



Canada Deposit  
Insurance Corporation

# QUARTERLY FINANCIAL REPORT SECOND QUARTER

SEPTEMBER 30, 2021

*Unaudited*



*We protect  
your deposits*

Canada<sup>ca</sup>

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## Narrative discussion

### **Second quarter – fiscal 2021/2022**

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 the Canada Deposit Insurance Corporation’s 2021 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, 2021, the Canada Deposit Insurance Corporation (“CDIC” or “the Corporation”) recognized a net income of \$201 million, based on premium revenue of \$193 million, investment and other income of \$23 million, net operating expenses of \$14 million and an incomes tax expense of \$1 million. For the same period in the prior year, CDIC recognized a net income of \$140 million, based on premium revenue of \$185 million, investment income of \$23 million, an increase to the provision for insurance losses (“the provision”) of \$50 million, net operating expenses of \$13 million and an income tax expense of \$4 million.

For the six-month period ended September 30, 2021, CDIC recognized a net income of \$349 million, based on premium revenue of \$386 million, investment income of \$45 million, an increase to the provision of \$50 million, net operating expenses of \$30 million and incomes taxes of \$2 million. For the same period in the prior year, CDIC recognized a net income of \$37 million, arising principally from premium revenue of \$369 million, partially offset by an increase to the provision of \$350 million. Other items of significance were investment income of \$46 million, net operating expenses of \$27 million and an income tax expense of \$1 million.

The Corporation’s \$386 million in premium revenue for the six-month period ended September 30, 2021, represents an increase of \$16 million over the same period in the prior year. The increase was mainly due to growth in insured deposits.

The Corporation’s \$45 million in investment income for the six-month period ended September 30, 2021, was \$514 thousand lower than in the same period in the prior year. In spite of growth in the investment portfolio the decrease in investment income was due to a decrease in the effective yield on investments (1.35% and 1.51%, as at September 30, 2021, and 2020, respectively).

The Corporation’s net operating expenses for the six-month period ended September 30, 2021, were \$30 million, \$3 million higher than for the same period in the prior year, mainly due to an increase in personnel costs and professional fees to support the Corporation’s key initiatives, offset by lower public awareness spend compared to last year due to increased media presence during the COVID 19 pandemic.

The provision for insurance losses as at September 30, 2021, is \$2,700 million, \$50 million higher than the balance as at March 31, 2021, primarily due to an increase in the probability of defaults offset by a decrease in exposure to losses.

CDIC’s total assets as at September 30, 2021, were \$6,912 million, an increase of \$400 million from March 31, 2021, mainly driven by growth in CDIC’s investment portfolio.

As at September 30, 2021, CDIC’s *ex ante* funding (\$6,891 million) represented 67 basis points of insured deposits (\$1,025 billion), as compared to the minimum target level of 100 basis points which is expected to be achieved by the 2028/2029 fiscal year, one year later than the 2021/2022 Corporate Plan target of fiscal year 2027/2028. The forecasted additional year to reach the target is primarily due to higher than estimated growth in insured deposits and upcoming coverage changes as a result of the Deposit Insurance Review (DIR) Phase 2 which comes into effect April 2022.

## 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 guides the development of our corporate strategies, decision making and the allocation of resources, and includes an assessment of risks which is updated quarterly.

As of September 30, 2021, CDIC has appropriate risk mitigation strategies in place for significant risks facing the Corporation identified through this process. These risks are being assessed and monitored continuously by Management.

## Changes in operations, personnel and programs

The following describes any significant changes in operations, personnel and programs that have occurred during the current quarter.

Operations            There were no significant changes during this quarter.

Board of  
Directors,  
Officers and  
Personnel

### Officers

On August 4, 2021, Leah Anderson was appointed President and CEO of CDIC, effective August 16, 2021. Ms. Anderson will serve as President and CEO for up to two years or until a new President and CEO is appointed.

On September 20, 2021, Ms. Tara Newman tendered her resignation as Head, Corporate Strategy and Risk Management and Chief Risk Officer.

