



Canada Deposit
Insurance Corporation

Your first apartment money.
We protect your deposits.

Quarterly Financial Report Third Quarter

DECEMBER 31, 2020

Unaudited

Canada 

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Narrative discussion

Third quarter – fiscal 2020/2021

This narrative discussion was prepared in accordance with the *Treasury Board of Canada’s Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*. It is not intended to be a full “Management’s Discussion and Analysis”. Disclosures and information in the Canada Deposit Insurance Corporation’s 2020 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 of Canada’s Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*.

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

Financial highlights

For the third quarter ended December 31, 2020, the Canada Deposit Insurance Corporation (“CDIC” or “the Corporation”) recognized a net income of \$239 million, arising principally from premium revenue of \$185 million and a decrease to the provision for insurance losses (“the provision”) of \$50 million. Other items of significance were investment income of \$22 million, net operating expenses of \$14 million and income taxes of \$4 million. For the same period in the prior year, CDIC recognized a net income of \$224 million based on premium revenue of \$167 million, a decrease to the provision for insurance losses (“the provision”) of \$50 million, investment and other income of \$22 million, net operating expenses of \$13 million and income taxes of \$2 million.

For the nine-month period ended December 31, 2020, CDIC recognized a net income of \$276 million, arising principally from premium revenue of \$554 million, partially offset by an increase to the provision of \$300 million. Other items of significance were investment income of \$68 million, net operating expenses of \$42 million and income taxes of \$5 million. For the same period in the prior year, CDIC recognized net income of \$621 million based on premium revenue of \$501 million, investment and other income of \$62 million, a decrease to the provision of \$100 million, net operating expenses of \$35 million and income taxes of \$7 million.

The Corporation’s \$554 million in premium revenue for the nine-month period ended December 31, 2020, represents an increase of \$53 million over the same period in the prior year. The increase was mainly due to growth in insured deposits, partially offset by changes in the premium categorization of certain member institutions.

The Corporation’s \$68 million in investment and other income for the nine-month period ended December 31, 2020 was \$6 million higher than in the same period in the prior year. The increase was due to the growth in the investment portfolio (\$6,513 million and \$5,745 million as at December 31, 2020 and 2019, respectively) partly offset by a decrease in the effective yield on investments (1.36% and 1.62% as at December 31, 2020 and 2019, respectively).

The Corporation’s net operating expenses for the nine-month period ended December 31, 2020 were \$42 million, \$7 million higher than for the same period in the prior year, mainly due to an increase in professional fees to support various new projects undertaken by the Corporation, an overall increase in staffing requirements to support the Corporation’s objects and an increased focus on public awareness.

The Corporation recognized an income tax expense of \$5 million for the nine-month period ended December 31, 2020, compared to an expense of \$7 million for the same period in the prior year. This is mainly due to the increase in the provision for insurance losses as the Corporation uses an effective tax rate to compute its tax liability or asset.

The provision for insurance losses as at December 31, 2020 is \$2,550 million, \$300 million higher than the balance as at March 31, 2020, primarily due to an increase in the exposure to losses, changes in the risk profile of certain member institutions and a decrease in the discount rate (0.39% as at December 31, 2020, compared to 0.60% as at March 31, 2020). This was partially offset by variances between estimated and actual deposit insurance levels based on return of insured deposit filings from member institutions as at April 30, 2020.

CDIC’s total assets as at December 31, 2020 were \$6,540 million, an increase of \$785 million from March 31, 2020. The increase is mainly driven by a growth in CDIC’s investment portfolio of \$782 million.

As at December 31, 2020, CDIC's *ex ante* funding (\$6,305 million) represented 65 basis points of insured deposits (\$968 billion), as compared to the target level of 100 basis points which is expected to be achieved by the fiscal year 2027/2028, two years later than the 2020/2021 Corporate Plan target of fiscal year 2025/2026. This is primarily due to a significant year over year growth in insured deposits and the increase in deposit insurance coverage as a result of Phase I implementation changes from the Deposit Insurance Review (DIR).

