Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada

Annual Report 1984

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1808-112 Kent Street
P.O. Box 2340, Stn. D
Ottawa, Ontario
K1P 5W5

1808-112 rue Kent
C.P. 2340, Succ. D
Ottawa, Ontario
K1P 5W5

Telephone
Téléphone (613) 996-2081

Telecopier
Télécopieur (613) 996-6095

Telex
Télex 053-3851

June 10, 1985

The Honourable Barbara McDougall, P.C., M.P.
Minister of State for Finance
House of Commons
Ottawa, Ontario

Dear Mrs. McDougall:

I have the honour to submit to you the Annual Report of the Canada Deposit Insurance Corporation for the fiscal year ended December 31, 1984.

Yours very truly,

Robert De Coster, O.C., F.C.A.
Chairman

Canada

Canada Deposit Insurance Corporation

Société d'assurance-dépôts du Canada

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CORPORATE PROFILE

Objects and Purposes

The Canada Deposit Insurance Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act. Its primary role is to provide for the benefit of persons having deposits in banks, trust and loan companies insurance against the loss of all or part of their deposits to a maximum of $60,000.

In the furtherance of this main function the Corporation may also, amongst other powers, acquire assets from, or make or guarantee loans to, or deposits with, its member institutions for the purpose of averting or reducing a threatened loss to the Corporation.

The Corporation is funded by member institutions by premiums which are assessed on the insured deposits on hand as at April 30th each year. The Minister of Finance is authorized, subject to the approval of the Governor in Council, to make loans to the Corporation out of the Consolidated Revenue Fund up to an aggregate of $1.5 billion.

To the extent that the Corporation earns investment revenue in excess of its operating costs it is subject to income tax.

The Corporation has no subsidiaries nor affiliates.

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 Association 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 borrowed 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 Deposit Guarantee Corporation.

No funds have been advanced under either Act.

BOARD OF DIRECTORS AND OFFICERS

The Board of Directors consists of the Chairman, who is appointed by Governor in Council, and the persons who hold, respectively, the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks.

Board of Directors

R. De Coster	Chairman
G.K. Bouey	Governor of the Bank of Canada
M.A. Cohen	Deputy Minister of Finance
R.M. Hammond	Superintendent of Insurance
W.A. Kennett	Inspector General of Banks

Officers

C.C. de Léry	Chief Executive Officer
J.P. Sabourin	Chief Operating Officer
H.B. McDonald	Legal Counsel
T.J. Davis	Secretary

CHAIRMAN'S OVERVIEW

The Canada Deposit Insurance Corporation was established in 1967. The first fifteen years of its operations were uneventful, the Corporation being called upon to intervene in only three isolated cases where member institutions encountered serious financial difficulties. The total deposits in these three companies barely reached $60 million.

The premiums established by statute proved to be more than sufficient to set up and maintain, during that period, an adequate deposit insurance fund and the Corporation was even able, on ten occasions, to grant substantial rebates and reductions in contributions.

However, at the end of 1982, the situation took a dramatic turn. In less than one year, the operations of nine member institutions were discontinued because of insurmountable financial and commercial difficulties. The total obligations of these companies to their depositors amounted, at that time, to almost $3 billion of which 85% were insured. As to the assets held in counterpart, they consisted mainly (85%) of mortgage loans and real estate or real estate related assets having a realizable value often rendered quite hypothetical by their very nature and that of the transactions at acquisition and by the current unfavourable economic conditions.

The situation, it is true, stabilized in 1984 and only one new official failure was recorded in the period i.e. that of Northguard Mortgage Corporation. We cannot however, on the strength of this temporary improvement, minimize the underlying structural problems and consider the events of 1983 as an isolated set of misfortunes solely attributable to adverse economic conditions, any more than we can continue to believe in the complete immunity of any one category of member institutions in such a rapidly changing environment.

In fact, during the year, other companies had shown signs of weakness and were the subject of close supervision and timely interventions. Three of these were actually put into liquidation during the first months of 1985. They were Pioneer Trust Company, Western Capital Trust Company and London Loan Limited.

Just recently, the threat of failure of a banking institution was averted by the massive and concerted intervention of the governments of Canada and Alberta, of the Corporation and of the six major Canadian banks.

The demise of the twelve institutions currently in process of liquidation will result in heavy financial losses. Whatever method is adopted to replenish the deposit insurance fund, the public will, one way or another, eventually bear the cost.

