



CDIC

Canada Deposit
Insurance Corporation

Quarterly Financial Report
First Quarter
June 30, 2013
Unaudited

Up to \$100,000 in savings protection

Canada

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NARRATIVE DISCUSSION

FIRST QUARTER – FISCAL 2013/2014

This discussion was prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations (Treasury Board Standard). It is not intended to be a full “Management’s Discussion and Analysis”. Disclosures and information in Canada Deposit Insurance Corporation’s 2012/2013 Annual Report are assumed to apply to the current quarter unless otherwise updated.

The condensed consolidated financial statements are unaudited and have been prepared in accordance with the Treasury Board Standard.

This narrative discussion and the accompanying financial statements were reviewed and approved by CDIC’s Audit Committee.

FINANCIAL HIGHLIGHTS

For the first quarter ended June 30, 2013, Canada Deposit Insurance Corporation (CDIC or the Corporation) earned net income of \$48 million, based on premium revenue of \$48 million, investment and other income of \$9 million and net operating expenses and income taxes of \$9 million.

The Corporation's \$48 million in premium revenue for the first quarter represents an increase of \$18 million from the same period a year earlier. The prior year's premium revenue was impacted by a one-time incentive offered to member institutions for early compliance with CDIC's *Data and System Requirements By-law*.

The Corporation's \$9 million in investment and other income for the first quarter was \$1 million lower than the same period a year earlier, primarily due to lower yields, partially offset by an increase in the size of the investment portfolio.

Net operating expenses and income taxes were \$9 million in the first quarter, a 13% increase from the same period last year. The increase in operating expenses is consistent with CDIC's Corporate Plan and mainly reflects costs associated with the development of CDIC's capabilities related to large bank resolution.

CDIC's total assets at June 30, 2013 were \$2,623 million, an increase of \$47 million (2%) from March 31, 2013. The increase is primarily the result of \$48 million in premium revenue recognized during the quarter. The majority of the Corporation's assets are highly liquid investment securities.

RISK ANALYSIS

In addition to monitoring the risks faced by CDIC's membership that drive changes in the provision for insurance losses, CDIC Management has implemented an Enterprise Risk Management (ERM) program to identify and manage the key corporate risks. The ERM program includes a detailed annual assessment of risks, as well as quarterly updates. Management's overall assessment of the significant risks facing the Corporation at June 30, 2013 remains acceptable and unchanged from its assessment as at March 31, 2013.

CHANGES IN OPERATIONS, PERSONNEL AND PROGRAMS

The following describes any significant changes in operations, personnel and programs that have occurred during the current quarter.

Operations	<p>On July 15, 2013, member institutions filed their annual Returns of Insured Deposits which established premium revenue for the year. Based on the filings, insured deposits as at April 30, 2013 held at member institutions totalled \$665 billion (April 30, 2012: \$646 billion).</p>
Board of Directors, Officers and Personnel	<p>Mr. Jeff Johnson, Senior Vice President of Insurance and Risk Assessment left CDIC at the end of March 2013. His responsibilities have been temporarily reallocated within the Corporation until his replacement, Ms. Karen Badgerow, joins CDIC in September 2013.</p> <p>On April 12, 2013 Mr. Larry Schembri replaced Ms. Agathe Coté as an alternate Director on CDIC's Board of Directors. Ms. Coté had been designated as Mr. Mark Carney's alternate on CDIC's Board of Directors since August 2010.</p> <p>On June 3, 2013 Mr. Stephen S. Poloz replaced Mr. Mark Carney as a Director on CDIC's Board of Directors. Mr. Carney was a member of CDIC's Board of Directors since February 2008.</p> <p>Also on June 3, 2013 Ms. Lucie Tedesco replaced Ms. Ursula Menke as a Director on CDIC's Board of Directors. Ms. Menke was a member of CDIC's Board of Directors since December 2007.</p> <p>On June 24, 2013 Mr. Andrew Kriegler replaced Mr. Ted Price as a Director on CDIC's Board of Directors. Mr. Price was a member of CDIC's Board of Directors since January 2007.</p> <p>A complete list of CDIC's current Board of Directors is included on the Corporation's website.</p>
Programs and Initiatives	<p>There were no significant changes during the quarter.</p>

FINANCIAL RESULTS

Three months ended June 30, 2013, compared to three months ended June 30, 2012

The following table sets forth CDIC's comparative results for the three months ended June 30, 2013 and June 30, 2012.