### Board of Directors

On July 21, 2021, Sharon Kozicki was appointed Deputy Governor of the Bank of Canada, effective August 2, 2021. Ms. Kozicki was designated as an alternate member of CDIC's Board of Directors to attend in the absence of the Governor of the Bank of Canada, effective August 30, 2021.

On August 23, 2021, Isabelle Jacques was appointed to the position of Assistant Deputy Minister, Financial Sector Policy Branch at the Department of Finance. Effective September 6, 2021, Ms. Jacques was designated as an alternate member of CDIC's Board of Directors to attend in the absence of the Deputy Minister of Finance.

Effective September 6, 2021, Mr. Frank Lofranco, Deputy Commissioner, Supervision and Enforcement, was designated as an alternate member of CDIC's Board of Directors to attend in the absence of the Commissioner of the Financial Consumer Agency of Canada.

Programs and  
Initiatives

There were no significant changes during this quarter.

## Financial results

### Three-month period ended September 30, 2021, compared to three-month period ended September 30, 2020

The following table sets out CDIC's comparative results for the three-month period ended September 30, 2021, and 2020.

(C\$ thousands)	For the three-month period ended		Variance	
	September 30 2021	2020	Increase (Decrease) (\$)	(%)
Premium revenue	193,016	184,769	8,247	4%
Investment and other income	23,030	22,678	352	2%
Change in provision for insurance losses	-	50,000	(50,000)	(100%)
Net operating expenses	13,727	13,006	721	6%
Income tax expense	1,061	4,105	(3,044)	(74%)
<b>Net income</b>	<b>201,258</b>	<b>140,336</b>	<b>60,922</b>	<b>43%</b>

#### Premium revenue

Premiums charged to member institutions are based on the total amount of insured deposits held by member institutions as at April 30 each year and are calculated annually in accordance with the *CDIC Act* and CDIC's *Differential Premiums By-law*. Premium rates are a key determinant of the length of time it will take to reach the Corporation's minimum target level of *ex ante* funding of 100 basis points of insured deposits. Each year, CDIC considers various premium rate options. For 2021/2022, the approved Category I rate (the base rate) is 7.5 basis points of insured deposits, unchanged from the 2020/2021 base rate. CDIC's premium revenue for fiscal 2021/2022, established from the Insured Deposits as at April 30, 2021 is estimated to be \$772 million, approximately 7.5 basis points of insured deposits. The amount recognized as premium revenue in each quarter represents one-fourth of the annual assessed amount.

Premium revenue of \$193 million was recorded during the three-month period ended September 30, 2021, compared to \$185 million for the same period in the prior year, a 4% increase. Growth in insured deposits contributed to the increase in premium revenue. Insured deposits grew to \$1,025 billion as at April 30, 2021, from \$968 billion as at April 30, 2020.

#### Investment and other income

The Corporation's \$23 million in investment and other income for the three-month period ended September 30, 2021, was \$352 thousand higher than in the same period in the prior year. In spite of growth in the investment portfolio (\$6,862 million and \$5,937 million as at September 30, 2021, and 2020, respectively), there was only a marginal increase in investment income over the three-month period due to a decrease in the effective yield on investments (1.35% and 1.51%, as at September 30, 2021, and 2020, respectively).

