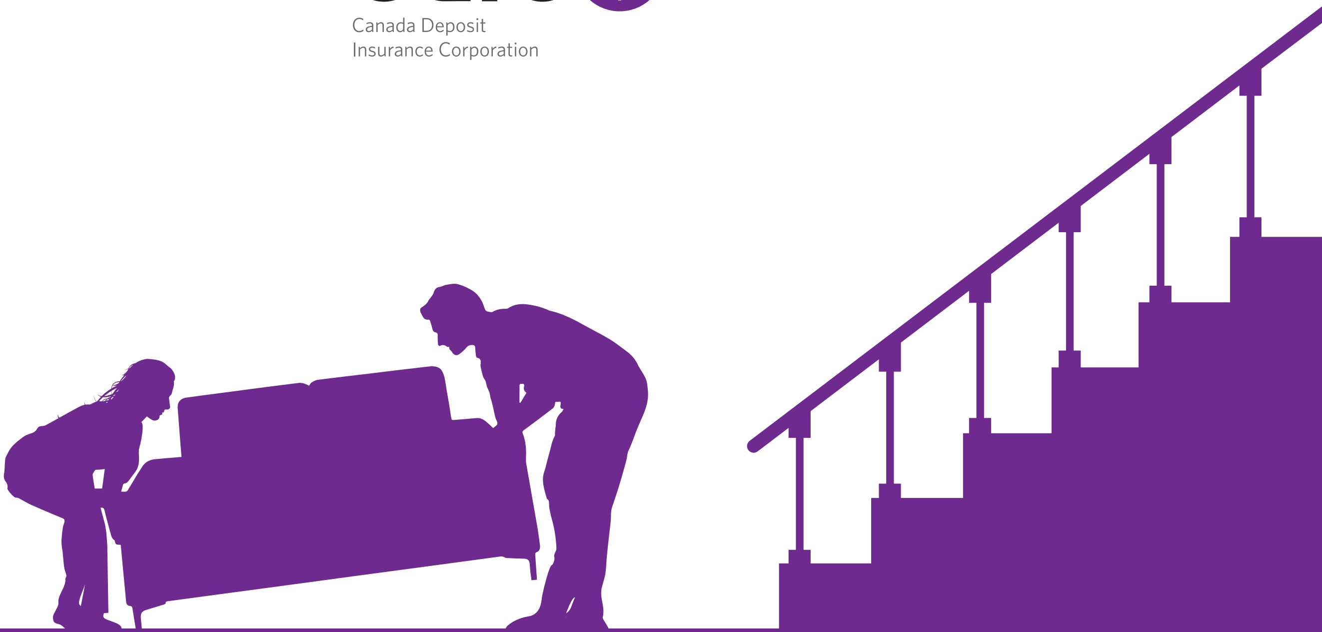
Canada Deposit
Insurance Corporation



WE PROTECT YOUR FIRST APARTMENT MONEY

Quarterly Financial Report
Second Quarter

SEPTEMBER 30, 2019

Unaudited

Canada

Table of contents

Narrative discussion

Second quarter – fiscal 2019/2020

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 2019 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 second quarter ended September 30, 2019, Canada Deposit Insurance Corporation ("CDIC" or "the Corporation") recognized net income of $174 million, arising principally from premium revenue of $167 million. Other items of significance were investment income of $21 million, net operating expenses of $11 million and income taxes of $3 million. For the same period in the prior year, CDIC recognized net income of $315 million based on premium revenue of $160 million, a decrease to the provision for insurance losses ("the provision") of $150 million, investment and other income of $16 million, net operating expenses of $10 million and incomes taxes of $1 million.

For the six-month period ended September 30, 2019, CDIC recognized net income of $397 million, arising principally from premium revenue of $334 million and a decrease to the provision of $50 million. Other items of significance were investment and other income of $40 million, net operating expenses of $22 million and incomes taxes of $6 million. For the same period in the prior year, CDIC recognized net income of $478 million, based on premium revenue of $319 million, a decrease to the provision of $150 million, investment and other income of $30 million, net operating expenses of $19 million and income taxes of $3 million.

