Canada Deposit
Insurance Corporation

Quarterly Financial Report
First Quarter

Protecting your deposits

JUNE 30, 2018

Unaudited

Canada

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Narrative discussion

First quarter – fiscal 2018/2019

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 2018 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, 2018, Canada Deposit Insurance Corporation ("CDIC" or "the Corporation") earned net income of $163 million, arising principally from premium revenue recognized of $160 million. Other items of significance were investment and other income of $14 million, and net operating expenses of $9 million. In the same period last year, CDIC incurred a net loss of $217 million, based on premium revenue of $134 million, investment and other income of $10 million, net operating expenses of $12 million, an increase to the provision for insurance losses ("the provision") of $350 million and a recovery of amounts previously written off of $1 million.

The Corporation's $160 million in premium revenue for the three-month period represents an increase of $26 million over the same period in the prior year. The increase in premium rates was the primary factor leading to the higher revenue. Changes in the premium categorization of member institutions and the growth in insured deposits also contributed to the variance.

The Corporation's $14 million in investment and other income for the three-month period ended June 30, 2018 was $4 million higher than in the same period in the prior year. This was due to the growth in the investment portfolio ($4,373 million and $3,828 million as at June 30, 2018 and 2017, respectively) and an increase in the effective yield on investments (1.31% and 1.08%, as at June 30, 2018 and 2017, respectively).

Net operating expenses were $9 million for the first quarter, $2 million lower than in the same period in the prior year due to several vacant positions and the timing of expenditures.

There was no change to CDIC's provision of $2,050 million as at June 30, 2018 from March 31, 2018. The level of insured deposits increased to $792 billion from $774 billion (2.3%) as at April 30, 2018 and 2017, respectively. However, the increase did not impact the provision as an estimated growth in the level of insured deposits was accrued in the provision as at March 31, 2018.

CDIC's total assets as at June 30, 2018 were $4,545 million, an increase of $162 million from March 31, 2018. The increase is largely the result of premiums receivable for the first quarter; premiums from CDIC's member institutions are received in July and December for the fiscal year. The majority of the Corporation's assets are highly liquid investment securities.

As at June 30, 2018, CDIC's *ex ante* funding represented 57 basis points ($4,535 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, Management utilizes an Enterprise Risk Management (ERM) program to identify and manage its key corporate risks. The ERM program includes a detailed assessment of risks, which is updated quarterly. The assessment includes Management's perspective on residual risk, which considers the potential impact of a risk event on the Corporation's financial position, reputation and/or ability to fulfill its mandate and statutory objects; the likelihood of such an event occurring; and the Corporation's risk management activities to manage the specific risk.

Management's overall assessment of the significant risks facing the Corporation as at June 30, 2018 remains acceptable.

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 of Insured Deposits by July 15, 2018, which established premium revenue for the year. Based on the filings, insured deposits as at April 30, 2018 held at member institutions totaled $792 billion (April 30, 2017 - $774 billion).
Board of Directors, Officers and Personnel	Michèle Bourque, President and Chief Executive Officer, retired effective June 18, 2018. Effective June 19, 2018, Dean Cosman was appointed President and Chief Executive Officer for a period of six months or until the government CEO recruitment process is completed, whichever occurs first. Claudia Morrow, Chief, Office of the President, retired effective June 27, 2018. Effective June 21, 2018 Johanne Charbonneau was appointed to be a director of the Board of Directors, to hold office for a term of four years, in the place of George Burger, whose term has expired. Effective June 21, 2018 Linda Caty was appointed to be a director of the Board of Directors, to hold office for a term of two years, in the place of Shelly M. Tratch, whose term has expired. Effective June 21, 2018 David M. Dominy was appointed to be a director of the Board of Directors, to hold office for a term of four years, in the place of Éric Pronovost, whose term has expired. Effective June 21, 2018 Wendy Millar was appointed to be a director of the Board of Directors, to hold office for a term of four years, in the place of Susan Hicks, whose term has expired.
Programs and Initiatives	On June 21, 2018, the Budget Implementation Act, 2018, No. 1 (BIA 1), "An Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures" received Royal Assent. The Act includes a number of important changes to the *Canada Deposit Insurance Corporation Act*, which will modernize and enhance the Canadian deposit insurance framework. These changes have been approved by Parliament, but will be brought into force by the Government at a later date. Over the coming months, CDIC will look to make the necessary changes to its by-laws and procedures to ensure that they fully reflect the amended framework.