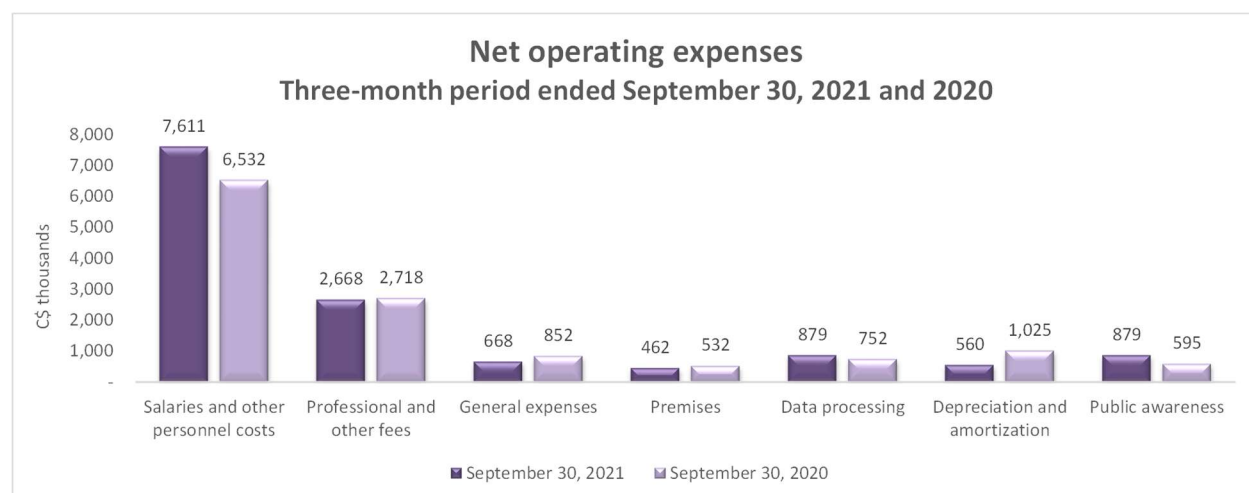
## Provision for insurance losses

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

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

CDIC's provision for insurance losses remained unchanged from the previous quarter at \$2,700 million as at the period ended September 30, 2021.

## Net operating expenses



The Corporation's net operating expenses for the three-month period ended September 30, 2021, were \$14 million, \$1 million higher than for the same period in the prior year mainly due to an increase in personnel costs to support the Corporation's key initiatives.

## Income taxes

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.

For quarterly reporting, CDIC uses an effective tax rate to compute its tax liability or tax asset in accordance with *IAS 34 – Interim Financial Reporting*. During the three-month period ended September



30, 2021, the Corporation recognized an income tax expense of \$1.1 million, \$3 million lower than in the same period in the prior year mainly due to a lower effective tax rate.

### Six-month period ended September 30, 2021, compared to six-month period ended September 30, 2020

The following table sets out CDIC's comparative results for the six-month period ended September 30, 2021, and 2020.

<i>(C\$ thousands)</i>	For the six-month period ended		Variance	
	September 30 2021	2020	Increase (Decrease) (\$)	(%)
Premium revenue	386,031	369,538	16,493	4%
Investment and other income	45,193	45,594	(401)	(1%)
Change in provision for insurance losses	50,000	350,000	(300,000)	(86%)
Net operating expenses	30,170	27,443	2,727	10%
Income tax expense	1,905	827	1,078	130%
<b>Net income</b>	<b>349,149</b>	<b>36,862</b>	<b>312,287</b>	<b>847%</b>

#### Premium revenue

Premium revenue of \$386 million was recorded during the six-month period ended September 30, 2021, compared to \$ 370 million for the same period in the prior year, a 4% increase. Growth in insured deposits contributed to the increase in premium revenue year over year.

#### Investment and other income

The Corporation's \$45 million in investment and other income for the six-month period ended September 30, 2021, was \$401 thousand lower than in the same period in the prior year. In spite of growth in the investment portfolio the decrease in investment income was driven by a decrease in the effective yield on investments (1.35% and 1.51%, as at September 30, 2021, and 2020, respectively).

