



CDIC
Canada Deposit
Insurance Corporation

Quarterly Financial Report
First Quarter
June 30, 2015
Unaudited

Always ready to protect
your savings

Canada

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Narrative discussion

First quarter - fiscal 2015/2016

This narrative discussion was prepared in accordance with the *Treasury Board Standard on Quarterly Financial Reports for Crown Corporations* (the “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 2015 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, 2015, the Canada Deposit Insurance Corporation (CDIC or the Corporation) incurred a net loss of \$59 million, arising principally from an increase to the provision for insurance losses (the “provision”) of \$150 million; other items of significance were premium revenue of \$91 million, investment and other income of \$10 million, and net operating expenses and income taxes of \$9 million. In the same period last year, CDIC earned net income of \$20 million, based on premium revenue of \$70 million, investment and other income of \$10 million, net operating expenses and income taxes of \$10 million, and an increase to the provision of \$50 million.

The Corporation’s \$91 million in premium revenue for the first quarter represents an increase of \$21 million from the same period in the prior year, and was primarily the result of an increase in premium rates. Growth in insured deposits held at member institutions and changes to the categorization of certain members also contributed to the increase in premium revenue.

The Corporation’s \$10 million in investment and other income for the three-month period ended June 30, 2015 was consistent with the same period in the prior year. This was due to the decline in the effective yield (1.28% and 1.43%, as at June 30, 2015 and 2014) which offset the growth of the investment portfolio.

Net operating expenses and income taxes were \$9 million for the first quarter, a 4% decrease compared to the same period in the prior year. The slight decrease in operating expenses is due to a slower pace of spending compared to the prior period.

CDIC’s provision increased \$150 million to \$1,400 million for the quarter ended June 30, 2015. There were no significant changes to the overall risk profile of CDIC’s member institutions during the quarter. Approximately \$100 million of the increase is due to a refinement by external credit rating agencies of various inputs into the methodology used to calculate the provision and \$50 million is due to an increase in the level of insured deposits (\$696 billion and \$684 billion as at April 30, 2015 and 2014).

CDIC’s total assets as at June 30, 2015 were \$3,150 million, an increase of \$90 million (3%) from March 31, 2015. This is primarily the result of an increase to insurance premiums receivable. The majority of the Corporation’s assets are highly liquid investment securities.

As at June 30, 2015, CDIC’s *ex ante* funding represented 45 basis points (\$3,142 million) of insured deposits, as compared to the minimum target level of 100 basis points.

Risk analysis

In addition to monitoring the risks faced by CDIC’s membership that drive changes in the provision, CDIC Management has 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 as at June 30, 2015 remains acceptable and unchanged from its assessment as at March 31, 2015.

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 Member institutions filed their annual Return on Insured Deposits on July 15, 2015, which established premium revenue for the year. Based on the filings, insured deposits as at April 30, 2015 held at member institutions totalled \$696 billion (April 30, 2014 - \$684 billion).

Board of Directors, Officers and Personnel On April 27, 2015, Mr. Jamey Hubbs, Assistant Superintendent, Deposit-taking Supervision Sector, Office of the Superintendent of Financial Institutions, was appointed as a member of the CDIC Board of Directors pursuant to s.5(1)(b.1) of the *Canada Deposit Insurance Corporation Act* (the "*CDIC Act*").

Ms. M. Claudia Morrow was appointed Chief, Office of the President, and Corporate Secretary effective June 15, 2015.

Ms. Chantal Richer was appointed Vice-President, Corporate Affairs, and General Counsel effective June 15, 2015.

Programs and Initiatives There were no significant changes during this quarter.

Financial results

Three months ended June 30, 2015, compared to three months ended June 30, 2014

The following table sets out CDIC's comparative results for the three months ended June 30, 2015 and 2014.