Financial results

Three-month period ended June 30, 2018, compared to three-month period ended June 30, 2017

The following table sets out CDIC's comparative results for the three-month period ended June 30, 2018 and 2017.

	For the three-month period ended		Variance Increase (Decrease)	
(C$ thousands)	**June 30, 2018**	**June 30, 2017**	($)	(%)
Premium revenue	159,676	133,825	25,851	19%
Investment and other income	13,940	10,208	3,732	37%
Change in provision for insurance losses	-	350,000	(350,000)	*
Net operating expenses	9,216	11,608	(2,392)	(21%)
Recovery of amounts previously written off	-	628	(628)	*
Income tax expense	1,497	-	1,497	*
Net income (loss)	**162,903**	**(216,947)**	**379,850**	**175%**

*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 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 minimum target level of *ex ante* funding of 100 basis points. Each year, CDIC considers various premium rate options. For 2018/2019, the approved Category 1 rate (the base rate) is 7.5 basis points of insured deposits, a 1.0 basis point increase over the 2017/2018 base rate. The amount recognized in each quarter represents one-fourth of the annual assessment amount.

Premium revenue of $160 million was recorded during the three-month period ended June 30, 2018 compared to $134 million for the same period last year, a 19% increase. The increase in premium rates was the primary factor leading to the higher revenue. Growth in insured deposits and change in categorization of certain member institutions also contributed to the net variance in premium revenue. Insured deposits grew to $792 billion as at April 30, 2018, from $774 billion as at April 30, 2017, an increase of 2.3%.

Investment and other income

The Corporation's $14 million in investment and other income for the three-month period ended June 30, 2018 was $4 million higher than in the same period in the prior year. This was due to the growth in the investment portfolio ($4,373 million and $3,828 million as at June 30, 2018 and June 30, 2017, respectively) and an increase in the effective yield on investments (1.31% and 1.08%, as at June 30, 2018 and 2017, respectively).

Provision for insurance losses

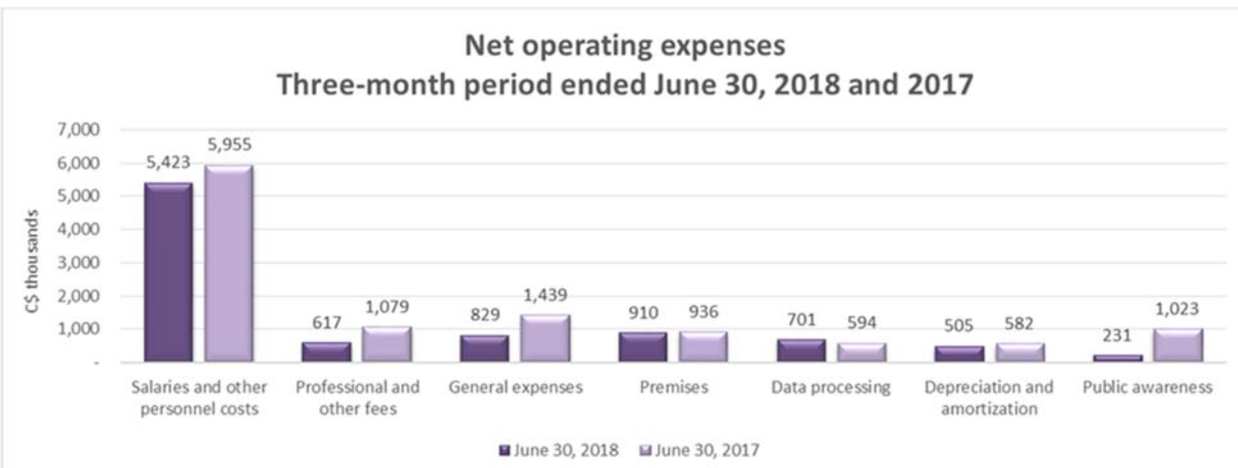
The provision represents Management's best estimate of the losses it expects to incur as a result of insuring deposits. The adequacy of the provision is assessed on a quarterly basis and, if necessary, adjustments are recorded.

