



# Annual Report 2018

Protecting your deposits

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, and to act as the resolution authority of its members.

## 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 not covered?

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

### 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.

## For more information about CDIC

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

### Head office

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

### Toronto office

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

### Toll-free telephone service:

1-800-461-CDIC (2342)  
TTY: 613-943-6456  
Fax: 613-996-6095  
Website: **[www.cdic.ca](http://www.cdic.ca)**  
E-mail: [info@cdic.ca](mailto:info@cdic.ca)

## Five-year financial and statistical summary

For the years ending March 31	2018	2017	2016	2015	2014
<b>Selected statement of financial position items</b> (C\$ millions)					
Cash and investments	4,374	3,833	3,411	3,044	2,761
Provision for insurance losses	2,050	1,600	1,300	1,250	1,200
Retained earnings	2,322	2,236	2,116	1,801	1,569
<b>Selected statement of comprehensive income items</b> (C\$ millions)					
Premiums	535	420	361	279	192
Investment income	46	40	40	40	36
Operating expenses	46	41	40	40	38
Increase (decrease) in provision for insurance losses	450	300	50	50	(50)
Total comprehensive income	86	120	316	232	252
<b>Member institutions</b> (number)					
Domestic banks and subsidiaries	50	50	47	47	48
Domestic trust and loan companies and associations	15	15	15	15	15
Subsidiaries of foreign financial institutions	17	17	16	16	16
Total number of institutions	82	82	78	78	79
<b>Total insured deposits<sup>a</sup></b> (C\$ billions)	774	741	696	684	665
Growth rate of insured deposits (%)	4.4%	6.5%	1.8%	3.0%	3.0%
<b>Ex ante funding</b> (C\$ billions)	4.4	3.8	3.4	3.1	2.8
Basis points of insured deposits	55	52	49	45	42
<b>Permanent employees</b> (number) <sup>b</sup>	126	126	119	114	110
<b>Borrowing limit</b> (C\$ billions)	23	22	20	20	19

<sup>a</sup> 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.

<sup>b</sup> Represents the number of full-time, permanent employees at year end.



# The year at a glance

## In 2017/2018 ...

- CDIC insured approximately **\$774 billion in deposits** at 82 member institutions (as at March 31, 2018).
- The Royal Bank of Canada became the **first Canadian bank to be designated a global systemically important bank (G-SIB)** by the Financial Stability Board (November 2017).
- CDIC members earned **record total net income**. Nonetheless, high levels of consumer debt and elevated real estate prices left 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.
- CDIC worked with the Department of Finance and other safety net agencies to develop the regulations to support the bail-in regime; the **bail-in regulations were formally approved** on March 26, 2018 (and published on April 18, 2018).
- The Corporation **continued outreach activities** with domestic and international resolution authorities and led a series of Crisis Management Group meetings in 2017 to discuss cross-border impediments to domestic systemically important bank (D-SIB) resolvability.
- CDIC **strengthened partnerships** through the establishment of memoranda of understanding with key domestic and international stakeholders.
- The Corporation launched a new three-year public awareness strategy to ensure **Canadians are well informed** about CDIC and its deposit insurance program.
- CDIC continued to **work with the Department of Finance on the deposit insurance review**. On March 27, 2018, the Minister of Finance tabled the *Budget Implementation Act, 2018, No. 1*, which amends the *Canada Deposit Insurance Corporation Act* to modernize and enhance the Canadian deposit insurance framework.





# TABLE OF CONTENTS

<b>MESSAGE FROM THE CHAIR</b>	<b>5</b>
<b>MESSAGE FROM THE PRESIDENT AND CEO</b>	<b>7</b>
<b>PART 1—MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	<b>11</b>
CDIC’s operating environment	11
Risk governance and management	12
CDIC membership	15
Performance against Plan	19
CDIC’s Corporate Scorecard—2017/2018 to 2021/2022	21
Financial overview	25
A look ahead to 2018/2019	34
2018/2019 to 2 022/2023 financial plan	38
<b>PART 2—CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>41</b>
Management responsibility for consolidated financial statements	41
Independent auditor’s report	42
Consolidated financial statements and notes	43
<b>PART 3—CORPORATE GOVERNANCE</b>	<b>77</b>
Board of Directors	77
Board committees	79
Directors’ fees	82
Executive Team	82
<b>GLOSSARY</b>	<b>85</b>







## MESSAGE FROM THE CHAIR



Through its stewardship role, the Board of Directors ensures that CDIC is poised for action to protect depositors to respond to a changing environment. This past year, the Board was fully engaged in its work and addressed issues rapidly as they arose. A critical element of an effective board is continuous learning. During the year our Board focused on decision making in resolution by participating in a tabletop exercise. And with the knowledge that effective, timely communication with depositors and the broader public plays a major role in maintaining public confidence and stability in the financial system, we also conducted a separate tabletop exercise that immersed Board members in intervention communication.

To further strengthen our governance capabilities, the Board continued to adopt best practices by conducting its first-ever peer assessment, aimed at sharpening our performance. This focus on high-performance governance will continue in the coming years.

Throughout the year, the Board monitored developments on a number of fronts where important changes will affect certain aspects of CDIC protection. Among these is the comprehensive deposit insurance review, led by the Government of Canada with research input from CDIC, and for which proposals have been tabled in Parliament to strengthen and modernize CDIC coverage in key areas. A formal authority was put in place this year for CDIC to require Canada's domestic systemically important banks (D-SIBs) to prepare their resolution plans. This initiated Board discussion on the creation of a new by-law to support our role as resolution authority for D-SIBs. A consultation paper was developed and posted on the CDIC website in February of this year.

Safeguarding CDIC's reputation is an essential role of the Board, done in collaboration with Executive Management. Canadians count on us to ensure they have a good night's sleep—every night—by protecting their deposits. Our reputation is rooted in Canadians' confidence in CDIC.

We know that preserving CDIC's good name is essential. This year, we addressed reputation risk management by enhancing our procurement and contracting policy. We also strengthened our travel and hospitality policy, with increased reporting on Director expenses to ensure that CDIC remains transparent to the public. The Board also focused on cyber risks and vulnerabilities this year—including the protection of confidential information—and how CDIC is implementing best practices to manage these risks.

In June 2018, Michèle Bourque will retire as CDIC's President and CEO after an eight-year tenure. Michèle stepped into this leadership position in the aftermath of the global financial crisis and led the first expansion of CDIC's mandate in 30 years, as the Corporation became the resolution authority for its member institutions. Michèle built CDIC's resolution authority function from the ground up. Her collaborative approach, added to her consideration of the broader regulatory environment in which D-SIBs operate, has resulted in a robust and measured strategy that today supports D-SIB resolution planning. This expansion represented a critical new role within Canada's financial system.



## MESSAGE FROM THE CHAIR

As a result of Michèle's work, CDIC consistently meets or exceeds the highest international standards for intervention and payout capabilities.

Within the Corporation, Michèle built a strong, cohesive Executive Team and set the highest ethical standards for the entire organization. And beyond that, over the course of her tenure as CEO, she put into practice her deep commitments to diversity, to second language training and to addressing mental health issues. On behalf of the Board of Directors, I thank Michèle for her outstanding service to CDIC and to the Canadian public as a whole.

Another long-time member of our Executive Team, Claudia Morrow, will also retire in June from her position as Chief, Office of the President. Claudia served as Vice-President, Corporate Affairs, General Counsel and as Corporate Secretary for more than 20 years. Claudia's leadership contributed to significant improvements to corporate governance, and she provided invaluable insight and support to the Directors. On behalf of the Board, I thank Claudia for her dedication and major contributions to CDIC.

This coming year will also see a turnover of all five of our private sector Directors whose terms have expired. Their work and dedicated commitment to the Board have been exemplary. As I write this message, the Government is involved in a recruitment process to engage new private sector Directors. Private sector Directors play an essential role on CDIC's Board, as they bring their practical experience to decision making, in their discussions and debate of issues with the five *ex officio* Directors.

I wish to take this opportunity to express to each of these five Directors my gratitude and that of their Board colleagues:

- Shelley Tratch joined the Board in 2006 and served on several committees—the Governance and Nominating Committee, the Human Resources and Compensation Committee (including as its Chair), and the Executive Committee.
- Éric Pronovost, a Board member since 2008, served on the Audit Committee (including as its Chair).
- George Burger, a Board member since 2010, served on the Audit Committee and as a member and Chair of the Governance and Nominating Committee.
- Angela Tu Weissenberger served on two committees since joining the CDIC Board in 2012—the Audit Committee and the Human Resources and Compensation Committee.
- Susan Hicks joined the CDIC Board in 2015 and served on the Audit Committee.

The coming year will clearly be one of change. I look forward to welcoming a new President and CEO to CDIC, and to working with our established and incoming Board members.



Robert O. Sanderson



## MESSAGE FROM THE PRESIDENT AND CEO



It has now been ten years since the 2008 financial global crisis and eight years since I took up my tenure as President and Chief Executive Officer in 2010. In the interim, CDIC has undergone significant changes.

While Canada avoided its worst effects, the crisis exposed some challenges and gaps in Canada's resolution regime for its largest banks, the domestic systemically important banks (D-SIBs). One of the measures undertaken was the expansion of CDIC's role to include responsibility for D-SIB resolution planning and preparedness, which was formalized in our law—the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*)—in 2017.

Looking back on developments in resolvability of Canada's D-SIBs since that time, CDIC has much to be proud of. We had a strong starting position, with a solid track record as a deposit insurer and a resolution authority. Unlike deposit insurers in some major economies around the world, CDIC had experience dealing with bank failures and imposing losses to creditors. In addition, CDIC had many of the powers required to resolve a systemic bank failure and, thanks to our experience, we had already developed a "resolution mindset." Importantly, CDIC had an established *ex ante* fund from the premiums paid by members and had explicit government financial backing.

Since 2011, CDIC has continued to improve the resolution regime. Last year the needle moved further along on several fronts. The D-SIBs made significant progress in resolution planning and they continue to remain fully engaged in this process. In the fall of 2017, the Royal Bank of Canada was designated by the Financial Stability Board as a global systemically important bank, or G-SIB. Both CDIC and the bank are well-positioned for this transition.

Further, to achieve a key milestone of ending the issue of "too big to fail" in Canada, we collaborated with the Government on the bank recapitalization (bail-in) regime and have made good headway in working through various operational aspects of the regime. In doing so we undertook extensive consultations with our D-SIBs. I thank them, as well as CDIC's Advisory Panel members, for their insights and feedback during this process.

Given the international footprint of our D-SIBs, we have continued to build strong relationships with key international counterparts to increase cross-border cooperation, critical to the effective resolution of D-SIBs. These relationships serve two important purposes—they provide us with a thorough understanding of the impact of resolution, and they enable us to share best practices in resolution with our international peers.

While our mandate has grown, one core aspect has remained unchanged throughout: CDIC's protection of depositors. This year brought a reminder of the importance of CDIC's readiness to protect depositors. We saw how critical it is for CDIC to be ready to jump into action to reimburse depositors on short notice, and to sustain public confidence in CDIC and the stability of the financial system. Ensuring confidence is why we have invested even more resources in public awareness this year.



Another key tool in keeping Canadians aware of CDIC is leveraging the relationship they have with their banks, which is done through our *Deposit Insurance Information By-law*. With a focus on new platforms and e-banking, the by-law was recently overhauled to expand the information members must provide.

Keeping our deposit insurance program relevant to the needs of the public was the rationale behind new enhancements to the *CDIC Act* that the Government recently introduced in Parliament. With our support and research, these proposed changes are a welcome development in ensuring that our coverage reflects the realities and preferences of the depositing public.

The importance of robust relationships as an enabler to delivering on CDIC's mandate has remained a constant over the last decade—especially our collaboration with the financial safety net members, who each have a role to play in making the overall system better for Canada. Such a sound foundation assists us all in advancing future CDIC policy objectives and implementing timely and effective interventions and resolutions.