#### Provision for insurance losses

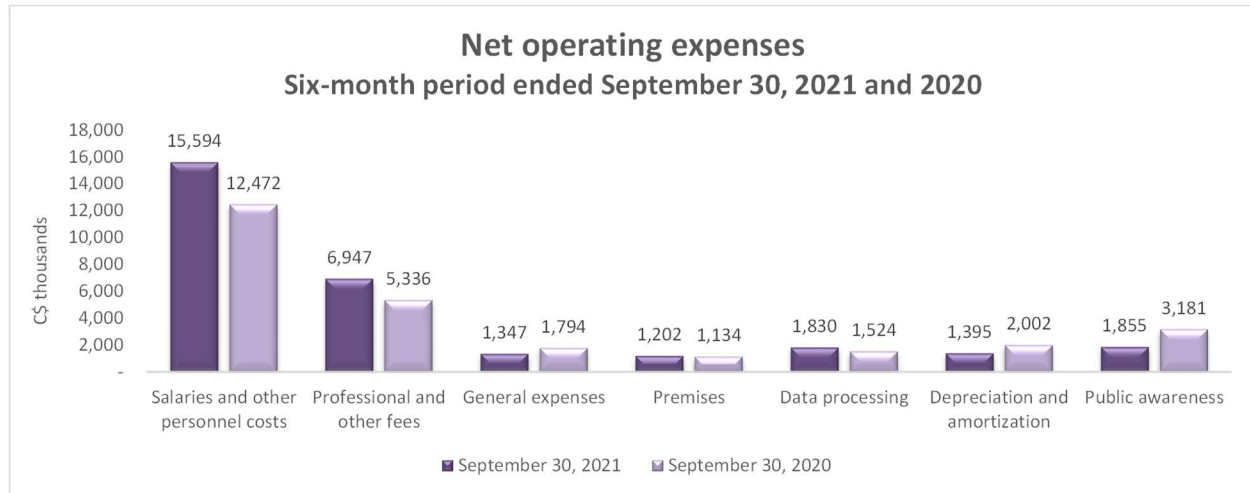
The provision represents Management's best estimate of the losses it expects to incur as a result of insuring deposits. The adequacy of the provision is assessed on a quarterly basis and, if necessary, adjustments are recorded.

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

CDIC's provision for insurance losses increased by \$50 million to \$2,700 million during the six-month period ended September 30, 2021. Several factors contributed to the net change in the provision for insurance losses, including:

- an increase in probability of defaults of certain member institutions;
- changes in the risk profile of certain member institutions; and
- a decrease in exposure to losses.

## Net operating expenses



The Corporation's net operating expenses for the six-month period ended September 30, 2021, were \$30 million, \$3 million higher than for the same period in the prior year. This is mainly due to an increase in personnel costs and professional fees to support the Corporation's key initiatives partially offset by lower public awareness spend compared to last year due to increased media presence during the COVID 19 pandemic.

## Income taxes

As described previously, CDIC uses an effective tax rate for quarterly reporting to compute its tax liability or tax asset in accordance with *IAS 34 – Interim Financial Reporting*. During the six-month period ended September 30, 2021, the Corporation recognized an income tax expense of \$2 million, \$1 million higher than in the same period in the prior year.

## Forecast results for fiscal 2021/2022, compared to Corporate Plan

This section includes future-oriented financial information that is based on certain assumptions. Actual results may differ from the forecasted information presented and such differences may be material.

<i>(C\$ millions)</i>	2021/2022		Variance	
	Forecast	Planned	Increase (Decrease) (\$)	(%)
Premium revenue	772	765	7	1%
Investment and other income	90	76	14	18%
Change in provision for insurance losses	100	100	-	-
Net operating expenses	73	68	5	7%
Income tax expense	4	2	2	100%
<b>Net income</b>	<b>685</b>	<b>671</b>	<b>14</b>	<b>2%</b>

### Premium revenue

CDIC's 2021/2022 to 2025/2026 Corporate Plan (the "Corporate Plan") sets out planned premium revenue of \$765 million for fiscal 2021/2022, compared with Management's current forecasted revenue of \$772 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. Results to date have differed from the assumptions, resulting in a small variance between the planned and forecasted amounts.

### Investment and other income

The forecasted investment and other income are \$90 million, compared to the planned amount of \$76 million, a variance of \$14 million. This increase is due to variations in certain assumptions used in developing the Corporate Plan regarding the yield on investment portfolio and premium receipts.

