



Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada

Annual Report

CANADA DEPOSIT INSURANCE CORPORATION

Year Ended December 31,
1978



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March 30, 1979

The Honourable Jean Chrétien, P.C., M.P.,
Minister of Finance,
House of Commons,
Ottawa, Ontario.

Dear Mr. Chrétien:

I have the honour to submit to you the Annual Report of the Canada Deposit
Insurance Corporation for the fiscal year ended December 31, 1978.

Yours very truly,
JOHN F. CLOSE
Chairman

ANNUAL REPORT

The Canada Deposit Insurance Corporation Act came into force on April 17th, 1967. An Act to amend the Canada Deposit Insurance Corporation Act came into force on March 27th, 1968 and a further Act to amend the Canada Deposit Insurance Corporation Act came into force on June 29th, 1977. Sections 3(2) and 3(3) of the Act provide that the Corporation is for all purposes of the Act an agent of Her Majesty and that the property of the Corporation is the property of Her Majesty.

The prime purpose of the Act is to provide, for the benefit of persons having deposits with member institutions, deposit insurance against the loss of part or all of such deposits.

The Act gives the Corporation power to adopt by-laws, subject to the approval of the Governor in Council, regulating the conduct and general affairs of the Corporation. By-Law No. 1 (General) was approved by the Governor in Council on March 30th, 1967 and published in Part II of the Canada Gazette on April 12th, 1967. An amendment to this By-Law was approved by Governor in Council on May 26th, 1967 and published in Part II of the Canada Gazette on June 14th, 1967. Two amendments to the By-Law were approved by Governor in Council on February 1st and February 15th, 1968 and were published in Part II of the Canada Gazette on February 14th and February 28th, 1968 respectively. Further amendments to the By-Law were approved by Governor in Council on November 3rd, 1977 and were published in Part II of the Canada Gazette on November 23rd, 1977.

The definition of "deposit", which was originally included in the General By-Law has been deleted therefrom and is now included in a Schedule to the Canada Deposit Insurance Corporation Act. An office consolidation of the Act, including the amendments, is available from the Corporation upon request.

For the year ended December 31, 1978, the Corporation's excess of income over expenditures, before taxes, was \$10,110,210 as shown in the financial statements. A net amount of \$5,459,210, after providing for income tax, was credited to the Accumulated Net Earnings.

The deposits with member institutions insured by the Corporation totalled \$71,706 million as at December 31, 1978, which comprised \$64,011 million in federal institutions and \$7,695 million in provincial institutions. Premiums payable by member institutions for the year totalled \$10 million. The Deposit Insurance Fund, taking into consideration the rebates, totalled \$114 million at year end. There were no claims on the fund during the year.

The Deposit Insurance Fund, including the Accumulated Net Earnings, totalled \$145,922,682 representing an increase over the previous year of \$13,140,609 which was invested in Government of Canada securities.

Subsection 19(8.2) of the Canada Deposit Insurance Corporation Act authorizes the Corporation, subject to stated limitations, to pay a premium rebate to member institutions where in the opinion of the Corporation the Deposit Insurance Fund at the end of a financial year is adequate. As at the end of 1977 the Deposit Insurance Fund amounted to \$133 million and in September 1978, the Corporation being of the opinion that the Fund was adequate in the light of the circumstances at that time, issued individual rebates totalling \$3 million to the 57 member institutions which qualified for a rebate. (Note 5).

Subsequent to the year end the Board of Directors, following the practice of previous years, authorized a reduction for the forthcoming premium year, in the premium payable by member institutions to the minimum provided for in Section 19 of the Act.

The Commonwealth Trust Company, a company incorporated in the Province of British Columbia, was placed in liquidation effective January 1, 1970, and the Corporation was called upon to make payments of the insured deposits under the terms of the Policy of Deposit Insurance with the Company. By such action the Corporation acquired all the rights and interests of the depositors as against the Commonwealth Trust Company and, as a result, the Corporation had a claim against the Company of \$5,432,971. Recoveries to the year ended 1978 totalled \$4,815,959 and the balance of \$617,012 remains outstanding. As the amount of any further recoveries cannot be ascertained the Corporation is carrying the balance of the claim at a nominal value of \$1 with a provision of \$617,011 for losses on the realization of assets.