Risk analysis

In addition to monitoring the risks faced by CDIC's membership that drive changes in the provision for insurance losses, Management utilizes an Enterprise Risk Management (ERM) program to identify and manage its key corporate risks which includes an assessment of risks that is updated quarterly.

As of December 31, 2020, CDIC has appropriate risk mitigation strategies in place for significant risks facing the Corporation identified through this process. These risks are being assessed and monitored continuously by Management.

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	There were no significant changes during this quarter.
Board of Directors, Officers and Personnel	Mr. Robert Sanderson was re-appointed Chair of the Board of Directors effective December 14th, 2020 to June 30, 2022. Mr. Michael Sabia was appointed as the Deputy Minister of the Department of Finance, effective December 14, 2020, pursuant to s.5(1)(b.1) of the Canada Deposit Insurance Corporation Act.
Programs and Initiatives	There were no significant changes during this quarter.

Financial results

Three-month period ended December 31, 2020 compared to three-month period ended December 31, 2019

The following table sets out CDIC's comparative results for the three-month period ended December 31, 2020 and 2019.

(C\$ thousands)	For the three-month period ended		Variance	
	December 31, 2020	December 31, 2019	Increase (Decrease) (\$)	(%)
Premium revenue	184,791	167,091	17,700	11%
Investment and other income	22,475	21,924	551	3%
Change in provision for insurance losses	(50,000)	(50,000)	-	-
Net operating expenses	14,271	13,152	1,119	9%
Income tax expense	4,250	1,470	2,780	*
Net income	238,745	224,393	14,352	6%

*Not meaningful

Premium revenue

Premiums charged to member institutions are based on the total amount of insured deposits held by member institutions as at 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 Corporation's target level of *ex ante* funding of 100 basis points of insured deposits. Each year, CDIC considers various premium rate options. For 2020/2021, the approved Category 1 rate (the base rate) is 7.5 basis points of insured deposits, unchanged from the 2019/2020 base rate. CDIC's premium revenue for fiscal 2020/2021, established from the Return of Insured Deposits filed as at April 30, 2020, is expected to be \$739 million, approximately 7.6 basis points of insured deposits. The amount recognized as premium revenue in each quarter represents one-fourth of the annual assessed amount.

Premium revenue of \$185 million was recorded during the three-month period ended December 31, 2020, compared to \$167 million for the same period in the prior year, an 11% increase. Significant year over year growth in insured deposits, the increase in deposit insurance coverage as a result of Phase 1 implementation changes from the DIR and changes in the categorization of certain member institutions contributed to the net variance in premium revenue. Insured deposits grew to \$968 billion as at April 30, 2020, from \$852 billion as at April 30, 2019, an increase of 14%.

Investment and other income

The Corporation's \$22 million in investment and other income for the three-month period ended December 31, 2020 is relatively consistent with the same period in the prior year.

