



**CDIC**  
Canada Deposit  
Insurance Corporation



# Quarterly Financial Report

## First Quarter

June 30, 2014

Unaudited

Committed to protecting your savings

Canada<sup>ca</sup>

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## **NARRATIVE DISCUSSION**

### **FIRST QUARTER – FISCAL 2014/2015**

*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 2013/2014 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, 2014, Canada Deposit Insurance Corporation (CDIC or the Corporation) earned net income of \$20 million, arising principally from 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 for insurance losses of \$50 million. In the same period last year, CDIC 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 \$70 million in premium revenue for the first quarter represents an increase of \$22 million from the same period a year earlier. The increase in premium revenue is the result of an increase in premium rates, changes to the categorization of certain members, and an increase in total insured deposits held at member institutions.

The Corporation's \$10 million in investment and other income for the three-month period ended June 30, 2014 was \$1 million higher than the same period a year earlier, primarily as a result of an increase in the investment portfolio for the comparative periods.

Net operating expenses and income taxes were \$10 million for the first quarter, a 7% increase compared to the same period last year. The increase in operating expenses is consistent with CDIC's Corporate Plan and is primarily due to the staffing of positions that were vacant in the comparable period related to CDIC's continuing efforts to develop its large bank resolution capabilities.

CDIC's provision for insurance losses increased \$50 million to \$1,250 million for the quarter ended June 30, 2014 due primarily to the increase in the level of insured deposits.

CDIC's total assets at June 30, 2014 were \$2,848 million, an increase of \$70 million (3%) from March 31, 2014. The increase is primarily the result of insurance premiums receivable. The majority of the Corporation's assets are highly liquid investment securities.

As at June 30, 2014, CDIC's *ex ante* funding represented 41.5 basis points (\$2,839 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 for insurance losses, 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 at June 30, 2014 remains acceptable and unchanged from its assessment as at March 31, 2014.

## 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 <sup>th</sup> , 2014, which established premium revenue for the year. Based on the filings, insured deposits as at April 30, 2014 held at member institutions totalled \$684 billion (April 30, 2013 - \$665 billion).
Board of Directors, Officers and Personnel	<p>On April 21, 2014 Mr. Paul Rochon assumed the position of Deputy Minister of Finance, replacing Mr. Michael Horgan as a Director on CDIC's Board of Directors. Mr. Horgan was a member of CDIC's Board of Directors since September 2009.</p> <p>On June 29, 2014, Mr. Jeremy Rudin was appointed Superintendent of the Office of the Superintendent of Financial Institutions, replacing Ms. Julie Dickson as a Director on CDIC's Board of Directors. Ms. Dickson was a member of CDIC's Board of Directors since June 2007.</p>
Programs and Initiatives	<p>Budget 2014 announced the launch of a Deposit Insurance Review to “ensure that Canada’s deposit insurance system provides adequate protection for the savings of Canadian’s, taking into account lessons from the recent financial crisis and significant shifts in the global banking landscape.” The Review will have a wide scope and will consider most aspects of the current federal deposit insurance framework.</p> <p>CDIC has established a small group to work in collaboration with the Department of Finance on the Review.</p>

## FINANCIAL RESULTS

### Three months ended June 30, 2014, compared to three months ended June 30, 2013

The following table sets forth CDIC's comparative results for the three months ended June 30, 2014 and 2013.

(C\$ thousands)	Three months ended		Difference (\$)	Difference (%)
	June 30, 2014	June 30, 2013		
Premium revenue	69,845	47,932	21,913	46%
Investment and other income	9,886	9,125	761	8%
Increase in provision for insurance losses	50,000	-	50,000	*
Net operating expenses	9,354	8,826	528	(6%)
Income tax expense	130	38	92	(242%)
<b>Net income</b>	<b>20,247</b>	<b>48,193</b>	<b>73,294</b>	<b>152%</b>

\* 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*. Premium rates are a key determinant of the length of time it will take for CDIC to reach its minimum target level of *ex ante* funding (100 basis points). CDIC considered multiple premium rate options to improve its progression toward the minimum target. For 2014/2015, the approved Category 1 rate (the base rate) is 3.5 basis points of insured deposits, an approximately 0.72 basis point increase over the 2013/2014 base rate. The amount recognized in each quarter represents 1/4<sup>th</sup> of the annual assessment amount.