The Corporation's $334 million in premium revenue for the six-month period ended September 30, 2019 represents an increase of $15 million over the same period in the prior year. The increase was due to growth in insured deposits, partially offset by changes in the premium categorization of member institutions.

The Corporation's $40 million in investment and other income for the six-month period ended September 30, 2019 was $10 million higher than for the same period in the prior year. The increase was due to the growth in the investment portfolio ($5,390 million and $4,701 million as at September 30, 2019 and 2018, respectively) and an increase in the effective yield on investments (1.60% and 1.44%, as at September 30, 2019 and 2018, respectively).

The Corporation's net operating expenses for the six-month period ended September 30, 2019 were $22 million, $3 million higher than for the same period in the prior year, mainly due to a corporate focus on staffing vacant positions and timing of expenditures in public awareness.

The Corporation's income taxes for the six-month period ended September 30, 2019 were $6 million, $3 million higher than for the same period in the prior year due to the increase in investment income, partially offset by the increase in net operating expenses.

The provision for insurance losses at September 30, 2019 is $2,000 million, $50 million less than the balance as at March 31, 2019 due to variances in projected assumptions and changes in the risk profile of certain member institutions.

CDIC's total assets as at September 30, 2019 were $5,412 million, an increase of $368 million from March 31, 2019. The increase is largely driven by the growth in CDIC's investment portfolio. The majority of the Corporation's assets are highly liquid investment securities.

As at September 30, 2019, CDIC's *ex ante* funding ($5,382 million) represented 63 basis points of insured deposits ($852 billion), as compared to the minimum target level of 100 basis points, which is expected to be achieved by the fiscal year 2025/2026, consistent with the Corporate Plan.

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, which is currently undergoing a transformation to improve alignment of our corporate strategies, decision making, priorities and allocation of resources with our key risks, includes an assessment of risks which is updated quarterly.

As of September 30, 2019, CDIC has appropriate risk mitigation strategies in place for significant risks facing the Corporation. 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	Ms. Judith Roberston, Commissioner of the Financial Consumer Agency of Canada, was appointed as a member of the CDIC Board of Directors effective August 19th 2019, pursuant to s.5(1)(b.1) of the Canada Deposit Insurance Corporation Act (the "CDIC Act").
Programs and Initiatives	There were no significant changes during this quarter.

Financial results

Three-month period ended September 30, 2019, compared to three-month period ended September 30, 2018

The following table sets out CDIC's comparative results for the three-month period ended September 30, 2019 and 2018.

	For the three-month period ended		Variance Increase (Decrease)	
(C$ thousands)	**September 30, 2019**	**September 30, 2018**	($)	(%)
Premium revenue	167,077	159,679	7,398	5%
Investment and other income	21,116	16,064	5,052	31%
Change in provision for insurance losses	-	(150,000)	150,000	*
Net operating expenses	10,719	9,803	916	9%
Income tax expense	3,316	1,265	2,051	162%
Net income	**174,158**	**314,675**	**(140,517)**	**(45%)**

*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 2019/2020, the approved Category 1 rate (the base rate) is 7.5 basis points of insured deposits, unchanged from the 2018/2019 base rate. The amount recognized in each quarter represents one-fourth of the annual assessment amount.

Premium revenue of $167 million was recorded during the three-month period ended September 30, 2019 compared to $160 million for the same period in the prior year, a 5% increase. Growth in insured deposits and changes in the categorization of certain member institutions contributed to the net variance in premium revenue. Insured deposits grew to $852 billion as at April 30, 2019, from $807[1] billion as at April 30, 2018, an increase of 6%.

Investment and other income

The Corporation's $21 million in investment and other income for the three-month period ended September 30, 2019 was $5 million higher than for the same period in the prior year. This was due to the growth in the investment portfolio ($5,390 million and $4,701 million as at September 30, 2019 and 2018, respectively) and an increase in the effective yield on investments (1.60% and 1.44%, as at September 30, 2019 and 2018, respectively).