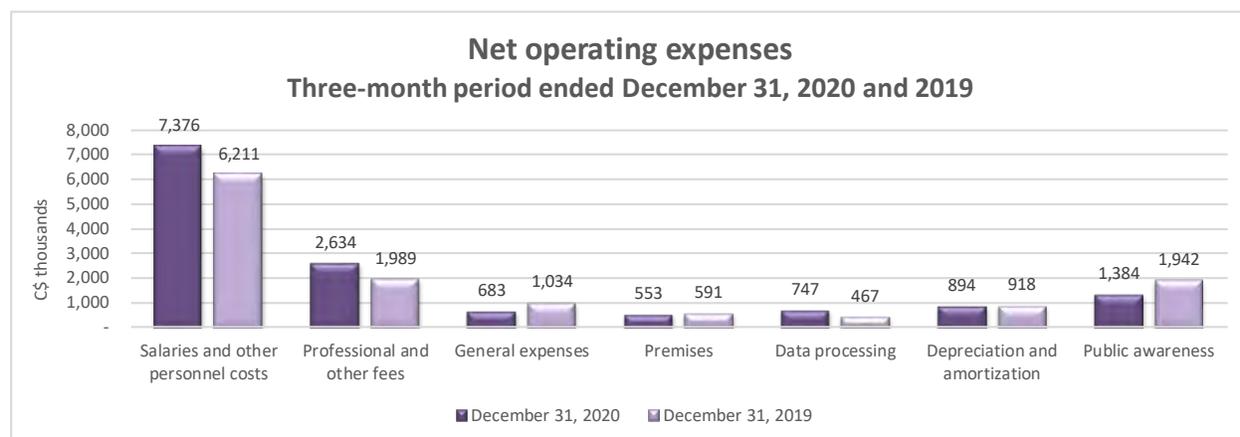
Provision for insurance losses

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 exposure to losses, the probability of default derived from actual default statistics, expected loss given default, supervisory information, economic indicators, and CDIC’s specific knowledge of the risk profile of its members.

CDIC’s provision for insurance losses decreased from the previous quarter by \$50 million to \$2,550 million as at the period ended December 31, 2020. This was mainly due to changes in the risk profile of certain member institutions and a decrease in exposure to losses from DSIBs partly offset by an estimated growth in non-DSIB level of insured deposits.

Net operating expenses



Net operating expenses¹ for the three-month period ended December 31, 2020 totaled approximately \$14 million, \$1 million higher than for the same period in the prior year mainly due to an overall increase in staffing to support the Corporation’s objects and an increase in professional fees to support various new projects undertaken by the Corporation, partially offset by a timing difference in public awareness expenditures.

Income taxes

The Corporation is subject to federal income tax. The Corporation’s primary source of taxable income is its interest income from investments. 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 because the Corporation did not previously claim a deduction for tax purposes.

¹ Net operating expenses include cost recoveries, which are adjusted against general expenses.

For quarterly reporting, CDIC uses an effective tax rate to compute its tax liability or tax asset in accordance with IAS 34 – *Interim Financial Reporting*. During the three-month period ended December 31, 2020, the Corporation recognized an income tax expense of \$4 million, \$3 million higher than in the same period in the prior year. This is mainly due to a higher premium revenue than in the same period in prior year resulting in higher net income for the quarter and a higher effective tax rate in accordance with IAS 34.

Nine-month period ended December 31, 2020 compared to nine-month period ended December 31, 2019

The following table sets out CDIC's comparative results for the nine-month period ended December 31, 2020 and 2019.

(C\$ thousands)	For the nine-month period ended		Variance	
	December 31, 2020	December 31, 2019	Increase (Decrease) (\$)	(%)
Premium revenue	554,329	501,213	53,116	11%
Investment and other income	68,069	62,365	5,704	9%
Change in provision for insurance losses	300,000	(100,000)	400,000	*
Net operating expenses	41,714	35,425	6,289	18%
Income tax expense	5,077	7,254	(2,177)	(30%)
Net income	275,607	620,899	(345,292)	(56%)

*Not meaningful

Premium revenue

Premiums charged to member institutions are based on the total amount of insured deposits held by member institutions as at 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 Corporation's target level of *ex ante* funding of 100 basis points of insured deposits. Each year, CDIC considers various premium rate options. For 2020/2021, the approved Category I rate (the base rate) is 7.5 basis points of insured deposits, unchanged from the 2019/2020 base rate. CDIC's premium revenue for fiscal 2020/2021, established from the Return of Insured Deposits filed as at April 30, 2020, is expected to be \$739 million, approximately 7.6 basis points of insured deposits. The amount recognized as premium revenue in each quarter represents one-fourth of the annual assessed amount.

Premium revenue of \$554 million was recorded during the nine-month period ended December 31, 2020, compared to \$501 million for the same period in the prior year, an 11% increase. Significant year over year growth in insured deposits, the increase in deposit insurance coverage as a result of Phase I implementation changes from the DIR and changes in the categorization of certain member institutions contributed to the net variance in premium revenue. Insured deposits grew to \$968 billion as at April 30, 2020, from \$852 billion as at April 30, 2019, an increase of 14%.