### Thank you

In June 2018 I will be retiring from CDIC. While I have served as President and CEO for the last eight years, I joined the Corporation in 1992. I have focused most of my career on the issues and challenges of deposit insurance and financial stability, an opportunity for which I am extremely grateful.

To thank the many who have guided and supported me over my career is an impossible task. Let me mention in particular our Board of Directors, led by our Chair Bob Sanderson, whom I thank for their counsel and commitment. To Claudia Morrow, who will also be retiring in June, I extend appreciation for her outstanding contributions since 1995.

I owe a special debt of gratitude to our talented employees and our very capable Executive Team. They represent the best I could ask for—an enthusiastic, passionate group of people who reflect Canada as a bilingual and diverse country. I have full confidence in the ability of our Executive Team to lead CDIC into the future.

To CDIC, our employees and Board members, I wish the very best in your continued service to depositors and to the stability of the Canadian financial system.



Michèle Bourque





## PART 1 MANAGEMENT'S DISCUSSION AND ANALYSIS

### CDIC's operating environment

#### Economic environment

Economic activity in Canada in 2017 continued to expand, prolonging the 2016 upward trend. Expansion was driven by growth in domestic consumption and partially by exports. Oil prices underwent a sustained increase in the latter half of 2017. This was accompanied by an improved employment situation across the country, with unemployment reaching a record low nationally by the end of 2017. Household indebtedness, as measured by the debt-to-income ratio, remains near an all-time high, although it has trended lower since the last quarter of 2017, as is the case with credit growth. Recent policy changes at various government levels have somewhat mitigated the sharp rise in real estate prices in some markets and the incidence of highly indebted households, but there remains a high level of household debt and elevated real estate prices, particularly in certain key markets (such as Vancouver). This has left 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. The generally improved economic conditions over the past year have been accompanied by a rising interest rate environment, with the Bank of Canada increasing its benchmark rate throughout the year.

#### Regulatory environment

In March 2018, the Minister of Finance tabled the *Budget Implementation Act, 2018, No. 1*, which amends the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*) to modernize and enhance the Canadian deposit insurance framework, ensuring it continues to meet the objectives of protecting depositors and supporting financial stability. Following are the proposed amendments to the *CDIC Act*:

- Provide separate coverage up to \$100,000 for deposits held in Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs).
- Extend coverage to deposits with terms over five years.
- Extend coverage to deposits held in foreign currencies.
- Set out specific coverage and disclosure requirements for the following types of deposits held in trust:
  - Nominee broker deposits
  - Professional trustee deposits
  - General trust deposits
- Remove separate coverage for deposits held in mortgage tax accounts, which will be covered under the individual or joint categories instead.
- Eliminate coverage for travellers' cheques, as member institutions no longer issue them.

The proposed changes will come into force at a later date by order of the Governor in Council and would require amendments to certain CDIC by-laws.





In November 2017, the Royal Bank of Canada (RBC) was designated a global systemically important bank (G-SIB) by the Financial Stability Board (FSB). Although Canada has held its domestic systemically important banks (D-SIBs) to the same standards as G-SIBs from a resolution planning perspective, RBC's G-SIB designation will result in additional requirements for CDIC as the home resolution authority—specifically, to coordinate resolution planning activities among the principal international resolution authorities for the bank.

From a domestic perspective, the *CDIC Act* was amended in 2017 to allow CDIC to create a by-law with respect to the development, submission and maintenance of resolution plans by Canada's D-SIBs and G-SIB. The *Resolution Planning By-law* will formalize CDIC's existing resolution planning process and guidance, and will support CDIC's D-SIB resolvability target of 2020. Canada's D-SIBs and G-SIB will submit their next set of resolution plans in late 2018.

In 2016, Parliament introduced a legislative framework for a bank recapitalization (bail-in) regime. Bail-in is an important tool: it allows CDIC, as the resolution authority for Canada's D-SIBs, to ensure that in the unlikely event of the failure of a D-SIB, the non-viable bank can be resolved in an orderly manner. Bail-in recapitalizes a non-viable bank by converting certain long-term debt to common shares. Thus, losses are covered by the bank's shareholders and certain investors, not by taxpayers or depositors. CDIC worked with the Department of Finance and other safety net agencies to develop the regulations to support the bail-in regime, which were formally approved on March 26, 2018, and will come into force on September 23, 2018. Work is ongoing at CDIC to ensure that the bail-in tool can be operationalized in line with the requirements for D-SIBs to build their stock of bail-in instruments.

## 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 assessment of key corporate risks, updated on a quarterly basis.

Management has concluded that, overall, CDIC's risks remain acceptable at March 31, 2018. However, certain areas have been highlighted as requiring attention (shown as risks rated *Cautionary* in the "Summary of Management's assessment of CDIC's key risks" chart that follows) and for which mitigation strategies have been developed, as described below.

- **Economic risk**—There are several factors in the external environment (such as the rising interest rate impact on borrowing and the potential for reduced credit quality, highly indebted Canadian households, and a potential correction in overvalued real estate markets) that could

### Our Enterprise Risk Management process

- Identifies and assesses the key 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 key risk and monitors progress in completing each initiative



negatively impact CDIC members and potentially lead to member failures. CDIC continues to make progress on initiatives designed to enhance its preparedness to respond to member failures and to improve the overall resolvability of Canada's D-SIBs.

- **Regulatory risk**—As CDIC's requirements evolve to keep pace with changes in legislation (such as the deposit insurance review) and the environment, CDIC must continue to work with its stakeholders to ensure the appropriate balance is maintained between CDIC's requirements and those placed on members. To mitigate this risk, CDIC will strengthen relationships with key stakeholders through an integrated engagement process as it seeks to modernize key elements of its by-law framework.
- **Assessment risk**—The increased speed of failures and new failure scenarios add significant complexity to CDIC's risk assessment process, including the timely launch of preparedness activities. To strengthen our processes, we will fully implement the enhanced risk assessment methodology developed in 2017.
- **Intervention and resolution risk**—To mitigate the risk associated with not addressing D-SIB resolvability issues by the 2020 target date, CDIC will work closely with D-SIBs to monitor and guide their resolution plan development, and identify opportunities to improve their resolution plans. In addition, we will further the operational elements of the bail-in regime. We are also implementing a multi-year tabletop and simulation program that tests preparedness for reimbursement and other resolution approaches.
- **Process risk**—Operational changes arising from the deposit insurance review will be a key focus for CDIC as by-laws, systems and practices must be updated to reflect the announced changes. A multi-year by-law review program is in place and will be guided by, among other items, changes resulting from the ongoing deposit insurance review and the 2019 federal financial sector framework review, with all CDIC by-laws expected to be reviewed and updated where necessary by December 31, 2019.
- **Technology risk**—CDIC's systems and processes that support the reimbursement of depositors in the event of a failure require greater flexibility and increased modernization to meet depositor expectations, by providing quick, secure and convenient access to insured deposits within seven days of a failure. To this end, CDIC is assessing its payout and depositor communication needs with the aim of providing modern reimbursement and communication options to Canadian depositors.
- **Depositor risk**—Below-target public awareness levels could contribute to depositors making uninformed financial decisions and/or withdrawing deposits from a troubled member institution, which could exacerbate a bank run. We will devote significant effort to increase public and depositor awareness of CDIC and our deposit insurance program to 60%-65% by 2020, leveraging members and our research on depositor behaviour.



## Summary of Management's assessment of CDIC's key risks

as at March 31, 2018

	Rating	Trend
<b>External risks</b>		
<b>Economic:</b> 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
<b>Regulatory:</b> the extent to which laws, regulations and by-laws impact CDIC's ability to fulfill its mandate.		Stable
<b>Demographic:</b> the extent to which changes in the population affect CDIC's ability to fulfill its mandate.		Stable
<b>Core risks</b>		
<b>Assessment:</b> the risk that CDIC does not promptly or systematically identify member institutions that pose an unacceptable level of risk.		Decreasing
<b>Intervention and resolution:</b> 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.		Decreasing
<b>Operational risks</b>		
<b>People:</b> the risk resulting from inadequacies in competency, capacity or performance, or from the inappropriate treatment, of CDIC personnel.		Stable
<b>Process:</b> the risk resulting from the incorrect execution of, a breakdown or gap in, a policy, procedure or control respecting CDIC's processes.		Stable
<b>Technology:</b> 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
<b>Financial:</b> the risk associated with managing CDIC's assets and liabilities.		Stable
<b>Reputation risks</b>		
<b>Membership:</b> the risk of an event significantly affecting the membership's perceived trust and confidence in CDIC.		Increasing
<b>Depositor:</b> 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 next year.

**Increasing**—residual risk is expected to increase over the next year.



## CDIC membership

As at March 31, 2018, CDIC had 82 member institutions, unchanged from the previous year.

### *Insured deposits*

As at April 30, 2017 (the annual date on which insured deposits are calculated), deposits insured by CDIC increased by 4% year over year to \$774 billion, or 26% of total deposits held at member institutions, with the D-SIBs peer group representing 87% of the membership's total insured deposits. Insured deposits continue to be a highly valued, cost-effective and stable source of funding. The vast majority of deposits insured by CDIC are from individuals; it is estimated that close to 98% of personal deposit accounts are fully protected by CDIC. This means that ordinary Canadians benefit from a high level of protection of their deposit savings. Demand deposits continued to comprise approximately 56% of total deposits as of December 2017. This underscores the importance of depositors being aware of CDIC deposit insurance in order to support confidence in our members and contribute to financial stability.

### Financial performance

Overall, CDIC's membership and the Canadian financial system have proven resilient to the many economic challenges experienced both domestically and abroad. CDIC's membership continues to deliver strong financial results, with healthy capital and liquidity ratios. Notwithstanding their overall solid performance, several members' business models are under pressure, leading to some expansion in higher risk sectors and the adoption of cost-reduction strategies in an effort to maintain or increase profitability. Competition for retail deposits also remains intense, with several members undertaking concerted strategies to diversify and grow their retail deposit base, further compressing historically low net interest margins.

### *Profit and return on average shareholders' equity*

CDIC members earned a record total net income of \$44.7 billion in 2017. 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 \$7.9 billion decreased 17% year over year as elevated levels of energy sector provisions in 2016 returned to more normative levels in 2017.