### Provision for insurance losses

The forecasted provision for insurance losses as at March 31, 2022, is \$2,750 million, compared to the planned amount of \$2,700 million. This increase is mainly due to changes in assumptions (probability of defaults, exposure to losses, etc.) since the Plan amounts were developed.

### Net operating expenses

Net operating expenses for fiscal 2021/2022 are forecasted at \$73 million, \$5 million higher than the planned amount. The increase is principally due to the accounting treatment for CDIC's payout modernization initiative. Costs that were budgeted as capital expenditures in fiscal 2021/2022 will be accounted for as operating expenses to ensure compliance with IFRS.

## Ex ante funding

Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. CDIC maintains *ex ante* funding to cover possible deposit insurance losses. The amount of such funding is represented by the aggregate of the Corporation's retained earnings and the provision for insurance losses. The 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 \$6,891 million as at September 30, 2021, or 67 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 fiscal 2028/2029.

## Available liquid funds

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

<i>(C\$ millions)</i>	<b>September 30, 2021</b>	<b>March 31, 2021</b>
<i>Available liquid funds:</i>		
Cash	30	2
Fair value of high-quality, liquid investment securities	6,912	6,586
<i>Availability of borrowings:</i>		
Borrowings authorized under the CDIC Act, either from market sources or from the Consolidated Revenue Fund	28,000	28,000
<b>Total available funds</b>	<b>34,942</b>	<b>34,588</b>
Insured deposits (as at April 30, 2021 and 2020 respectively)	1,024,892	967,981
<b>Total basis points of insured deposits</b>	<b>341</b>	<b>357</b>

CDIC's portfolio of investment securities is limited to high-quality, liquid securities: obligations of the Government of Canada and its agent Crowns, and obligations of Provincial Governments / Municipal Financing Authorities. Additional funds are available through CDIC's authority to borrow under the *CDIC Act*. As of December 31, 2020, the Corporation can borrow up to \$28 billion. The borrowing limit is adjusted annually on December 31 to reflect the growth of insured deposits. Supplemental borrowing, if required, could be authorized either by Parliament through an appropriation act, or by the Minister of Finance out of the Consolidated Revenue Fund.

## Management representation

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the *Treasury Board of Canada 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.



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Leah Anderson  
President & Chief Executive  
Officer

Ottawa, Canada  
November 10, 2021



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Camille Ringrose  
Head, Finance and Operations & Chief  
Financial Officer

Ottawa, Canada  
November 10, 2021

## Condensed consolidated financial statements and notes

### Condensed consolidated statement of financial position

As at September 30, 2021, and March 31, 2021 (C\$ thousands)

	Notes	September 30, 2021	March 31, 2021
<b>ASSETS</b>			
Cash		30,207	2,480
Investment securities	3	6,861,793	6,490,225
Trade and other receivables		1,606	166
Current tax asset		2,102	1,130
Amounts recoverable from estates		6	6
Prepayments		1,434	1,302
Right-of-use assets	4	8,073	9,700
Property, plant & equipment		3,724	4,163
Intangible assets		2,936	2,999
<b>TOTAL ASSETS</b>		<b>6,911,881</b>	<b>6,512,171</b>
<b>LIABILITIES</b>			
Trade and other payables		6,436	8,465
Lease liabilities	4	9,710	10,390
Deferred premium revenue		3,475	-
Employee benefits		1,546	1,508
Provision for insurance losses	5	2,700,000	2,650,000
Deferred tax liability		60	303
<b>Total liabilities</b>		<b>2,721,227</b>	<b>2,670,666</b>
<b>EQUITY</b>			
Retained earnings		4,190,654	3,841,505
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,911,881</b>	<b>6,512,171</b>

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, 2021, and 2020 (C\$ thousands)