Pursuant to the *CDIC Act*, at least one half of a member institution's annual deposit insurance premium payable should be received by July 15 of each year, while the remainder of the premium payable should be received, without interest, by no later than December 15 of each year. For the 2020 premium year only, CDIC did not charge interest on premiums that were received after July 15, 2020 but no later than December 15, 2020 to allow its member institutions to focus resources on directly supporting the

needs of their customers in the challenging economic and financial environment brought on by the COVID-19 pandemic.

Investment and other income

The Corporation's \$68 million in investment and other income for the nine-month period ended December 31, 2020 was \$6 million higher than for the same period in the prior year. This was due to the growth in the investment portfolio (\$6,513 million and \$5,745 million as at December 31, 2020 and 2019, respectively) partly offset by a decrease in the effective yield on investments (1.36% and 1.62%, as at December 31, 2020 and 2019, respectively).

Provision for insurance losses

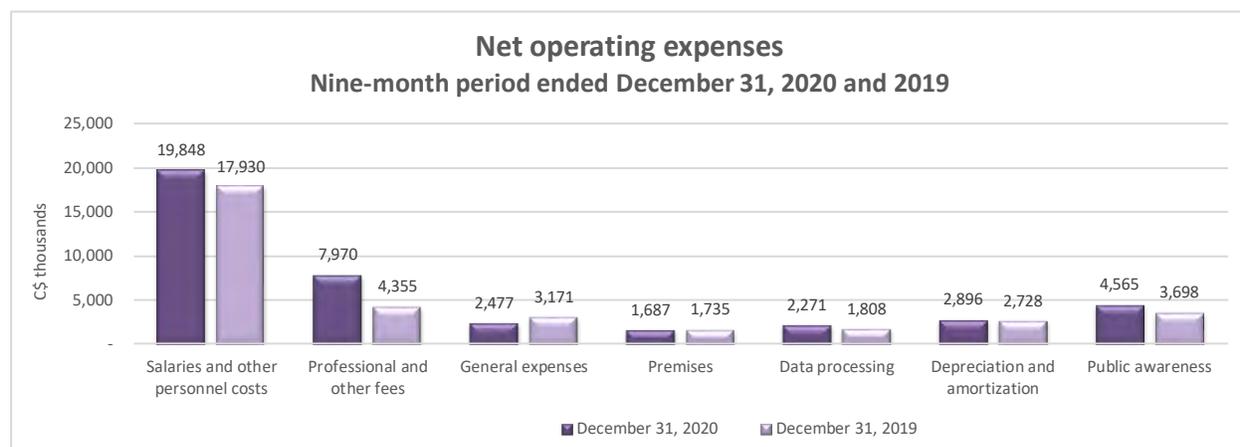
The provision represents Management's best estimate of the losses it expects to incur as a result of insuring deposits. The adequacy of the provision is assessed on a quarterly basis and, if necessary, adjustments are recorded.

In arriving at its estimate, Management considers the key inputs of its provisioning methodology: the exposure to losses, the probability of default derived from actual default statistics, expected loss given default, supervisory information, economic indicators, and CDIC's specific knowledge of the risk profile of its members.

CDIC's provision for insurance losses increased by \$300 million to \$2,550 million during the nine-month period ended December 31, 2020. Several factors contributed to the net change in the provision for insurance losses, including:

- an increase in the exposure to losses as a result of an increase in DSIB total assets and forecasted growth in the non-DSIB level of insured deposits;
- changes in the risk profile of certain member institutions;
- variances between the estimated and actual level of insured deposits used in the calculation; and
- the discount rate used to present value the provision (0.39% at December 31, 2020, compared to 0.60% at March 31, 2020).

Net operating expenses



Net operating expenses² for the nine-month period ended December 31, 2020 totaled approximately \$42 million, \$7 million higher than for the same period in the prior year mainly due to an increase in professional fees to support various new projects undertaken by the Corporation, an overall increase in staffing to support the Corporation's objects and an increased focus on public awareness.

Income taxes

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest income from investments. 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 because the Corporation did not previously claim a deduction for tax purposes.