Premium revenue of \$70 million was recorded during the quarter ended June 30, 2014 compared to \$48 million for the same period last year, a 45% 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 increase in premium revenue. Insured deposits increased to \$684 billion as at April 30, 2014, from \$665 billion as at April 30, 2013, an increase of 3%.

### Investment and other income

Investment and other income for the quarter increased by \$1 million (8%) to \$10 million, as compared to the same period last year. The increase was mainly a result of higher investment balances. The portfolio yield as at June 30, 2014 was 1.43%, unchanged from March 31, 2014.

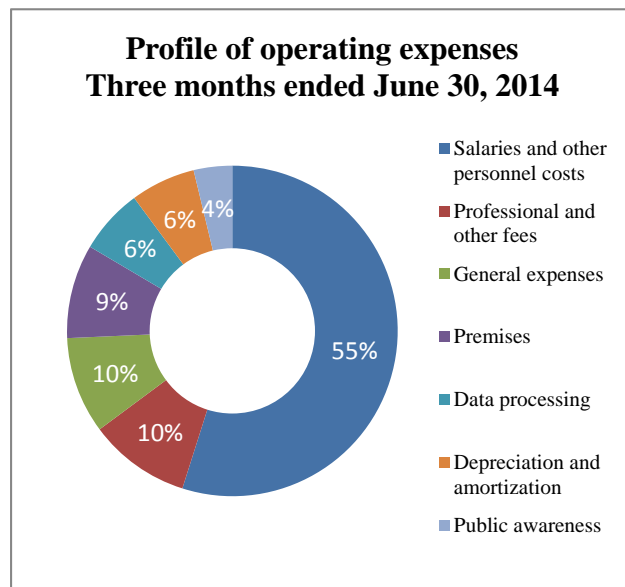
## Provision for insurance losses

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 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.

CDIC's provision for insurance losses increased \$50 million to \$1,250 million during the quarter. The primary driver for the increase was the increased level of insured deposits from \$665 billion as at April 30, 2013 to \$684 billion at April 30, 2014, an increase of 3%.

## Operating expenses



Operating expenses, net of recoveries, for the three months ended June 30, 2014 totalled \$9.4 million compared to \$8.8 million for the same period last year, representing an increase of \$0.6 million, or 7%.

Increased operating expenses are consistent with CDIC's Corporate Plan and mainly reflect the staffing of previously vacant positions related to CDIC's continuing efforts to develop its large bank resolution capabilities.

### **Forecast results for fiscal 2014/2015, 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)	<b>2014/2015 Forecast</b>	2014/2015 Planned	Difference (\$)	Difference (%)
Premium revenue	<b>279</b>	250	29	12%
Investment and other income	<b>41</b>	37	4	11%
Increase in provision for insurance losses	<b>(50)</b>	-	(50)	*
Net operating expenses	<b>(42)</b>	(42)	-	-
Income tax recovery	<b>1</b>	1	-	*
<b>Net income</b>	<b>229</b>	246	(17)	(7%)

\* Not meaningful

#### **Premium revenue**

CDIC's 2014/2015 to 2018/2019 Corporate Plan (Corporate Plan) sets out planned premium revenue for fiscal 2014/2015 of \$250 million compared with Management's current forecast revenue for the year of \$279 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 a variance between the planned and forecast amounts.

#### **Investment and other income**

Forecast investment and other income is greater than originally planned due to the forecast yield being higher than what was included in the Corporate Plan (actual yield at June 30, 2014 was 1.43% versus 1.3% in the Corporate Plan) and the increase in premium revenue which will result in a larger than expected investment portfolio.

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

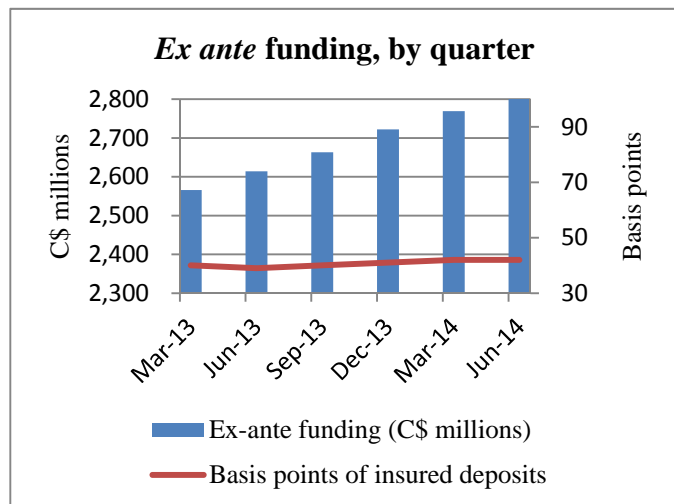
The Corporate Plan assumed no changes to the provision; however, due to an increase in insured deposits CDIC increased the provision to \$1,250 million. CDIC is forecasting the provision to remain at that level for fiscal 2014/2015.