### 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 being of systemic importance domestically

**Residential**—main business line is residential mortgages

**Commercial**—main business lines are business loans or commercial mortgages

**Consumer**—main business lines are retail consumer loans or credit cards

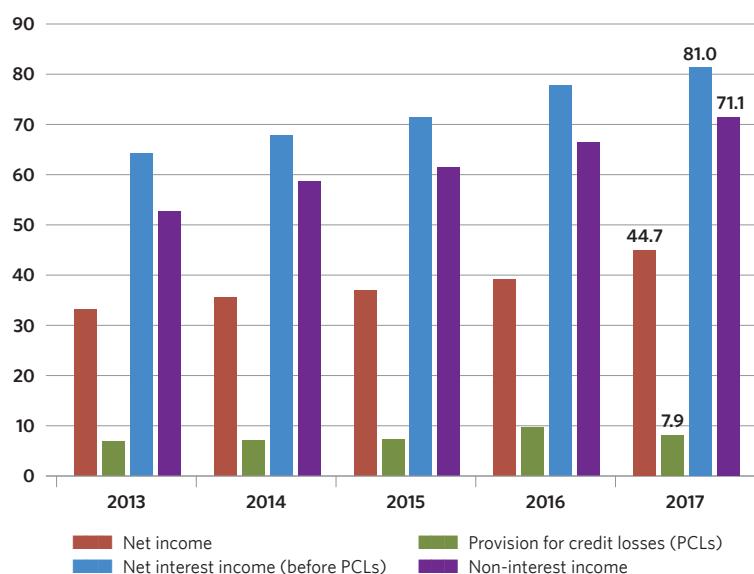
**Fee income**—revenues are largely derived from services and related fees, although these members do not necessarily operate in similar business lines



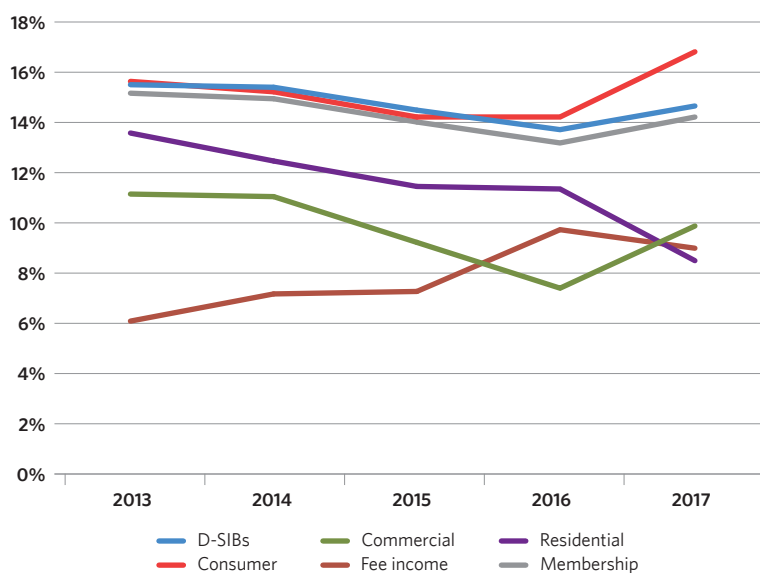
Net interest income increased by 4.6% (\$3.5 billion) in 2017 mainly owing to higher loan volumes as margins have continued to be challenged due to the low rate environment. Non-interest income increased 8% (\$5.3 billion) due to higher contributions from investment management fees, mutual fund fees, underwriting fees and trading income.

Year over year, the membership's return on average shareholders' equity (ROAE) increased by 80 basis points to 14.2%. The ROAE of the membership has been relatively stable over the last several years, with the overall trend being driven by the large size of the institutions in the D-SIB peer group. As shown in the graph below right, the ROAE varies considerably by peer group due to a wide variety of factors including market conditions in their respective sectors of concentration, and the degree of leverage utilized. The Residential peer group saw its overall profitability decline in 2017 as funding costs increased for some members of the group due to company-specific events and adjustments to the residential mortgage market. The Commercial peer group saw its profitability improve in 2017 in response to higher commodity prices, which created a drag on 2016 earnings via higher provision expenses. The Consumer peer group's improved profitability in 2017 was due principally to higher non-interest income, in particular debit/credit card fees.

Revenue, provisions and profits for CDIC members, 2013–2017  
(C\$ billions)



Return on average shareholders' equity (ROAE) by peer group, 2013–2017

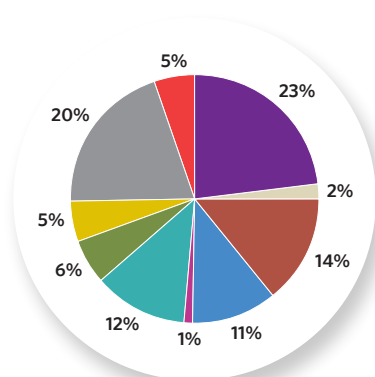


### Asset composition, growth and quality

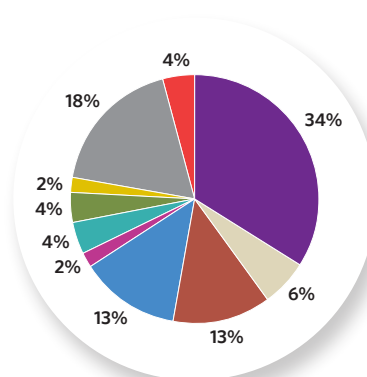
The membership's total asset base grew 5.3% to \$5.25 trillion when compared to the previous year, while the asset mix was virtually unchanged compared to 2016. The majority of asset growth was driven by increases in reverse repurchase agreements (25%), cash and equivalents (14%) and uninsured residential mortgage lending (17%).

Residential mortgages, the single largest asset class on the balance sheet of CDIC members, totalled approximately \$1.24 trillion, or 24% of the membership's on-balance sheet assets. Other significant asset classes included securities (20% of total assets, 26% of which were Canadian government-issued securities), personal and consumer loans (11%) and reverse repurchase agreements (12%).

Asset mix—D-SIB peer group (%),\* 2017  
(C\$4.9 trillion)



Asset mix—all other peer groups (%),\* 2017  
(C\$323 billion)



- Residential mortgage loans
- Commercial mortgage loans
- Commercial loans
- Personal and consumer loans
- Other loans and bankers' acceptances
- Reverse purchase agreements
- Other assets
- Derivatives related amounts
- Securities
- Cash and equivalent

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

The overall quality of the membership's assets showed slight improvement during 2017 with a gross impaired loan ratio of 0.44% of total loans (2016: 0.59%). As mentioned previously, loan loss provisions in 2017 came down mainly in response to a recovery in commodity prices, which drove increased provisions in certain sectors and geographical regions in 2016.

### Liquidity levels

The membership maintained satisfactory levels of liquid assets as at December 31, 2017, in accordance with a series of liquidity metrics and detailed supervisory assessments as described within the *Liquidity Adequacy Requirements* of the Office of the Superintendent of Financial Institutions (OSFI). Viewed on a combined basis, these metrics and assessments, which include a number of qualitative considerations, provide CDIC with broad and deep perspectives of the liquidity adequacy of its members as no single measure can, on its own, present a complete picture.

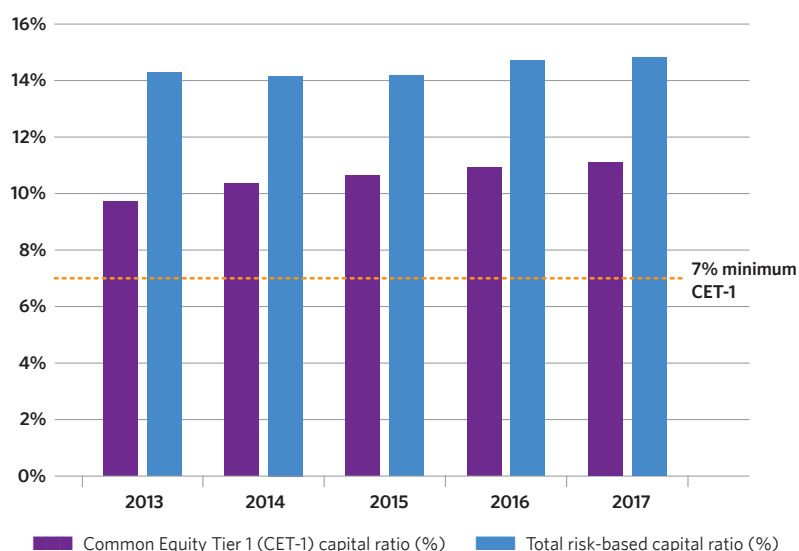


### Capital ratios

Overall membership capital levels increased in 2017 and remain well in excess of Basel III minimum requirements. The membership's average Common Equity Tier 1 (CET-1) capital ratio, as at each member's Q4 2017, was 11.3% (compared to the OSFI minimum requirement of 7.0%). The average total capital ratio for the membership increased slightly to 14.8%.

Further, under the terms of OSFI's *Leverage Requirements Guideline*, all institutions are required to maintain a leverage ratio that meets or exceeds 3% at all times. As at each member's Q4 2017, the average leverage ratio of the membership was 4.4%, with D-SIBs having the lowest leverage ratio of the membership at 4.3% and the Consumer peer group having the highest leverage ratio of the membership at 15.6%.

CDIC membership capital ratios, 2013–2017



### Membership risk

Members continued to see strong asset quality underpinned by low rates of arrears and impairments in their loan portfolios in 2017. This was attributable in part to the persistent strength of the Canadian economy, with the rebound in commodity prices from 2016 supporting historically low national unemployment rates. Nonetheless, high housing prices in certain key markets and elevated levels of household indebtedness leave a growing proportion of consumers vulnerable to rising interest rates or economic shocks. In addition, confidence-sensitive funding and deposit markets demonstrated pockets of fragility for some CDIC members in early 2017. These issues underscore the need for CDIC to maintain its focus on monitoring risks affecting its membership, in order to be prepared to deal with members in difficulty.



## Performance against Plan

Consistent with its 2017/2018 to 2021/2022 Corporate Plan, CDIC focused its efforts this year on four corporate strategic objectives:

- Member risk management and failure resolution preparedness
- Deposit insurance program
- Stakeholders
- People

These strategies support the Corporation's mandate to provide insurance against the loss of part or all 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.

### Member risk management and failure resolution preparedness

CDIC continued to invest in its payout capabilities and operational readiness of core systems and processes. The Corporation has identified several options for a more robust, flexible and higher capacity payout platform, including a combination of commercial off-the-shelf solutions, customized software and external service providers. This approach is intended to respond to all payout requirements including authentication, customer relationship management, payment channels and methods, and communication options for Canadian depositors.

As the resolution authority for its member institutions, CDIC has responsibility for reviewing and assessing the feasibility of resolution plans put forward by Canada's large banks. In December 2017, Canada's D-SIBs provided an update to their inaugural bank-authored 2016 resolution plans. CDIC completed its assessment of these submissions by fiscal year end. We will continue to set expectations and provide feedback to the banks on their plans in 2018/2019 to achieve resolvability by 2020.

As in past years, we conducted simulations and tabletop exercises to train staff, advance stakeholder coordination and strengthen decision making between Management and the Board. Two tabletop exercises were conducted with our Board during the year: one regarding CDIC's approach to resolution, including key decision requirements, and one focused on crisis communications. In the fall of 2017, CDIC led Crisis Management Group meetings where discussions focused on D-SIB resolvability in a cross-border context. With our safety net partners, we continue to review the sufficiency and structure of our funding framework in the context of both large and small-medium size bank failures, making recommendations if changes are deemed necessary.



With respect to the bail-in regime, regulations supporting bail-in and the new compensation regime are now in place. The Compensation Regulations provide compensation to shareholders and creditors of CDIC federal member institutions if they are made worse off as a result of CDIC's actions to resolve the institution (including through bail-in) than they would have been if the institution were liquidated. CDIC's work in this area will focus on ensuring that the bail-in and compensation regime can be operationalized by March 31, 2020.

### Deposit insurance program

To keep pace with changes in the regulatory environment, deposit insurance and depositor expectations, and anticipated changes to our systems, CDIC put in place a multi-year by-law review program to update all key by-laws by December 2019. Significant progress was made in 2017/2018 including issuing an amended *Deposit Insurance Information By-law*. The amended *Deposit Insurance Information By-law* represents a major step forward to ensure depositors receive adequate information about deposit insurance from their financial institution, regardless of how the information is provided (e.g., in branches or online). In addition, on March 27, 2018, the Minister of Finance tabled the *Budget Implementation Act, 2018, No. 1*, to amend the *CDIC Act* to modernize and enhance the Canadian deposit insurance framework.

### Stakeholders

This was the first year of CDIC's new three-year public awareness strategy. The strategy was based on a research study on bank run behaviour to address the declining trend in public awareness of CDIC deposit insurance over the past few years. The strategy includes new target audiences, a new awareness target, emphasis on television and digital advertising, and a greater role for member institutions. While awareness of CDIC deposit insurance did not reach the interim target of 55% by March 31, 2018 (awareness increased slightly to 50% from a year ago), it did stem the declining trend of the past few years. We integrated the strategy with new measures for member institutions included in the amendments to CDIC's *Deposit Insurance Information By-law* designed to boost deposit awareness, including re-designed door decals, brochures, ATM and web banking features, to help boost awareness among depositors. These new features are to be implemented by fall 2018.