[1] Includes changes in insured deposits levels as a result of changes to the membership during the fiscal year 2018/2019.

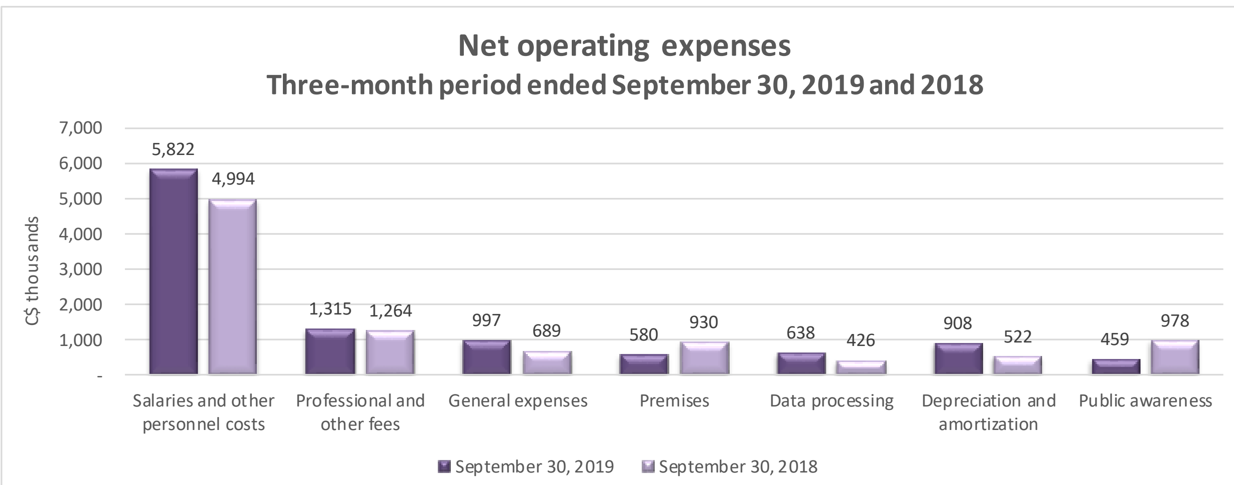
Provision for insurance losses

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 remained unchanged from the previous quarter at $2,000 million as at the period ended September 30, 2019.

Net operating expenses



Net operating expenses[2] for the three-month period ended September 30, 2019 totaled approximately $11 million, $1 million higher than for the same period in the prior year mainly due to a corporate focus on staffing vacant positions.

Income tax expense

The Corporation is subject to federal income tax. The Corporation's primary source of taxable income is its interest income. 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.

The Corporation's income tax expense of $3 million for the three-month period ended September 30, 2019 is $2 million higher than for the same period in the prior year due to the increase in investment revenues, partially offset by the increase in net operating expenses.

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

Six-month period ended September 30, 2019, compared to six-month period ended September 30, 2018

The following table sets out CDIC's comparative results for the six-month period ended September 30, 2019 and 2018.

(C$ thousands)	For the six-month period ended September 30, 2019	September 30, 2018	Variance Increase (Decrease) ($)	(%)
Premium revenue	334,122	319,355	14,767	5%
Investment and other income	40,441	30,005	10,436	35%
Change in the provision for insurance losses	(50,000)	(150,000)	100,000	(67%)
Net operating expenses	22,273	19,019	3,254	17%
Income tax expense	5,784	2,763	3,021	109%
Net income	**396,506**	**477,578**	**(81,072)**	**(17%)**

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 2019/2020, the approved Category 1 rate (the base rate) is 7.5 basis points of insured deposits, unchanged from the 2018/2019 base rate. The amount recognized in each quarter represents one-fourth of the annual assessment amount.

Premium revenue of $334 million was recorded during the six-month period ended September 30, 2019 compared to $319 million for the same period in the prior year, a 5% increase. Growth in insured deposits and changes in the categorization of certain member institutions contributed to the net variance in premium revenue. Insured deposits grew to $852 billion as at April 30, 2019, from $807[3] billion as at April 30, 2018, an increase of 6%.