(C\$ thousands)	Three months ended			
	June 30, 2013	June 30, 2012	Difference (\$)	Difference (%)
Premium revenue	47,932	30,017	17,915	60%
Investment and other income	9,125	10,187	(1,062)	-10%
(Increase) decrease in provision for insurance losses	-	(100,000)	100,000	*
Net operating expenses	(8,826)	(7,825)	(1,001)	-13%
Income tax expense	(38)	(599)	561	94%
Net income (loss)	48,193	(68,220)	116,413	*

* Not meaningful

Premium revenue

Premiums charged to member institutions are based on the total amount of insured deposits held by member institutions as of April 30th of each year, and are calculated once every year in accordance with the *CDIC Act* and CDIC's *Differential Premiums By-law*. The amount recognized in each quarter represents 1/4th of the annual assessment amount.

Premium revenue of \$48 million was recorded during the quarter ended June 30, 2013 compared to \$30 million for the same period last year, a 60% increase. The primary contributor to the variance is one-time incentives provided to member institutions last year for early compliance with CDIC's *Data and System Requirements By-law*. These incentives resulted in lower premium revenue in fiscal 2012/2013. The impact of the growth of insured deposits and the movement of members between premium categories also contributed to the variance in premium revenue.

Investment and other income

Investment and other income for the quarter decreased by \$1 million (10%) to \$9 million, as compared to the same period last year. The decrease was mainly a result of lower yields, partially offset by growth in the investment securities portfolio.

Additionally, investment income for the first quarter of fiscal 2012/2013 includes a \$238 thousand gain on the sale of securities, prompted by the downgrade of the external credit rating of one of the Corporation's counterparties. The downgrade resulted in the Corporation temporarily being in non-compliance with its credit risk policy. Management immediately sold sufficient securities to enable continued compliance with its credit risk policy.

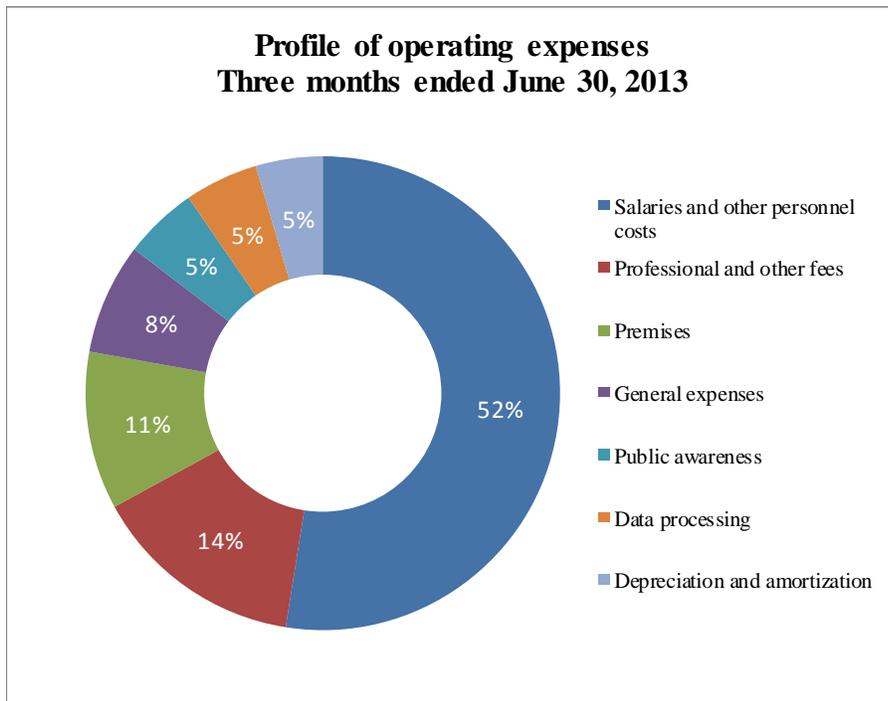
Provision for insurance losses

The provision for insurance losses represents Management’s best estimate of the losses it expects to incur as a result of insuring deposits. The adequacy of the provision is assessed on a quarterly basis and, if necessary, adjustments are recorded.

In arriving at its estimate, Management considers the key inputs of the provisioning methodology, including the level of insured deposits, the expectation of default derived from probability statistics, expected loss given default, supervisory information, CDIC’s specific knowledge of its members, as well as economic indicators.

CDIC’s provision for insurance losses did not change during the quarter. Risk remains elevated, but stable. A \$100 million increase in the provision for insurance losses was recognized in the first quarter of last year, reflecting an increase in insured deposits and external credit agency downgrades of some of CDIC’s member institution’s credit ratings.

Operating expenses



Operating expenses, net of recoveries, for the three months ended June 30, 2013 totalled \$9 million compared to \$8 million for the same period last year, representing an increase of 13%.