Given the breadth of CDIC's domestic and international stakeholders, ongoing by-law reviews, outreach activities, and members' involvement in awareness efforts and resolution planning, the Corporation continued to build stakeholder engagement into its internal processes. We implemented a systematic approach to identify, engage and manage stakeholder interactions and will monitor the impact of these initiatives on our members and partners.

CDIC also enhanced its communications with the public and other stakeholders to increase their understanding of CDIC's role in resolution. We added information on our website about resolution and how it works, and enhanced our outreach activities, including with domestic and international stakeholders.



## People

CDIC implemented the initiatives under the final year of its talent management strategy (TMS) and developed a new one-year TMS for 2018/2019 to align with CDIC's upcoming change of President and Chief Executive Officer (CEO). Expanded succession planning included career path discussions and action plans for identified successors. CDIC also enhanced employee development through leadership competency assessments, educational workshops, increased use and availability of internal job rotations and external assignments, and regular communications on career options and opportunities.

Biennial training on ethics was conducted, including personal attendance by the CEO with each division, to emphasize the ongoing importance of a culture of strong ethics at CDIC. We carried out a comprehensive review of CDIC's employment equity plan to increase support for its diversity and inclusion initiatives. This included an employment equity survey and increased awareness related to diversity and inclusion.

CDIC's official languages program continued to evolve and benefited from the hiring of a full-time instructor, and a renewed emphasis on language training and testing to enhance CDIC's linguistic capability.

## CDIC's Corporate Scorecard—2017/2018 to 2021/2022

The following Scorecard summarizes progress as at March 31, 2018, in support of the four corporate strategic objectives identified in CDIC's 2017/2018 to 2021/2022 Corporate Plan.

Most of CDIC's corporate targets are on track and key initiatives are proceeding as planned, as shown in the Scorecard, with the following exceptions:

### Strategy: Member risk management and failure resolution preparedness

- Modernize key systems and processes to support a more streamlined, scalable and rapid reimbursement to all insured depositors.

### Strategy: Stakeholders

- Increase depositor awareness of CDIC and our deposit insurance program, leveraging our research on depositor behaviour.



## CDIC's Corporate Scorecard—2017/2018 to 2021/2022

(as at March 31, 2018)

### 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 corporate initiatives	Status ▲ ▼ ●	Update
Modernize key systems and processes to support a more streamlined, scalable and rapid reimbursement to all insured depositors.	▼	A new system delivery approach has been adopted to address delays experienced in the past. Strategies continue to be explored to enhance existing payout capabilities, and to leverage tools and external services in authentication, payment and customer relationship management functions.
Improve the overall resolvability of Canada's domestic systemically important banks (D-SIBs) by assessing and further developing CDIC's resolution plans, testing activities and our preparedness to respond to any member failure.	▲	Management met with the boards of directors of all Canadian D-SIBs to provide feedback on their 2016 resolution plans and to discuss expectations regarding the resolvability targets. In the spring of 2017, feedback letters were sent to the D-SIB CEOs along with expectations for plan enhancements due in late 2017. Crisis Management Groups with key domestic and international regulators were held in September and October 2017. Resolution plan updates and proposed testing programs were received from all of the banks in December 2017. CDIC completed its assessment of these submissions by fiscal year end.
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.	▲	Bail-in and compensation regulations were formally approved on March 26, 2018. An industry working group was formed to address bail-in mechanics, with workshops held in the summer and fall of 2017. Outreach with foreign stakeholders relating to bail-in commenced in the winter of 2018. Work continues on developing compensation mechanics. CDIC worked with the Department of Finance on finalizing an approach regarding the sale of debt to retail investors.

#### 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—2017/2018 to 2021/2022

(as at March 31, 2018)

### 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 corporate initiatives	Status ▲ ▼ ●	Update
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.	▲	<p>Work on the by-law review program is progressing as planned. The amended <i>Deposit Insurance Information By-law</i> was registered on September 29, 2017, and the amended <i>Differential Premiums By-law</i> received ministerial approval on January 30, 2018.</p> <p>Consultations on the <i>Resolution Planning By-law</i> requirements concluded in March 2018, with a view to finalizing the by-law, and related amendments to the <i>Differential Premiums By-law</i>, in early 2019.</p> <p>Internal reviews of the <i>Policy of Deposit Insurance By-law</i> and <i>Application for Deposit Insurance By-law</i> have been initiated to determine whether revisions are needed.</p> <p>Reviews of the <i>Data and System Requirements By-law</i>, the <i>Joint and Trust Account Disclosure By-law</i>, the <i>Deposit Insurance Information By-law</i>, and the <i>Exemption from Deposit Insurance By-law</i> have been initiated in light of the introduction of the <i>Budget Implementation Act, 2018, No. 1</i>.</p>

#### 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—2017/2018 to 2021/2022

(as at March 31, 2018)

### 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 corporate initiatives	Status ▲ ▼ ●	Update
Increase depositor awareness of CDIC and its deposit insurance program, leveraging our research on depositor behaviour.	▼	CDIC launched its new three-year public awareness strategy and plan in April 2017 which includes television advertising and digital and social media channels, and leverages member institutions through new requirements under the <i>Deposit Insurance Information By-law</i> . While public awareness of CDIC increased from 48% to 50%, it is below the interim target of at least 55% by March 31, 2018. However, the new strategy stemmed the declining trend in awareness and other awareness indicators also increased. Work is ongoing to refine measures for the program and adjust plans to better reach target audiences next year.
Build a robust engagement program to strengthen relationships with key stakeholders.	▲	The first CDIC newsletter— <i>CDIC Matters</i> —was issued in March 2018. A stakeholder engagement process was designed and implemented to facilitate the proactive identification and tracking of engagement activities. These activities were reported and discussed at each meeting of CDIC's Executive Team.
Enhance the level of understanding of CDIC's role as resolution authority in the Canadian financial system.	▲	The information available on CDIC's website with respect to its resolution authority role was enhanced, and various outreach (including speeches) and communications (such as news releases) activities were conducted. CDIC will continue this expansion next year.

#### 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—2017/2018 to 2021/2022

(as at March 31, 2018)

### 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 corporate initiatives	Status ▲ ▼ ●	Update
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.	▲	An environmental scan was conducted to assist with identifying key areas of focus for the talent management strategy (TMS). Since the current TMS remains relevant and appropriate and changes in CDIC's leadership are expected in 2018, the TMS has been extended for one year. It includes three main areas of focus for 2018/2019: employee development; workspace and work environment changes; and preparing for the change in leadership.

#### 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 2017/2018 consolidated financial statements and notes.

CDIC's statutory objects are: to provide insurance against the loss of part or all of deposits in member institutions; to promote and otherwise contribute to the stability of the financial system in Canada; to pursue these objects for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss; and to act as the resolution authority for its member institutions. The Corporation'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, 2018.

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 2017/2018 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 \$86 million for the year ended March 31, 2018.

Premium revenue was \$535 million for the year, an increase of \$115 million (27%) from the previous fiscal year. The increase in premium revenue was 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 \$46 million for the year, an increase of \$6 million (15%) from the previous fiscal year. The variance was the result of an increase in investment yields during the period (1.28% as at March 31, 2018, compared to 1.08% as at March 31, 2017), in addition to growth in the investment portfolio.

Net operating expenses were \$46 million for the year, \$5 million (11%) higher than the previous fiscal year, due primarily to an increase in spending on a new public awareness campaign that included television advertising, standard increases in personnel costs and additional costs for enhancing technology capabilities within the Corporation. Professional fees decreased during the year due to a focus on the completion of projects using internal resources and the capitalization of some costs related to the enhancement of the Corporation's mandate applications.

The Corporation's asset base continued to grow during the year. Total assets were \$4,383 million as at March 31, 2018, an increase of \$538 million (14%) over the 2016/2017 fiscal year. The majority of the Corporation's assets are investment securities, which totalled \$4,373 million as at March 31, 2018, an increase of \$542 million (14%) from the previous fiscal year.

The Corporation's provision for insurance losses was \$2,050 million as at March 31, 2018, an increase of \$450 million (28%) compared to last year. Numerous factors contributed to the overall net increase in the provision for insurance losses, including growth in insured deposits and changes to the risk profile of certain member institutions.

The Corporation's *ex ante* funding is designed to cover possible deposit insurance losses. The balance stood at \$4,372 million, or 55 basis points of insured deposits as at March 31, 2018, a year over year increase of \$536 million, or 3 basis points.



## Consolidated statement of financial position

### Assets

The total assets of the Corporation increased to \$4,383 million as at March 31, 2018, from \$3,845 million as at March 31, 2017, representing an increase of 14%. The following table summarizes CDIC's assets.

As at March 31 (C\$ thousands)	2018	2017
Cash	1,581	1,771
Investment securities	4,372,580	3,831,184
Trade and other receivables	215	223
Amounts recoverable from estates	82	2,882
Prepayments	317	173
Property, plant and equipment	3,782	4,948
Intangible assets	4,056	3,872
<b>Total assets</b>	<b>4,382,613</b>	<b>3,845,053</b>

### Investment securities

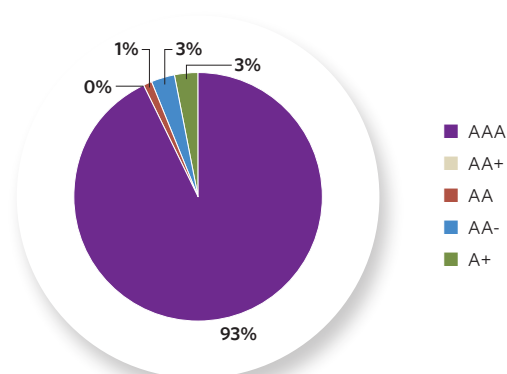
CDIC's \$4.4 billion investment portfolio forms the majority of its assets. The Corporation's investment strategy is based on two key principles:

- 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, which have changed from the prior year, further limit risk by setting a maximum amount and term that can be invested in each qualifying instrument.

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

Investment securities credit profile,  
as at March 31, 2018



to maturity of three years and AA- for securities with a term of more than three years. 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, 2018, unchanged from the prior year. CDIC's investments as at March 31, 2018, carry a weighted average yield to maturity of 1.28% (March 31, 2017: 1.08%).

### 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.

A recovery of \$628 thousand was recognized during 2017/2018 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 \$2.8 million that was recognized during the year ended March 31, 2015, was received during 2017/2018 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 \$2,060 million as at March 31, 2018, from \$1,609 million as at March 31, 2017, representing an increase of 28%. The following table summarizes the liabilities of the Corporation.

<i>As at March 31 (C\$ thousands)</i>	2018	2017
Trade and other payables	6,059	5,056
Deferred lease inducement	847	960
Employee benefits	2,804	2,698
Provision for insurance losses	2,050,000	1,600,000
Tax liabilities	562	360
<b>Total liabilities</b>	<b>2,060,272</b>	<b>1,609,074</b>



### ***Provision for insurance losses***

The \$2,050 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 \$450 million in fiscal 2017/2018.

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 4.4% growth in the level of insured deposits as at April 30, 2017, as compared to April 30, 2016 (\$774 billion compared to \$741 billion)
- An estimated accrual of growth in the level of insured deposits for the period of April 30, 2017, to March 31, 2018, of 3.2%
- The change in the categorization and risk profile of some member institutions
- The increase in the discount rate (1.96% at March 31, 2018, compared to 1.12% at March 31, 2017)
- 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 an historically based view of default. Moody's Analytics, a provider of market-based quantitative credit risk products for financial institutions and credit risk investors, is used to provide a forward-looking perspective of the probability of default estimate.

The 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, 2018, 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, 2018, was \$4,372 million, or 55 basis points of insured deposits. Based on the estimated level of insured deposits as at March 31, 2018, the 100 basis point minimum target level would amount to \$7,980 million. The Corporation has developed a funding plan that would see *ex ante* funding progress to the minimum funding target in 2024/2025.