Such an adverse experience is, in itself, sufficient to undermine the confidence of the public at large and particularly of depositors and investors in Canadian financial institutions. That such an eventuality could be averted is an unquestionable demonstration of the importance and the necessity of the deposit insurance program, which, in this case, allowed the relevant authorities to limit the damages through efficient, concerted and prompt interventions. At the same time however, it gives rise to serious interrogations on the program itself and its mechanisms as well as on their capacity to adapt to the changes that the financial and economic environment are presently undergoing.

Financial Consequences

At the end of fiscal year 1983 the Corporation, while recognizing that it could not at that point fairly assess the loss it would ultimately sustain on the advances it had made to the member institutions that were then being wound-down, had nevertheless given a first indication of the extent of the problem by recording a general provision for loss of $650 million. However, several factors had compelled the Corporation to adopt, for that purpose, a simple accounting procedure which consisted uniquely of cumulating the deficits of the institutions concerned as they had been estimated by the responsible agents after re-evaluating the assets.

Since then, the Corporation has refined its hypotheses and its data and it has been able to improve significantly the method used to establish the provision. As a result, the Corporation now forecasts the ultimate deficit instead of the current year-end deficit of each institution being liquidated, and furthermore takes into account the loss that is likely to result from the bankruptcies of the three other institutions in the first months of 1985. It did not deem necessary, on the other hand, to attempt to take into account the ever-present, but unforeseeable threat of failure of other member institutions.

On the basis of the above, the Corporation decided to set its general provision for loss as of December 31, 1984, at $1.25 billion. The increase in the provision ($600 million) is made up of:

- the losses sustained in 1984 by the institutions concerned, established in the same way as in the preceding year ($140 million);
- the future losses of these institutions calculated up to the final settlement ($330 million); and
- the financial consequences of the events of 1985 ($130 million).

The future losses of the institutions involved reflect globally the excess of operating and liquidation costs (particularly interest costs) over the revenues generated by income producing assets. It should be noted that interest is by far the costliest individual factor in the entire liquidation process. For instance, the Corporation is now paying interest on borrowings of $325 million from the Consolidated Revenue Fund while the institutions, for their part, pay interest on loans amounting to over $1 billion, hence the urgency of a decision regarding the refinancing of the Deposit Insurance Fund.

This method of quantifying the provision is more realistic and reflects more accurately the financial risk attached to the likelihood of recuperating the sums owed to the Corporation by institutions experiencing financial difficulties. These represent the advances made directly or indirectly to the institutions and the claims resulting from the reimbursement, by the Corporation, with subrogation rights, of insured deposits. Globally these totalled $968 million at December 31, 1983, $1,265 billion at December 31, 1984 and $1.7 billion in May of 1985.

Two factors will cause the total sums owed to fluctuate in the future i.e. on the one hand the shortfall in net revenues and on the other hand the proceeds from the sale of assets currently estimated at $1 billion.

Of course, imponderables, unknowns and contingencies might invalidate, to a significant extent, the hypotheses used to evaluate the provision and consequently, the final amount of the loss. Thus, the actual performance of major economic factors will have a significant impact on the disposal value of the assets and will affect real estate markets and financing costs. It is obvious also that the method adopted by the legislator to refinance the Corporation as well as the timing of its implementation will have a significant effect on the high interest costs.

It is also pertinent to note that the provision has been established for accounting purposes. Therefore, it has not been discounted, as it will most likely be necessary to do at the planning stage of the refinancing process, nor has it been established for the specific purpose of assessing accurately the global financial consequences of the successive recent events. To do so, would require adding to the amount of the accounting provision, the costs incurred directly by the Corporation through the use of its own funds and of the sums borrowed from the Consolidated Revenue Fund. The loss in revenue and the interest costs resulting from these transactions represent an additional cost that can easily be estimated at $50 million. This would increase the potential loss to $1.3 billion, of which 85% should be debited to the accounts of the Crown, Seaway, Greymac, and Fidelity trust and loan companies.