	Notes	For the three-month period ended September 30		For the six-month period ended September 30	
		2021	2020	2021	2020
<b>REVENUE</b>					
Premium		193,016	184,769	386,031	369,538
Investment income		22,970	22,677	45,075	45,589
Other income		60	1	118	5
		216,046	207,447	431,224	415,132
<b>EXPENSES</b>					
Net operating expenses	6	13,727	13,006	30,170	27,443
Increase in the provision for insurance losses	5	-	50,000	50,000	350,000
		13,727	63,006	80,170	377,443
Net income before income taxes		202,319	144,441	351,054	37,689
Income tax expense		1,061	4,105	1,905	827
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>201,258</b>	<b>140,336</b>	<b>349,149</b>	<b>36,862</b>

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, 2021, and 2020 (C\$ thousands)

### FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30

	Retained earnings and total equity
<b>Balance, June 30, 2021</b>	<b>3,989,396</b>
Total comprehensive income	201,258
<b>Balance, September 30, 2021</b>	<b>4,190,654</b>

<b>Balance, June 30, 2020</b>	<b>3,376,217</b>
Total comprehensive income	140,336
<b>Balance, September 30, 2020</b>	<b>3,516,553</b>

### FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30

<b>Balance, March 31, 2021</b>	<b>3,841,505</b>
Total comprehensive income	349,149
<b>Balance, September 30, 2021</b>	<b>4,190,654</b>

<b>Balance, March 31, 2020</b>	<b>3,479,691</b>
Total comprehensive income	36,862
<b>Balance, September 30, 2020</b>	<b>3,516,553</b>

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, 2021, and 2020 (C\$ thousands)

	For the three-month period ended		For the six-month period ended	
	September 30		September 30	
	2021	2020	2021	2020
<b>OPERATING ACTIVITIES</b>				
Net income before income taxes	201,258	140,336	349,149	36,862
Add (deduct) items not involving cash				
Depreciation and amortization	560	1,025	1,394	2,002
Investment income	(22,970)	(22,677)	(45,075)	(45,589)
Interest (recovery)/expense on lease liabilities	(15)	54	28	109
Income tax expense	1,061	4,105	1,905	827
Employee benefit expense	33	36	67	73
Defined benefit payment	(29)	(71)	(29)	(71)
Change in working capital:				
Decrease (increase) in premiums receivable	192,868	8,208	-	(176,560)
(Increase) decrease in trade and other receivables	(95)	62	(135)	83
Decrease (increase) in prepayments	185	(19)	(133)	(418)
Decrease in trade and other payables	(274)	(502)	(2,029)	(2,692)
Increase in deferred premium revenue	3,328	2,733	3,475	2,737
Increase in the provision for insurance losses	-	50,000	50,000	350,000
Interest received	24,413	23,705	65,146	60,988
Interest paid on lease liabilities	(42)	(54)	(85)	(109)
Income tax paid	(1,248)	(2,157)	(3,120)	(7,255)
Net cash generated by operating activities	399,033	204,784	420,558	220,987
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment and intangible assets	(166)	(429)	(427)	(725)
Purchase of investment securities	(742,107)	(761,748)	(1,177,699)	(1,282,126)
Proceeds from sale or maturity of investment securities	354,760	554,676	786,060	1,060,369
Net cash used in investing activities	(387,513)	(207,501)	(392,066)	(222,482)
<b>FINANCING ACTIVITIES</b>				
Principal payment of lease liabilities	(383)	(340)	(765)	(681)
Net cash used in financing activities	(383)	(340)	(765)	(681)
Net increase (decrease) in cash	11,137	(3,057)	27,727	(2,176)
Cash, beginning of period	19,070	4,449	2,480	3,568
Cash, end of period	30,207	1,392	30,207	1,392

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

## Notes to the condensed consolidated financial statements

### I - General information

The Canada Deposit Insurance Corporation (CDIC, or the Corporation) was established in 1967 by the Canada Deposit Insurance Corporation Act (the CDIC Act). It is a Crown corporation without share capital named in Part I of Schedule III to the Financial Administration Act and is funded by premiums assessed against its member institutions and investment income. 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.

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.