*Ex ante* funding comprises one component of CDIC's entire funding envelope. In addition, 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, 2018, CDIC had the legislative authority to borrow \$23 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.

<i>As at March 31 (C\$ millions)</i>	2018	2017
<i>Available liquid funds:</i>		
Cash	2	2
Fair value of high quality, liquid investment securities	4,309	3,835
<i>Availability of borrowings:</i>		
Borrowings authorized under the <i>CDIC Act</i> , either from market sources or from the Consolidated Revenue Fund	23,000	22,000
<b>Total available funds</b>	<b>27,311</b>	<b>25,837</b>



## Consolidated statement of comprehensive income

CDIC's total comprehensive income for fiscal 2017/2018 totalled \$86 million, a decrease from \$120 million (28%) in fiscal 2016/2017. The Corporation's financial performance is summarized in the following table.

<i>For the year ended March 31 (C\$ thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>		
Premium	535,322	420,399
Investment income	46,201	40,273
Other	7	5
<b>Expenses</b>		
Operating expenses	45,592	41,109
Increase in provision for insurance losses	450,000	300,000
Recovery of amounts previously written off	(628)	—
Income tax expense (recovery)	219	(137)
Net income	86,347	119,705
Other comprehensive income	15	8
<b>Total comprehensive income</b>	<b>86,362</b>	<b>119,713</b>

### Premium revenue

In the 2017/2018 fiscal year, premium revenue increased by \$115 million (27%) to \$535 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 \$774 billion as at April 30, 2017, from \$741 billion as at April 30, 2016, an increase of 4.4%.

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 30 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 2017/2018, as compared to 2016/2017, 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)	2017/2018	2016/2017
Category 1	6.5	5.5
Category 2	13.0	11.0
Category 3	26.0	22.0
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	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	83	78	79	76	79
2	11	18	13	15	14
3	5	4	5	5	6
4	1	0	3	4	1

### Investment income

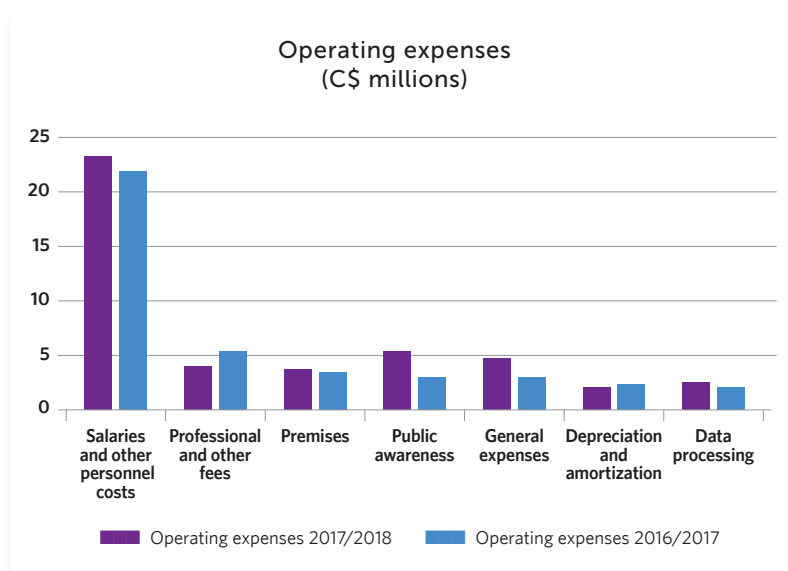
Investment income was \$46 million for the year, an increase of \$6 million (15%) from the previous fiscal year. The variance was the result of an increase in investment yields during the period (1.28% as at March 31, 2018, compared to 1.08% as at March 31, 2017), in addition to the growth in the investment portfolio.





### Operating expenses

Operating expenses increased by \$5 million (11%) to \$46 million in fiscal 2017/2018. The increase is primarily due to an increase in spending on a new public awareness campaign including television advertising, standard increases in personnel costs and additional costs for enhancing technology capabilities within the Corporation. Professional fees decreased during the year due to a focus on the completion of projects using internal resources, and the capitalization of some costs related to the enhancement of the Corporation's mandate applications.



### Consolidated statement of cash flows

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

<i>For the year ended March 31 (C\$ thousands)</i>	2018	2017
Increase in cash from operating activities	567,245	454,119
Decrease in cash from investing activities	(567,435)	(453,267)
Net (decrease) increase in cash balance	(190)	852
<b>Cash, end of year</b>	<b>1,581</b>	<b>1,771</b>

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

### Comparison with 2017/2018 to 2021/2022 Corporate Plan

The following discussion compares the Corporation's actual financial results for fiscal 2017/2018 with the Corporate Plan for the same year.

### Consolidated statement of financial position

**Total assets** as at March 31, 2018, were \$4,383 million, relatively consistent with the planned amount of \$4,365 million. The slight increase is primarily due to the higher than planned premium revenue which contributed to the increase in investment securities.



**Total liabilities** as at March 31, 2018, were \$2,060 million, \$550 million (36%) higher than the planned amount of \$1,510 million. The variance is due to the \$550 million increase to the provision for insurance losses versus a planned increase of \$50 million. The calculation of the planned provision for insurance losses only assumes an estimated growth in insured deposits, with all other factors including economic inputs, categorization and risk profiles of member institutions and probabilities of default remaining constant, resulting in the variance.

### ***Consolidated statement of comprehensive income***

**Total revenue** during the year was \$581 million, or \$15 million (3%) higher than Plan of \$566 million. The primary sources of revenue were premiums and investment income:

- *Premiums:* Actual premium revenue was \$535 million, compared to the planned amount of \$519 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 \$46 million, consistent with the planned amount of \$47 million.

**Net operating expenses** for the year were \$46 million, or \$1 million (2%) below Plan of \$47 million. The variance was primarily due to lower than expected professional fees due to a focus on the completion of projects using internal resources and the capitalization of some costs for the enhancement of the Corporation's mandate applications.

**Total comprehensive income** for the year ended March 31, 2018, was \$86 million compared to planned total comprehensive income of \$469 million, a variance of \$383 million (82%).

## A look ahead to 2018/2019

As set out in the Corporation's 2018/2019 to 2022/2023 Corporate Plan, CDIC's work will focus on four areas with corresponding strategic objectives and outcomes for the planning period:

1. Preparedness: Advancing resolution readiness
2. Deposit insurance program: Modernizing our deposit insurance program
3. Stakeholders: Strengthening confidence and trust
4. Organization: Evolving the Corporation

### **1. Preparedness: Advancing resolution readiness**

#### ***Outcomes:***

- In the event of member failure, CDIC's people, systems and processes are ready to provide access to all insured deposits within seven days or less, through a streamlined, scalable and rapid solution.
- Resolvability of all member institutions, regardless of size, is supported by CDIC's robust risk assessment, and resolution planning and preparedness activities.



**Key initiatives:**

- Advance D-SIBs toward the 2020 resolvability target through review and provision of feedback on their 2018 planning submissions, and the implementation of a bail-in regime in Canada. Crisis communications for all resolution tools will also be addressed.
- Implement key design features of a modernized reimbursement process with a focus on strengthening deposit data standards and technology enhancements to facilitate online authentication, depositor communication and electronic reimbursement capabilities.
- Implement a multi-year tabletop and simulation program that tests preparedness for reimbursement and other resolution tools and that involves the CDIC Board, member institutions and other safety net agencies.

As Canada's bank resolution authority, CDIC guides the development, maintenance and testing of resolution plans for Canada's D-SIBs. CDIC has worked with D-SIBs over the past several years to refine resolution strategies and identify impediments to achieving an orderly resolution in the unlikely event they were to fail. Responsibility for the development and maintenance of plans was transitioned to the D-SIBs with their first comprehensive plans submitted in 2016/2017. CDIC's 2017 feedback on the first set of plans was provided to D-SIB boards, and banks were directed to address the remaining resolvability impediments by March 2020, including validating the plans through testing of operational capabilities. With respect to the bail-in regime, regulations supporting bail-in and the new compensation regime are now in place. CDIC's work in this area will be focused on ensuring that the bail-in and compensation regime can be operationalized by March 31, 2020. CDIC will also continue to enhance and test its crisis communications strategies and plans.

In 2017/2018, requirements for CDIC's next generation reimbursement system were defined and a plan for initiation was developed. In 2018/2019, we will begin to execute elements of this plan. It will include building a system with the flexibility to accommodate future requirements, such as new members, more complex products and future changes to coverage further to the deposit insurance review. Over the planning period, CDIC will assess future payout and depositor communication needs, with the aim of providing more modernized reimbursement and communication options to Canadian depositors by March 31, 2020.

Joint testing exercises are necessary in order to assess the preparedness of all aspects of a resolution, including the tools and the communications strategy. Approaches will be developed for D-SIB plans in 2018/2019, and testing will be conducted throughout 2019/2020. Coordination with other safety net agencies and stakeholders, as well as with the D-SIBs, will be a key component of this testing program.

## 2. Deposit insurance program: Modernizing our insurance program

**Outcome:**

- Key elements of CDIC's deposit insurance program (including processes, by-laws and legislation) are modernized: to support the Corporation in the delivery of its mandate; to adapt and respond to the changing banking landscape; and to meet the needs of depositors.

**Key initiatives:**

- Accelerate the roll-out of the comprehensive by-law review program.
- Review the Premium Rate and *Ex Ante* Funding Strategy to ensure it remains consistent with CDIC's coverage and membership and with the Corporation's role as resolution authority for its member institutions.



CDIC requires an effective framework of legislation, by-laws, guidance, and related procedures in support of its strategic objectives and the delivery of its mandate. In 2017/2018, a by-law review program was established in light of the Corporation's evolved role as a deposit insurer and resolution authority, and in consideration of the changing banking landscape. In 2018/2019, new requirements under the CDIC *Deposit Insurance Information By-law* will come into force. We will also develop the *Resolution Planning By-law* and related compliance framework to support our role as resolution authority for all of our domestic banks, and conduct a review of the CDIC *Data and System Requirements By-law*. Further by-law reviews throughout the planning period will be guided by changes resulting from the deposit insurance review and the 2019 federal financial sector framework review. The goal is for all by-laws to be reviewed and updated where necessary, by December 31, 2019.

In 2011, CDIC developed a Premium Rate and *Ex Ante* Funding Strategy to establish a credible progression toward the minimum *ex ante* funding target of 100 basis points of insured deposits. Many elements of CDIC's funding framework are currently under consideration within the deposit insurance review and, as a result, CDIC Management has initiated a review of the existing strategy that will conclude in 2018/2019.

### 3. Stakeholders: Strengthening confidence and trust

#### Outcomes:

- Public awareness and key stakeholders' understanding of CDIC's role as deposit insurer and resolution authority are strengthened and support confidence and trust in CDIC and the stability of the financial system.
- CDIC fosters a collaborative and productive relationship with member institutions.

#### Key initiatives:

- Increase public and depositor awareness of CDIC and our deposit insurance, by leveraging members, key media consumed by the public and our research on depositor behaviour.
- Strengthen relationships with key stakeholders through an integrated engagement process, including results from a member survey.
- Increase transparency regarding CDIC's role as resolution authority for all members (including a G-SIB), to educate stakeholders and build credibility and confidence in CDIC's ability to deliver on its mandate.

Public awareness of deposit insurance promotes confidence in the financial system and mitigates the risk of bank runs by assuring Canadians that CDIC protects their savings. To alleviate declining public awareness levels over the past several years, a new three-year public awareness strategy was launched in 2017/2018 to increase awareness of CDIC deposit insurance among the general population, with a focus on 25- to 34-year-olds and those aged 65 and older. CDIC will continue to implement and evolve this public awareness strategy, taking into account new research and analysis on depositor behaviour. We will work toward a target range of 60%–65% of Canadians who are aware of CDIC. To reach these levels, we will further leverage key media consumed by the public, such as television, digital and print, and we will modernize our communications strategies through the use of social media. Members will continue to play an important role in informing Canadians



about our deposit insurance program through changes to our *Deposit Insurance Information By-law* that will come into force in 2018/2019. These changes will include new communications products visible in member branches, online banking platforms and ATMs.

