canada, including the development of by-laws and other operational aspects of executing a bail-in conversion.

New members, more complex products and proposed changes to coverage under consideration require us to evaluate how robust and flexible our systems are to accommodate future requirements. Over the planning period, we will continue to invest in our payout capabilities and operational readiness by upgrading core systems and processes. We will also assess future payout and depositor communication needs to inform our next generation of payout systems, with the aim of modernizing reimbursement and communication options for Canadian depositors.

As Canada's bank resolution authority, CDIC has responsibility for reviewing and assessing the feasibility of resolution plans put forward by Canada's large banks. Canada's D-SIBs provided their inaugural resolution plans in 2016/2017. CDIC will continue to set expectations and provide guidance to the banks on their plans in 2017/2018 to achieve resolvability by 2020.

As in past years, we will conduct simulations and tabletop exercises to train staff and enhance CDIC's preparedness to carry out a resolution. We will also continue our outreach activities to strengthen cooperative relationships with domestic and international resolution authorities. CDIC will lead Crisis Management Group meetings (fall 2017) to discuss cross-border impediments to D-SIB resolvability. With our safety net partners, CDIC will review the sufficiency and structure of our funding framework in the context of a large bank failure, and make recommendations if changes are deemed necessary.

CDIC is currently building the necessary capabilities to implement its new bail-in powers. Bail-in regulations and regulations related to the resolution compensation process are expected to be implemented early in the planning period. CDIC is also undertaking work and consultations regarding the legal and operational aspects of executing a bail-in conversion.

2. Deposit insurance program

Strategic objective:

Modernize key elements of CDIC's deposit insurance program (including processes, by-laws and legislation) to ensure that they continue to support the Corporation in the delivery of its mandate, and that they keep pace with the changing banking landscape, and meet the needs of depositors.

Key program:

- Implement a comprehensive by-law review program to ensure that CDIC by-laws are updated to reflect the evolving banking landscape, as well as the Corporation's role as a deposit insurer and resolution authority.

To keep pace with changes in the regulatory environment, deposit insurance, depositor expectations and anticipated changes to our systems, we will establish a schedule of by-law reviews with a target to update all key by-laws by December 2019. Given that public awareness of CDIC and deposit insurance protection has declined over the past few years, informing Canadians will be a focus for CDIC in the coming years. Furthermore, to address system changes, we will update the by-law and specifications that outline member data and system requirements to enable us to perform a quick payout.

3. Stakeholders

Strategic objective:

Strengthen engagement with depositors and other key stakeholders through activities to promote public awareness of deposit insurance and support CDIC's role as deposit insurer and resolution authority.

Key programs:

- Increase depositor awareness of CDIC and our deposit insurance program, leveraging our research on depositor behaviour.
- Build a robust engagement program to strengthen relationships with key stakeholders.
- Enhance the level of understanding of CDIC's role as resolution authority in the Canadian financial system.

Public awareness of CDIC deposit insurance helps mitigate the potential for bank runs by assuring Canadians that CDIC protects their insured deposits. To increase public awareness levels that are lower than target, members will continue to play an important role in informing Canadians about our deposit insurance program. In addition, CDIC will implement its new three-year public awareness strategy to maintain confidence in the Canadian financial system, taking into account recent research on depositor behaviour. CDIC will work toward an updated awareness target range of 60%–65% of Canadians being aware of CDIC. (Note that the previous target was one in two Canadians.) To reach increased awareness levels, we will augment our television, web and search engine marketing presence throughout the planning period.

Given the breadth of CDIC's stakeholders (domestic and international), ongoing by-law reviews, outreach activities, and members' involvement in awareness efforts and resolution planning, we will continue to strengthen relationships with stakeholders, including CDIC members, industry associations, regulators and others. Specifically in 2017/2018, CDIC will establish a systematic approach to identify, engage and manage stakeholder relations and we will monitor the impact of our initiatives on our members and partners.

CDIC will gradually enhance stakeholder (including the public) understanding of our role in resolution. An expanded communication plan will see CDIC provide additional information on our website about resolution and how it works, and enhance outreach activities, including with domestic and international stakeholders.

4. People

Strategic objective:

Prepare CDIC for the work force of the future so that it can continue to attract and retain talented and engaged employees, taking into account changing demographics, evolving work force trends, and CDIC's environment, size and culture.

Key program:

- Develop a new three-year talent management strategy, leveraging research on the work force of the future, including the impact of changing demographics and emerging workplace trends.

CDIC's work force has grown and demographics have shifted significantly to a younger profile over the past five years. With a stable set of committed professionals, we will focus on continuing to engage employees and providing them with a healthy work environment. Leveraging research on the work force of the future completed in 2016/2017, we will develop and implement our next three-year talent management strategy, which will address the demographic shifts we have experienced, career management expectations, workspace trends and supporting technologies. The strategy will help refine CDIC's value proposition for new and existing employees to meet the generational and diversity needs of today's work force.

2017/2018 to 2021/2022 financial plan

The projections included in CDIC's 2017/2018 to 2021/2022 Corporate Plan are based on a number of assumptions and, accordingly, actual results may vary materially from the figures included in the Plan. Key financial assumptions include the following:

- A growth in insured deposits year over year of 4.5% in 2017/2018 and 3.0% thereafter.
- The premium rate for Category 1 member institutions (the base premium rate) will increase by one basis point in 2017/2018 to 6.5, and by one basis point in the following year, after which premium rates would remain stable.
- Investment income is based on an assumed average yield on cash and investments of 1.1% for fiscal 2017/2018, rising gradually to a yield of 1.3% in 2021/2022, consistent with the current low interest rate environment.
- No member institution failure is assumed during the planning period.
- The provision for insurance losses is forecast to increase annually based on the assumed growth in insured deposits, although other inputs into the calculation, such as the default probabilities, are not taken into consideration.

2017/2018 fiscal year

Included in the Corporate Plan is $469 million in **total comprehensive income** for the 2017/2018 fiscal year. Based on events subsequent to March 31, 2017, total comprehensive income for 2017/2018 is forecast to be $69 million. Please refer to Note 17 in the financial statements for additional details.

Total revenues are planned to be $566 million in the 2017/2018 fiscal year, including $519 million of premium revenue and $47 million of investment income.

Planned **premium revenue** of $519 million is $99 million higher than fiscal 2016/2017 premium revenue of $420 million. The increase is the result of higher premium rates and an expected increase in insured deposits.

Expected **investment income** of $47 million is $7 million higher than in fiscal 2016/2017, reflecting the projected growth in the investment portfolio coupled with a continued low interest rate environment.

Net operating expenses are planned to be $47 million in fiscal 2017/2018, compared to $41 million actual operating expenses in fiscal 2016/2017. The $47 million budget reflects a full staffing complement aimed at furthering preparedness and resolution capabilities for D-SIBs and a $2.3 million increase for the public awareness budget.

Cash and investments are planned to be $4.4 billion at the end of the 2017/2018 fiscal year.

The **provision for insurance losses** was planned to be $1.5 billion at the end of the 2017/2018 fiscal year due to the assumed growth in insured deposits and an assumed stable economic environment. Since the approval of the Plan, changes in other inputs into the calculation have resulted in a balance of $1.6 billion as at March 31, 2017. These input changes were not considered in the Plan amount for 2017/2018.

The level of ***ex ante* funding** is planned to be $4.4 billion at the end of the 2017/2018 fiscal year, representing 56 basis points of forecast insured deposits, an increase of 4 basis points from March 31, 2017.

(C$ millions)	2017/2018 Corporate Plan[a]	2016/2017 Actual results	2016/2017 Corporate Plan[a]
Consolidated statement of financial position *(as at March 31)*			
Cash and investments	4,356	3,833	3,813
Capital assets	9	9	10
Other current assets	—	3	—
Total assets	**4,365**	**3,845**	**3,823**
Current liabilities	5	5	5
Provision for insurance losses	1,500	1,600	1,350
Other non-current liabilities	5	4	4
Retained earnings	2,855	2,236	2,464
Total liabilities and equity	**4,365**	**3,845**	**3,823**
Consolidated statement of comprehensive income *(for the year ended March 31)*			
Revenue			
Premiums	519	420	400
Investment and other income	47	40	41
	566	461	441
Expenses			
Operating	47	41	44
Increase in provision for insurance losses	50	300	—
	97	341	44
Net income before income tax	469	120	397
Income tax recovery	—	—	1
Total comprehensive income	**469**	**120**	**398**

[a] The Corporate Plans 2016/2017 to 2020/2021 and 2017/2018 to 2021/2022 were developed based on information as at December 31, 2015, and December 31, 2016, respectively.