Under the terms of the Act and on behalf of the Corporation, the Superintendent of Insurance examined the affairs of the federally incorporated Trust Companies and Loan Companies numbering 44 and the Inspector General of Banks examined the affairs of the Banks numbering 12. Provincial institutions numbering 53 were examined, on behalf of the Corporation, by persons designated by the Corporation for that purpose.

AUDITOR GENERAL OF CANADA

The Honourable Jean Chrétien, P.C., M.P.,
Minister of Finance,
Ottawa, Ontario.

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1978 and the statements of income and accumulated net earnings and financial activities for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements give a true and fair view of the financial position of the Corporation as at December 31, 1978 and the results of its operations and financial activities for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions that have come under my notice have been within its statutory powers.

J.J. MACDONELL
Auditor General of Canada

Ottawa, Ontario
February 27, 1979

CANADA DEPOSIT INSURANCE CORPORATION

(Established by the Canada Deposit Insurance Corporation Act)

Balance Sheet as at December 31, 1978

ASSETS

	<u>1978</u>	<u>1977</u>
Cash and short-term deposits	\$ 645,464	\$ 707,014
Premiums and other accounts receivable	3,422,054	3,516,068
Accrued interest	929,288	1,491,470
Investments (Note 3; market value 1978 - \$137,951,738; 1977 - \$124,534,372)	140,165,170	124,900,949
Assets acquired from member institutions (Note 4)	2,445,893	2,867,370
Claim re insured deposit payments less provision for loss of \$617,011	<u>1</u>	<u>1</u>
	<u>\$147,607,870</u>	<u>\$133,482,872</u>

LIABILITIES

	<u>1978</u>	<u>1977</u>
Accounts payable	\$ 95,895	\$ 89,807
Income taxes payable	407,293	272,992
Deferred income taxes	<u>1,182,000</u>	<u>338,000</u>
	<u>1,685,188</u>	<u>700,799</u>
DEPOSIT INSURANCE FUND		
Balance, beginning of the year	106,638,782	91,632,228
Premiums (Note 5)	10,681,399	15,006,554
Rebates	<u>(3,000,000)</u>	<u>—</u>
Balance, end of the year	114,320,181	106,638,782
Accumulated net earnings	<u>31,602,501</u>	<u>26,143,291</u>
	<u>145,922,682</u>	<u>132,782,073</u>
	<u>\$147,607,870</u>	<u>\$133,482,872</u>

The accompanying notes are an integral part of the financial statements.

Certified correct:

T.J. DAVIS

Secretary-Treasurer

Approved by the Board:

JOHN F. CLOSE

Chairman

RICHARD HUMPHRYS

Director

CANADA DEPOSIT INSURANCE CORPORATION

Statement of Income and Accumulated Net Earnings for the year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Revenue		
Return on investments	\$ 10,573,199	\$ 9,298,043
Expense		
Inspection and other fees and expenses	231,476	214,668
Salaries and employee benefits	107,910	101,275
General, administrative and other	<u>123,603</u>	<u>55,655</u>
	<u>462,989</u>	<u>371,598</u>
Net income before taxes	10,110,210	8,926,445
Income taxes		
Current	3,807,000	4,134,000
Deferred	<u>844,000</u>	<u>(30,000)</u>
	<u>4,651,000</u>	<u>4,104,000</u>
Net income for the year	5,459,210	4,822,445
Accumulated net earnings, beginning of the year	26,143,291	22,625,013
Deduct: Dividends paid	<u>—</u>	<u>1,304,167</u>
Accumulated net earnings, end of the year	\$ <u>31,602,501</u>	\$ <u>26,143,291</u>

The accompanying notes are an integral part of the financial statements.