<i>(C\$ thousands)</i>	Three months ended		Difference (\$)	Difference (%)
	June 30, 2015	June 30, 2014		
Premium revenue	90,507	69,845	20,662	30%
Investment and other income	9,873	9,886	(13)	(0%)
Increase in provision for insurance losses	150,000	50,000	100,000	200%
Net operating expenses	8,975	9,354	(379)	(4%)
Income tax expense	215	130	85	65%
Net income	(58,810)	20,247	120,355	594%

Premium revenue

Premiums charged to member institutions are based on the total amount of insured deposits held by member institutions as of April 30 each year, and are calculated annually in accordance with the *CDIC Act* and CDIC's *Differential Premiums By-law*. Premium rates are a key determinant of the length of time it will take to reach the minimum target level of *ex ante* funding (100 basis points). Each year, CDIC considers various premium rate options. For 2015/2016, the approved Category 1 rate (the base rate) is 4.5 basis points of insured deposits, a 1.0 basis point increase over the 2014/2015 base rate. The amount recognized in each quarter represents one-fourth of the annual assessment amount.

Premium revenue of \$91 million was recorded during the quarter ended June 30, 2015 compared to \$70 million for the same period last year, a 30% increase. The increase in premium rates was the primary factor leading to the higher revenue. Changes in the categorization of member institutions and the growth in insured deposits also contributed to the growth in premium revenue. Insured deposits grew to \$696 billion as at April 30, 2015, from \$684 billion as at April 30, 2014, an increase of 2%.

Investment and other income

Investment and other income for the quarter was \$10 million, consistent with the same period last year. While the investment portfolio grew during the year (\$280 million or 10% compared to the balance as at June 30, 2014), the effective yield declined to 1.28% compared to 1.43% as at June 30, 2014.

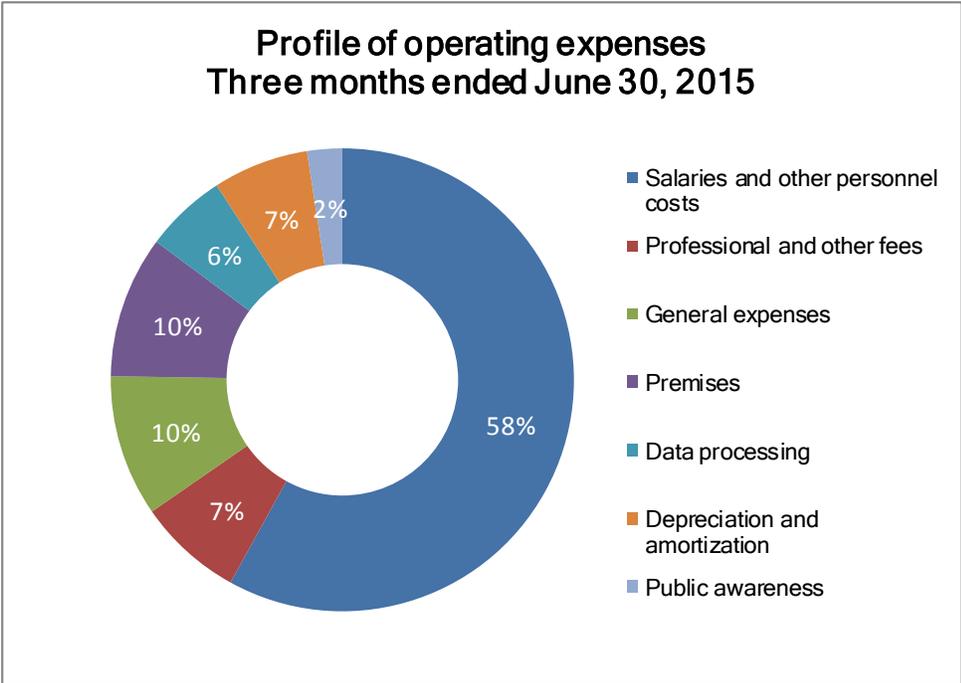
Provision for insurance losses

The provision 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 its provisioning methodology: the level of insured deposits, the expectation of default derived from probability statistics, expected loss given default, supervisory information, economic indicators, and CDIC’s specific knowledge of its members. There were no significant changes to the overall risk profile of CDIC’s member institutions during the quarter.