EARNING THE TRUST OF CANADIANS FOR 50 YEARS

Part 2 Consolidated financial statements

Management responsibility for consolidated financial statements

May 31, 2017

The accompanying consolidated financial statements of the Canada Deposit Insurance Corporation and the information related to the consolidated financial statements in this *Annual Report* are the responsibility of Management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts, the most significant one being the provision for insurance losses, which are necessarily based on Management's best estimates and judgment.

The consolidated financial statements have been approved by the Board of Directors. Financial information presented elsewhere in this *Annual Report* is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, Management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. Internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls. In addition, the internal and external auditors have free access to the Audit Committee of the Board of Directors, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the consolidated financial statements to the Board of Directors.

These consolidated financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Michèle Bourque
President and Chief Executive Officer

Anthony Carty
Vice-President, Finance and Administration, and Chief Financial Officer

Independent auditor's report

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Canada Deposit Insurance Corporation, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Deposit Insurance Corporation as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Canada Deposit Insurance Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and regulations, the by-laws of Canada Deposit Insurance Corporation, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

Michael Robichaud, CPA, CA
Principal
for the Auditor General of Canada

31 May 2017
Ottawa, Canada

Consolidated financial statements and notes

Canada Deposit Insurance Corporation

Consolidated statement of financial position

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

	Notes	2017	2016
ASSETS			
Cash		1,771	919
Investment securities	*4*	3,831,184	3,410,247
Trade and other receivables		223	204
Amounts recoverable from estates	5	2,882	3,469
Prepayments		173	193
Property, plant and equipment	*6*	4,948	5,263
Intangible assets	*7*	3,872	4,918
TOTAL ASSETS		**3,845,053**	**3,425,213**
LIABILITIES			
Trade and other payables		5,056	4,734
Current tax liability		73	85
Deferred lease inducement		960	1,073
Employee benefits	*16*	2,698	2,474
Provision for insurance losses	*8*	1,600,000	1,300,000
Deferred tax liability	*11*	287	581
Total liabilities		**1,609,074**	**1,308,947**
EQUITY			
Retained earnings		2,235,979	2,116,266
TOTAL LIABILITIES AND EQUITY		**3,845,053**	**3,425,213**

Contingencies and commitments (Note 15)
The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board of Directors May 31, 2017

Director

Director

Canada Deposit Insurance Corporation

Consolidated statement of comprehensive income

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

	Notes	2017	2016
REVENUE			
Premium	*12*	420,399	361,176
Investment income	*4*	40,273	39,764
Other		5	27
		460,677	400,967
EXPENSES			
Operating	*13*	41,109	39,982
Increase in provision for insurance losses	*8*	300,000	50,000
Recovery of amounts previously written off	5	–	(4,406)
		341,109	85,576
Net income before income taxes		119,568	315,391
Income tax recovery	*11*	(137)	(61)
NET INCOME		**119,705**	**315,452**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to net income:			
Actuarial gain on defined benefit obligations	*16*	11	250
Income tax effect	*11*	(3)	(63)
Other comprehensive income, net of tax		8	187
TOTAL COMPREHENSIVE INCOME		**119,713**	**315,639**

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

Canada Deposit Insurance Corporation

Consolidated statement of changes in equity

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

	Retained earnings and total equity
Balance, March 31, 2015	**1,800,627**
Net income	315,452
Other comprehensive gain	187
Total comprehensive income	315,639
Balance, March 31, 2016	**2,116,266**
Net income	119,705
Other comprehensive gain	8
Total comprehensive income	119,713
Balance, March 31, 2017	**2,235,979**

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

Canada Deposit Insurance Corporation

Consolidated statement of cash flows

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

	2017	2016
OPERATING ACTIVITIES		
Net income	119,705	315,452
Adjustments for:		
Depreciation and amortization	2,379	2,427
Investment income	(40,273)	(39,764)
Income tax recovery	(137)	(61)
Employee benefit expense	345	48
Employee benefit payment	(110)	(213)
Change in working capital:		
(Increase) decrease in trade and other receivables	(19)	1,317
Decrease (increase) in amounts recoverable from estates	587	(593)
Decrease in prepayments	20	5
Increase in trade and other payables	322	83
Decrease in deferred lease inducement	(113)	(113)
Increase in provision for insurance losses	300,000	50,000
Investment income received	71,067	75,380
Income tax (paid) recovered	(172)	121
Net cash generated by operating activities	453,601	404,089
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, and intangible assets	(1,536)	(950)
Loss on retirement and disposal of property, plant and equipment, and intangible assets	518	–
Purchase of investment securities	(1,988,709)	(2,064,820)
Proceeds from sale or maturity of investment securities	1,536,978	1,661,016
Net cash used in investing activities	(452,749)	(404,754)
Net increase (decrease) in cash	852	(665)
Cash, beginning of year	919	1,584
Cash, end of year	**1,771**	**919**

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

Notes to the consolidated financial statements

March 31, 2017

1 – General information

The Canada Deposit Insurance Corporation (CDIC, or the Corporation) was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). It is a Crown corporation without share capital named in Part I of Schedule III to the *Financial Administration Act* and is funded by premiums assessed against its member institutions. The Corporation is subject to federal income tax pursuant to the provisions of the *Income Tax Act*. The address of the registered office is 50 O'Connor Street, 17th Floor, in Ottawa, Ontario.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including acquiring assets from and providing guarantees or loans to member institutions and others. Among other things, it may make or cause to be made inspections of member institutions; it may act as liquidator, receiver or inspector of a member institution or a subsidiary thereof; and it may establish a bridge institution.

The Corporation is an agent of Her Majesty in right of Canada for all purposes of the *CDIC Act*. As a result, all obligations incurred by the Corporation in the course of carrying out its mandate are obligations of Canada.

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

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on May 31, 2017.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and are presented in Canadian dollars (C$).

The consolidated financial statements have been prepared on the historical cost basis, except for the provision for insurance losses, and certain employee benefits (see Note 16), which are measured at their present value. Historical cost is generally based on the fair value of the consideration given in exchange for assets and the amount of cash expected to be paid to satisfy a liability.

The accounting policies set out in Note 2 were consistently applied to all the periods presented unless otherwise noted below.

2 – Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of Adelaide Capital Corporation (ACC), a structured entity controlled by the Corporation.

The results of ACC are included in the consolidated statement of comprehensive income until the date control ceases or the company is dissolved. All transactions, balances, income and expenses between CDIC and ACC are eliminated in full on consolidation.

The overall impact of consolidation is not significant.

These consolidated financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened but does not have control.

Judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to exercise judgment in applying the Corporation's accounting policies. The following are the significant judgments made in the process of applying the Corporation's accounting policies.

Consolidation

Management has determined, based on an analysis of the facts and circumstances, that the Corporation controls ACC and the consolidated financial statements of CDIC should incorporate the financial statements of ACC. Control is achieved where the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Although CDIC does not own any of the share capital of ACC, it is the sole creditor of ACC, having provided an intercompany loan in 1992. The facts and circumstances that Management considered in arriving at the conclusion that CDIC controls ACC are as follows:

- The loan exposes CDIC to variable returns from its involvement with ACC.
- A CDIC employee is the sole member of the Board of Directors of ACC, giving CDIC the power to make decisions about ACC's operations to affect the returns that CDIC ultimately receives from its loan to ACC.
- The terms of the loan restrict the activities of ACC and stipulate that ACC cannot alter the composition of the Board of Directors, giving CDIC power over ACC's key activities.

Financial instruments

The Corporation holds a significant amount of investment securities. Management has determined, based on an analysis of the facts and circumstances, that: (i) the investment securities are held in order to collect contractual cash flows; and (ii) the contractual terms of the investment securities give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, the Corporation measures the investment securities at amortized cost using the effective interest method. See "Financial instruments" below for further details.

Estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions. Estimates and assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates or assumptions are revised and any future periods affected.

Provision for insurance losses

Estimating CDIC's provision for insurance losses involves significant estimation uncertainty and requires Management to make significant assumptions.

The provision for insurance losses represents CDIC's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions. The provision is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics; (iii) an expected loss given default; and (iv) the Corporation's specific knowledge of its members. See "Provision for insurance losses" below for further details on how the provision is measured. See Note 8 for the Corporation's calculation of the provision for insurance losses.

Actual results in the near term could differ significantly from these estimates, including the timing and extent of losses the Corporation incurs as a result of future failures of member institutions. This could require a material adjustment to the carrying amount of the provision for insurance losses. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium rates charged to member institutions be increased or decreased, depending on the situation.