For quarterly reporting, CDIC uses an effective tax rate to compute its tax liability or tax asset in accordance with *IAS 34 – Interim Financial Reporting*. During the nine-month period ended December 31, 2020, the Corporation recognized an income tax expense of \$5 million, \$2 million lower than in the same period in the prior year. This is mainly due to the increase in the provision for insurance losses resulting in lower net income and a lower effective tax rate in accordance with *IAS 34*.

Forecast results for fiscal 2020/2021, 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)	2020/2021		Variance	
	Forecast	Planned	Increase (Decrease) (\$)	(%)
Premium revenue	739	728	11	2%
Investment and other income	90	100	(10)	(10%)
Change in provision for insurance losses	350	-	350	*
Net operating expenses	60	62	(2)	(3%)
Income tax expense	8	10	(2)	(16%)
Net income	411	757	(346)	(46%)

*Not meaningful

Premium revenue

CDIC's 2020/2021 to 2024/2025 Corporate Plan (the "Corporate Plan") sets out planned premium revenue of \$728 million for fiscal 2020/2021, compared with Management's current forecasted revenue of \$739 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.

² Net operating expenses include cost recoveries, which are adjusted against general expenses.

Investment and other income

The forecasted investment and other income is \$90 million, compared to the planned amount of \$100 million, a variance of \$10 million. This decline is due to variations in certain assumptions used in developing the Corporate Plan specifically the estimated yield on the investment portfolio partially offset by an increase in premium receipts.

Provision for insurance losses

The forecasted provision for insurance losses as at March 31, 2021 is \$2,600 million, compared to the planned amount of \$2,000 million. This increase is due to increased exposure to losses, changes in the risk profile of certain member institutions and a decline in the discount rate since the Plan amounts were developed.

Net operating expenses

Net operating expenses for fiscal 2020/2021 are forecasted at \$60 million, \$2 million lower than planned operating expenses for the year mainly due to lower professional fees resulting from work reprioritization initiatives and travel restrictions due to the COVID-19 pandemic.

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 for insurance losses. The target level of the Corporation's *ex ante* funding is 100 basis points of insured deposits, which considers the size and complexity of CDIC's member institutions, as well as international best practices. The Corporation reviews this target funding level regularly to ensure it remains appropriate.

CDIC's *ex ante* funding level was \$6,305 million as at December 31, 2020, or 65 basis points of insured deposits. CDIC's Corporate Plan assumes that premium rates will remain stable. It is currently forecasted that CDIC will reach the *ex ante* funding target level in fiscal 2027/2028, two years later than the Plan target of fiscal 2025/2026 primarily due to a significant year over year growth in insured deposits and the increase in deposit insurance coverage as a result of Phase I DIR changes.

Available liquid funds

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

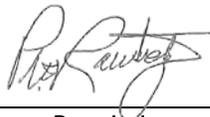
<i>(C\$ millions)</i>	December 31, 2020	March 31, 2020
<i>Available liquid funds:</i>		
Cash	6	4
Fair value of high-quality, liquid investment securities	6,668	5,864
<i>Availability of borrowings:</i>		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	28,000	25,000
Total available funds	34,674	30,868
Insured deposits (as at April 30, 2020 and 2019 respectively)	967,991	851,903
Total basis points of insured deposits	358	362

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 of December 31, 2020, the Corporation can borrow up to \$28 billion. The borrowing limit is adjusted annually on December 31 to reflect the growth of insured deposits. Supplemental borrowing, if required, could be authorized either by Parliament through an appropriation act, or by the Minister of Finance out of the Consolidated Revenue Fund.

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's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines is 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.

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.