Investment and other income

The Corporation's $40 million in investment and other income for the six-month period ended September 30, 2019 was $10 million higher than for the same period in the prior year. This was due to the growth in the investment portfolio ($5,390 million and $4,701 million as at September 30, 2019 and 2018, respectively) and an increase in the effective yield on investments (1.60% and 1.44%, as at September 30, 2019 and 2018, 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

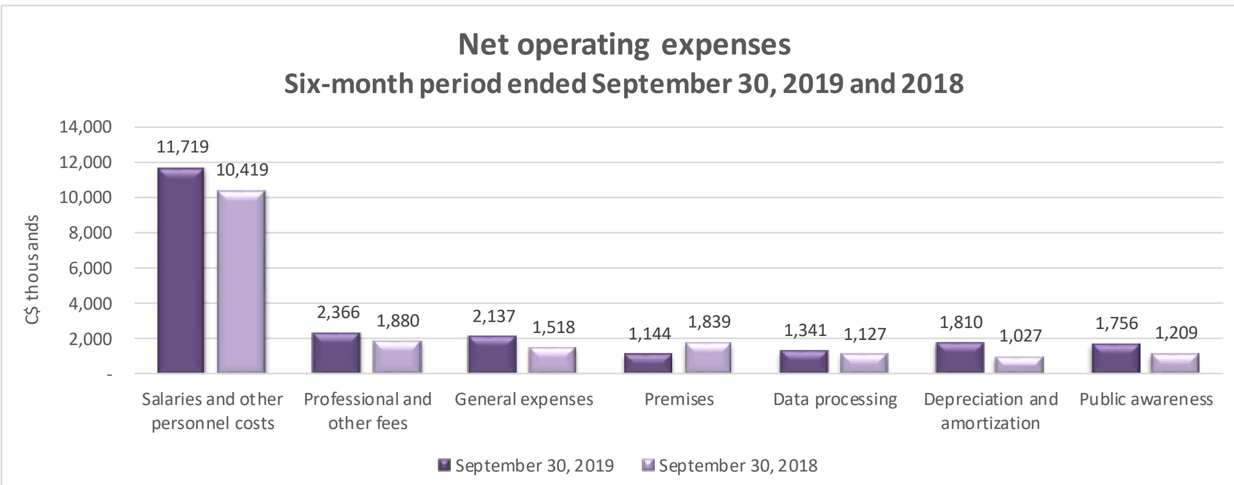
[3] Includes changes in insured deposits levels as a result of changes to the membership during the fiscal year 2018/2019.

default, supervisory information, economic indicators, and CDIC's specific knowledge of the risk profile of its members.

CDIC's provision for insurance losses decreased by $50 million to $2,000 million during the six-month period ended September 30, 2019. Several factors contributed to the change in the provision for insurance losses, including:

- variances between the estimated and actual inputs to the provision calculation;
- fluctuations in the calculated probability of defaults;
- the risk profile of some member institutions; and
- the discount rate used to present value the provision (1.40% at September 30, 2019, compared to 1.52% at March 31, 2019).

Net operating expenses



Net operating expenses[4] for the six-month period ended September 30, 2019 totaled approximately $22 million, $3 million higher than for the same period in the prior year, mainly due to a corporate focus on staffing vacant positions and timing of expenditures in public awareness.

Income tax expense

The Corporation is subject to federal income tax. The Corporation's source of taxable income is its interest income. From this amount, allowable expenditures are deducted 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.

The Corporation's income tax expense of $6 million for the six-month period ended September 30, 2019 is $3 million higher than in the same period in the prior year due to the increase in investment revenues, partially offset by the increase in net operating expenses.

[4] Net operating expenses include cost recoveries, which are adjusted against general expenses.

Forecast results for fiscal 2019/2020, 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.