Capital assets

Capital assets, comprising property, plant and equipment, and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are measured using Management's best estimate of the period of service provided by the assets. Any changes to the useful life estimates would affect the future carrying value of the assets and the future depreciation or amortization. The carrying amounts of the Corporation's capital assets are included in Notes 6 and 7.

Employee benefits liabilities

The carrying value of employee benefits liabilities to be settled in the future depends on numerous factors that are determined on an actuarial basis using several assumptions, including, but not limited to, discount rates, long-term rates of compensation increase, retirement age and mortality rates. The Corporation consults with an external actuary regarding these assumptions annually. Any changes to these assumptions will impact the present value of these liabilities. The carrying values of employee benefits liabilities are disclosed in Note 16.

Financial instruments

The Corporation early adopted IFRS 9 Financial Instruments, issued by the International Accounting Standards Board (IASB) in November 2009 (IFRS 9 (2009)).

Recognition and initial measurement

All financial assets and financial liabilities are recognized initially at fair value plus directly attributable transaction costs.

Purchases of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date—that is, the date the asset is delivered to or by CDIC.

Classification

A) Financial assets

Subsequent to initial recognition, a financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is subsequently measured at fair value. All of the Corporation's investment securities are subsequently measured at amortized cost.

B) Financial liabilities

Subsequent to initial recognition, all the Corporation's financial liabilities are measured at amortized cost.

Amortized cost measurement

Amortized cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method or any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are categorized within a fair value hierarchy:

- *Level 1*—Fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*—Fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- *Level 3*—Fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For financial assets and financial liabilities that are recognized at fair value on a recurring basis, the Corporation determines whether transfers have occurred between the levels in the hierarchy by reassessing categorization at the end of each reporting period.

Identification and measurement of impairment

Financial assets, other than those measured at fair value, are assessed for indications of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the debtor
- Breach of contract, such as a default or delinquency in payment
- Probability that the debtor will enter bankruptcy or financial reorganization
- Significant decrease in creditworthiness of the debtor

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss, to the extent that the carrying amount of the asset at the date of the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Cash

Cash includes cash on hand and demand deposits. Cash is measured at amortized cost, which approximates fair value, in the consolidated statement of financial position.

Investment securities

Investment securities are debt instruments, such as Treasury bills and Government of Canada bonds, held by the Corporation. Investment securities are measured on the consolidated statement of financial position at amortized cost, plus accrued interest.

Interest income on investment securities is recognized using the effective interest method.

Amounts recoverable from estates

Amounts recoverable from estates are recoveries of losses previously written off in respect of failed member institutions. Amounts recoverable from estates are measured at amortized cost less any impairment losses, which approximates fair value.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

- Leasehold improvements—the shorter of the term of the lease and the useful life of the leasehold improvement
- Furniture and equipment—five to ten years
- Computer hardware—three to five years

Depreciation expense is included in operating expenses in the consolidated statement of comprehensive income.

An item of property, plant and equipment is derecognized upon disposal or retirement when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item is determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the item is derecognized.

Items of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in operating expenses in the consolidated statement of comprehensive income.

Intangible assets

The Corporation records an internally generated intangible asset arising from the development of software once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of an application are capitalized if all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use;
- The intention to complete the intangible asset and use it;
- The ability to use the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of directly attributable costs incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are measured at cost less accumulated amortization and any impairment losses, and are amortized on a straight-line basis over their estimated useful lives which range from three to seven years. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is included in operating expenses in the consolidated statement of comprehensive income.

An internally generated intangible asset is derecognized upon disposal or retirement when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item is determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the item is derecognized.

The Corporation considers potential indicators of impairment at the end of each reporting period. If any indication of impairment exists, the recoverable amount of the asset is estimated to determine the extent of the loss. Intangible assets that are not yet available for use are tested for impairment annually, irrespective of the presence of indicators, by comparing carrying amounts to recoverable amounts. Impairment losses are included in operating expenses in the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are measured at amortized cost in the consolidated statement of financial position. The carrying amounts of trade and other payables approximate fair value due to their short term to maturity.

Provision for insurance losses

Provisions are to be recognized when the Corporation has a present obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Corporation has a stand-ready obligation to provide insurance against the loss of part or all of deposits in a member institution in the event of failure. The provision for insurance losses represents the Corporation's best estimate of the consideration required to settle this obligation and is determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The estimate takes into account the risks and uncertainties surrounding the obligation. The provision is estimated by assessing the aggregate risk of the Corporation's member institutions based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics; (iii) an expected loss given default; and (iv) the Corporation's specific knowledge of its members. See Note 8 for the Corporation's calculation of the provision for insurance losses.

The Corporation calculates its expected losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage of insured deposits and reflects the cumulative unweighted average of losses sustained since the *CDIC Act* was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss, plus an adjustment for measurement uncertainty. The present value of the provision is determined using a pre-tax, risk-free discount rate.

Changes to the provision for insurance losses are recognized as an expense in the consolidated statement of comprehensive income.

Premium revenue

Premium revenue is recognized at the fair value of the consideration received and reported as income proportionately over the fiscal year. Premiums are determined annually based on the amount of insured deposits held by member institutions as at April 30 of the current fiscal year, and are payable in two equal installments on July 15 and December 15.

Premium rates are fixed annually considering the Corporation's financial condition, the economic environment, the risk profile of the membership, and the actual and projected size of the Corporation's *ex ante* funding relative to the minimum target level.

Other revenue

Other revenue includes payments received for services provided to other unrelated organizations, sub-lease income, certain interest income, and foreign exchange gains and losses.

Leases

Leases are classified as finance leases and recognized in the consolidated statement of financial position when the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

Rentals payable under operating leases are charged to operating expenses on a straight-line basis over the term of the lease. In the event that lease incentives are received, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of operating expenses on a straight-line basis over the term of the lease.

Public Service Pension Plan

All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Pension Plan. Consequently, contributions are recognized as an operating expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

Employee benefits

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits and death benefits, as well as other long-term employee benefits in the form of accumulating, non-vesting sick leave benefits.

The cost of all such benefits earned by employees is actuarially determined using the projected unit credit method. The determination of the benefit expense requires the use of assumptions such as the discount rate to measure obligations, expected resignation rates and the expected rate of future compensation. The discount rate used is determined by reference to high quality corporate bonds that have terms to maturity approximating the terms of the related benefits liability. The expected rate of future compensation represents a long-term assumption and includes components for inflation, merit and promotion adjustments. Actual results may differ from estimates based on assumptions.

For all such benefits, the liability recognized in the consolidated statement of financial position is the present value of the obligation at the end of the reporting period.

With respect to the defined benefit plans, all actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized immediately in retained earnings as other comprehensive income. Past service costs are recognized as an expense at the earlier of: (i) the date the plan amendment or curtailment occurs; and (ii) the date the Corporation recognizes related restructuring costs or termination benefits.

With respect to the other long-term employee benefits, all costs, including all actuarial gains and losses, are recognized immediately in operating expenses in the consolidated statement of comprehensive income.

Income taxes

Income tax expense represents the sum of the current and deferred tax expenses.

Current tax is recognized in net income except to the extent it relates to items recognized in other comprehensive income or directly in equity. The tax currently payable/receivable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of comprehensive income because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and income tax laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax relating to actuarial gains and losses on defined benefit obligations is recognized directly in retained earnings as other comprehensive income.

3 – Application of new and revised IFRS

New and revised IFRS affecting the amounts reported and/or disclosed in the consolidated financial statements

In the current year, there has been no impact to the Corporation due to new and revised IFRS issued by the IASB that are mandatorily effective.

New and revised IFRS issued but not yet effective

At the date of these consolidated financial statements, certain standards, interpretations and amendments to existing standards were issued by the IASB but are not yet effective. Unless otherwise noted, the Corporation does not plan to early adopt any of the changes.

The Corporation is evaluating the potential impact of the following new and revised IFRS amendments on its consolidated financial statements; therefore, the impact is not known at this time.

IFRS 9 Financial Instruments (IFRS 9): In November 2009, the IASB issued IFRS 9 (2009), introducing new requirements for classifying and measuring financial assets. This was the IASB's first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In October 2010, the IASB issued IFRS 9 (2010), incorporating new requirements for accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. In November 2013, the IASB issued IFRS 9 (2013), which incorporates a new hedge accounting model and permits entities to modify the accounting for debt designated at fair value through profit or loss. IFRS 9 (2013) removed the mandatory effective date of all versions of IFRS 9. In July 2014, the finalized version of IFRS 9 was issued, superseding all previous versions, but the previously issued standards remain available for application if the relevant date of initial application is before February 1, 2015. The revised standard is effective for annual periods beginning on or after January 1, 2018. The retrospective application of the revised standard is required, but the comparative information is not compulsory. As at April 1, 2010, the Corporation early adopted IFRS 9 (2009).