Peter Routledge
President and Chief Executive
Officer

Ottawa, Canada
February 11, 2021



Camille Ringrose
Head, Finance and Operations & Chief
Financial Officer

Ottawa, Canada
February 11, 2021

Condensed consolidated financial statements and notes

Condensed consolidated statement of financial position

As at December 31, 2020 and March 31, 2020 (C\$ thousands)

	Notes	December 31, 2020	March 31, 2020
ASSETS			
Cash		6,051	3,568
Investment securities	3	6,513,272	5,730,984
Trade and other receivables		184	260
Current tax asset		1,383	-
Amounts recoverable from estates		6	6
Prepayments		968	1,106
Right-of-use assets	4	11,417	11,920
Property, plant & equipment		4,145	3,621
Intangible assets		3,027	3,482
TOTAL ASSETS		6,540,453	5,754,947
LIABILITIES			
Trade and other payables		36,345	7,812
Current tax liability		-	2,941
Lease liabilities	4	12,118	12,611
Deferred premium revenue		184,771	-
Employee benefits		1,473	1,444
Provision for insurance losses	5	2,550,000	2,250,000
Deferred tax liability		448	448
Total liabilities		2,785,155	2,275,256
EQUITY			
Retained earnings		3,755,298	3,479,691
TOTAL LIABILITIES AND EQUITY		6,540,453	5,754,947

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

Condensed consolidated statement of comprehensive income

For the three and nine-month periods ended December 31, 2020 and 2019 (C\$ thousands)

	Notes	For the three-month period ended December 31		For the nine-month period ended December 31	
		2020	2019	2020	2019
REVENUE					
Premium		184,791	167,091	554,329	501,213
Investment income		22,449	21,921	68,038	62,359
Other income		26	3	31	6
		207,266	189,015	622,398	563,578
EXPENSES					
Net operating expenses	6	14,271	13,152	41,714	35,425
(Decrease) increase in the provision for insurance losses	5	(50,000)	(50,000)	300,000	(100,000)
		(35,729)	(36,848)	341,714	(64,575)
Net income before income taxes		242,995	225,863	280,684	628,153
Income tax expense		4,250	1,470	5,077	7,254
TOTAL COMPREHENSIVE INCOME		238,745	224,393	275,607	620,899

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

Condensed consolidated statement of changes in equity

For the three and nine-month period ended December 31, 2020 and 2019 (C\$ thousands)

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31

	Retained earnings and total equity
Balance, September 30, 2020	3,516,553
Total comprehensive income	238,745
Balance, December 31, 2020	3,755,298
Balance, September 30, 2019	3,381,832
Total comprehensive income	224,393
Balance, December 31, 2019	3,606,225

FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31

Balance, March 31, 2020	3,479,691
Total comprehensive income	275,607
Balance, December 31, 2020	3,755,298
Balance, March 31, 2019	2,985,326
Total comprehensive income	620,899
Balance, December 31, 2019	3,606,225

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

Condensed consolidated statement of cash flows

For the three and nine-month period ended December 31, 2020 and 2019 (C\$ thousands)

	For the three-month period ended		For the nine-month period ended	
	December 31		December 31	
	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net income before income taxes	238,745	224,393	275,607	620,899
Add (deduct) items not involving cash				
Depreciation and amortization	894	918	2,896	2,728
Investment income	(22,449)	(21,921)	(68,038)	(62,359)
Interest expense on lease liabilities	52	-	161	-
Income tax expense	4,250	1,470	5,077	7,254
Employee benefit expense	36	41	109	123
Defined benefit payment	(9)	-	(80)	(8)
Change in working capital:				
Decrease in premiums receivable	176,560	-	-	-
(Increase) decrease in trade and other receivables	(7)	(67)	76	352
Decrease in prepayments	556	304	138	3
Increase in trade and other payables	31,225	20,424	28,533	19,032
Increase in deferred premium revenue	182,034	159,091	184,771	167,073
Decrease in deferred lease inducement	-	-	-	(734)
(Decrease) increase in the provision for insurance losses	(50,000)	(50,000)	300,000	(100,000)
Interest received	37,341	36,968	98,329	89,246
Interest paid on lease liabilities	(52)	-	(161)	-
Income tax paid	(2,146)	(1,374)	(9,401)	(4,748)
Net cash generated by operating activities	597,030	370,247	818,017	738,861
INVESTING ACTIVITIES				
Purchase of property, plant and equipment and intangible assets	(1,130)	(910)	(1,855)	(1,693)
Purchase of investment securities	(1,051,037)	(665,565)	(2,333,163)	(1,789,525)
Proceeds from sale or maturity of investment securities	460,215	295,920	1,520,584	1,051,612
Net cash used in investing activities	(591,952)	(370,555)	(814,434)	(739,606)
FINANCING ACTIVITIES				
Principal payment of lease liabilities	(419)	(337)	(1,100)	(1,007)
Incentive in connection with the recognition of finance lease under IFRS 16	-	-	-	734
Net cash used in financing activities	(419)	(337)	(1,100)	(273)
Net increase (decrease) in cash	4,659	(645)	2,483	(1,018)
Cash, beginning of period	1,392	1,817	3,568	2,190
Cash, end of period	6,051	1,172	6,051	1,172