CDIC’s provision increased by \$150 million to \$1,400 million during the quarter. During the quarter, a credit rating agency refined its approach to determining its expected default estimates, resulting in an increase to the provision of approximately \$100 million. The remaining increase of \$50 million is due to the growth in the level of insured deposits.

Operating expenses



Operating expenses, net of recoveries, for the three months ended June 30, 2015 totalled \$9.0 million compared to \$9.4 million for the same period last year, representing a decrease of \$0.4 million, or 4%.

The decrease in operating expenses is mainly due to a slower pace of spending during the quarter as compared to the prior period.

Forecast results for fiscal 2015/2016, 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.

<i>(C\$ millions)</i>	2015/2016 Forecast	2015/2016 Planned	Difference (\$)	Difference (%)
Premium revenue	362	371	(9)	(2%)
Investment and other income	40	42	(2)	(5%)
Increase in provision for insurance losses	(150)	(50)	(100)	200%
Net operating expenses	(44)	(44)	-	-
Income tax recovery	1	1	-	-
Net income	209	320	(111)	(35%)

Premium revenue

CDIC's 2015/2016 to 2019/2020 Corporate Plan (the "Corporate Plan") sets out planned premium revenue of \$371 million for fiscal 2015/2016, compared with Management's current forecast revenue of \$362 million for the year. 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. Results to date have differed from the assumptions, resulting in a variance between the planned and forecast amounts.

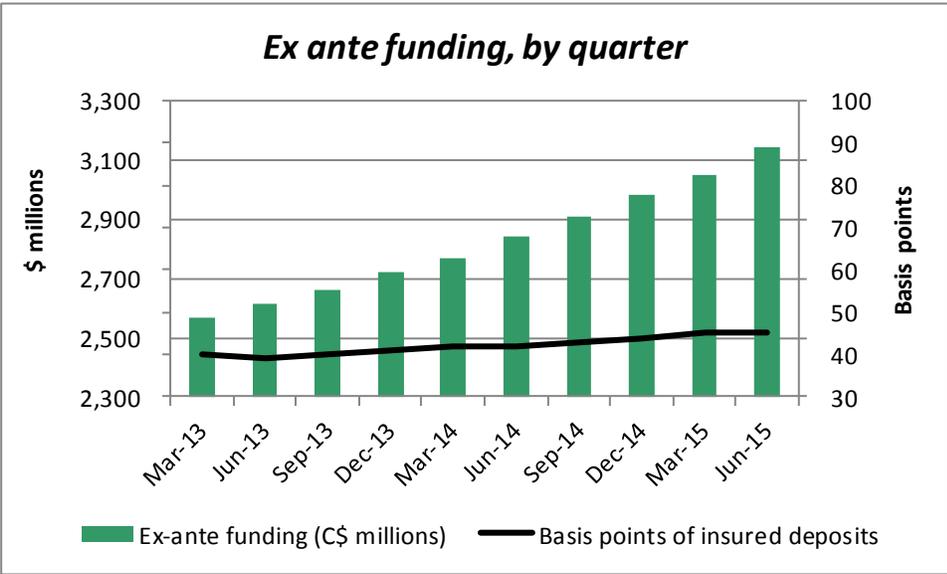
Investment and other income

Forecast investment and other income is less than originally planned due to the forecast yield being lower than what was included in the Corporate Plan (forecast yield at June 30, 2015 for fiscal 2015/2016 was 1.21% versus 1.30% in the Corporate Plan), and the lower premium revenue which will result in a lower than planned investment portfolio.

Provision for insurance losses

The Corporate Plan assumed a \$50 million increase in the provision to \$1,300. The Corporate Plan did not contemplate a change in the credit rating agency's methodology. The provision is currently forecast to remain flat at \$1,400 million for the remainder of the fiscal year.

Ex ante funding



Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC maintains *ex ante* funding 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. 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 \$3,142 million as at June 30, 2015, or 45 basis points of insured deposits. Based on the level of insured deposits as at April 30, 2015, the 100 basis point minimum target would equate to \$6,960 million of *ex ante* funding.