Increased operating expenses are consistent with CDIC’s Corporate Plan and mainly reflect costs associated with the development of CDIC’s capabilities related to large bank resolution.

Forecast results for fiscal 2013/2014, compared to Corporate Plan

This section includes future-oriented financial information that is based on certain assumptions. Actual results may differ from the forecasted information presented and such differences may be material.

(C\$ millions)	2013/2014 Forecast	2013/2014 Planned	Difference (\$)	Difference (%)
Premium revenue	191.7	195.1	(3.4)	-2%
Investment and other income	36.3	52.5	(16.2)	-31%
(Increase) decrease in provision for insurance losses	-	-	-	-
Net operating expenses	(40.6)	(42.0)	1.4	3%
Income tax recovery (expense)	1.0	(3.0)	4.0	*
Net income (loss)	188.4	202.6	(14.2)	-7%

* Not meaningful

Premium revenue

CDIC's Corporate Plan for fiscal 2013/2014 to fiscal 2017/2018 sets out planned premium revenue for fiscal 2013/2014 of \$195 million compared with Management's current forecast revenue for the year of \$192 million. The Corporate Plan was based on certain assumptions regarding increases in the level of insured deposits and the classification of members under the Differential Premiums system. Actual results have differed from the assumptions, resulting in the variance between the planned and forecast amounts.

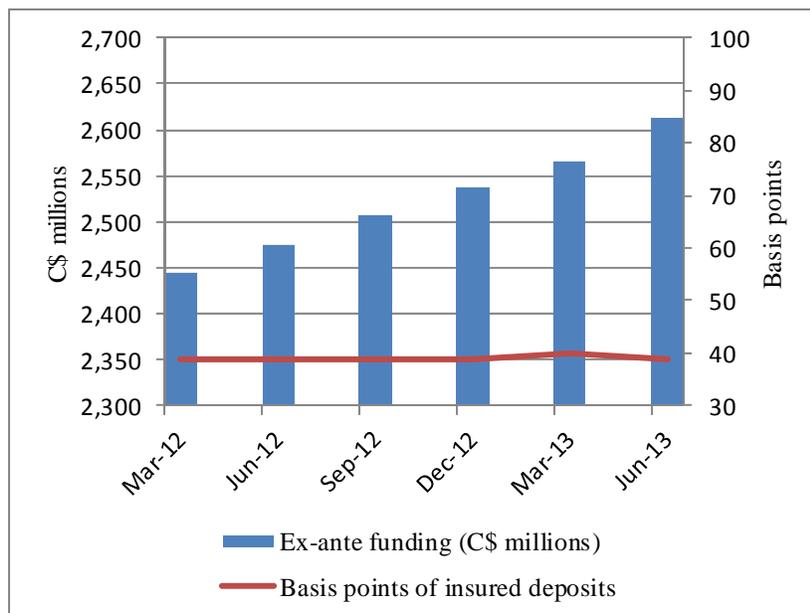
Investment and other income

Forecast investment and other income is less than originally planned. The expected \$14 million recovery from the 1991 failure of Standard Trust will likely be received subsequent to fiscal 2013/2014. The Corporate Plan assumed the recovery would be received in fiscal 2013/2014. Additionally, the Corporation has revised downward its estimated investment yields.

Net operating expenses

Forecast net operating expenses are less than originally planned mainly due to downward revisions to personnel costs.

EX ANTE FUNDING



Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC maintains an *ex ante* fund to cover possible deposit insurance losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and the provision for insurance losses. The minimum target level of the Corporation's *ex ante* funding is 100 basis points of insured deposits. The Corporation reviews this target funding level regularly to ensure it

remains appropriate.

CDIC's *ex ante* funding level was \$2,614 million as at June 30, 2013, or 39 basis points of insured deposits. Based on the level of insured deposits as at April 30, 2013, the 100 basis point minimum target would equate to \$6,653 million of *ex ante* funding.

AVAILABLE LIQUID FUNDS

The following table sets forth the liquid funds available to CDIC.

(C\$ millions)	June 30, 2013	Mar. 31, 2013
<i>Available liquid funds:</i>		
Cash	1	1
Fair value of high-quality, liquid investment securities	2,567	2,573
<i>Availability of borrowings:</i>		
Borrowings authorized under the <i>CDIC Act</i> , either from market sources or from the Consolidated Revenue Fund ¹	19,000	19,000
Total available funds	21,568	21,574

¹ Includes existing \$10 million bank credit facility

CDIC's portfolio of investment securities is limited to high-quality, liquid securities: obligations of the Government of Canada and its agent Crowns and obligations of Provincial Governments / Municipal Financing Authorities. Additional funds are available through CDIC's authority to borrow under the Canada Deposit Insurance Corporation Act (the *CDIC Act*). As at June 30,

2013, the Corporation can borrow up to \$19 billion. The borrowing limit is adjusted annually to reflect the growth of insured deposits. Additional borrowings, if required, could be authorized by Parliament through an appropriation act.