CANADA DEPOSIT INSURANCE CORPORATION

Statement of Financial Activities for the year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Financial resources provided		
Operations		
Net income for the year	\$ 5,459,210	\$ 4,822,445
Add (Deduct):		
Deferred income taxes	844,000	(30,000)
Net amortization of premium and discount	<u>(3,378)</u>	<u>3,626</u>
	6,299,832	4,796,071
Premium credited to the Deposit Insurance Fund	10,681,399	15,006,554
Mortgage repayments	418,360	863,194
Increase in accounts and income taxes payable	140,389	268,455
Decrease in cash and short-term deposits	61,550	—
Decrease in premiums and other receivables	<u>656,196</u>	<u>—</u>
	<u>\$ 18,257,726</u>	<u>\$ 20,934,274</u>
Financial resources applied		
Purchase of investments (net)	\$ 15,257,726	\$ 9,328,361
Premium rebates	3,000,000	—
Redemption of capital stock	—	10,000,000
Dividends paid	—	1,304,167
Increase in cash and short-term deposits	—	24,661
Increase in premiums and other receivables	<u>—</u>	<u>277,085</u>
	<u>\$ 18,257,726</u>	<u>\$ 20,934,274</u>

The accompanying notes are an integral part of the financial statements.

CANADA DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements December 31, 1978

1. *Objective of the Corporation*

The Canada Deposit Insurance Corporation was incorporated as a Crown corporation on April 17, 1967 under the provisions of the Canada Deposit Insurance Corporation Act.

The Corporation's principal objective is to provide insurance on deposits with federal institutions (banks and trust and loan companies) and with approved provincial institutions (trust and loan companies) up to a stated amount per depositor per institution. Premiums are assessed against member institutions based on insurable deposits held by those institutions on April 30 of each year.

2. *Significant accounting policies*

Premiums

Premiums are credited directly to the Deposit Insurance Fund in accordance with section 18 of the Canada Deposit Insurance Corporation Act.

Revenue

Return on investments is reported inclusive of gains and losses on sales of investments and of the annual amortization of premiums and discounts on fixed term securities.

Recognition of losses

Provision for losses arising from actions taken to secure the subrogation of depositors' rights and interests is established in the year these actions are taken or as soon as possible thereafter when the eventual losses can be reasonably estimated.

Income taxes

The Corporation accounts for income taxes using the deferral method of tax allocation which recognizes timing differences in reporting items for income tax and financial statement purposes. The significant timing differences result from claiming a reserve on its investments as provided for by the Income Tax Act and from including in reported income accrued interest not taxable until received.

3. *Investments*

		1978		1977
	Due Date	Par Value	Amortized Cost	Amortized Cost
<i>Canada bonds</i>	1978	\$ —	\$ —	\$ 54,656,644
	1979	32,479,000	32,485,774	32,502,029
	1980	11,200,000	11,198,911	11,196,868
	1981	10,000,000	9,991,454	—
	1982	25,000,000	24,845,628	—
	1983	21,150,000	20,766,335	2,809,686
	1984	7,000,000	6,948,369	—
		<u>106,829,000</u>	<u>106,236,471</u>	<u>101,165,227</u>
<i>Treasury bills</i>	1979	35,640,000	33,928,699	23,735,722
		<u>\$142,469,000</u>	<u>\$140,165,170</u>	<u>\$124,900,949</u>

Under section 35(3)(a) of the incorporating legislation, funds of the Corporation must be invested in securities of the Government of Canada.

4. *Assets acquired from member institutions*

Assets acquired from member institutions comprise Canada bonds and other bonds and debentures recorded at amortized cost, and mortgages recorded at cost.

	<u>1978</u>	<u>1977</u>
<i>Canada bonds</i>	\$ 158,710	\$ 158,596
<i>Other bonds and debentures</i>	<u>1,117,508</u>	<u>1,120,739</u>
	1,276,218	1,279,335
<i>Mortgages</i>	<u>1,169,675</u>	<u>1,588,035</u>
	<u>\$2,445,893</u>	<u>\$2,867,370</u>

Market value of Canada bonds and other bonds and debentures at December 31, 1978 was \$938,307 (1977 – \$995,683).