Given the breadth of CDIC's domestic and international stakeholders, ongoing by-law reviews, outreach activities, and members' involvement in awareness efforts and resolution planning, the Corporation will continue to build stakeholder engagement into its internal processes. We will implement a systematic approach developed in 2017/2018 to identify, engage and manage stakeholder interactions, as well as monitor the impact of these initiatives on our members and other stakeholders.

Expectations regarding CDIC's role in resolution and resolution planning have increased over the last few years. In 2017, CDIC's role as resolution authority for all of its members, including Canada's largest banks, was formally added to its legislation. RBC, one of Canada's largest banks, was also designated as a global systemically important bank (G-SIB), which will further increase expectations of transparency around resolution planning. To build trust and confidence in CDIC and its role, more information on resolution, including coordination among its safety net partners, will be provided to the public and stakeholders through an enhanced resolution authority communications plan. This will include posting additional information about resolution on the CDIC website and other media, as well as conducting outreach activities with the general public and other stakeholders.

#### 4. Organization: Evolving the Corporation

##### *Outcome:*

- CDIC promotes innovation and adaptability in a modern work environment.

##### *Key initiatives:*

- Implement a plan to develop employees with the competencies required to support the evolution of our programs and systems and the change in leadership, to preserve CDIC's strong culture of respect, diversity and adaptability.
- Modernize our work environment (including new or renovated workspaces, tools and technology) and enhance our data safeguards and cyber security programs to protect depositor information.

In order to adapt to evolving programs, systems and depositor expectations, we will continue to focus on our ability to attract and retain engaged employees by building and maintaining key competencies and knowledge, through employee and leadership development, and succession planning. While staff engagement levels in the last survey were above best-in-class, employees expressed an interest in being challenged with opportunities to develop and grow. We will support employee development and career growth to maintain a highly skilled work force with maximized bench strength.

In the planning period, there will be changes to CDIC's head office, tools and technology, and the results of these changes must meet the needs of a new generation of employees and build a modernized work environment. We will also enhance our data, information and cyber security programs to keep pace with an ever-changing technological environment, in order to safeguard the data and information that CDIC collects and manages.



## 2018/2019 to 2022/2023 financial plan

The projections included in CDIC's 2018/2019 to 2022/2023 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 3% in 2018/2019.
- The premium rate for Category 1 member institutions (the base premium rate) will increase by one basis point in 2018/2019 to 7.5, after which premium rates would remain stable.
- Investment income is based on an assumed average yield on cash and investments of 1.3% for fiscal 2018/2019, rising gradually to a yield of 1.45% in 2022/2023, consistent with an increasing interest rate environment.
- No member institution failures are 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.

### 2018/2019 fiscal year

**Total comprehensive income** is forecast at \$546 million for the 2018/2019 fiscal year.

**Total revenues** are planned to be \$697 million in the 2018/2019 fiscal year, including \$636 million of premium revenue and \$61 million of investment income.

Planned **premium revenue** of \$636 million is \$101 million higher than fiscal 2017/2018 premium revenue of \$535 million. The increase is the result of higher premium rates and an expected increase in insured deposits.

Expected **investment income** of \$61 million is \$15 million higher than investment income of \$46 million in fiscal 2017/2018, reflecting the projected growth in the investment portfolio coupled with an increasing interest rate environment.

**Net operating expenses** are planned to be \$48 million in fiscal 2018/2019, compared to \$46 million actual operating expenses in fiscal 2017/2018. The \$48 million budget reflects a full staffing complement aimed at furthering preparedness and resolution capabilities for D-SIBs and a \$5 million public awareness budget.

**Cash and investments** are planned to be \$5.0 billion at the end of the 2018/2019 fiscal year.

The **provision for insurance losses** is planned to increase to \$2.2 billion at the end of the 2018/2019 fiscal year due to the estimated growth in insured deposits and an assumed stable economic environment.

The level of **ex ante funding** is planned to be \$5.0 billion at the end of the 2018/2019 fiscal year, representing 63 basis points of forecast insured deposits, an increase of 8 basis points from March 31, 2018.



(C\$ millions)	2018/2019 Corporate Plan <sup>a</sup>	2017/2018 Actual results	2017/2018 Corporate Plan <sup>a</sup>
<b>Consolidated statement of financial position</b> (as at March 31)			
Cash and investments	5,021	4,374	4,356
Capital assets	8	8	9
Other current assets	—	1	—
<b>Total assets</b>	<b>5,029</b>	<b>4,383</b>	<b>4,365</b>
Current liabilities	5	6	5
Provision for insurance losses	2,200	2,050	1,500
Other non-current liabilities	5	5	5
Retained earnings	2,819	2,322	2,855
<b>Total liabilities and equity</b>	<b>5,029</b>	<b>4,383</b>	<b>4,365</b>
<b>Consolidated statement of comprehensive income</b> (for the year ended March 31)			
<b>Revenue</b>			
Premiums	636	535	519
Investment and other income	61	46	47
	697	581	566
<b>Expenses</b>			
Operating	48	46	47
Recovery of amounts previously written off	—	(1)	—
Increase in provision for insurance losses	100	450	50
	148	495	97
Net income before income tax	549	86	469
Income tax expense (recovery)	(3)	—	—
<b>Total comprehensive income</b>	<b>546</b>	<b>86</b>	<b>469</b>

<sup>a</sup> The Corporate Plans 2017/2018 to 2021/2022 and 2018/2019 to 2022/2023 were developed based on information as at December 31, 2016, and December 31, 2017, respectively.







## PART 2 CONSOLIDATED FINANCIAL STATEMENTS

### Management responsibility for consolidated financial statements

June 6, 2018

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

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

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

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



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 2018, 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 2018, 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 the Canada Deposit Insurance Corporation, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

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

6 June 2018  
Ottawa, Canada

## Consolidated financial statements and notes

### Canada Deposit Insurance Corporation

#### Consolidated statement of financial position

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

	Notes	2018	2017
<b>ASSETS</b>			
Cash		1,581	1,771
Investment securities	4	4,372,580	3,831,184
Trade and other receivables		215	223
Amounts recoverable from estates	5	82	2,882
Prepayments		317	173
Property, plant and equipment	6	3,782	4,948
Intangible assets	7	4,056	3,872
<b>TOTAL ASSETS</b>		<b>4,382,613</b>	<b>3,845,053</b>
<b>LIABILITIES</b>			
Trade and other payables		6,059	5,056
Current tax liability		542	73
Deferred lease inducement		847	960
Employee benefits	16	2,804	2,698
Provision for insurance losses	8	2,050,000	1,600,000
Deferred tax liability	11	20	287
<b>Total liabilities</b>		<b>2,060,272</b>	<b>1,609,074</b>
<b>EQUITY</b>			
Retained earnings		2,322,341	2,235,979
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,382,613</b>	<b>3,845,053</b>

Contingencies and commitments (Note 15)

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

Approved by the Board of Directors June 6, 2018



Director



Director



## Canada Deposit Insurance Corporation

## Consolidated statement of comprehensive income

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

	Notes	2018	2017
<b>REVENUE</b>			
Premium	12	535,322	420,399
Investment income	4	46,201	40,273
Other		7	5
		581,530	460,677
<b>EXPENSES</b>			
Operating	13	45,592	41,109
Increase in provision for insurance losses	8	450,000	300,000
Recovery of amounts previously written off	5	(628)	—
		494,964	341,109
Net income before income taxes		86,566	119,568
Income tax expense (recovery)	11	219	(137)
<b>NET INCOME</b>		<b>86,347</b>	<b>119,705</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified to net income:			
Actuarial gain on defined benefit obligations	16	20	11
Income tax effect	11	(5)	(3)
Other comprehensive income, net of tax		15	8
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>86,362</b>	<b>119,713</b>

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
<b>Balance, March 31, 2016</b>	<b>2,116,266</b>
Net income	119,705
Other comprehensive gain	8
Total comprehensive income	119,713
<b>Balance, March 31, 2017</b>	<b>2,235,979</b>
Net income	86,347
Other comprehensive income	15
Total comprehensive income	86,362
<b>Balance, March 31, 2018</b>	<b>2,322,341</b>

*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)*

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	86,347	119,705
Adjustments for:		
Depreciation and amortization	2,058	2,379
Investment income	(46,201)	(40,273)
Income tax expense (recovery)	219	(137)
Employee benefit expense	303	345
Employee benefit payment	(177)	(110)
Loss on retirement and disposal of property, plant and equipment, and intangible assets	673	518
Change in working capital:		
Decrease (increase) in trade and other receivables	8	(19)
Decrease in amounts recoverable from estates	2,800	587
(Increase) decrease in prepayments	(144)	20
Increase in trade and other payables	1,003	322
Decrease in deferred lease inducement	(113)	(113)
Increase in provision for insurance losses	450,000	300,000
Investment income received	70,491	71,067
Income tax paid	(22)	(172)
Net cash generated by operating activities	567,245	454,119
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment, and intangible assets	(1,749)	(1,536)
Purchase of investment securities	(1,846,415)	(1,988,709)
Proceeds from sale or maturity of investment securities	1,280,729	1,536,978
Net cash used in investing activities	(567,435)	(453,267)
Net (decrease) increase in cash	(190)	852
Cash, beginning of year	1,771	919
<b>Cash, end of year</b>	<b>1,581</b>	<b>1,771</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

## 1 – General information

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

The objects of the Corporation are: to provide insurance against the loss of part or all of deposits in member institutions; to promote and otherwise contribute to the stability of the financial system in Canada; to pursue these objects for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss; and to act as the resolution authority for its member institutions.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including, but not limited to: acquiring assets from and providing guarantees or loans to member institutions and others; making or causing to be made inspections of member institutions; acting as liquidator, receiver or inspector of a member institution or a subsidiary thereof; establishing a bridge institution and acquiring shares and/or assets and assuming liabilities of member institutions; and converting some of a failing domestic systemically important bank's debt into common shares in order to recapitalize the bank and allow it to remain open and operating.

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

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

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on June 6, 2018.

### 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.



### ***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 measured at fair value. All of the Corporation's investment securities meet these conditions; therefore, they are measured at amortized cost.

#### **B) Financial liabilities**

Subsequent to initial recognition, all 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, issued or guaranteed by the Government of Canada or provincial governments. Investment securities are measured in the consolidated statement of financial position at amortized cost, plus accrued interest.

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

**Amounts recoverable from estates**

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

**Property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation methods are reviewed



annually at the end of 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 eight 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 legislated by the *CDIC Act* and are determined annually based on the amount of insured deposits held by member institutions as at April 30 of the current fiscal year, and 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.

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 following new standards were assessed as having a possible effect on the Corporation in the future.

#### ***IFRS 9 Financial Instruments (IFRS 9)***

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: Classification and Measurement, Impairment, and Hedge Accounting. As at April 1, 2010, the Corporation early adopted IFRS 9 Classification and Measurement. The Corporation plans to adopt IFRS 9 Impairment for the annual period beginning April 1, 2018. Hedging is not applicable to the Corporation.



IFRS 9 Impairment introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss. The model has three stages:

- i. On initial recognition, 12-month expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset.
- ii. If credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset.
- iii. When a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

The Corporation has determined that the changes to accounting for financial instrument impairment are not expected to have a significant impact on CDIC's consolidated statements of financial position and comprehensive income. As such, CDIC has opted not to restate its comparative information on adoption of IFRS 9. Additional disclosures related to the Corporation's financial instrument accounting policies, impairment methodologies and financial risk assessments will be required.

#### ***IFRS 15 Revenue from Contracts with Customers (IFRS 15)***

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. The Corporation plans to adopt the new standard on the required effective date of April 1, 2018, using the modified retrospective application method. The Corporation has determined that IFRS 15 will not have a significant impact on the Corporation's consolidated financial statements.