	2019/2020		Variance Increase (Decrease)	
(C$ millions)	**Forecast**	**Planned**	**($)**	**(%)**
Premium revenue	668	665	3	*
Investment and other income	85	85	-	-
Increase in provision for insurance losses	100	100	-	-
Net operating expenses	51	50	1	2%
Income tax expense	9	9	-	-
Net income	**593**	**591**	**2**	*

*Not meaningful

Premium revenue

CDIC's 2019/2020 to 2023/2024 Corporate Plan (the "Corporate Plan") sets out planned premium revenue of $665 million for fiscal 2019/2020, relatively consistent with Management's current forecasted revenue of $668 million for the year.

Investment and other income

Forecasted investment and other income is $85 million, consistent with the planned amount of $85 million.

Provision for insurance losses

The forecasted provision as at March 31, 2020 is $2,150 million, consistent with the planned amount.

Net operating expenses

Net operating expenses for fiscal 2019/2020 are forecasted at $50 million, relatively consistent with 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, 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 $5,382 million as at September 30, 2019, or 63 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 minimum *ex ante* funding target level in 2025/2026, consistent with the Corporate Plan.

Available liquid funds

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

(C$ millions)	**September 30, 2019**	**March 31, 2019**
Available liquid funds:		
Cash	2	2
Fair value of high-quality, liquid investment securities	5,409	5,045
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	**28,411**	**28,047**

CDIC's portfolio of investment securities is limited to high-quality, liquid securities: obligations of the Government of Canada and its agent Crowns, and obligations of Provincial Governments / Municipal Financing Authorities. Additional funds are available through CDIC's authority to borrow under the *CDIC Act*. As at September 30, 2019, the Corporation can borrow up to $23 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 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 these condensed consolidated quarterly financial statements.

Peter Routledge
President and Chief Executive Officer

Ottawa, Canada
November 14, 2019

Anthony Carty
Vice-President, Finance, Technology and Depositor Solutions and Chief Financial Officer

Ottawa, Canada
November 14, 2019

Condensed consolidated financial statements and notes

Condensed consolidated statement of financial position

As at September 30, 2019 and March 31, 2019 (C$ thousands)

	Notes	September 30, 2019	March 31, 2019
ASSETS			
Cash		1,817	2,190
Investment securities	*3*	5,390,243	5,033,815
Trade and other receivables		83	502
Amounts recoverable from estates		6	6
Prepayments		906	605
Right-of-use assets	*4*	12,608	-
Property, plant & equipment		3,147	3,189
Intangible assets		3,592	3,884
TOTAL ASSETS		**5,412,402**	**5,044,191**
LIABILITIES			
Trade and other payables		4,408	5,800
Current tax liability		2,914	504
Lease liabilities	*4*	13,365	-
Deferred premium revenue		7,982	-
Deferred lease inducement		-	734
Employee benefits		1,598	1,524
Provision for insurance losses	*5*	2,000,000	2,050,000
Deferred tax liability		303	303
Total liabilities		**2,030,570**	**2,058,865**
EQUITY			
Retained earnings		3,381,832	2,985,326
TOTAL LIABILITIES AND EQUITY		**5,412,402**	**5,044,191**

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

Condensed consolidated statement of comprehensive income

For the three and six-month periods ended September 30, 2019 and 2018 (C$ thousands)

		For the three-month period ended September 30		For the six-month period ended September 30	
	Notes	**2019**	**2018**	**2019**	**2018**
REVENUE					
Premium		167,077	159,679	334,122	319,355
Investment income		21,113	16,063	40,438	29,980
Other income		3	1	3	25
		188,193	175,743	374,563	349,360
EXPENSES					
Net operating expenses	*6*	10,719	9,803	22,273	19,019
Decrease in the provision for insurance losses	*5*	-	(150,000)	(50,000)	(150,000)
		10,719	(140,197)	(27,727)	(130,981)
Net income before income taxes		177,474	315,940	402,290	480,341
Income tax expense		3,316	1,265	5,784	2,763
TOTAL COMPREHENSIVE INCOME		**174,158**	**314,675**	**396,506**	**477,578**

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

Condensed consolidated statement of changes in equity

For the three and six-month periods ended September 30, 2019 and 2018 (C$ thousands)

FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30

	Retained earnings and total equity
Balance, June 30, 2019	**3,207,674**
Total comprehensive income	174,158
Balance, September 30, 2019	**3,381,832**
Balance, June 30, 2018	**2,485,244**
Total comprehensive income	314,675
Balance, September 30, 2018	**2,799,919**

FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30

Balance, March 31, 2019	**2,985,326**
Total comprehensive income	396,506
Balance, September 30, 2019	**3,381,832**
Balance, March 31, 2018	**2,322,341**
Total comprehensive income	477,578
Balance, September 30, 2018	**2,799,919**

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

Condensed consolidated statement of cash flows

For the three and six-month periods ended September 30, 2019 and 2018 (C$ thousands)

	For the three-month period ended September 30		For the six-month period ended September 30	
	2019	**2018**	**2019**	**2018**
OPERATING ACTIVITIES				
Net income before income taxes	174,158	314,675	396,506	477,578
Add (deduct) items not involving cash				
Depreciation and amortization	908	522	1,810	1,027
Investment income	(21,113)	(16,063)	(40,438)	(29,980)
Income tax expense	3,316	1,265	5,784	2,763
Employee benefit expense	41	43	82	119
Defined benefit payment	-	(45)	(8)	(137)
Change in working capital:				
Decrease in premiums receivable	166,905	159,675	-	-
(Increase) decrease in trade and other receivables	(10)	301	419	(150)
(Increase) decrease in prepayments	(85)	204	(301)	(127)
(Decrease) increase in trade and other payables	(77)	304	(1,392)	(1,104)
Increase in deferred premium revenue	7,560	2,980	7,982	2,984
Decrease in deferred lease inducement	-	(29)	(734)	(57)
Decrease in the provision for insurance losses	-	(150,000)	(50,000)	(150,000)
Interest received	20,279	17,798	52,278	43,563
Income tax paid	(1,435)	(2,312)	(3,374)	(2,854)
Net cash generated by operating activities	350,447	329,318	368,614	343,625
INVESTING ACTIVITIES				
Purchase of property, plant and equipment and intangible assets	(468)	(411)	(783)	(670)
Purchase of investment securities	(789,726)	(717,395)	(1,123,960)	(1,043,824)
Proceeds from sale or maturity of investment securities	438,138	387,495	755,692	701,579
Net cash used in investing activities	(352,056)	(330,311)	(369,051)	(342,915)
FINANCING ACTIVITIES				
Principal payment of lease liabilities	(337)	-	(670)	-
Incentive in connection with the recognition of finance lease under IFRS 16	-	-	734	-
Net cash (used in) generated from financing activities	(337)	-	64	-
Net (decrease) increase in cash	(1,946)	(993)	(373)	710
Cash, beginning of period	3,763	3,284	2,190	1,581
Cash, end of period	**1,817**	**2,291**	**1,817**	**2,291**

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, 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 (D-SIB) 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 resulted in several amendments to the *CDIC Act*, which received royal assent on June 21, 2018. These amendments will modernize and enhance Canada's deposit insurance framework, and will come into force in two phases—April 30, 2020, and April 30, 2021.

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 November 14, 2019.

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 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, 2019, in the Corporation's 2019 Annual Report.

These 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 the consideration given in exchange for an asset and the amount of cash expected to be paid to satisfy a liability.

Changes to International Financial Reporting Standards (IFRS)

The following IFRS issued by the International Accounting Standards Board (IASB), is mandatory and effective for accounting periods beginning on or after January 1, 2019.

IFRS 16 Leases (IFRS 16)

IFRS 16 supersedes *IAS 17 Leases* (IAS 17), *IFRIC 4 Determining whether an Arrangement contains a Lease* (IFRIC 4), *SIC-15 Operating Leases-Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Effective April 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective method and recognized $13,263 thousand of right-of-use assets and $13,997 thousand of lease liabilities, the difference being deferred lease inducements, with no impact on opening retained earnings.

On initial application of IFRS 16, the Corporation elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Corporation also elected to use the recognition exemptions for short-term leases and low-value assets. The Corporation has applied the definition of a lease under IFRS 16 to contracts entered into on or after April 1, 2019.