5. *Premiums and premium rebates*

As provided in section 19(8) of the Act and as approved by the Board of Directors on February 2, 1972, member institutions were assessed reduced premiums during the year and in every year since 1972. Under an amendment to the Act dated June 29, 1977, the Corporation may pay a premium rebate to member institutions subject to stated limitations where, in the opinion of the Corporation, the Deposit Insurance Fund at the end of a financial year is adequate, having regard to all the circumstances. In 1978 the Corporation paid individual premium rebates totalling \$3 million; no premium rebates were paid in 1977.

6. *Insured deposits*

Deposits insured by the Corporation, based on returns received from member institutions totalled \$71,706 million, as of April 30, 1978, comprising deposits of \$64,011 million in federal institutions and \$7,695 million in provincial institutions. Of the deposits insured in provincial institutions, \$823 million was covered by a temporary agreement with one province to indemnify the Corporation against losses on those deposits.

BOARD OF DIRECTORS

The terms of the Act provide that the Board shall consist of five(5) directors, one of whom is Chairman. The Chairman is appointed by Governor in Council and the four (4) members are to be the persons holding the respective offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. However, a director may, with the approval of the Minister, designate in writing an alternate to attend in his absence at any meeting of the Board.

Members of the Board as at December 31, 1978 are:

Messrs.	John F. Close,	<i>Chairman</i>
	G.K. Bouey,	<i>Governor of the Bank of Canada</i>
	T.K. Shoyama,	<i>Deputy Minister of Finance</i>
	R. Humphrys,	<i>Superintendent of Insurance</i>
	W.A. Kennett,	<i>Inspector General of Banks</i>

Mr. T.J. Davis is the Secretary-Treasurer of the Corporation.

MEMBER INSTITUTIONS — FEDERAL

The deposits with federal institutions that were carrying on business at the time the Act came into force on April 17th, 1967 were insured from that date. Deposits made with federal institutions that are licensed under the Trust Companies Act or the Loan Companies Act after April 17th, 1967 are insured from the date the institutions commence business.

As at December 31, 1977, fifty-two (52) federal institutions were members of the Corporation. During the year 1978:

- (a) The following companies commenced business and therefore, being federally incorporated, automatically became member institutions. Bayshore Trust Company, CCIB Mortgage Investment Corporation of Alberta, The Merchant Trust Company, Northguard Mortgage Corporation.
- (b) The name of the Nelson Trust Company was changed to The International Trust Company.

The fifty-six (56) federal member institutions at December 31, 1978, of which twelve (12) are Banks and forty-four (44) are Trust or Loan Companies are:

BANKS

Chartered Banks

Bank of Montreal
The Bank of Nova Scotia
The Toronto Dominion Bank
The Provincial Bank of Canada
Canadian Imperial Bank of Commerce

The Royal Bank of Canada
Bank Canadian National
The Mercantile Bank of Canada
Bank of British Columbia
Canadian Commercial & Industrial Bank
Northland Bank

Savings Banks

The Montreal City and District Savings Bank

TRUST AND LOAN COMPANIES

AMIC Mortgage Investment Corporation	Greymac Mortgage Corporation
Artego Mortgage Investment Company	Guaranty Trust Company of Canada
Astra Trust Company	Income Trust Company
Bayshore Trust Company	International Savings & Mortgage Corporation
BNS Mortgage Corporation	The International Trust Company
Canada Permanent Mortgage Corporation	Kinross Mortgage Corporation
Canada Permanent Trust Company	League Savings & Mortgage Company
The Canada Trust Company	The Merchant Trust Company
Canada Trustco Mortgage Company	Morguard Mortgage Investment Company of Canada
CCIB Mortgage Investment Corporation of Alberta	Morguard Trust Company
Central and Eastern Trust Company	Northguard Mortgage Corporation
Commerce Capital Mortgage Corporation	Nova Scotia Savings & Loan Company
Continental Trust Company	Pacific Savings and Mortgage Corporation
Co-Operative Trust Company of Canada	Pioneer Trust Company
Eaton/Bay Trust Company	The Premier Trust Company
The Equitable Trust Company	Procan Mortgage Corporation
Equitrust Mortgage and Savings Company	The Regional Trust Company
Evangeline Savings and Mortgage Company	Royal Trust Corporation of Canada
Fedco Mortgage Investment Company	Seel Mortgage Investment Corporation
The Fidelity Trust Company	Settlers Savings and Mortgage Corporation
Fidmor Mortgage Investors Corporation	Standard Trust Company
Granville Savings and Mortgage Corporation	Sterling Trust Corporation