#### ***IFRS 16 Leases (IFRS 16)***

IFRS 16 was issued in January 2016. 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. CDIC has made a preliminary assessment that the implementation of IFRS 16 will result in several leases being recognized as assets and liabilities, but the amounts of the assets and liabilities are unknown.

#### ***IFRS 17 Insurance Contracts (IFRS 17)***

IFRS 17 was issued in May 2017 and establishes recognition, measurement, presentation and disclosure requirements of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2021. The Corporation is evaluating the potential impact of this new standard on its consolidated financial statements; therefore, the impact is not known at this time.





## 4 – Investment securities

	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
<i>As at March 31, 2018 (C\$ thousands)</i>				
Treasury bills	28,661	—	—	28,661
Weighted average effective yield (%)	1.11	—	—	1.11
Bonds	120,900	715,069	3,507,950	4,343,919
Weighted average effective yield (%)	1.26	1.49	1.24	1.28
<b>Total investment securities</b>	<b>149,561</b>	<b>715,069</b>	<b>3,507,950</b>	<b>4,372,580</b>
<b>Weighted average effective yield (%)</b>	<b>1.23</b>	<b>1.49</b>	<b>1.24</b>	<b>1.28</b>

	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
<i>As at March 31, 2017 (C\$ thousands)</i>				
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
<b>Total investment securities</b>	<b>109,122</b>	<b>667,163</b>	<b>3,054,899</b>	<b>3,831,184</b>
<b>Weighted average effective yield (%)</b>	<b>1.06</b>	<b>1.18</b>	<b>1.06</b>	<b>1.08</b>

The carrying amounts in the above tables include accrued interest.

### Fair value of financial instruments

The following table provides the estimated fair value of the Corporation's financial instruments. Fair values are measured and disclosed in relation to the fair value hierarchy (as discussed in Note 2) that reflects the significance of inputs used in determining the estimates.



			Fair values			
<i>As at March 31, 2018 (C\$ thousands)</i>	Amortized cost	Unrealized losses	Level 1	Level 2	Level 3	Total
Treasury bills	28,661	(3)	28,658	—	—	28,658
Bonds	4,343,919	(63,875)	3,610,270	669,774	—	4,280,044
<b>Total investment securities</b>	<b>4,372,580</b>	<b>(63,878)</b>	<b>3,638,928</b>	<b>669,774</b>	<b>—</b>	<b>4,308,702</b>

As at March 31, 2017 (C\$ thousands)	Amortized cost	Unrealized losses	Fair values			
			Level 1	Level 2	Level 3	Total
Treasury bills	19,028	—	19,028	—	—	19,028
Bonds	3,812,156	3,989	3,365,920	450,225	—	3,816,145
<b>Total investment securities</b>	<b>3,831,184</b>	<b>3,989</b>	<b>3,384,948</b>	<b>450,225</b>	<b>—</b>	<b>3,835,173</b>

In the current year certain investment securities have been reclassified from Level 2 to Level 1 within the fair value hierarchy to better reflect the nature of the inputs used in determining their fair value. As a result, associated comparative figures as at March 31, 2017, have been reclassified to conform with the current year presentation as follows: \$30,377 thousand of bonds disclosed as Level 2 have been reclassified to Level 1.

The Corporation's total investment income for financial assets measured at amortized cost was \$46,201 thousand for the year ended March 31, 2018 (2017: \$40,273 thousand). The Corporation did not recognize any fee income or expense for its financial assets measured at amortized cost for the year ended March 31, 2018 (2017: nil).

## 5 – Recovery of amounts previously written off

During the year ended March 31, 2018, ACC, the structured entity controlled by the Corporation, recognized a \$628 thousand (2017: nil) recovery in relation to amounts previously written off, of which \$6 thousand (2017: \$6 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, 2018, \$76 thousand (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

<i>(C\$ thousands)</i>	Computer hardware	Furniture and equipment	Leasehold improvements	Total
<b>Cost</b>				
<b>Balance, March 31, 2016</b>	<b>6,406</b>	<b>2,501</b>	<b>6,657</b>	<b>15,564</b>
Additions	419	234	392	1,045
Retirements and disposals	(3,554)	(1,218)	(1,323)	(6,095)
<b>Balance, March 31, 2017</b>	<b>3,271</b>	<b>1,517</b>	<b>5,726</b>	<b>10,514</b>
Additions	333	24	13	370
Retirements and disposals	—	—	(1,330)	(1,330)
<b>Balance, March 31, 2018</b>	<b>3,604</b>	<b>1,541</b>	<b>4,409</b>	<b>9,554</b>
<b>Accumulated depreciation</b>				
<b>Balance, March 31, 2016</b>	<b>5,808</b>	<b>1,554</b>	<b>2,939</b>	<b>10,301</b>
Depreciation	365	171	416	952
Retirements and disposals	(3,542)	(999)	(1,146)	(5,687)
<b>Balance, March 31, 2017</b>	<b>2,631</b>	<b>726</b>	<b>2,209</b>	<b>5,566</b>
Depreciation	294	138	431	863
Retirements and disposals	—	—	(657)	(657)
<b>Balance, March 31, 2018</b>	<b>2,925</b>	<b>864</b>	<b>1,983</b>	<b>5,772</b>
<b>Carrying amounts</b>				
Balance, March 31, 2017	640	791	3,517	4,948
<b>Balance, March 31, 2018</b>	<b>679</b>	<b>677</b>	<b>2,426</b>	<b>3,782</b>

During the year ending March 31, 2018, 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 \$673 thousand (2017: \$408 thousand) in operating expenses in the consolidated statement of comprehensive income.



## 7 – Intangible assets

(C\$ thousands)	Computer software	Computer software under development	Total
<b>Cost</b>			
<b>Balance, March 31, 2016</b>	<b>10,193</b>	<b>—</b>	<b>10,193</b>
Additions—internal development	491	—	491
Retirements and disposals	(242)	—	(242)
<b>Balance, March 31, 2017</b>	<b>10,442</b>	<b>—</b>	<b>10,442</b>
Additions—internal development	1,268	111	1,379
<b>Balance, March 31, 2018</b>	<b>11,710</b>	<b>111</b>	<b>11,821</b>
<b>Accumulated amortization</b>			
<b>Balance, March 31, 2016</b>	<b>5,275</b>	<b>—</b>	<b>5,275</b>
Amortization	1,427	—	1,427
Retirements and disposals	(132)	—	(132)
<b>Balance, March 31, 2017</b>	<b>6,570</b>	<b>—</b>	<b>6,570</b>
Amortization	1,195	—	1,195
<b>Balance, March 31, 2018</b>	<b>7,765</b>	<b>—</b>	<b>7,765</b>
<b>Carrying amounts</b>			
Balance, March 31, 2017	3,872	—	3,872
<b>Balance, March 31, 2018</b>	<b>3,945</b>	<b>111</b>	<b>4,056</b>

The carrying amount of computer software as at March 31, 2018, consists primarily of the Regulatory Reporting System (RRS) and mandate applications. The carrying amount for RRS, a system used for collecting financial data from federally regulated financial institutions, as at March 31, 2018, was \$1,815 thousand, with a remaining amortization period of 2.5 years (2017: \$2,522 thousand, with a remaining amortization period of 3.5 years). Mandate applications software tests member institutions' compliance with CDIC's *Data and System Requirements By-law* and facilitates the determination of their insured deposits. The carrying amount as at March 31, 2018, was \$1,388 thousand, with a remaining amortization period of five 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:

<i>As at March 31 (C\$ thousands)</i>	<b>Provision for insurance losses</b>
<b>Balance, March 31, 2017</b>	<b>1,600,000</b>
Additional provisions	450,000
<b>Balance, March 31, 2018</b>	<b>2,050,000</b>

The provision for insurance losses is calculated at its present value using a pre-tax, risk-free discount rate. The discount rate used in the calculation of the provision at March 31, 2018, was 1.96% (2017: 1.12%). The effect of the change in the discount rate results in an \$86 million overall decrease to the current provision (2017: \$36 million).

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, historically, the level of insured deposits as at April 30 of the previous year was Management's best available information for the calculation of the provision for insurance losses as at March 31.

Effective March 31, 2018, an estimated growth in insured deposits has been incorporated into the calculation to better reflect the Corporation's exposure to losses at year end. The estimated growth rate is derived from an internal model using total Canadian currency deposits held by member institutions correlated to certain market indicators. The estimated growth rate included in the calculation of the provision for insurance losses was 3.2%, resulting in an increase of \$68 million as at March 31, 2018. The impact on future periods has not been determined as it is impractical to estimate.



## 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.

<i>As at March 31 (C\$ thousands)</i>	<b>2018</b>	<b>2017</b>
Cash	1,581	1,771
Investment securities	4,372,580	3,831,184
Trade and other receivables	215	223
Amounts recoverable from estates	82	2,882
<b>Financial assets</b>	<b>4,374,458</b>	<b>3,836,060</b>
Trade and other payables	6,059	5,056
<b>Financial liabilities</b>	<b>6,059</b>	<b>5,056</b>

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 changes in the Corporation's permitted exposure to credit risk since the prior period; however, the methods used to measure risk have not changed. Exposure to liquidity and market risks have not changed.



### 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 for each investment. The Corporation's policies regarding the permitted credit risk of its investment securities have changed. Investment securities are restricted to securities having a minimum credit rating of A- with a term of five years. In the prior period securities were restricted to a minimum credit rating of A for securities with a term to maturity of three years and AA- for securities with a term of more than three years. 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 <i>As at March 31 (C\$ thousands)</i>	2018	2017
AAA	4,086,722	3,652,968
AA+	—	25,163
AA	25,100	—
AA-	138,901	81,508
A+	121,857	71,545
<b>Total investment securities</b>	<b>4,372,580</b>	<b>3,831,184</b>



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 \$23 billion (March 31, 2017: \$22 billion), subject to ministerial approval. No amounts have been borrowed as at March 31, 2018 and 2017. 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.

<i>For the year ended March 31 (C\$ thousands)</i>	Increase (decrease) in net income	
	2018	2017
100 basis point increase	2,809	1,830
25 basis point decrease	(702)	(457)

### ***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, 2018, 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
<i>As at March 31 (C\$ thousands)</i>	2018	2017	2018
Retained earnings	2,322,341	2,235,979	
Provision for insurance losses	2,050,000	1,600,000	
<b>Total ex ante funding</b>	<b>4,372,341</b>	<b>3,835,979</b>	<b>7,979,611*</b>
<b>Total basis points of insured deposits</b>	<b>55*</b>	<b>52**</b>	<b>100</b>

\* Based on estimated level of insured deposits as at March 31, 2018.

\*\* 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.

**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 change in the provision for insurance losses is not deductible for tax purposes. In addition, recoveries of amounts previously written off are not taxable since the Corporation did not previously claim a deduction for tax purposes.

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

<i>For the year ended March 31 (C\$ thousands)</i>	2018	2017
<i>Current income tax:</i>		
Current income tax expense	541	120
Adjustments in respect of current income tax of previous years	(50)	40
<i>Deferred tax:</i>		
Relating to the reversal of temporary differences	(272)	(297)
<b>Income tax expense (recovery) recognized in net income</b>	<b>219</b>	<b>(137)</b>



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.