IFRS 15 Revenue from Contracts with Customers (IFRS 15): In May 2014, IFRS 15 was issued. It specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard has an effective date of January 1, 2018, with early application permitted. This new standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required.

IFRS 16 Leases (IFRS 16): In January 2016, IFRS 16 was issued. It specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, and IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted. Either a full or modified retrospective application is required.

4 – Investment securities

As at March 31, 2017 (C$ thousands)	Remaining term to maturity			
	90 days or less	**91 days to 1 year**	**1 to 5 years**	**Total**
Treasury bills	19,028	—	—	19,028
Weighted average effective yield (%)	0.48	—	—	0.48
Bonds	90,094	667,163	3,054,899	3,812,156
Weighted average effective yield (%)	1.18	1.18	1.06	1.08
Total investment securities	**109,122**	**667,163**	**3,054,899**	**3,831,184**
Weighted average effective yield (%)	**1.06**	**1.18**	**1.06**	**1.08**

As at March 31, 2016 (C$ thousands)	Remaining term to maturity			
	90 days or less	**91 days to 1 year**	**1 to 5 years**	**Total**
Treasury bills	13,239	—	—	13,239
Weighted average effective yield (%)	0.50	—	—	0.50
Bonds	129,220	611,670	2,656,118	3,397,008
Weighted average effective yield (%)	1.06	1.18	1.18	1.18
Total investment securities	**142,459**	**611,670**	**2,656,118**	**3,410,247**
Weighted average effective yield (%)	**1.01**	**1.18**	**1.18**	**1.17**

The carrying amounts in the above tables include accrued interest.

Fair value of financial instruments

The following table provides the estimated fair value of the Corporation's financial instruments. Fair values are measured and disclosed in relation to the fair value hierarchy that reflects the significance of inputs used in determining the estimates:

- *Level 1*—The fair values of investment securities are quoted prices in active markets for identical assets.
- *Level 2*—The fair values of investment securities are based on valuation techniques using observable inputs other than quoted prices for securities that are not traded in an active market. The valuation techniques include discounted cash flows with inputs such as the last trade amount, liquidity, and any market-wide or security-specific developments that may have an impact on the fair value.
- *Level 3*—The fair values are based on valuation techniques using unobservable market inputs and best estimates.

As at March 31, 2017 (C$ thousands)	Amortized cost	Unrealized gains	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	19,028	–	19,028	–	–	19,028
Bonds	3,812,156	3,989	3,335,543	480,602	–	3,816,145
Total investment securities	**3,831,184**	**3,989**	**3,354,571**	**480,602**	**–**	**3,835,173**

As at March 31, 2016 (C$ thousands)	Amortized cost	Unrealized gains	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	13,239	–	13,239	–	–	13,239
Bonds	3,397,008	38,357	2,922,822	512,543	–	3,435,365
Total investment securities	**3,410,247**	**38,357**	**2,936,061**	**512,543**	**–**	**3,448,604**

The Corporation's total investment income for financial assets measured at amortized cost was $40,273 thousand for the year ended March 31, 2017 (2016: $39,764 thousand). The Corporation did not recognize any fee income or expense for its financial assets measured at amortized cost (2016: nil).

5 – Recovery of amounts previously written off

During the year ended March 31, 2017, no recoveries (2016: $4,406 thousand) in relation to amounts previously written off were recognized by ACC, the structured entity controlled by the Corporation, and $6 thousand (2016: $593 thousand) remains receivable. ACC is in the process of winding down its litigation and administration activities. There may be additional immaterial final recoveries from the estate upon dissolution.

As at March 31, 2016 and 2017, $2,876 thousand remains receivable from Standard Trust Company, a member institution that failed in 1991, in relation to a recovery of amounts previously written off that was recognized during the year ended March 31, 2015. The estate of Standard Trust Company is in the process of winding down as all litigation has been settled and, once the administrative matters are concluded, the full amount of the receivable will be settled. This amount is recorded as amounts recoverable from estates in the consolidated statement of financial position. There may be additional immaterial final recoveries from the estate upon dissolution.

6 – Property, plant and equipment

(C$ thousands)	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance, March 31, 2015	**6,136**	**2,452**	**6,632**	**15,220**
Additions	392	53	25	470
Retirements and disposals	(122)	(4)	–	(126)
Balance, March 31, 2016	**6,406**	**2,501**	**6,657**	**15,564**
Additions	419	234	392	1,045
Retirements and disposals	(3,554)	(1,218)	(1,323)	(6,095)
Balance, March 31, 2017	**3,271**	**1,517**	**5,726**	**10,514**
Accumulated depreciation				
Balance, March 31, 2015	**5,442**	**1,378**	**2,514**	**9,334**
Depreciation	488	180	425	1,093
Retirements and disposals	(122)	(4)	–	(126)
Balance, March 31, 2016	**5,808**	**1,554**	**2,939**	**10,301**
Depreciation	365	171	416	952
Retirements and disposals	(3,542)	(999)	(1,146)	(5,687)
Balance, March 31, 2017	**2,631**	**726**	**2,209**	**5,566**
Carrying amounts				
Balance, March 31, 2016	598	947	3,718	5,263
Balance, March 31, 2017	**640**	**791**	**3,517**	**4,948**

During the year ending March 31, 2017, the Corporation derecognized items of property, plant and equipment due to disposals and retirements of items for which no future economic benefits are expected to arise from the continued use of the assets. As a result, the Corporation recognized a loss on disposal of $408 thousand (2016: nil) in operating expenses in the consolidated statement of comprehensive income.

7 – Intangible assets

(C$ thousands)	Computer software	Computer software under development	Total
Cost			
Balance, March 31, 2015	**9,645**	**68**	**9,713**
Additions—internal development	–	480	480
Transfers	548	(548)	–
Retirements and disposals	–	–	–
Balance, March 31, 2016	**10,193**	**–**	**10,193**
Additions—internal development	491	–	491
Retirements and disposals	(242)	–	(242)
Balance, March 31, 2017	**10,442**	**–**	**10,442**
Accumulated amortization			
Balance, March 31, 2015	**3,941**	**–**	**3,941**
Amortization	1,334	–	1,334
Retirements and disposals	–	–	–
Balance, March 31, 2016	**5,275**	**–**	**5,275**
Amortization	1,427	–	1,427
Retirements and disposals	(132)	–	(132)
Balance, March 31, 2017	**6,570**	**–**	**6,570**
Carrying amounts			
Balance, March 31, 2016	4,918	–	4,918
Balance, March 31, 2017	**3,872**	**–**	**3,872**

During the year ending March 31, 2017, the Corporation derecognized intangible assets due to disposals and retirements of items for which no future economic benefits are expected to arise from the continued use of the assets. As a result, the Corporation recognized a loss on disposal of $110 thousand (2016: nil) in operating expenses in the consolidated statement of comprehensive income.

The carrying amount of computer software as at March 31, 2017, consists primarily of the Regulatory Reporting System (RRS). The carrying amount for RRS, a system used for collecting financial data from federally regulated financial institutions, as at March 31, 2017, was $2,522 thousand, with a remaining amortization period of 3.5 years (2016: $3,385 thousand, with a remaining amortization period of 4.5 years).

8 – Provision for insurance losses

The provision for insurance losses represents the Corporation's best estimate of the future outflow of economic benefits resulting from the Corporation's duty to insure deposits held by member institutions in the event of failure. The estimate is based on an expected loss calculation and is subject to uncertainty surrounding amount and timing of losses. As such, actual losses may differ significantly from estimates.

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

(C$ thousands)	**Provision for insurance losses**
Balance, March 31, 2016	**1,300,000**
Additional provisions	300,000
Balance, March 31, 2017	**1,600,000**

The provision for insurance losses is calculated at its present value using a pre-tax, risk-free discount rate. The rate used in the calculation of the provision at March 31, 2017, was 1.12% (2016: 0.68%). The impact of this change in rate is a $36 million increase to the provision.

CDIC's member institutions report their levels of insured deposits as at April 30 of each year, as per the requirements of the *CDIC Act*. As a result, the level of insured deposits as at April 30, 2016, is Management's best available information for the calculation of the provision for insurance losses as at March 31, 2017.

Had the historical growth rate of 3% been applied to the calculation of the provision for insurance losses as at March 31, 2017, the impact would be an increase of $50 million.

The insured deposits reported by member institutions as at April 30, 2016, increased by $43 billion (6%) from the balance as at April 30, 2015. Had this growth rate been applied in the calculation of the provision for insurance losses as at March 31, 2016, the provision amount would have increased by $100 million to $1,400 million.