MEMBER INSTITUTIONS — PROVINCIAL

A provincial institution may become a member of the Corporation if it is authorized by the province of its incorporation to apply for deposit insurance and if it agrees not to exercise powers substantially different from the powers exercisable by a federal trust or loan company as the case may be.

Prior to coming into force of the Canada Deposit Insurance Corporation Act, the Province of Ontario had instituted a deposit insurance plan of its own covering all the Loan Companies and Trust Companies in the Province. This plan, which came into effect on February 10, 1967, was similar to the plan instituted by the Canada Deposit Insurance Corporation Act. After the Canada Deposit Insurance Corporation Act came into effect, the Ontario plan was suspended and all the Ontario companies concerned were subsequently accepted as members of the Corporation effective April 29, 1967.

An Indemnity Agreement between the Corporation and the Province of Alberta applicable to four companies incorporated under the legislation of that Province is still in effect.

During 1967, the Province of Quebec adopted legislation to establish a plan of deposit insurance applicable to all institutions that accept deposits in that Province. The plan guarantees not only deposits within the Province, but also provides for the guarantee of deposits accepted outside Quebec by institutions incorporated in Quebec. In order to avoid duplication of insurance and to meet the desires of Provinces where such deposits are located, an agreement was reached between the Corporation and the Quebec Deposit Insurance Board, with the approval of the respective governments, providing as follows:

1. For Quebec institutions that become members the Canada Deposit Insurance Corporation will insure deposits outside Quebec accepted by such institutions;

2. The Quebec Deposit Insurance Board will guarantee deposits in Quebec accepted by institutions incorporated in Quebec or in other Provinces. Where the Canada Deposit Insurance Corporation was insuring deposits accepted in Quebec by institutions incorporated in other Provinces, it agreed to terminate its insurance on those deposits on application by the institution with the concurrence of the Province of incorporation;
3. The Canada Deposit Insurance Corporation will continue to insure deposits accepted by Federally incorporated institutions, whether accepted in Quebec or elsewhere in Canada, and Quebec will refrain from levying any charge for deposit insurance on such institutions;
4. The Canada Deposit Insurance Corporation is empowered to make short term secured loans to the Quebec Deposit Insurance Board to enable it to meet emergency liquidity needs in connection with its insurance operations.

In order to implement the above understanding the required amendments to the Canada Deposit Insurance Corporation Act came into effect on March 27, 1968, and on December 23, 1968 an Agreement between the Corporation and the Quebec Deposit Insurance Board was executed.

The Corporation is insuring the deposits located outside the Province of Quebec accepted by the following institutions incorporated in that province: Citicorp Trust Company, Credit Foncier Franco-Canadien, Credit Foncier Trust Company, General Trust of Canada, Guardian Trust Company, Montreal Trust Company, The Morgan Trust Company, North America Trust, RoyMor Ltd., The Royal Trust Company and The Royal Trust Company Mortgage Corporation.

The Quebec Deposit Insurance Board is providing the guarantee for the deposits located in Quebec accepted by companies incorporated in (a) Ontario: Crown Trust Company, Federal Trust Company, The Metropolitan Trust Company, National Trust Company Limited, Tordom Corporation and (b) Alberta: Commerce Capital Trust Company. All these companies are members of the Canada Deposit Insurance Corporation which insures their deposits outside Quebec.