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

Changes to the CDIC Act resulting from the Budget Implementation Act 2021, No.1, received Royal Assent in June 2021. These new measures promote financial stability by strengthening Canada's deposit protection and bank resolution regime. Key changes to the CDIC Act include:

- Strengthening the cross-border enforceability of the stay provisions that apply to eligible financial contracts;
- Providing legislative clarity to ensure beneficiaries of trust deposits continue to be protected once the new requirements related to trust deposits come into force; and
- Extending the time limit for retaining control of a failing bank to 18 months from six months to allow CDIC time to complete its sale or restructuring.

These condensed consolidated quarterly financial statements were approved and authorized for issue by the Corporation's Audit Committee on November 10, 2021.

### **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, 2021.

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

## **2 - Significant accounting policies**

The accounting policies applied by the Corporation in these condensed consolidated quarterly financial statements are the same as those applied by the Corporation in its audited consolidated financial statements as at and for the year ended March 31, 2021.

### **Critical accounting judgments and key sources of estimation uncertainty**

The preparation of quarterly financial statements in accordance with IFRS requires Management to make judgments and estimations that affect the application of accounting policies and the reported amounts of assets and liabilities. Actual results may differ from these estimates.

In preparing these condensed consolidated quarterly financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended March 31, 2021.

### 3 - Financial instruments

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

	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
<i>As at September 30, 2021 (C\$ thousands)</i>				
Bonds	294,951	999,583	5,567,259	6,861,793
Weighted average effective yield (%)	1.67	1.26	1.35	1.35
<b>Total investment securities</b>	<b>294,951</b>	<b>999,583</b>	<b>5,567,259</b>	<b>6,861,793</b>
<b>Weighted average effective yield (%)</b>	<b>1.67</b>	<b>1.26</b>	<b>1.35</b>	<b>1.35</b>

	Remaining term to maturity			
	90 days or less	91 days to 1 year	1 to 5 years	Total
<i>As at March 31, 2021 (C\$ thousands)</i>				
Treasury bills	36,395	-	-	36,395
Weighted average effective yield (%)	0.11	-	-	0.11
Bonds	384,014	890,986	5,178,830	6,453,830
Weighted average effective yield (%)	1.15	1.16	1.43	1.38
<b>Total investment securities</b>	<b>420,409</b>	<b>890,986</b>	<b>5,178,830</b>	<b>6,490,225</b>
<b>Weighted average effective yield (%)</b>	<b>1.06</b>	<b>1.16</b>	<b>1.43</b>	<b>1.37</b>

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

	Amortized cost	Unrealized gain	Fair values			Total
			Level 1	Level 2	Level 3	
<i>As at September 30, 2021 (C\$)</i>						
Treasury bills	-	-	-	-	-	-
Bonds	6,861,793	50,160	4,952,567	1,959,386	-	6,911,953
<b>Total investment securities</b>	<b>6,861,793</b>	<b>50,160</b>	<b>4,952,567</b>	<b>1,959,386</b>	<b>-</b>	<b>6,911,953</b>

As at March 31, 2021 (C\$ thousands)	Amortized Unrealized		Fair values			
	cost	gain	Level 1	Level 2	Level 3	Total
Treasury bills	36,395	-	36,395	-	-	36,395
Bonds	6,453,830	95,691	4,778,286	1,771,235	-	6,549,521
<b>Total investment securities</b>	<b>6,490,225</b>	<b>95,691</b>	<b>4,814,681</b>	<b>1,771,235</b>	<b>-</b>	<b>6,585,916</b>

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

(C\$ thousands)	September 30, 2021	March 31, 2021
AAA	4,928,255	5,126,190
AA+	383,189	-
AA	157,704	72,325
AA-	606,796	628,456
A+	785,848	663,254
<b>Total investment securities</b>	<b>6,861,793</b>	<b>6,490,225</b>

The carrying amounts in the above tables include accrued interest.

The Corporation did not record any loss allowances on its investment securities as at September 30, 2021 (March 31, 2021: nil).