9 – Financial instruments and financial risk management

Classification and measurement of financial instruments

The table below sets out the carrying amounts of the Corporation's financial assets and financial liabilities, all of which are measured at amortized cost in accordance with IFRS 9 (2009):

As at March 31 (C$ thousands)	**2017**	**2016**
Cash	1,771	919
Investment securities	3,831,184	3,410,247
Trade and other receivables	223	204
Amounts recoverable from estates	2,882	3,469
Financial assets	**3,836,060**	**3,414,839**
Trade and other payables	5,056	4,734
Financial liabilities	**5,056**	**4,734**

See Note 4 for additional information on the maturity and composition of the Corporation's investment securities.

Fair value of financial instruments

With the exception of investment securities, the carrying amounts of the Corporation's financial instruments measured at amortized cost approximate their fair values. The fair values of the Corporation's investment securities are disclosed in Note 4.

Financial risk management objectives

The Corporation's assets consist primarily of its investment securities. CDIC's investment strategy is based on two key principles: limiting credit and market risk to preserve principal; and the use of the investment portfolio as a funding source for intervention activities. CDIC has a comprehensive risk management framework to evaluate, monitor and manage its risks. All risks, financial and other, are managed in accordance with an Enterprise Risk Management (ERM) framework which sets out the responsibilities of the Board of Directors.

Formal policies are in place for all significant financial risks to which CDIC is exposed. The policies are reviewed regularly, at least annually, in order to ensure that they continue to be appropriate and prudent. Significant financial risks that arise from transacting and holding financial instruments include credit, liquidity and market risks. There have been no significant changes in the Corporation's exposure to these financial risks since the prior period, nor in the methods used to measure them.

Credit risk

Credit risk is defined as the risk of loss attributable to counterparties failing to honour their obligation to CDIC, whether on- or off-balance sheet. CDIC's maximum exposure to credit risk is the carrying amount of cash, investment securities, amounts recoverable from estates, and trade and other receivables held in the consolidated statement of financial position. None of the trade and other receivables are past due.

CDIC's *Board Credit Risk Policy* sets out, among other things, that the Board of Directors shall approve investment dealers, securities vendors, agents acting on behalf of CDIC, and others with whom CDIC is authorized to transact with respect to financial transactions. Investments are to be held with approved creditworthy counterparties that must have a minimum credit rating from an external credit rating agency (Standard & Poor's or Moody's). CDIC cannot exceed Board-approved limits for transactions, by transactor, either individually or on a combined basis.

The Corporation's financial risk policies limit investments to the obligations of the Government of Canada and agent Crowns and the obligations of provincial governments or municipal financing authorities. Risk is further limited by setting a maximum amount and term for each investment. Counterparties for investments of less than three years must have a minimum credit rating of A. The Corporation's investment securities with a term of more than three years but less than five years are restricted to securities having a minimum credit rating of AA-. Securities with a term of more than five years are not permitted.

In addition, CDIC adheres to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations* in order to minimize its credit risk.

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

Credit rating *As at March 31 (C$ thousands)*	**2017**	**2016**
AAA	3,652,968	3,244,970
AA+	25,163	–
AA	–	113,072
AA-	81,508	–
A+	71,545	52,205
Total investment securities	**3,831,184**	**3,410,247**

CDIC may at times intervene in one capacity or another, in providing financial assistance to a troubled financial institution, either in the form of a loan, by guarantee or otherwise. The Corporation could also have to make payment to insured depositors in the event of a member institution failure. The latter action results in claims receivable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed member institutions, thus exposing CDIC to additional credit risk. The Corporation is closely involved in the asset realization process of these failed institutions in order to mitigate credit risk and minimize any potential loss to CDIC.

Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to CDIC to honour its cash obligations, whether on- or off-balance sheet, as they arise.

Exposure to liquidity risk relates firstly to funding ongoing day-to-day operations. Potential cash requirements could also arise to fund payouts of insured deposits in the case of a member institution failure or to provide financial assistance for other member intervention activities. The Corporation's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. The Board receives reports on risk exposures (semi-annually) and performance against approved limits (quarterly).

The *Board Liquidity Risk Policy* sets out, among other things, Management's responsibilities in managing the Corporation's portfolio of investment securities while respecting, first, the parameters established under all the financial policies, and, second, CDIC's mandate and statutory objects. The maturity profile of the portfolio is to be matched against maturing debt, if any, or any other cash outflow requirements and is also to comply with Board-approved term to maturity portfolio allocations.

The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund. CDIC currently may borrow up to $22 billion (March 31, 2016: $20 billion), subject to ministerial approval. No amounts have been borrowed as at March 31, 2017 and 2016. Under the *Budget Implementation Act, 2009*, the borrowing limit is adjusted annually to reflect the growth of insured deposits.

Market risk

Market risk is defined as the risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off-balance sheet, as a result of changes in market prices (due to changes in interest rates, foreign exchange rates and other price risks).

Principal exposures to market risk relate to the Corporation holding financial assets or liabilities where values are influenced by market conditions, such as its portfolio of investment securities. CDIC's main exposure to market risk is through interest rate risk. The Corporation's exposure to foreign exchange risks and other price risks is insignificant.

Interest rate risk

The Corporation accounts for its investment securities at amortized cost but obtains fair market values for the investment securities on a daily basis for disclosure and financial risk management purposes. As a result, the Corporation obtains a clear picture of the impact of changes in interest rates on the market value of its investment securities. The difference between the amortized cost of its investment securities and their fair market value is disclosed in Note 4 of these consolidated financial statements. Movement in interest rates can have a significant impact on the Corporation's consolidated financial statements, specifically on its investment income due to the size of its portfolio of investment securities and the relative importance of the revenue it generates. CDIC manages its interest rate exposures with the objective of enhancing interest income within established risk tolerances while adhering to approved policies. Interest rate shock analyses are performed on a regular basis on the Corporation's investment securities to evaluate the impact of possible interest rate fluctuations on interest income.

Other financial assets exposed to interest rate risk include cash which is held at short-term interest rates. Such exposure is not significant.

The following table shows how after-tax net income would have been affected by a 100 basis point increase or by a 25 basis point decrease in interest rates based on the investment portfolios at the end of each corresponding fiscal year. There have been no changes to the methods or assumptions used in this sensitivity analysis from the previous year.

	Increase (decrease) in net income	
For the year ended March 31 (C$ thousands)	**2017**	**2016**
100 basis point increase	1,830	2,397
25 basis point decrease	(457)	(599)

Currency risk and other price risk

The *Board Market Risk Policy* sets out, among other things, Management's responsibility not to expose the Corporation to any material equity, foreign exchange or commodity related positions. CDIC cannot engage in trading financial instruments other than to meet its liquidity requirements, which are funding day-to-day operations and funding intervention solutions respecting member institutions.

10 – Capital management

The Corporation's capital is comprised of *ex ante* funding. CDIC is not subject to externally imposed capital requirements. There has been no change in what the Corporation considers as capital and management of capital was performed on a basis consistent with that of the preceding year.

The Corporation has determined that it is prudent to maintain an amount of advance or *ex ante* funding to absorb losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and its provision for insurance losses. As at March 31, 2017, the minimum target for the *ex ante* funding is 100 basis points of insured deposits.

The Corporation has not yet achieved the target for capital as determined by the *ex ante* funding process. The primary mechanism used to manage the level of capital is premium rates.

***Ex ante* funding**

	Actual		Target
As at March 31 (C$ thousands)	**2017**	**2016**	**2017**
Retained earnings	2,235,979	2,116,266	
Provision for insurance losses	1,600,000	1,300,000	
Total *ex ante* funding	**3,835,979**	**3,416,266**	**7,413,282**
Total basis points of insured deposits	**52***	**49****	**100**

* Based on level of insured deposits as at April 30, 2016. Includes changes in insured deposit levels as a result of changes to the membership during the year ended March 31, 2017.

** Based on level of insured deposits as at April 30, 2015.

11 – Income taxes

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest income. From this amount, allowable expenditures are deducted in order to arrive at its net income for tax purposes. Under the provisions of the *Income Tax Act* the Corporation's premium revenue is not taxable and the recoveries of amounts previously written off are not deductible.