During the year 1978 a Policy of Deposit Insurance was issued to each of the following six (6) companies all of which were incorporated in the Province of Ontario: The Effort Trust Company, Home Savings & Loan Corporation, MacDonald-Cartier Trust Company, Monarch Trust Company, The Municipal Trust Company, Termguard Savings & Loan Company.

During the year 1978 the name of the City Savings & Trust Company, a company incorporated in the Province of Alberta, was changed to First City Trust Company and the name of the International Trust Company, a company incorporated in the Province of Quebec, was changed to Citicorp Trust Company.

The Industrial Mortgage and Trust Company, a company incorporated in the Province of Ontario, gave the Corporation notice of termination of its Policy of Deposit Insurance and the Corporation cancelled the Policy with the Company because it had ceased accepting deposits.

The Lambton Loan and Investment Company and the Victoria and Grey Trust Company amalgamated during the year; the continuing company being the Victoria and Grey Trust Company.

The name of the Commonwealth Trust Company has been deleted from the list of the member institutions of the Corporation.

At December 31, 1977, fifty (50) provincially incorporated Loan Companies and Trust Companies were members of the Corporation. Although six (6) additional companies were accepted as members of the Corporation during 1978 the total number of member institutions at year end totalled fifty-three (53).

The provincially incorporated member institutions at December 31, 1978 are:

TRUST AND LOAN COMPANIES

The Acadia Trust Company	Landmark Savings and Loan Association
Atlantic Trust Company	London Loan Limited
Canadian First Mortgage Corporation	MacDonald-Cartier Trust Company
The Canborough Corporation	The Metropolitan Trust Company
Citicorp Trust Company	Monarch Trust Company
Commerce Capital Trust Company	Montreal Trust Company
Community Trust Company Ltd.	The Morgan Trust Company
Continental Estates Corporation Ltd.	The Municipal Savings & Loan Corporation
Credit Foncier Franco-Canadien	The Municipal Trust Company
Credit Foncier Trust Company	National Trust Company Limited
Crown Trust Company	Nipissing Mortgage Corporation
District Trust Company	Norfolk Trust
The Dominion Trust Company	North America Trust
The Effort Trust Company	North West Trust Company
Exchequer Trust Company	Principal Savings and Trust Company
Family Trust Corporation	The Royal Trust Company
Federal Trust Company	The Royal Trust Company Mortgage Corporation
Financial Trust Company	RoyMor Ltd.
First City Trust Company	Saskatchewan Trust and Loan Company
Fort Garry Trust Company	Security Trust Company
General Trust of Canada	Shoppers Mortgage and Loan Corporation
Guardian Trust Company	Termguard Savings & Loan Company
Heritage Savings & Trust Company	Tordom Corporation
Home Savings & Loan Corporation	Vanguard Trust of Canada Limited
Huronian Trust Company	Victoria and Grey Trust Company
Inland Trust and Savings Corporation Ltd.	Yorkshire Trust Company
Investors Group Trust Co. Ltd.	

OTHER LEGISLATION

Under the provision of the Investment Companies Act, the Corporation is empowered to make short term loans, as a lender of last resort, to Canadian controlled Sales Finance Companies. Also, under the provisions of the Cooperative Credit Associations Act, the Corporation is empowered to make short term loans, for liquidity purposes, to cooperative credit societies and to provincially created corporations that provide, or administer, stabilization or liquidity funds for the benefit of Credit Unions and their members. The aforementioned functions are entirely separate from those performed by the Corporation under its Act of incorporation. The Corporation is not insuring the debt instruments of the sales finance companies or the deposits and debt instruments of the cooperative credit societies. The loans may be made only for the purpose of meeting short term requirements for liquid funds and the source of funds for the Corporation to make these loans would be borrowing from the Consolidated Revenue Fund.

The Corporation has entered into agreements, to make short term loans for liquidity purposes, with the Credit Union Stabilization Corporation (Alberta), B.C. Credit Union Reserve Board and The Saskatchewan Credit Union Mutual Aid Board.

No funds have been advanced under either Act.