All the Corporation's leases were accounted for as operating leases prior to the date of initial application of IFRS 16. Under IFRS 16, the Corporation recognizes a lease liability and right-of-use asset for all leases except short-term leases and low-value assets. At the date of initial application, lease liabilities were measured at the present value of the lease payments that were not yet paid as at that date, discounted using the Corporation's incremental borrowing rate. Right-of-use assets were measured on a lease-by-lease basis, at an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments or deferred inducements.

With the exception of the initial application of IFRS 16, the Corporation has consistently applied its accounting policies to the periods presented in the financial statements. More information can be found in Note 4 to these condensed consolidated quarterly financial statements.

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 audited consolidated financial statements as at and for the year ended March 31, 2019.

Leases

At inception of a contract, the Corporation determines if a contract, or part of a contract, contains a lease. A contract contains a lease if it conveys the right to use an identified asset for a period of time in exchange for consideration. The Corporation uses the following criteria to assess whether a contract conveys the right to control the use of an identified asset:

- The Corporation has the right to obtain substantially all of the economic benefits from the use of the identified assets;
- The supplier does not have the substantive right to substitute the asset through the period of use; and
- The Corporation has the right to direct the use of the identified asset.

For a contract that contains multiple lease components or one or more lease components and non-lease components, the Corporation allocates, at inception, the consideration in the contract to each lease or non-lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease component.

At the commencement of a lease, the Corporation recognizes a right-of-use asset and a lease liability.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. These recognized assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term unless the Corporation is reasonably certain to obtain ownership of the leased asset at the end of the lease term. They are also subject to impairment.

Lease liabilities

Lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option or penalties for terminating a lease reasonably certain to be exercised or terminated by the Corporation. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occur.

Short-term leases and leases of low-value assets

The Corporation applies short-term lease recognition exemption to the contracts with a lease term of 12-months or less from the commencement date with no purchase option. The Corporation also applies low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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, 2019 except for the following:

Leases

The Corporation has the option under some of its leases to lease the assets for additional term of five years. The Corporation applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, the Corporation reassesses the lease term if there is a significant change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

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 September 30, 2019		91 days to		
(C$ thousands)	**90 days or less**	**1 year**	**1 to 5 years**	**Total**
Treasury bills	26,274	-	-	26,274
Weighted average effective yield (%)	1.68	-	-	1.68
Bonds	184,499	1,007,692	4,171,778	5,363,969
Weighted average effective yield (%)	1.45	1.06	1.73	1.59
Total investment securities	**210,773**	**1,007,692**	**4,171,778**	**5,390,243**
Weighted average effective yield (%)	**1.48**	**1.06**	**1.73**	**1.60**

	Remaining term to maturity			
As at March 31, 2019		91 days to		
(C$ thousands)	**90 days or less**	**1 year**	**1 to 5 years**	**Total**
Treasury bills	20,979	-	-	20,979
Weighted average effective yield (%)	1.65	-	-	1.65
Bonds	204,554	838,733	3,969,549	5,012,836
Weighted average effective yield (%)	1.57	1.08	1.64	1.55
Total investment securities	**225,533**	**838,733**	**3,969,549**	**5,033,815**
Weighted average effective yield (%)	**1.58**	**1.08**	**1.64**	**1.55**

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

As at September 30, 2019 *(C$ thousands)*	Amortized cost	Unrealized (loss) gain	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	26,274	(1)	26,273	-	-	26,273
Bonds	5,363,969	18,804	3,814,297	1,568,476	-	5,382,773
Total investment securities	**5,390,243**	**18,803**	**3,840,570**	**1,568,476**	**-**	**5,409,046**

As at March 31, 2019 *(C$ thousands)*	Amortized cost	Unrealized (loss) gain	Fair values Level 1	Level 2	Level 3	Total
Treasury bills	20,979	(3)	20,976	-	-	20,976
Bonds	5,012,836	10,823	3,969,551	1,054,108	-	5,023,659
Total investment securities	**5,033,815**	**10,820**	**3,990,527**	**1,054,108**	**-**	**5,044,635**

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

	September 30, 2019	March 31, 2019
AAA	4,269,219	4,385,778
AA	47,061	10,779
AA-	469,269	366,027
A+	604,694	271,231
Total investment securities	**5,390,243**	**5,033,815**

The carrying amounts in the above tables include accrued interest.