The following table sets out details of income tax expense recognized in net income:

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Current income tax:		
Current income tax expense	120	125
Adjustments in respect of current income tax of previous years	40	19
Deferred tax:		
Relating to the reversal of temporary differences	(297)	(205)
Income tax recovery recognized in net income	**(137)**	**(61)**

The following table presents a reconciliation of the Corporation's recognized income tax expense to income tax expense based on the Canadian federal tax rate:

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Net income before income taxes	119,568	315,391
Expected income tax at the 25% federal tax rate (2016: 25%)	29,892	78,848
Non-deductible adjustments:		
Premium revenue	(105,100)	(90,294)
Increase in non-deductible provision for insurance losses	75,000	12,500
Recovery of amounts previously written off	—	(1,102)
Other	71	(13)
Income tax recovery recognized in net income	**(137)**	**(61)**

The tax effects of temporary differences that gave rise to deferred assets and liabilities during the years ended March 31, 2017 and 2016, are as follows:

As at March 31, 2017 (C$ thousands)	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
Deferred tax assets				
Lease incentives	268	(28)	–	240
Remuneration payable	82	(8)	–	74
Defined benefit obligations	257	16	(3)	270
Other long-term employee benefits	197	43	–	240
Non-deductible reserves	–	7	–	7
Deferred tax liabilities				
Property, plant and equipment, and intangible assets	(1,385)	267	–	(1,118)
Net deferred tax liability	**(581)**	**297**	**(3)**	**(287)**

As at March 31, 2016 (C$ thousands)	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
Deferred tax assets				
Lease incentives	296	(28)	–	268
Remuneration payable	50	32	–	82
Defined benefit obligations	316	4	(63)	257
Other long-term employee benefits	235	(38)	–	197
Deferred tax liabilities				
Property, plant and equipment, and intangible assets	(1,620)	235	–	(1,385)
Net deferred tax liability	**(723)**	**205**	**(63)**	**(581)**

12 – Premium revenue

Under CDIC's *Differential Premiums By-law*, members are classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for the 2016/2017 fiscal year are as follows:

Premium category *(basis points of insured deposits) For the year ended March 31*	**2017**	**2016**
Category 1	5.5	4.5
Category 2	11.0	9.0
Category 3	22.0	18.0
Category 4	33.3	33.3

Premium revenue of $420 million was recorded during the year (2016: $361 million). Premium revenue is higher compared to last year due to an increase in premium rates, changes in the categorization of certain member institutions, and an increase in total insured deposits held at member institutions.

13 – Operating expenses

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Salaries and other personnel costs	21,912	22,020
Professional and other fees	5,371	3,867
Premises	3,416	3,618
General expenses	3,141	3,063
Public awareness	2,992	2,975
Depreciation and amortization	2,379	2,427
Data processing	2,069	2,180
	41,280	40,150
Expense recoveries from related parties[a]	(171)	(168)
Total operating expenses	**41,109**	**39,982**

[a] The Corporation provides call centre services on a cost recovery basis to the Office of the Superintendent of Financial Institutions (OSFI) through an outsourcing arrangement with a third party. There are no significant outstanding balances owed to the Corporation in relation to these transactions as at March 31, 2017.

14 – Related party disclosures

The consolidated financial statements incorporate the financial statements of the Corporation and the financial statements of ACC, a structured entity controlled by the Corporation. Balances and transactions between the Corporation and ACC have been eliminated on consolidation and are not disclosed in this Note.

Although CDIC is a corporation without share capital, its parent is the Government of Canada as all the Directors of the Corporation, other than *ex officio* Directors, are appointed by the Governor in Council or by a Minister of the Government of Canada with the approval of the Governor in Council.

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation has transacted with related parties through both the provision and receipt of various services. Such transactions were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following table discloses significant related party transactions:

		Expense for the year ended March 31		Costs capitalized during the year ended March 31		Balance payable as at March 31	
(C$ thousands)	**Note**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Bank of Canada	a	650	764	–	38	–	–
Public Service Pension Plan	b	2,681	2,678	–	–	–	–

a The majority of these costs relate to the Regulatory Reporting System (RRS), a system hosted by the Bank of Canada used for collecting financial data from federally regulated financial institutions. The RRS is jointly controlled by CDIC, OSFI and the Bank of Canada, and the three parties share equally the operating and capital costs of the system.

b All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. See Note 16 for further details.

Key Management Personnel

Key Management Personnel include all members of the Board of Directors and Executive officers who have the authorities and responsibilities for planning, directing and controlling the activities of the Corporation.

Compensation of Key Management Personnel was as follows:

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Wages, bonus and other short-term benefits	2,171	2,311
Post-employment	705	782
Termination benefits	–	138
Other long-term benefits	17	19
Total Key Management Personnel remuneration	**2,893**	**3,250**

15 – Contingencies and commitments

There were no claims pending against the Corporation as at March 31, 2017.

The Corporation leases office space in Ottawa and Toronto. The lease of office space in Ottawa ends in September 2020, with two consecutive renewal options, both for five-year terms. The lease of office space in Toronto ends in October 2021, with an option to renew for an additional five years.

Minimum lease payments recognized as an expense for the year ended March 31, 2017, totalled $1,713 thousand (2016: $1,707 thousand).

The following table shows future aggregate minimum lease payments (exclusive of other occupancy costs) under non-cancellable operating leases:

As at March 31 (C$ thousands)	**2017**	**2016**
Not later than one year	1,655	1,777
Later than one year and not later than five years	4,231	5,957
Later than five years	–	86
Total	**5,886**	**7,820**

As at March 31, 2017, CDIC had commitments of $256 thousand in relation to the development of internally generated assets (2016: $200 thousand).

The Corporation has other various lease and contractual agreements for services. As at March 31, 2017, these future commitments are $5,934 thousand in total (2016: $6,501 thousand).

16 – Employee benefits

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Defined benefit obligations	1,737	1,685
Other long-term employee benefits	961	789
Employee benefits	**2,698**	**2,474**

The Corporation's employees receive a number of employee benefits, including membership in the Public Service Pension Plan, defined benefit plans and other long-term employee benefits.

Public Service Pension Plan

All eligible employees of the Corporation participate in the Public Service Pension Plan, a contributory defined benefit plan established and governed by the *Public Service Superannuation Act*, and sponsored by the Government of Canada. Pension benefits are based on salary, pensionable service, age and reason for termination. Contributions to the Pension Plan are required from both the employees and the Corporation. As required under present legislation, the contributions made by the Corporation to the Pension Plan are 7.74 times (2016: 6.67 times) the employees' contribution on amounts of salaries in excess of $163 thousand (2016: $162 thousand). For amounts on salaries below $163 thousand, the Corporation's contribution rate is 1.01 times for employment start dates before January 1, 2013, and 1.00 times for employment start dates after January 1, 2013 (2016: 1.15 times for start dates before January 1, 2013, and 1.11 times for start dates after January 1, 2013).

For employees with employment start dates before January 1, 2013, an unreduced pension benefit can be received at age 60 with at least two years of pensionable service (or at age 55 with 30 years of service). For employees with employment start dates after December 31, 2013, an unreduced pension benefit can be received at age 65 with at least two years of pensionable service (or at age 60 with 30 years of service).

In the consolidated financial statements of the Corporation, the Pension Plan is treated as a defined contribution plan. The Corporation's expense in relation to the Pension Plan is provided in Note 14. The estimated expense for fiscal 2017/2018 is $2,837 thousand. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Pension Plan to CDIC; the only obligation of the Corporation with respect to the Pension Plan is to make the specified contributions.

Defined benefit plans

The Corporation sponsors defined benefit plans in the form of resignation benefits, retirement benefits and death benefits.

Retirement benefits are provided by the Corporation to certain employees upon retirement based on years of service and final salary. Resignation benefits are provided to certain employees with 10 or more years of continuous employment with the Corporation. The death benefit plan provides a lump sum payment based on salary at the time of death. These benefit plans are unfunded, require no contributions from employees and thus have no assets. The benefit plans have a plan deficit equal to the accrued benefit liability. Benefits will be paid from the Corporation's operations.

The most recent actuarial valuation of the unfunded obligations, and the related current service cost and past service cost, was carried out as at March 31, 2017, by an independent actuary, using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows:

For the year ended March 31	**2017**	**2016**
Discount rate	3.25%	3.35%
Rate of compensation increase:		
Fiscal 2016/2017	1.0% + merit	0.50% + merit
Fiscal 2017/2018	1.0% + merit	0.50% + merit
Thereafter	1.0% + merit	0.50% + merit

The following table shows amounts recognized in operating expenses in respect of these defined benefit plans:

For the year ended March 31 (C$ thousands)	**2017**	**2016**
Current service cost	116	142
Interest on obligation	57	60
Defined benefit obligations expense	**173**	**202**

The expense for the year is included in operating expenses as salaries and other personnel costs. The following table shows cumulative actuarial gains recognized immediately in retained earnings as other comprehensive income:

(C$ thousands)	**Actuarial gains**
Cumulative amount at March 31, 2015	**171**
Recognized during the period	250
Cumulative amount at March 31, 2016	**421**
Recognized during the period	11
Cumulative amount at March 31, 2017	**432**

The amount included in the statement of financial position is equivalent to the present value of the unfunded defined benefit obligations. The following table presents movements in the present value of the defined benefit obligations:

(C$ thousands)	**Defined benefit obligations**
Balance, March 31, 2015	**1,946**
Current service cost	142
Interest cost	60
Benefit payments	(213)
Actuarial gain arising from changes in demographic assumptions	(124)
Actuarial gain arising from changes in financial assumptions	(126)
Balance, March 31, 2016	**1,685**
Current service cost	116
Interest cost	57
Benefit payments	(110)
Actuarial gain arising from changes in demographic assumptions	(105)
Actuarial loss arising from changes in financial assumptions	94
Cumulative amount at March 31, 2017	**1,737**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below.