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

Notes to the condensed consolidated financial statements

I - 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 the debt of a failing domestic systemically important bank (DSIB) 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.

The Deposit Insurance Review that was announced in the 2014 Budget to modernize and enhance Canada's deposit insurance framework, received Royal Assent on June 21, 2018. Certain changes relating to deposit insurance coverage came into force on April 30, 2020, while the second phase of changes are set to come into force on April 30, 2022. The changes have required and will continue to require amendments to certain CDIC by-laws and administrative processes.

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 condensed consolidated quarterly financial statements were approved and authorized for issue by the Corporation's Audit Committee on February 11, 2021.

Basis of preparation

These condensed consolidated quarterly financial statements, presented in Canadian dollars, have been prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports 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, 2020, in the Corporation's 2020 Annual Report.

These condensed consolidated quarterly financial statements have been prepared on the historical cost basis, except for the lease liability, provision for insurance losses and certain employee benefits which are measured at their present value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the amount of cash expected to be paid to satisfy a liability.

2 - Significant accounting policies

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 audited consolidated financial statements as at and for the year ended March 31, 2020.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of quarterly financial statements in accordance with IFRS 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, 2020.

3 - Financial instruments

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

	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
<i>As at December 31, 2020 (C\$ thousands)</i>				
Treasury bills	81,280	-	-	81,280
Weighted average effective yield (%)	0.11	-	-	0.11
Bonds	262,682	988,212	5,181,098	6,431,992
Weighted average effective yield (%)	0.77	1.20	1.44	1.38
Total investment securities	343,962	988,212	5,181,098	6,513,272
Weighted average effective yield (%)	0.61	1.20	1.44	1.36

<i>As at March 31, 2020 (C\$ thousands)</i>	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
Treasury bills	25,639	-	-	25,639
Weighted average effective yield (%)	1.03	-	-	1.03
Bonds	311,138	837,602	4,556,605	5,705,345
Weighted average effective yield (%)	1.29	1.17	1.75	1.64
Total investment securities	336,777	837,602	4,556,605	5,730,984
Weighted average effective yield (%)	1.27	1.17	1.75	1.64

The following table includes the fair value measurement of the Corporation's investment securities.

<i>As at December 31, 2020 (C\$ thousands)</i>	Amortized		Fair values			
	cost	Unrealized gain	Level 1	Level 2	Level 3	Total
Treasury bills	81,280	3	81,283	-	-	81,283
Bonds	6,431,992	154,324	4,878,555	1,707,761	-	6,586,316
Total investment securities	6,513,272	154,327	4,959,838	1,707,761	-	6,667,599

<i>As at March 31, 2020 (C\$ thousands)</i>	Amortized		Fair values			
	cost	Unrealized gain	Level 1	Level 2	Level 3	Total
Treasury bills	25,639	-	25,639	-	-	25,639
Bonds	5,705,345	132,994	4,249,362	1,588,977	-	5,838,339
Total investment securities	5,730,984	132,994	4,275,001	1,588,977	-	5,863,978

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

<i>(C\$ thousands)</i>	December 31, 2020	March 31, 2020
AAA	5,227,862	4,520,283
AA	72,297	46,741
AA-	611,026	565,412
A+	602,087	598,548
Total investment securities	6,513,272	5,730,984

The carrying amounts in the above tables include accrued interest.