MANAGEMENT REPRESENTATION

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as Management determines are necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

The financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.



Michèle Bourque

President and Chief Executive
Officer

Ottawa, Canada
August 15, 2013



Dean A. Cosman

Vice President, Finance and
Administration, and Chief Financial
Officer

Ottawa, Canada
August 15, 2013

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER – FISCAL 2013/2014

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	Notes	June 30, 2013	March 31, 2013
ASSETS			
Cash		600	422
Investment securities	3	2,558,929	2,560,483
Current tax asset		1,798	1,286
Premiums receivable		47,907	-
Trade and other receivables	4	1,511	1,545
Prepayments		249	244
Property, plant and equipment		6,807	6,716
Intangible assets		4,704	4,310
Deferred tax asset		84	122
TOTAL ASSETS		2,622,589	2,575,128
LIABILITIES			
Trade and other payables		4,850	5,616
Deferred premium revenue		4	-
Deferred lease inducement		1,383	1,412
Defined benefit obligations		1,879	1,820
Provision for insurance losses	5	1,250,000	1,250,000
Total liabilities		1,258,116	1,258,848
EQUITY			
Retained earnings		1,364,473	1,316,280
TOTAL LIABILITIES AND EQUITY		2,622,589	2,575,128

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

		For the three months ended	
	Notes	June 30, 2013	June 30, 2012
REVENUE			
Premium		47,932	30,017
Investment income		9,121	10,184
Other		4	3
		<u>57,057</u>	<u>40,204</u>
EXPENSES			
Operating	6	8,826	7,825
Increase in provision for insurance losses		-	100,000
		<u>8,826</u>	<u>107,825</u>
Net income (loss) before income taxes		48,231	(67,621)
Income tax expense		38	599
NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)		<u>48,193</u>	<u>(68,220)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

	Retained earnings and total equity
FOR THE THREE MONTHS ENDED JUNE 30	
Balance, March 31, 2013	1,316,280
Net loss and total comprehensive loss	48,193
Balance, June 30, 2013	<u>1,364,473</u>
Balance, March 31, 2012	1,293,537
Net income and total comprehensive income	(68,220)
Balance, June 30, 2012	<u>1,225,317</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of Canadian dollars)

	For the three months ended	
	June 30, 2013	June 30, 2012
OPERATING ACTIVITIES		
Net income (loss)	48,193	(68,220)
Add (deduct) items not involving cash		
Depreciation and amortization	403	431
Investment income	(9,121)	(10,184)
Tax expense	38	599
Defined benefit expense	59	56
Change in working capital:		
Increase in provision for insurance losses	-	100,000
Increase in premiums receivable	(47,907)	(30,016)
Increase in prepayments	(5)	(457)
Decrease (increase) in trade and other receivables	34	(47)
(Decrease) increase in trade and other payables	(766)	299
Increase in deferred premium revenue	4	-
Decrease in deferred lease inducement	(29)	(29)
Interest received	11,184	17,469
Income tax paid	(512)	(1,949)
Net cash generated by operating activities	<u>1,575</u>	<u>7,952</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(888)	(817)
Purchase of investment securities	(1,236,077)	(1,089,579)
Proceeds from sale or maturity of investment securities	1,235,568	1,082,298
Net cash used in investing activities	<u>(1,397)</u>	<u>(8,098)</u>
Net increase (decrease) in cash	178	(146)
Cash, beginning of period	422	456
Cash, end of period	<u>600</u>	<u>310</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

First quarter – Fiscal 2013/2014

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, Ottawa, Ontario.

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

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

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

These condensed consolidated quarterly financial statements were approved and authorized for issue by the Corporation's Audit Committee on August 15, 2013.

Basis of preparation

These condensed consolidated quarterly financial statements, presented in Canadian dollars, have been prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations and do not include all of the information required for full annual financial statements. These condensed consolidated quarterly financial statements should be read in conjunction with the audited consolidated financial statements as at and for the year ended March 31, 2013, in CDIC's 2012/2013 Annual Report.

The condensed consolidated quarterly financial statements have been prepared on the historical cost basis, except for the provision for insurance losses and the defined benefit obligations, which are measured at their present value. Historical cost is generally based on the amount of consideration given in exchange for an asset and the amount of proceeds received in exchange for a liability.

2. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Corporation in these condensed consolidated quarterly financial statements are the same as those applied by the Corporation in its consolidated financial statements as at and for the year ended March 31, 2013.

Changes in accounting policies

The Corporation has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of April 1, 2013. Their adoption did not have a significant impact on these condensed consolidated quarterly financial statements.

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Ventures*
- IFRS 12 *Disclosures of Involvement with Other Entities*
- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 13 *Fair Value Measurement*
- IAS 19 *Employee Benefits* (2011)
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)
- *Annual Improvements to IFRS 2009-2011 Cycle*

Critical accounting judgments and key sources of estimation uncertainty

The preparation of quarterly financial statements requires Management to make judgments and estimations that affect the application of accounting policies and the reported amounts of assets and liabilities. Actual results may differ from these estimates.

In preparing these condensed consolidated quarterly financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended March 31, 2013.

Defined benefit obligations

At year end, the Corporation's defined benefit liability is measured at its present value, based on an actuarial valuation. Actuarial gains or losses arising from the actuarial valuation are recognized immediately in retained earnings as other comprehensive income.

As at June 30, 2013 and June 30, 2012, no actuarial valuations were prepared. As a result, no actuarial gains or losses were recognized.

3. INVESTMENT SECURITIES

Information on the maturity and composition of the Corporation's investment securities is included in the tables below.

(C\$ thousands)	Remaining term to maturity June 30, 2013			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	328,838	698,146	-	1,026,984
Weighted average effective yield (%)	1.06	1.06	-	1.06
Bonds	273,558	718,626	533,661	1,525,845
Weighted average effective yield (%)	1.61	1.35	2.06	1.64
Other	6,100	-	-	6,100
Weighted average effective yield (%)	0.97	-	-	0.97
Total investment securities	608,496	1,416,772	533,661	2,558,929
Weighted average effective yield (%)	1.31	1.21	2.06	1.41

(C\$ thousands)	Remaining term to maturity March 31, 2013			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	331,012	643,728	-	974,740
Weighted average effective yield (%)	1.02	1.07	-	1.05
Bonds	212,670	583,223	789,850	1,585,743
Weighted average effective yield (%)	1.73	1.42	1.92	1.71
Other	-	-	-	-
Weighted average effective yield (%)	-	-	-	-
Total investment securities	543,682	1,226,951	789,850	2,560,483
Weighted average effective yield (%)	1.30	1.23	1.92	1.46

(C\$ thousands)	June 30, 2013			March 31, 2013
	Amortized cost	Gross unrealized gains (losses)	Fair value	Fair value
Treasury bills	1,026,984	(28)	1,026,956	974,933
Bonds	1,525,845	8,299	1,534,144	1,598,467
Other	6,100	-	6,100	-
Total investment securities	2,558,929	8,271	2,567,200	2,573,400

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

(C\$ thousands) Credit rating	June 30, 2013	March 31, 2013
AAA	2,125,417	2,087,132
AA+	71,318	93,791
AA	143,041	143,211
AA-	124,216	141,752
A+	94,937	94,597
Total investments	2,558,929	2,560,483

The carrying amounts in the above tables include accrued interest.

4. TRADE AND OTHER RECEIVABLES

(C\$ thousands)	June 30, 2013	March 31, 2013
Accounts receivable	43	77
Other receivables	1,468	1,468
Total trade and other receivables	1,511	1,545

Other receivables consist of a note receivable due on June 30, 2015.

5. PROVISION FOR INSURANCE LOSSES

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

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

(C\$ thousands)	Provision for insurance losses
Balance, March 31, 2013	1,250,000
Additional provisions	-
Balance, June 30, 2013	1,250,000

6. OPERATING EXPENSES

(C\$ thousands)	For the three months ended	
	June 30, 2013	June 30, 2012
Salaries and other personnel costs	4,663	4,346
Professional and other fees	1,284	990
Premises	950	740
General expenses	669	607
Public awareness	444	377
Data processing	442	450
Depreciation and amortization	403	431
	8,855	7,941
Expense recoveries	(29)	(116)
Total operating expenses	8,826	7,825

7. RELATED PARTY TRANSACTIONS

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.

8. RESTATEMENT OF COMPARATIVE FIGURES

The Corporation has reclassified certain comparative figures in the condensed consolidated quarterly statement of cash flows to conform to the current presentation which provides more relevant information about CDIC's cash flows. The reclassification was immaterial and did not have an impact on the condensed consolidated quarterly statement of financial position or the condensed consolidated quarterly statement of comprehensive income.