#### **Net operating expenses**

Forecast net operating expenses are on target with the Corporate Plan.



## 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 \$2,839 million as at June 30, 2014, or 41.5 basis points of insured deposits. Based on the level of insured deposits as at April 30, 2014, the 100 basis point minimum target would equate to \$6,840 million of *ex ante* funding.

As noted earlier, premium rates were increased for 2014/2015 in order to improve CDIC's progression to the minimum *ex ante* funding target. In addition, CDIC's Corporate Plan 2014/2015 to 2018/2019 assumes further increases (1 basis point increase per year to the base rate for four years starting in 2015/2016). This will allow CDIC to reach its minimum target *ex ante* funding level over a credible timeframe.

## AVAILABLE LIQUID FUNDS

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

(C\$ millions)	June 30, 2014	Mar. 31, 2014
<i>Available liquid funds:</i>		
Cash	1	1
Fair value of high-quality, liquid investment securities	2,771	2,768
<i>Availability of borrowings:</i>		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund <sup>1</sup>	19,000	19,000
<b>Total available funds</b>	<b>21,772</b>	<b>21,769</b>

<sup>1</sup> 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, 2014, 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.



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Michèle Bourque

President and Chief Executive  
Officer

Ottawa, Canada  
August 14, 2014



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Dean A. Cosman

Vice President, Finance and  
Administration, and Chief Financial  
Officer

Ottawa, Canada  
August 14, 2014

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FIRST QUARTER – FISCAL 2014/2015**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in thousands of Canadian dollars)

	Notes	June 30, 2014	March 31, 2014
<b>ASSETS</b>			
Cash		294	699
Investment securities	3	2,761,661	2,760,461
Current tax asset		1,862	1,940
Premiums receivable		69,810	-
Trade and other receivables	4	1,585	1,554
Prepayments		325	303
Property, plant and equipment		6,231	6,461
Intangible assets		6,505	6,542
<b>TOTAL ASSETS</b>		<b>2,848,273</b>	<b>2,777,960</b>
<b>LIABILITIES</b>			
Trade and other payables		5,062	5,177
Deferred premium revenue		82	-
Deferred lease inducement		1,270	1,299
Employee benefits		2,561	2,486
Provision for insurance losses	5	1,250,000	1,200,000
Deferred tax liability		522	469
<b>Total liabilities</b>		<b>1,259,497</b>	<b>1,209,431</b>
<b>EQUITY</b>			
Retained earnings		1,588,776	1,568,529
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,848,273</b>	<b>2,777,960</b>

*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, 2014	June 30, 2013
<b>REVENUE</b>			
Premium		69,845	47,932
Investment income		9,861	9,121
Other		25	4
		<b>79,731</b>	<b>57,057</b>
<b>EXPENSES</b>			
Operating	6	9,354	8,826
Increase in provision for insurance losses		50,000	-
		<b>59,354</b>	<b>8,826</b>
Net income before income taxes		20,377	48,231
Income tax expense		130	38
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>20,247</b>	<b>48,193</b>

*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)

	<b>Retained earnings and total equity</b>
<b>FOR THE THREE MONTHS ENDED JUNE 30</b>	
<b>Balance, March 31, 2014</b>	1,568,529
Net income and total comprehensive income	20,247
<b>Balance, June 30, 2014</b>	<u>1,588,776</u>
<b>Balance, March 31, 2013</b>	1,316,280
Net income and total comprehensive income	48,193
<b>Balance, June 30, 2013</b>	<u>1,364,473</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)