In arriving at its estimate, Management considers the key inputs of its provisioning methodology: the 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 the risk profile of its members.

As at June 30, 2018, the overall provision remained unchanged from March 31, 2018 at $2,050 million, although several factors contributed to offsetting changes within the provision, including:

- The change in the level of insured deposits;
- The risk profile of some member institutions;
- The discount rate (2.06% at June 30, 2018, compared to 1.96% at March 31, 2018);
- Fluctuations in the calculated probability of defaults, primarily due to credit rating downgrades of certain member institutions.

Net operating expenses



Net operating expenses for the three-month period ended June 30, 2018 totaled $9 million, $2 million lower than in the same period in the prior year. The decrease is due to numerous factors, including vacant positions and the timing of certain expenditures in public awareness.

Forecast results for fiscal 2018/2019, 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.

	2018/2019		Variance Increase (Decrease)	
(C$ millions)	**Forecast**	**Planned**	($)	(%)
Premium revenue	639	636	3	*
Investment and other income	64	61	3	5%
(Decrease) increase in provision for insurance losses	(100)	100	(200)	(200%)
Net operating expenses	47	48	(1)	(2%)
Income tax expense	3	3	-	-
Net income	**753**	**546**	**207**	38%

*Not meaningful

Premium revenue

CDIC's 2018/2019 to 2022/2023 Corporate Plan (the "Corporate Plan") sets out planned premium revenue of $636 million for fiscal 2018/2019, compared with Management's current forecast revenue of $639 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

Forecasted investment and other income is $64 million, slightly higher than the planned amount of $61 million due to a higher than planned estimated yield on re-investments.

Provision for insurance losses

The forecasted provision for insurance losses for March 31, 2019 is $1,950 million, which will result in a $100 million decrease to the provision for the 2018/2019 fiscal year. This forecasted balance is based on conditions as at June 30, 2018 while incorporating the impact of the credit rating event as described in Note 7 of the condensed consolidated financial statements as well as an estimated growth in insured deposits throughout the year.

The increase in the provision for insurance losses that was included in the 2018/2019 Corporate Plan was based on assumptions as at December 31, 2017 with an assumed growth in insured deposits. Actual inputs into the calculation of the provision have differed from those assumptions resulting in variances between the planned and forecasted amounts.

Net operating expenses

Net operating expenses for fiscal 2018/2019 are forecasted at $47 million, a reduction of $1 million from the planned amount.

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 $4,535 million as at June 30, 2018, or 57 basis points of insured deposits.

As noted earlier, premium rates were increased for 2018/2019 in order to accelerate CDIC's progression to the minimum *ex ante* funding target. CDIC's Corporate Plan assumes that premium rates will remain stable after 2018/2019. It is currently forecasted that CDIC will reach the minimum *ex ante* funding target level of 100 basis points in 2024/2025.

Available liquid funds

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

(C$ millions)	**June 30, 2018**	**March 31, 2018**
Available liquid funds:		
Cash	3	2
Fair value of high-quality, liquid investment securities	4,306	4,309
Availability of borrowings:		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	23,000	23,000
Total available funds	**27,309**	**27,311**

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 and Municipal Financing Authorities. Additional funds are available through CDIC's authority to borrow under the *CDIC Act*. As at June 30, 2018, the Corporation can borrow up to $23 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.