As noted earlier, premium rates were increased for 2015/2016 in order to accelerate CDIC’s progression to the minimum *ex ante* funding target. In addition, CDIC’s Corporate Plan assumes further increases (1 basis point increase per year to the base rate for four years starting in 2014/2015). It is currently forecast that CDIC will reach the minimum *ex ante* funding target level in approximately 11 years.

Available liquid funds

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

<i>(C\$ millions)</i>	June 30, 2015	Mar. 31, 2015
<i>Available liquid funds:</i>		
Cash	1	2
Fair value of high-quality, liquid investment securities	3,092	3,095
<i>Availability of borrowings:</i>		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	20,000	20,000
Total available funds	23,093	23,097

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 *CDIC Act*. As at June 30, 2015, the Corporation can borrow up to \$20 billion. The borrowing limit is adjusted annually on December 31 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 13, 2015



Dean A. Cosman

Vice President, Finance and
Administration, and Chief Financial
Officer

Ottawa, Canada
August 13, 2015

Condensed consolidated financial statements

Condensed consolidated statement of financial position

(in thousands of Canadian dollars)

	Notes	June 30, 2015	March 31, 2015
ASSETS			
Cash		780	1,584
Investment securities	4	3,043,113	3,042,059
Current tax asset		-	180
Premiums receivable		90,456	-
Trade and other receivables	5	1,515	1,521
Amounts recoverable from estates		2,876	2,876
Prepayments		322	198
Property, plant and equipment		5,642	5,886
Intangible assets		5,675	5,772
TOTAL ASSETS		3,150,379	3,060,076
LIABILITIES			
Trade and other payables		3,605	4,651
Current tax liability		111	-
Deferred premium revenue		150	-
Deferred lease inducement		1,157	1,186
Employee benefits		2,892	2,889
Provision for insurance losses	6	1,400,000	1,250,000
Deferred tax liability		647	723
Total liabilities		1,408,562	1,259,449
EQUITY			
Retained earnings		1,741,817	1,800,627
TOTAL LIABILITIES AND EQUITY		3,150,379	3,060,076

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

Condensed consolidated statement of comprehensive income

(in thousands of Canadian dollars)

	Notes	For the three months ended	
		June 30, 2015	June 30, 2014
REVENUE			
Premium		90,507	69,845
Investment income		9,870	9,861
Other		3	25
		<u>100,380</u>	<u>79,731</u>
EXPENSES			
Operating	7	8,975	9,354
Increase in provision for insurance losses		150,000	50,000
		<u>158,975</u>	<u>59,354</u>
Net (loss) income before income taxes		(58,595)	20,377
Income tax expense		215	130
TOTAL COMPREHENSIVE (LOSS) INCOME		<u>(58,810)</u>	<u>20,247</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, 2015	
Balance, March 31, 2015	1,800,627
Total comprehensive loss	(58,810)
Balance, June 30, 2015	<u>1,741,817</u>
Balance, March 31, 2014	1,568,529
Total comprehensive income	20,247
Balance, June 30, 2014	<u>1,588,776</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, 2015	June 30, 2014 (restated) Note 3
OPERATING ACTIVITIES		
Net income	(58,810)	20,247
Add (deduct) items not involving cash		
Depreciation and amortization	600	595
Investment income	(9,870)	(9,861)
Tax expense	215	130
Employee benefit expense	77	91
Defined benefit payment	(75)	(16)
Change in working capital:		
Increase in provision for insurance losses	150,000	50,000
Increase in premiums receivable	(90,456)	(69,810)
Increase in prepayments	(126)	(22)
Decrease/(increase) in trade and other receivables	6	(31)
Decrease in trade and other payables	(1,046)	(115)
Increase in deferred premium revenue	150	82
Decrease in deferred lease inducement	(28)	(29)
Interest received	16,235	14,795
Net cash generated by operating activities	6,872	6,056
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(251)	(329)
Purchase of investment securities	(230,497)	(1,330,072)
Proceeds from sale or maturity of investment securities	223,072	1,323,940
Net cash used in investing activities	(7,676)	(6,461)
Net decrease in cash	(804)	(405)
Cash, beginning of period	1,584	699
Cash, end of period	780	294

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

Notes to the condensed consolidated financial statements

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 13, 2015.