As at March 31 (C$ thousands)	**2017**	**2016**
Increase (decrease) in defined benefit obligations		
Effect of an increase of 1%:		
Discount rate	(141)	(144)
Rate of compensation increase	174	180
Effect of a decrease of 1%:		
Discount rate	163	167
Rate of compensation increase	(153)	(157)

The sensitivity analysis presented above has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as that applied in calculating the defined benefit obligations recognized in the statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligations as some of the assumptions may be correlated.

There was no change from prior years in the methods and assumptions used in preparing the sensitivity analysis.

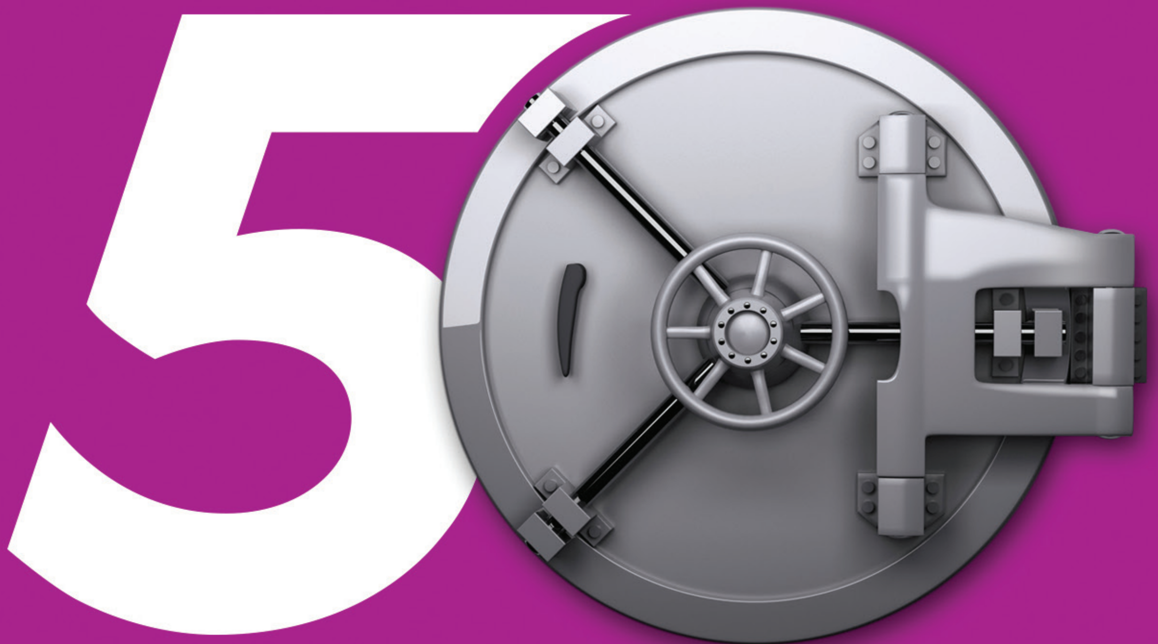
As at March 31, 2017, the weighted average duration of the defined benefit obligations was 9.0 years (2016: 9.5 years).

17 – Events after the reporting period

The provision for insurance losses is an estimate which is determined by assessing the aggregate risk of the Corporation's members based on the inputs discussed in Note 2. Subsequent to March 31, 2017, the following events occurred which will result in a significant change to the estimate:

- External events affecting certain CDIC member institutions occurred at the end of April 2017 and continued into May 2017. Overall, these events negatively impacted the risk profiles and/or increased the expectation of default derived from probability statistics of these member institutions. The impact of these changes is expected to increase the provision.
- In May 2017, Moody's Investor Services downgraded the long-term credit ratings of certain Canadian banks, which is expected to increase the provision.
- Decrease to the discount rate applied to the provision for insurance losses is expected to increase the provision.

The total impact of these subsequent events is expected to increase the provision for insurance losses by an estimated $400 million to $2,000 million.



50 YEARS OF STRENGTH AND TRUST

Part 3 Corporate governance

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

More about governance

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

Board of Directors

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

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

Board of Directors composition

as at March 31, 2017

Robert O. Sanderson
Chair
Joined: June 2016
Appointed as Chair for a one-year term, effective June 2016

Private sector Directors

George Burger
Business Executive
Toronto, Ontario
Joined: November 2010
Re-appointed June 2014 for a three-year term

Susan Hicks
Business Executive
Moncton, New Brunswick
Joined: February 2015
Appointed for a three-year term

Éric Pronovost
Chartered Professional Accountant
Trois-Rivières, Québec
Joined: September 2008
*Re-appointed February 2015 for a two-year term**

Shelley M. Tratch
Lawyer
Vancouver, British Columbia
Joined: December 2006
*Re-appointed February 2013 for a three-year term**

Angela Tu Weissenberger
Economist
Calgary, Alberta
Joined: June 2012
Re-appointed March 2015 for a three-year term

Ex officio *Directors*

Stephen Poloz
Governor
Bank of Canada
Joined: June 2013
Appointed for a seven-year term

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

Lucie Tedesco
Commissioner
Financial Consumer Agency of Canada
Joined: June 2013
Appointed for a five-year term

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

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

Alternates (for ex officio *Directors)*

Sylvain Leduc
Deputy Governor
Bank of Canada
Designated Alternate: May 2016

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

Directors and Alternates who departed during the year: B.P. Davies, L. Schembri, R. Stewart.

* Remains in office until re-appointment or appointment of a successor.

Board committees

Three standing committees supported the Board in its activities throughout 2016/2017: the Audit Committee, the Governance and Nominating Committee, and the Human Resources and Compensation Committee. A fourth committee, the Executive Committee, meets when required.

Audit Committee

Mandate

The Audit Committee oversees internal and external audits and Enterprise Risk Management, and advises the Board on financial issues, including the review and approval of quarterly financial reports, and the review of the Management's Discussion and Analysis section of CDIC's *Annual Report* (which includes the consolidated financial statements).

Composition

- **É. Pronovost (Chair)**—Member since September 2008 and Chair since June 2009
- **G. Burger**—Member since January 2011
- **A. Tu Weissenberger**—Member since June 2012
- **S. Hicks**—Member since April 2015
- **J. Hubbs**—Member since May 2015

Governance and Nominating Committee

Mandate

The Governance and Nominating Committee ensures that appropriate structures and processes are in place for effective oversight of and direction for CDIC's activities, including Director succession and the Corporation's public awareness strategy and plan.

Composition

- **G. Burger (Chair)**—Member since January 2011 and Chair since October 2015
- **R.O. Sanderson**—Member since June 2016
- **L. Tedesco**—Member since October 2013
- **S.M. Tratch**—Member since January 2007

Human Resources and Compensation Committee

Mandate

The Human Resources and Compensation Committee reviews and advises the Board on human resource issues including: Chief Executive Officer (CEO) performance management, succession planning, compliance with standards of business conduct and ethics, statutory requirements, and compensation.

Composition

- **S.M. Tratch (Chair)**—Member since January 2007 and Chair since February 2008
- **R.O. Sanderson**—Member since June 2016
- **S. Poloz**—Member since September 2014
- **A. Tu Weissenberger**—Member since June 2012

Executive Committee

Mandate

The Executive Committee meets when required, at the request of the Board, the Chairperson, or the President and CEO, to review any matter referred to it by any of them that would not be considered within the mandate of any other committee of the Board; and to carry out such other functions as are assigned or delegated to it by the Board.