Dean A. Cosman
President and Chief Executive Officer

Ottawa, Canada
August 16, 2018

Anthony Carty
Vice-President, Finance and Administration and Chief Financial Officer

Ottawa, Canada
August 16, 2018

Condensed consolidated financial statements and notes

Condensed consolidated statement of financial position

As at June 30, 2018 and March 31, 2018 (C$ thousands)

	Notes	June 30, 2018	March 31, 2018
ASSETS			
Cash		3,284	1,581
Investment securities	*3*	4,373,077	4,372,580
Premiums receivable		159,675	-
Trade and other receivables		666	215
Amounts recoverable from estates		82	82
Prepayments		648	317
Property, plant & equipment		3,601	3,782
Intangible assets		3,991	4,056
TOTAL ASSETS		**4,545,024**	**4,382,613**
LIABILITIES			
Trade and other payables		4,651	6,059
Current tax liability		1,229	542
Deferred premium revenue		4	-
Deferred lease inducement		819	847
Employee benefits		2,788	2,804
Provision for insurance losses	*4*	2,050,000	2,050,000
Deferred tax liability		289	20
Total liabilities		**2,059,780**	**2,060,272**
EQUITY			
Retained earnings		2,485,244	2,322,341
TOTAL LIABILITIES AND EQUITY		**4,545,024**	**4,382,613**

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

Condensed consolidated statement of comprehensive income

For the three-month period ended June 30, 2018 and 2017 (C$ thousands)

	Notes	June 30, 2018	June 30, 2017
REVENUE			
Premium		159,676	133,825
Investment income		13,917	10,208
Other income		23	-
		173,616	144,033
EXPENSES			
Net operating expenses	*5*	9,216	11,608
Increase in the provision for insurance losses	*4*	-	350,000
Recovery of amounts previously written off		-	(628)
		9,216	360,980
Net income (loss) before income taxes		164,400	(216,947)
Income tax expense		1,497	-
TOTAL COMPREHENSIVE INCOME (LOSS)		**162,903**	**(216,947)**

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

Condensed consolidated statement of changes in equity

For the three-month period ended June 30, 2018 and 2017 (C$ thousands)

	Retained earnings and total equity
Balance, March 31, 2018	**2,322,341**
Total comprehensive income	162,903
Balance, June 30, 2018	**2,485,244**
Balance, March 31, 2017	**2,235,979**
Total comprehensive loss	(216,947)
Balance, June 30, 2017	**2,019,032**

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

Condensed consolidated statement of cash flows

For the three-month period ended June 30, 2018 and 2017 (C$ thousands)

	June 30, 2018	June 30, 2017
OPERATING ACTIVITIES		
Net income (loss) before income taxes	162,903	(216,947)
Add (deduct) items not involving cash		
Depreciation and amortization	505	582
Investment income	(13,917)	(10,208)
Income tax expense	1,497	-
Employee benefit expense	76	70
Defined benefit payment	(92)	-
Change in working capital:		
Increase in premiums receivable	(159,675)	(133,699)
Increase in trade and other receivables	(451)	(281)
Increase in prepayments	(331)	(25)
Decrease in trade and other payables	(1,408)	(440)
Increase in deferred premium revenue	4	378
Decrease in deferred lease inducement	(28)	(28)
Increase in the provision for insurance losses	-	350,000
Interest received	25,765	15,373
Income tax paid	(542)	(68)
Net cash generated by operating activities	14,306	4,707
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(259)	(398)
Purchase of investment securities	(326,428)	(170,337)
Proceeds from sale or maturity of investment securities	314,084	168,173
Net cash used in investing activities	(12,603)	(2,562)
Net increase in cash	1,703	2,145
Cash, beginning of period	1,581	1,771
Cash, end of period	**3,284**	**3,916**

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; to promote and otherwise contribute to the stability of the financial system in Canada; to pursue these objects for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss; and to act as the resolution authority for its member institutions.