The Corporation did not record any loss allowances on its investment securities as at December 31, 2020 (March 31, 2020: nil).

4 - Right-of-use assets and lease liabilities

The Corporation leases office space in Ottawa, the term of which ends in September 2030, with an option to renew for an additional five years. It also leases two separate office spaces in Toronto, one of which expires in October 2021, whereas the second expires in November 2022 with an option to renew for an additional year. The extension option for both Ottawa and Toronto office is exercisable solely at the discretion of the Corporation. The Corporation also leases equipment under a five-year term ending in May 2025.

Carrying value of right-of-use-assets

<i>(C\$ thousands)</i>	Leased office		
	space	Equipment	Total
Cost			
Balance, April 1, 2020	13,282	24	13,306
Additions	554	53	607
Balance, December 31, 2020	13,836	77	13,913
Accumulated depreciation			
Balance, April 1, 2020	1,367	19	1,386
Depreciation	1,099	11	1,110
Balance, December 31, 2020	2,466	30	2,496
Carrying amounts			
Balance, April 1, 2020	11,915	5	11,920
Balance, December 31, 2020	11,370	47	11,417

Carrying value of lease liabilities

<i>(C\$ thousands)</i>	Leased office		
	space	Equipment	Total
Balance, April 1, 2020	12,606	5	12,611
Additions	554	53	607
Finance charges	161	-	161
Lease payments	(1,250)	(11)	(1,261)
Balance, December 31, 2020	12,071	47	12,118

Interest expense on lease liabilities amounting to \$52 thousand and \$161 thousand was recorded in the statement of comprehensive income during the three and nine-month periods ended December 31, 2020, respectively. The Corporation recognized no expenses related to short-term leases and the amount recognized for low-value assets during the nine-month period ended December 31, 2020, was insignificant. Cash payments for the interest portion of \$161 thousand and the principal portion of

\$1,100 thousand of the lease liability were recognized in the statement of cash flows under operating activities and financing activities, respectively.

Maturity analysis for lease liabilities (undiscounted)

(C\$ thousands)	Leased office		
	space	Equipment	Total
Not later than one year	1,642	11	1,653
Later than one year and not later than five years	5,126	37	5,163
Later than five years	6,087	-	6,087
Total	12,855	48	12,903

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 object 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, 2020	2,250,000
Change in the provision	300,000
Balance, June 30, 2020	2,550,000
Change in the provision	50,000
Balance, September 30, 2020	2,600,000
Change in the provision	(50,000)
Balance, December 31, 2020	2,550,000

The Corporation is implementing the Deposit Insurance Framework Review that was announced in the 2014 Budget to modernize and enhance Canada's deposit insurance framework. Certain changes relating to deposit insurance coverage came into force on April 30, 2020, while the second phase of changes are set to come into force on April 30, 2022. These changes have required and will continue to require amendments to certain CDIC by-laws and administrative processes.

The impact of changes in deposit insurance coverage, that came into force on April 30, 2020 have been accounted for in the calculation of the provision for insurance losses. Future coverage changes, coming into effect on April 30, 2022, due to legislative changes have not been reflected in the provision calculation as their impacts are currently not known to CDIC.

6 - Operating expenses

The following table provides details of total net operating expenses of the Corporation for the three and nine-month periods ended December 31, 2020.

<i>(C\$ thousands)</i>	For the three-month period ended		For the nine-month period ended	
	December 31		December 31	
	2020	2019	2020	2019
Salaries and other personnel costs	7,376	6,211	19,848	17,930
Professional and other fees	2,634	1,989	7,970	4,355
General expenses	664	1,084	2,450	3,299
Premises	553	591	1,687	1,735
Data processing	747	467	2,271	1,808
Depreciation and amortization	498	918	1,786	2,728
Depreciation on right-of-use assets	396	-	1,110	-
Interest expense on lease liabilities	52	-	161	-
Public awareness	1,384	1,942	4,565	3,698
	14,304	13,202	41,848	35,553
Expense recoveries	(33)	(50)	(134)	(128)
Total operating expenses	14,271	13,152	41,714	35,425

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.