The Corporation did not record any loss allowances on its investment securities and premium receivables as at September 30, 2019 (March 31, 2019: nil).

4 – Right-of-use assets and lease liabilities

The Corporation leases office space in Ottawa and Toronto. The lease of office space in Ottawa ends in September 2030, with an option to renew for an additional five years. The lease of office space in Toronto ends in October 2021, with an option to renew for an additional five years. The extension option for both Ottawa and Toronto office is exercisable solely at the discretion of the Corporation. Upon implementation of the standard, the Corporation assessed that it was not reasonably certain to exercise any extension options. The Corporation leases equipment under a five-year term ending in March 2020.

Carrying value of right-of-use-assets

(C$ thousands)	Leased office space	Equipment	Total
Cost			
Balance, April 1, 2019	**13,244**	**19**	**13,263**
Additions	-	-	-
Balance, June 30, 2019	**13,244**	**19**	**13,263**
Additions	-	-	-
Adjustments	38	-	38
Balance, September 30, 2019	**13,282**	**19**	**13,301**
Accumulated depreciation			
Balance, April 1, 2019	**-**	**-**	**-**
Depreciation	341	5	346
Balance, June 30, 2019	**341**	**5**	**346**
Depreciation	342	5	347
Balance, September 30, 2019	**683**	**10**	**693**
Carrying amounts			
Balance, April 1, 2019	13,244	19	13,263
Balance, June 30, 2019	12,903	14	12,917
Balance, September 30, 2019	**12,599**	**9**	**12,608**

Carrying value of lease liabilities

(C$ thousands)	Leased office space	Equipment	Total
Balance, April 1, 2019	**13,978**	**19**	**13,997**
Finance charges	61	-	61
Lease payments	(389)	(5)	(394)
Balance, June 30, 2019	**13,650**	**14**	**13,664**
Finance charges	59	-	59
Lease payments	(353)	(5)	(358)
Balance, September 30, 2019	**13,356**	**9**	**13,365**

The Corporation recognized no expenses related to short-term leases and the amount recognized for low-value assets during the quarter ended September 30, 2019 was insignificant.

Maturity analysis for lease liabilities (undiscounted)

	Leased office space	Equipment	Total
Not later than one year	1,645	9	1,654
Later than one year and not later than five years	5,315	-	5,315
Later than five years	7,689	-	7,689
Total	**14,649**	**9**	**14,658**

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, 2019	**2,050,000**
Change in the provision	(50,000)
Balance, June 30, 2019	**2,000,000**
Change in the provision	-
Balance, September 30, 2019	**2,000,000**

On April 3, 2019, the coming into force dates were announced for amendments to the *CDIC Act*. These amendments will modernize and enhance the Canadian deposit insurance framework to better protect depositors and support the ongoing stability of the financial system in Canada. They will include changes to the coverage of eligible deposits that will impact Corporation's exposure to losses in the calculation of the provision for insurance losses. The coming into force dates will be in two phases: April 30, 2020, and April 30, 2021. The impact to the provision for insurance losses is currently not known and is therefore not practical to estimate.

6 - Operating expenses

	For the three-month period ended September 30		For the six-month period ended September 30	
(C$ thousands)	**2019**	**2018**	**2019**	**2018**
Salaries and other personnel costs	5,822	4,994	11,719	10,419
Professional and other fees	1,315	1,264	2,366	1,880
General expenses	1,039	730	2,215	1,598
Premises	580	930	1,144	1,839
Data processing	638	426	1,341	1,127
Depreciation and amortization	908	522	1,810	1,027
Public awareness	459	978	1,756	1,209
	10,761	9,844	22,351	19,099
Expense recoveries	(42)	(41)	(78)	(80)
Total operating expenses	**10,719**	**9,803**	**22,273**	**19,019**

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.