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

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

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation's Corporate Plan. 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 August 16, 2018.

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, 2018, in CDIC's 2018 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.

Changes to International Financial Reporting Standards (IFRS)

Certain IFRS were issued by the IASB that are mandatory and effective for accounting periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (IFRS 15) relates to the recognition of revenue that applies to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.

The Corporation adopted IFRS 15 with an initial application date of April 1, 2018. The Corporation applied IFRS 15 using the modified retrospective approach (cumulative effect method) by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at April 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18.

There were no quantitative changes as a result of implementation.

IFRS 9 – Financial Instruments

Effective April 1, 2018, CDIC has applied *IFRS 9 Financial Instruments* (IFRS 9) – Impairment and the related amendments to the other IFRSs in accordance with the transition provisions set out in IFRS 9. With regards to CDIC's financial statements, the adoption of IFRS 9 has resulted in changes to CDIC's accounting policies for the impairment of financial assets. IFRS 9 also significantly amends other standards relating to financial instruments, such as IFRS 7 *Financial Instruments: Disclosures* (IFRS 7). CDIC's revised accounting policies for financial instruments are found in Note 2.

As permitted by the transitional provisions of IFRS 9, CDIC elected not to restate comparative figures as the impact of the adoption is not significant to CDIC's consolidated financial statements. As such, the accounting policies for prior period financial statements are consistent with those disclosed in CDIC's consolidated financial statements for the year ended March 31, 2018. Any adjustments to the carrying amounts of financial instruments at the date of transition were recognized in the opening retained earnings and other reserves of the current period. For note disclosures, the amendments to IFRS 7 have also been applied to the current period only, and were primarily descriptive in nature.

On the date of initial application of April 1, 2018, CDIC's existing financial assets were assessed for impairment in accordance with the requirements of IFRS 9 as described in Note 2.

CDIC had no impairment allowance recorded in accordance with the IAS 39 incurred loss model at March 31, 2018, and had no impairment allowance recorded in accordance with the IFRS 9 expected loss model as at April 1, 2018.

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, 2018.

Financial instruments - impairment

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

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

The Corporation calculates a loss allowance for expected credit losses (ECLs) on investment securities and premiums receivable that are measured at amortized cost. CDIC recognizes 12-month ECLs for financial instruments unless there has been a significant increase in credit risk since initial recognition, in which case lifetime ECLs are recognized. The amount of ECLs, if any, is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Corporation has incorporated forward looking economic information into its ECL by performing the calculation under multiple scenarios resulting in a probability-weighted average ECL based on the weightings of each scenario.

Accounting estimates and judgements

The measurement of ECLs on the Corporation's financial assets is an area that requires the use of complex models and significant assumptions and judgements that are driven by numerous factors, changes in which can result in different levels of allowances.

Elements of the ECL model that are considered accounting judgements and estimates include:

- determining criteria for significant increase in credit risk;
- development of appropriate models and assumptions for the measurement of ECL;
- determination of the economic variables most highly correlated to our portfolios of financial assets; and
- establishing the number and relative weightings of forward-looking macroeconomic scenarios and their effect on economic inputs in the ECL model.

Expected credit loss approach and assessment

Investment securities

For investment securities, ECLs are the difference between all contractual cash flows that are due to CDIC in accordance with the contract and all the cash flows CDIC expects to received, discounted at the original effective interest rate. If a significant increase in credit risk has occurred since initial recognition, impairment is measured as lifetime ECLs. Otherwise, impairment is measured as 12-month ECLs which represents the portion of lifetime ECLs that is expected to occur based on default events that are possible within 12 months after the reporting date. If credit quality improves in a subsequent period such that the increase in credit risk since initial recognition is no longer considered significant, the loss allowance reverts back to being measured based on 12-month ECLs.