Composition

- **R.O. Sanderson (Chair)**—Member and Chair since June 2016
- **S. Poloz**—Member since June 2013
- **S.M. Tratch**—Member since January 2009

Board and committee meetings and attendance

(April 1, 2016 to March 31, 2017)

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

	Board of Directors	Board committees: Audit Committee[c]	Governance and Nominating Committee	Human Resources and Compensation Committee	Executive Committee
Number of meetings[a]	**5[b]**	**7**	**5**	**5**	**0**
Attendance					
Private sector Directors					
R.O. Sanderson—Chair[d]	5	5	5	4	N/A
G. Burger	5	6	5		
S. Hicks	5	7			
É. Pronovost	5	7			
S.M. Tratch	5		5	5	N/A
A. Tu Weissenberger	5	7		5	
***Ex officio* Directors (Alternates)**					
Bank of Canada: S. Poloz (S. Leduc[e])	3 (5)			3	N/A
Department of Finance: P. Rochon (L. Anderson[f])	0 (2)				
Financial Consumer Agency of Canada: L. Tedesco	5		5		
Superintendent of Financial Institutions: J. Rudin	4				
Office of the Superintendent of Financial Institutions—Second Director: J. Hubbs	4	7			
Directors who departed during the year					
B.P. Davies—Chair[g]	N/A				
Bank of Canada: L. Schembri[h]	0				
Department of Finance: R. Stewart[i]	(3)				

a Also includes meetings attended by telephone.
b Includes a Strategic Planning Session of the Board.
c The Chair is invited to Audit Committee meetings but is not a Committee member.
d R.O. Sanderson was appointed as Chair of the CDIC Board, effective June 1, 2016, replacing B.P. Davies.
e S. Leduc was designated as Alternate for the Governor of the Bank of Canada, effective May 2, 2016.
f L. Anderson was designated as Alternate for the Deputy Minister of Finance, effective December 5, 2016.
g B.P. Davies resigned from the Board, effective May 17, 2016
h L. Schembri ceased to be an Alternate, effective April 29, 2016.
i R. Stewart ceased to be an Alternate, effective December 2, 2016.

Directors' fees

In 2016/2017, private sector Directors' fees for the performance of their services totalled $210,988 (compared to $214,240 in 2015/2016).

Executive Team

CDIC's Executive Team is comprised of its President and Chief Executive Officer (CEO), along with five corporate officers. The President and CEO is appointed by the Governor in Council, which also approves compensation for this position. CEO performance objectives are set and evaluated annually by the Board of Directors and submitted to the Minister of Finance. Officers are appointed by the Board of Directors. The Board also approves the salary range for these individuals. CDIC's officers, as of March 31, 2017, are set out below:

Michèle Bourque
President and CEO

Dean A. Cosman
Senior Vice-President, Insurance and Risk Assessment

Michael Mercer
Senior Vice-President, Resolution

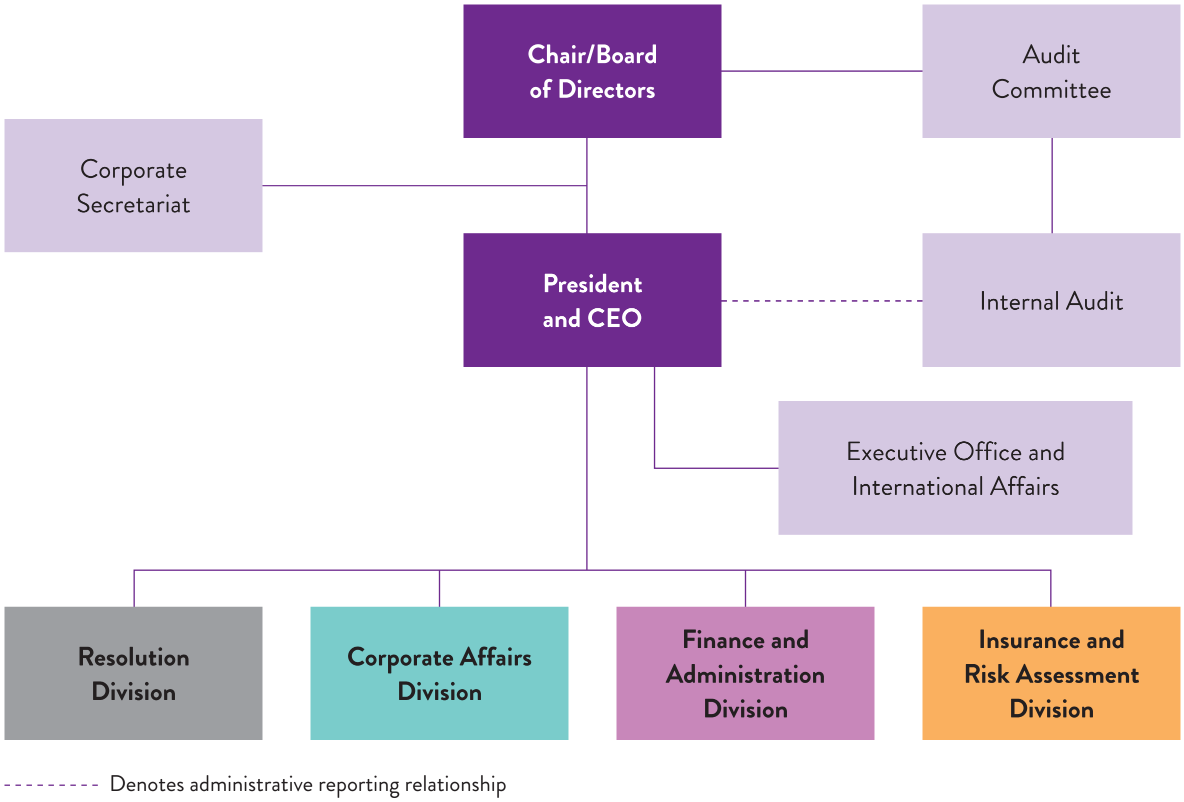
Anthony Carty
Vice-President, Finance and Administration, and Chief Financial Officer

Chantal M. Richer
Vice-President, Corporate Affairs, and General Counsel

M. Claudia Morrow
Chief, Office of the President, and Corporate Secretary

Travel and hospitality expenses for CDIC's officers are disclosed quarterly on the Corporation's website (**www.cdic.ca**).

CDIC's organizational structure



Addressing public service expectations

Ethical behaviour and integrity

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

Ethics training

Mandatory employee ethics training is conducted every two years. In 2017, CDIC employees were required to review information on business conduct and ethical behaviour, before signing their annual attestation.

Annual Public Meeting

CDIC held its Annual Public Meeting (APM) in February 2017 on the 50th anniversary of our creation by Parliament. The event featured a panel discussion among multi-generational Canadians about the importance of deposit protection at various life stages and was broadcast as a webinar in both official languages. The APM is an opportunity for CDIC to provide information to stakeholders and the public on our services and mandate, as well as to answer any questions.

KEEPING PACE WITH TECHNOLOGY FOR 50 YEARS

Glossary

Bail-in: The Taxpayer Protection and Bank Recapitalization Program would allow for the permanent conversion of eligible liabilities of a non-viable D-SIB into common shares. It would allow a failing bank to be restructured so that it can keep operating and maintain its critical services, without taxpayer bail-outs. (*Régime de recapitalisation interne*)

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

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

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

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

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

Domestic systemically important bank (D-SIB): A bank that has been judged by its regulators to pose a serious risk to the financial system if it were to fail. The framework for identifying D-SIBs is set out by the Basel Committee on Banking Supervision and the assessment considers bank-specific characteristics of systemic importance, such as size, interconnectedness and substitutability, which are correlated with the systemic impact of failure. Banks designated as such are subject to intensive supervision and higher capital requirements to minimize the likelihood of failure. (*Banque d'importance systémique nationale (BISN)*)

Eligible deposit: To be eligible for CDIC deposit insurance protection, deposits must be: in Canadian currency, payable in Canada; repayable no later than five years from the date of deposit; and held in a financial institution that is a CDIC member. Eligible deposits are: savings and chequing accounts; term deposits, such as Guaranteed Investment Certificates (GICs); money orders; drafts; certified drafts and cheques. Not all deposits are eligible; for example, foreign currency deposits and investments in mortgages, stocks and mutual funds are not covered by CDIC. (*Dépôt assurable*)

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

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

Financial market infrastructure: A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. (*Infrastructure des marchés financiers*)

Financial Stability Board (FSB): A body established to coordinate internationally the work of national financial authorities and international standard-setting bodies, and to develop and promote effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. (*Conseil de stabilité financière (CSF)*)

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

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

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

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

Payout: The process undertaken by CDIC to make deposit insurance payments to the insured depositors of a failed member institution. CDIC may make a payment of deposit insurance in one of two ways: (1) by issuing cheques to insured depositors; and/or (2) by providing insured depositors with new demand deposits at another member institution. (*Remboursement des dépôts assurés*)

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

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

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

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