<i>For the year ended March 31 (C\$ thousands)</i>	<b>2018</b>	<b>2017</b>
Net income before income taxes	86,566	119,568
Expected income tax at the 25% federal tax rate (2017: 25%)	21,642	29,892
<i>Non-deductible adjustments:</i>		
Premium revenue	(133,831)	(105,100)
Increase in non-deductible provision for insurance losses	112,500	75,000
Recovery of amounts previously written off	(157)	—
Other	65	71
<b>Income tax expense (recovery) recognized in net income</b>	<b>219</b>	<b>(137)</b>



The tax effects of temporary differences that gave rise to deferred assets and liabilities during the years ended March 31, 2018 and 2017, are as follows:

	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
<i>As at March 31, 2018 (C\$ thousands)</i>				
<b>Deferred tax assets</b>				
Lease incentives	240	(28)	—	212
Remuneration payable	74	(14)	—	60
Defined benefit obligations	270	(9)	(5)	256
Other long-term employee benefits	240	34	—	274
Non-deductible reserves	7	(7)	—	—
<b>Deferred tax liabilities</b>				
Property, plant and equipment, and intangible assets	(1,118)	296	—	(822)
<b>Net deferred tax liability</b>	<b>(287)</b>	<b>272</b>	<b>(5)</b>	<b>(20)</b>
	Opening balance	Recognized in net income	Recognized in other comprehensive income	Closing balance
<i>As at March 31, 2017 (C\$ thousands)</i>				
<b>Deferred tax assets</b>				
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
<b>Deferred tax liabilities</b>				
Property, plant and equipment, and intangible assets	(1,385)	267	—	(1,118)
<b>Net deferred tax liability</b>	<b>(581)</b>	<b>297</b>	<b>(3)</b>	<b>(287)</b>



## 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 2017/2018 fiscal year are as follows:

Premium category (basis points of insured deposits) For the year ended March 31	2018	2017
Category 1	6.5	5.5
Category 2	13.0	11.0
Category 3	26.0	22.0
Category 4	33.3	33.3

Premium revenue of \$535 million was recorded during the year (2017: \$420 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)	2018	2017
Salaries and other personnel costs	23,264	21,912
Professional and other fees	3,946	5,371
Premises	3,751	3,416
General expenses	4,879	3,141
Public awareness	5,349	2,992
Depreciation and amortization	2,058	2,379
Data processing	2,509	2,069
	45,756	41,280
Expense recoveries from related parties*	(164)	(171)
<b>Total operating expenses</b>	<b>45,592</b>	<b>41,109</b>

\* 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, 2018.



## 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 expense transactions.

<i>For the year ended March 31 (C\$ thousands)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Bank of Canada	a	621	650
Public Service Pension Plan	b	2,773	2,681

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. There were no costs capitalized in 2018 and 2017 or payable as at March 31, 2018 and 2017.

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:

<i>For the year ended March 31 (C\$ thousands)</i>	<b>2018</b>	<b>2017</b>
Wages, bonus and other short-term benefits	2,394	2,171
Post-employment	924	705
Other long-term benefits	21	17
<b>Total key Management personnel remuneration</b>	<b>3,339</b>	<b>2,893</b>



## 15 – Contingencies and commitments

There were no claims pending against the Corporation as at March 31, 2018.

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, 2018, totalled \$1,655 thousand (2017: \$1,713 thousand).

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

<i>As at March 31 (C\$ thousands)</i>	2018	2017
Not later than one year	1,727	1,655
Later than one year and not later than five years	2,713	4,231
Later than five years	—	—
<b>Total</b>	<b>4,440</b>	<b>5,886</b>

As at March 31, 2018, CDIC had commitments of \$340 thousand in relation to the development of internally generated assets (2017: \$256 thousand).

The Corporation has other various lease and contractual agreements for services. As at March 31, 2018, these future commitments are \$9,935 thousand in total (2017: \$5,934 thousand).

## 16 – Employee benefits

<i>For the year ended March 31 (C\$ thousands)</i>	2018	2017
Defined benefit obligations	1,707	1,737
Other long-term employee benefits	1,097	961
<b>Employee benefits</b>	<b>2,804</b>	<b>2,698</b>

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 3.2 times (2017: 7.74 times) the employees' contribution on amounts of salaries in excess of \$165 thousand (2017: \$163 thousand). For amounts on salaries below \$165 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 (2017: 1.01 times for start dates before January 1, 2013, and 1.00 times for start dates after January 1, 2013).

For employees with employment start dates before January 1, 2013, an unreduced pension benefit can be received at age 60 with at least two years of pensionable service (or at age 55 with 30 years of service). For employees with employment start dates after December 31, 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 2018/2019 is \$2,715 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, 2018, by an independent actuary, using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows:

<i>For the year ended March 31</i>	2018	2017
Discount rate	3.36%	3.25%
Rate of compensation increase:		
Fiscal 2017/2018	1.0% + merit	1.0% + merit
Fiscal 2018/2019	1.0% + merit	1.0% + merit
Thereafter	1.0% + merit	1.0% + merit





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

<i>For the year ended March 31 (C\$ thousands)</i>	<b>2018</b>	<b>2017</b>
Current service cost	112	116
Interest on obligation	55	57
<b>Defined benefit obligations expense</b>	<b>167</b>	<b>173</b>

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.

<i>(C\$ thousands)</i>	<b>Actuarial gains</b>
<b>Cumulative amount at March 31, 2016</b>	<b>421</b>
Recognized during the period	11
<b>Cumulative amount at March 31, 2017</b>	<b>432</b>
Recognized during the period	20
<b>Cumulative amount at March 31, 2018</b>	<b>452</b>



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.

<i>(C\$ thousands)</i>	Defined benefit obligations
<b>Balance, March 31, 2016</b>	<b>1,685</b>
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
<b>Balance, March 31, 2017</b>	<b>1,737</b>
Current service cost	112
Interest cost	55
Benefit payments	(177)
Actuarial gain arising from changes in demographic assumptions	(4)
Actuarial gain arising from changes in financial assumptions	(16)
<b>Cumulative amount at March 31, 2018</b>	<b>1,707</b>

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.

<i>As at March 31 (C\$ thousands)</i>	2018	2017
Increase (decrease) in defined benefit obligations		
Effect of an increase of 1%:		
Discount rate	(137)	(141)
Rate of compensation increase	170	174
Effect of a decrease of 1%:		
Discount rate	159	163
Rate of compensation increase	(149)	(153)



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, 2018, the weighted average duration of the defined benefit obligations was 8.9 years (2017: 9.0 years).

## 17 – Comparative figures

Certain figures for 2016/2017 have been reclassified to conform to the presentation adopted this year.





## 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](http://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, 2018



### Robert O. Sanderson

Chair

Joined: June 2016

*Re-appointed as Chair for a two-year term, effective December 14, 2017*

### 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 June 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*

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

## Board committees

Three standing committees supported the Board in its activities throughout 2017/2018: the Audit Committee, the Governance and Nominating Committee, and the Human Resources and Compensation Committee. A fourth committee, the Executive Committee, met only as required and was dissolved during 2017.

### 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

\* The Executive Committee was dissolved by a resolution of the Board of Directors dated September 27, 2017.



## Board and committee meetings and attendance

(April 1, 2017 to March 31, 2018)

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

	Board committees				
	Board of Directors	Audit Committee <sup>c</sup>	Governance and Nominating Committee	Human Resources and Compensation Committee	Executive Committee <sup>d</sup>
<b>Number of meetings<sup>a</sup></b>	<b>9<sup>b</sup></b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>0</b>
<b>Attendance</b>					
<b>Private sector Directors</b>					
R.O. Sanderson—Chair	9	6	3	5	N/A
G. Burger	9	7	3		
S. Hicks	9	7			
É. Pronovost	8	7			
S.M. Tratch	9		3	5	N/A
A. Tu Weissenberger	9	7		5	
<b>Ex officio Directors (Alternates)</b>					
Bank of Canada: S. Poloz (S. Leduc)	7 (7)			5	N/A
Department of Finance: P. Rochon (L. Anderson)	1 (7)				
Financial Consumer Agency of Canada: L. Tedesco	9		3		
Superintendent of Financial Institutions: J. Rudin	9				
Office of the Superintendent of Financial Institutions—Second Director: J. Hubbs	9	7			
<b>Directors who departed during the year</b>					
None					

<sup>a</sup> Also includes meetings attended by telephone.

<sup>b</sup> Includes Board Tabletop Simulation Session and Crisis Communications Session.

<sup>c</sup> The Chair is invited to Audit Committee meetings but is not a Committee member.

<sup>d</sup> The Executive Committee was dissolved by a resolution of the Board of Directors dated September 27, 2017.



## Directors' fees

In 2017/2018, private sector Directors' fees for the performance of their services totalled \$208,220 (compared to \$210,988 in 2016/2017).

## Executive Team

CDIC's Executive Team is comprised of its President and Chief Executive Officer (CEO), along with four 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, 2018, 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\***

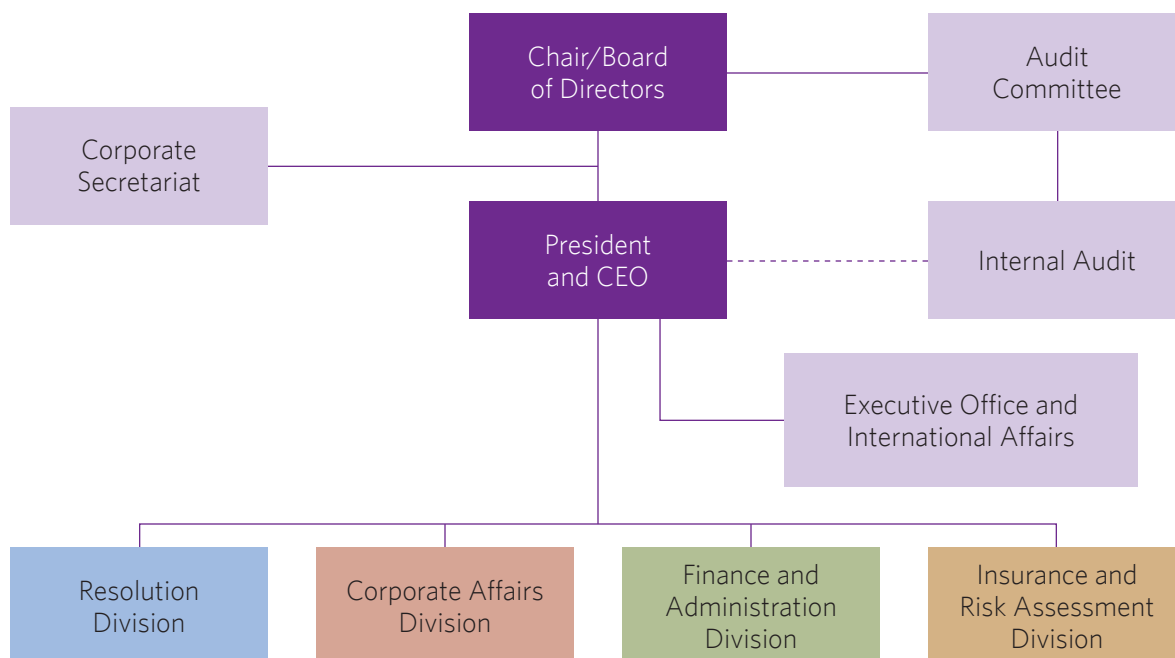
Vice-President, Corporate Affairs, General Counsel and Corporate Secretary

Travel and hospitality expenses for private sector Directors and CDIC's officers are disclosed quarterly on the Corporation's website ([www.cdic.ca](http://www.cdic.ca)).

\* Ms. M. Claudia Morrow held the office of Corporate Secretary until December 31, 2017. Ms. Richer was appointed Corporate Secretary effective January 1, 2018, in addition to her office as Vice-President, Corporate Affairs, and General Counsel.



## CDIC's organizational structure



----- Denotes administrative reporting relationship

## 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 2018, CDIC conducted corporate-wide ethics training focusing on key employee obligations, and provided practical information to employees about ethical issues that may arise on the job.

### *Annual Public Meeting*

CDIC held its Annual Public Meeting (APM) in February 2018. The event was held in collaboration with the Desautels Faculty of Management at McGill University and featured a panel discussion about how understanding deposit insurance and other financial matters can help reduce financial worries and contribute to overall wellness. The APM was broadcast live on social media channels 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 from members of the public in attendance, online or via social media.





## 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 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*)