The Corporation's investment securities are debt instruments, issued or guaranteed by the Government of Canada or provincial governments, with a minimum credit rating of A-. In assessing ECLs on these instruments, the Corporation has applied the low-risk practical expedient available under IFRS 9 due their high credit quality. As a result, these instruments need not be assessed for significant increase in credit risk and the impairment provision should be based on 12-month ECLs.

Premium receivable

The Corporation applies the simplified approach for premium receivables whereby the Corporation is not required to assess changes in credit risk but instead requires the recognition of a loss allowance based on lifetime ECLs at each reporting date, right from origination. In the case of CDIC's premium receivables, the contractual maturity would be less than one year and hence the lifetime credit loss would be measured over a 12 month period.

Amounts recoverable from estates

Amounts recoverable from estates fall under the credit-adjusted effective interest rate and always recognize a loss allowance for changes in lifetime expected credit losses. As such, the resulting fair value at initial recognition already takes into account lifetime expected losses and there is no additional 12 month ECL allowance. Indicators of whether an asset is credit-impaired on acquisition or origination are the same as for stage 3. At each reporting date, CDIC will update its estimated cash flows and adjusts the loss allowance accordingly.

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, 2018.

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, 2018 and 2017, no actuarial valuations were prepared. As a result, no actuarial gains or losses were recognized.

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			
As at June 30, 2018 (C$ thousands)	**90 days or less**	**91 days to 1 year**	**1 to 5 years**	**Total**
Treasury bills	11,991	-	-	11,991
Weighted average effective yield (%)	1.11	-	-	1.11
Bonds	328,097	523,955	3,509,034	4,361,086
Weighted average effective yield (%)	1.32	1.58	1.27	1.31
Total investment securities	**340,088**	**523,955**	**3,509,034**	**4,373,077**
Weighted average effective yield (%)	**1.32**	**1.58**	**1.27**	**1.31**

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

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

			Fair values			
As at June 30, 2018 (C$ thousands)	**Amortized cost**	**Unrealized losses**	**Level 1**	**Level 2**	**Level 3**	**Total**
Treasury bills	11,991	-	11,991	-	-	11,991
Bonds	4,361,086	(66,761)	3,579,346	714,979	-	4,294,325
Total investment securities	**4,373,077**	**(66,761)**	**3,591,337**	**714,979**	-	**4,306,316**

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

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

Credit rating *(C$ thousands)*	**June 30, 2018**	**March 31, 2018**
AAA	4,037,581	4,086,722
AA+	-	-
AA	25,204	25,100
AA-	137,037	138,901
A+	173,255	121,857
Total investment securities	**4,373,077**	**4,372,580**

The carrying amounts in the above tables include accrued interest.

The Corporation did not record any loss allowances on its investment securities as at June 30, 2018 (March 31, 2018: nil).

The Corporation did not record any loss allowances on its premiums receivables as at June 30, 2018 (March 31, 2018: nil).

4 - 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, 2018	**2,050,000**
Change in the provision	-
Balance, June 30, 2018	**2,050,000**

5 - Operating expenses

(C$ thousands)	**June 30, 2018**	**June 30, 2017**
Salaries and other personnel costs	5,423	5,955
Professional and other fees	617	1,079
General expenses	868	1,477
Premises	910	936
Data processing	701	594
Depreciation and amortization	505	582
Public awareness	231	1,023
	9,255	11,646
Expense recoveries	(39)	(38)
Total operating expenses	**9,216**	**11,608**

6 - 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.

7 - Events after the reporting period

The provision for insurance losses is an estimate that is determined by assessing the aggregate risk of the Corporation's member institutions based on the inputs discussed in Note 2 of the CDIC 2018 Annual Report. Subsequent to June 30, 2018, Moody's Investor Services upgraded the long-term credit ratings of certain Canadian banks in July, which is expected to decrease the provision by an estimated $150 million to $1,900 million.