#### 4 - Right-of-use assets and lease liabilities

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

**Carrying value of right-of-use-assets**

<i>(C\$ thousands)</i>	<b>Leased office</b>		
	<b>space</b>	<b>Equipment</b>	<b>Total</b>
<b>Cost</b>			
<b>Balance, March 31, 2021</b>	<b>12,487</b>	<b>78</b>	<b>12,565</b>
Additions	86	-	86
Adjustments	(1,245)	-	(1,245)
<b>Balance, September 30, 2021</b>	<b>11,328</b>	<b>78</b>	<b>11,406</b>
<b>Accumulated depreciation</b>			
<b>Balance, March 31, 2021</b>	<b>2,832</b>	<b>33</b>	<b>2,865</b>
Depreciation	463	5	468
<b>Balance, September 30, 2021</b>	<b>3,295</b>	<b>38</b>	<b>3,333</b>
<b>Carrying amounts</b>			
Balance, March 31, 2021	9,655	45	9,700
<b>Balance, September 30, 2021</b>	<b>8,033</b>	<b>40</b>	<b>8,073</b>

**Carrying value of lease liabilities**

<i>(C\$ thousands)</i>	<b>Leased office</b>		
	<b>space</b>	<b>Equipment</b>	<b>Total</b>
<b>Balance, March 31, 2021</b>	<b>10,345</b>	<b>45</b>	<b>10,390</b>
<b>Additions</b>	<b>86</b>	<b>-</b>	<b>86</b>
Finance charges	85	-	85
Lease payments	(846)	(5)	(851)
<b>Balance, September 30, 2021</b>	<b>9,670</b>	<b>40</b>	<b>9,710</b>

Interest expense on lease liabilities amounting to \$85 thousand was recorded in the statement of comprehensive income during the six months ended September 2021. The Corporation recognized no expenses related to short-term leases and the amount recognized for low-value assets during the second quarter ended September 30, 2021, was insignificant. Cash payments for the interest portion of \$85 thousand and the principal portion of \$765 thousand of the lease liability were recognized in the statement of cash flows under operating activities and financing activities, respectively.

**Maturity analysis for lease liabilities (undiscounted)**

<i>(C\$ thousands)</i>	<b>Leased office</b>		
	<b>space</b>	<b>Equipment</b>	<b>Total</b>
Not later than one year	1,391	11	1,402
Later than one year and not later than five years	4,495	29	4,524
Later than five years	4,455	-	4,455
<b>Total</b>	<b>10,341</b>	<b>40</b>	<b>10,381</b>

**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 the 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:

<i>(C\$ thousands)</i>	<b>Provision for insurance losses</b>
<b>Balance, March 31, 2021</b>	<b>2,650,000</b>
Change in the provision	50,000
<b>Balance, June 30, 2021</b>	<b>2,700,000</b>
Change in the provision	-
<b>Balance, September 30, 2021</b>	<b>2,700,000</b>

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

The impact of changes in deposit insurance coverage, that came into force on April 30, 2020, and future coverage changes, coming into effect on April 30, 2022, have been accounted for in the calculation of the provision for insurance losses

## 6 - Operating expenses

The following table provides details of total net operating expenses of the Corporation for the three and six-month periods ended September 30, 2021.

<i>(C\$ thousands)</i>	For the three-month period ended September 30		For the six-month period ended September 30	
	2021	2020	2021	2020
Salaries and other personnel costs	7,611	6,532	15,594	12,472
Professional and other fees	2,668	2,718	6,947	5,336
General expenses	723	872	1,394	1,786
Premises	462	532	1,202	1,134
Data processing	879	752	1,830	1,524
Depreciation and amortization	461	658	926	1,288
Depreciation on right-of-use assets	99	367	468	714
Interest (recovery)/expense on lease liabilities	(15)	54	28	109
Public awareness	879	595	1,855	3,181
	13,767	13,080	30,244	27,544
Expense recoveries	(40)	(74)	(74)	(101)
<b>Total operating expenses</b>	<b>13,727</b>	<b>13,006</b>	<b>30,170</b>	<b>27,443</b>

## 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.