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, 2015, in CDIC's 2015 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 fair value 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, 2015.

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, 2015.

Recovery of amounts previously written off

Claims receivable from the estates of failed member institutions are written off when there is no realistic prospect of recovery. However, when funds are subsequently received, or are virtually certain of being received, CDIC recognizes the recovery in the condensed consolidated statement of comprehensive income.

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, 2015 and 2014, no actuarial valuations were prepared. As a result, no actuarial gains or losses were recognized.

3—Restatement of condensed consolidated statement of cash flows for the three months ended June 30, 2015

The Corporation reviewed the presentation and classification of its cash flows during the year, and reclassified certain items between investing and operating activities, to reflect their nature more accurately. The Corporation removed the amortization of premiums and discounts from its investing activities which resulted in an adjustment to the investment income cash flows included within its operating activities. The Corporation has restated the condensed consolidated statement of cash flows for the three months ended June 30, 2014, to conform to current period presentation. The changes are summarized in the following table:

For the three months ended (C\$ thousands)	June 30, 2014	Adjustment	June 30, 2014 (restated)
OPERATING ACTIVITIES			
Investment income received	12,050	2,745	14,795
INVESTING ACTIVITIES			
Purchase of investment securities	(1,423,330)	93,258	(1,330,072)
Proceeds from sale or maturity of investment securities	1,419,943	(96,003)	1,323,940

4—Investment securities

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

<i>(C\$ thousands)</i>	Remaining term to maturity June 30, 2015			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	7,023	29,888	-	36,911
Weighted average effective yield (%)	0.57	0.98	-	0.90
Bonds	42,447	504,999	2,458,756	3,006,202
Weighted average effective yield (%)	1.33	1.17	1.31	1.29
Total investment securities	49,470	534,887	2,458,756	3,043,113
Weighted average effective yield (%)	1.22	1.16	1.31	1.28

<i>(C\$ thousands)</i>	Remaining term to maturity March 31, 2015			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	21,260	29,816	-	51,076
Weighted average effective yield (%)	0.63	0.98	-	0.83
Bonds	165,887	426,586	2,398,510	2,990,983
Weighted average effective yield (%)	2.01	1.20	1.32	1.34
Total investment securities	187,147	456,402	2,398,510	3,042,059
Weighted average effective yield (%)	1.85	1.19	1.32	1.33

<i>(C\$ thousands)</i>	June 30, 2015			March 31, 2015
	Amortized cost	Gross unrealized gains	Fair value	Fair value
Treasury bills	36,911	44	36,955	51,157
Bonds	3,006,202	48,584	3,054,786	3,044,292
Other	-	-	-	-
Total investment securities	3,043,113	48,628	3,091,741	3,095,449

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

Credit rating (C\$ thousands)	June 30, 2015	March 31, 2015
AAA	2,715,221	2,755,067
AA+	57,011	56,815
AA	147,281	105,437
AA-	43,384	43,237
A+	80,216	81,503
Total investments	3,043,113	3,042,059

The carrying amounts in the above tables include accrued interest.

5–Trade and other receivables

(C\$ thousands)	June 30, 2015	March 31, 2015
Accounts receivable	47	53
Other receivables	1,468	1,468
Total trade and other receivables	1,515	1,521

Other receivables consist of a note receivable due on June 30, 2015, which settled subsequent to June 30, 2015.

6–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, 2015	1,250,000
Increase in provision	150,000
Balance, June 30, 2015	1,400,000

7–Operating expenses

<i>(C\$ thousands)</i>	For the three months ended	
	June 30, 2015	June 30, 2014
Salaries and other personnel costs	5,248	5,188
Professional and other fees	658	931
General expenses	887	885
Premises	891	861
Data processing	512	596
Depreciation and amortization	600	595
Public awareness	219	352
	9,015	9,408
Expense recoveries	(40)	(54)
Total operating expenses	8,975	9,354

8–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.