	<b>For the three months ended</b>	
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>OPERATING ACTIVITIES</b>		
Net income	20,247	48,193
Add (deduct) items not involving cash		
Depreciation and amortization	595	403
Investment income	(9,861)	(9,121)
Tax expense	130	38
Employee benefit expense	91	59
Defined benefit payment	(16)	-
Change in working capital:		
Increase in provision for insurance losses	50,000	-
Increase in premiums receivable	(69,810)	(47,907)
Decrease (increase) in prepayments	(22)	(5)
Decrease in trade and other receivables	(31)	34
Decrease in trade and other payables	(115)	(766)
Increase in deferred premium revenue	82	4
Decrease in deferred lease inducement	(29)	(29)
Interest received	12,050	11,184
Income tax paid	-	(512)
Net cash generated by operating activities	<u>3,311</u>	<u>1,575</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	(329)	(888)
Purchase of investment securities	(1,423,330)	(1,236,077)
Proceeds from sale or maturity of investment securities	1,419,943	1,235,568
Net cash used in investing activities	<u>(3,716)</u>	<u>(1,397)</u>
Net (decrease) increase in cash	(405)	178
Cash, beginning of period	699	422
Cash, end of period	<u>294</u>	<u>600</u>

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

First quarter – Fiscal 2014/2015

### 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, 17<sup>th</sup> 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 14, 2014.

#### **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, 2014, in CDIC's 2013/2014 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, 2014.

### 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, 2014.

### 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, 2014 and June 30, 2013, 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, 2014			Total
	90 days or less	91 days to 1 year	1 to 5 years	
Treasury bills	408,105	248,107	-	656,212
Weighted average effective yield (%)	1.03	1.01	-	1.03
Bonds	108,979	457,999	1,537,671	2,104,649
Weighted average effective yield (%)	1.74	1.87	1.45	1.55
Other	800	-	-	800
Weighted average effective yield (%)	1.07	-	-	1.07
<b>Total investment securities</b>	<b>517,884</b>	<b>706,106</b>	<b>1,537,671</b>	<b>2,761,661</b>
<b>Weighted average effective yield (%)</b>	<b>1.18</b>	<b>1.57</b>	<b>1.45</b>	<b>1.43</b>

(C\$ thousands)	Remaining term to maturity				Total
	March 31, 2014				
	90 days or less	91 days to 1 year	1 to 5 years		
Treasury bills	310,774	401,290	-	712,064	
Weighted average effective yield (%)	1.04	1.05	-	1.04	
Bonds	499,851	405,899	1,138,447	2,044,197	
Weighted average effective yield (%)	1.37	1.77	1.58	1.57	
Other	4,200	-	-	4,200	
Weighted average effective yield (%)	0.95	-	-	0.95	
<b>Total investment securities</b>	<b>814,825</b>	<b>807,189</b>	<b>1,138,447</b>	<b>2,760,461</b>	
<b>Weighted average effective yield (%)</b>	<b>1.24</b>	<b>1.41</b>	<b>1.58</b>	<b>1.43</b>	

(C\$ thousands)	June 30, 2014			March 31, 2014
	Amortized cost	Gross unrealized gains (losses)	Fair value	Fair value
Treasury bills	656,212	(406)	655,806	711,584
Bonds	2,104,649	10,105	2,114,754	2,051,881
Other	800	-	800	4,200
<b>Total investment securities</b>	<b>2,761,661</b>	<b>9,699</b>	<b>2,771,360</b>	<b>2,767,665</b>

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

(C\$ thousands)	June 30, 2014	March 31, 2014
Credit rating		
AAA	2,289,450	2,291,656
AA+	124,104	109,000
AA	147,830	143,061
AA-	108,468	118,465
A+	91,809	98,279
<b>Total investments</b>	<b>2,761,661</b>	<b>2,760,461</b>

The carrying amounts in the above tables include accrued interest.

#### 4. TRADE AND OTHER RECEIVABLES

(C\$ thousands)	June 30, 2014	March 31, 2014
Accounts receivable	117	86
Other receivables	1,468	1,468
<b>Total trade and other receivables</b>	<b>1,585</b>	<b>1,554</b>

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
<b>Balance, March 31, 2014</b>	<b>1,200,000</b>
Increase in provision	<b>50,000</b>
<b>Balance, June 30, 2014</b>	<b>1,250,000</b>

## 6. OPERATING EXPENSES

(C\$ thousands)	For the three months ended	
	June 30, 2014	June 30, 2013
Salaries and other personnel costs	5,188	4,663
Professional and other fees	931	1,284
General expenses	885	669
Premises	861	950
Data processing	596	442
Depreciation and amortization	595	403
Public awareness	352	444
	<b>9,408</b>	8,855
Expense recoveries	(54)	(29)
<b>Total operating expenses</b>	<b>9,354</b>	8,826

## 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.