This situation will place a heavy burden on those who eventually will be called upon to make good the loss, all the more so since it will lead to a review of the level of the Deposit Insurance Fund. In the past, this level has never exceeded the equivalent of 0.25% of insured deposits. It is not unlikely that, in the future, it may become necessary to progressively triple this percentage to bring the Fund to an adequate level. In passing, it would be false to pretend that a certain part of that potential loss is attributable to a so-called full payout policy (without taking into account the statutory limit), as some people seem to want to do in certain circles. In fact, full payout of deposits has never been a corporate policy, quite the opposite. The Board is well aware of the adverse effect that the mere perception that such a policy exists may have on market discipline. Rather, it is the consequence of decisions taken in several instances by the Corporation, to cease an institution's operations through a gradual and orderly wind-down, as opposed to a court ordered liquidation. In fact, the Corporation is empowered to make such decisions only when it can economically demonstrate that, by doing so, it reduces a potential risk or the threat of a loss.

The considerable losses resulting from the events of these past few years and the lessons learned during that period will necessarily precipitate a comprehensive review of the Corporation's funding. The Government will have to address, amongst other things, the immediate problem of rebuilding the Deposit Insurance Fund, which is heavily deficient at present, and the permanent financing formulae taking into account an adequate level for the Fund.

However, as was mentioned in last year's annual report, it is appropriate to recall that, even though its financial statements may show a huge deficit at year end, the ability of the Corporation to meet its obligations is not at risk, nor is the Government of Canada exposed, under existing statutes, to losses resulting from the operations of the Corporation. Moreover the replenishment of the Fund will require new legislation and even though this intervention is necessary in the short term it must form part and parcel of the comprehensive overall review.

Review of the Program

The Canadian deposit insurance program has not undergone any substantive modifications since its inception. The sporadic, relatively low-cost interventions by the Corporation had never, until now, stirred any particular interest in a reform of the system nor of the operating process.

The urgency of a complete review has now become clearly evident. The costly lessons drawn from recent experience and the rapid evolution of the financial environment warrant an overall in-depth revision.

The Canadian financial system is currently undergoing a phase of profound modifications which have already resulted in meaningful alterations to the "rules of the game". The deposit insurance program forms an integral part of the financial mosaic and, as such, should follow a parallel evolution. Its revision must, therefore, essentially attempt, in priority, to achieve a better integration of the system to a changing environment and facilitate its adaptation to a rapidly evolving context of expanded competition, market and investors self-discipline and flexibility if not deregulation.

The experience of the last two years will weigh heavily on the review under way. The prevention and detection mechanisms have proven vulnerable when factors like the following interacted:

— a concentration of ownership and control and self-dealings;
— the unwarranted predominance of real estate related activities;
— high risk transactions; and
— adverse economic conditions.

The implementation of corrective measures poses two fundamental challenges. The first consists of putting in place prevention processes that will not counter emerging policies, keep the industry in a straight-jacket or multiply interventions and supervisors. The second consists of reconciling and harmonizing the objectives, approaches and activities of the agents concerned particularly the different political jurisdictions.

The series of recent events has also given rise to much controversy, notably on the general objectives of the program, and some of its basic elements such as insurance coverage and program funding, on the role, status and powers of the Corporation as well as on the composition of the Board of Directors. This controversy, healthy in itself, has, it is true, generated criticisms that revealed, on occasions, a surprising lack of understanding on the part of persons or groups presumably well-informed. It nonetheless emphasizes the urgency of an overall revision.

The Board of Directors was pleased by the decision of the Honourable Barbara McDougall, P.C., M.P. to establish a working group under the Chairmanship of Mr. W. Robert Wyman. The Minister, after consultation with the Corporation, gave the group a broad mandate of examination and review. The Board has assured the Minister as well as the Chairman and members of the committee of its full co-operation. Without passing judgment on the effectiveness of the present system or on the quality of the processes now in place, the Board hopes that it will be possible for the group to address all the elements of the problem in the proposed time schedule.

Major Activities of the Year

Since the general situation had stabilized by the end of 1983, the Board of Directors undertook, as a priority, to devote most of the Corporation's activities for 1984 on a program of optimization, prevention, and re-evaluation.

In order to optimize its performance and that of all the agents concerned, and thus minimize the financial impact of the failures of the institutions in question, the Board turned its attention, during the year, to consolidating and reorganizing the Corporation's operations, strengthening its personnel, improving its interface with the various agents, and setting up a consultative mechanism meant to maximize the process of divestiture of the bankrupt companies' real estate assets and mortgage loans. In this regard it is interesting to note that sales amounting to close to $1.2 billion have already been made.

In a context of prevention and efficiency, the Corporation in close co-operation with the supervisory authorities empowered to examine, on its behalf, the affairs of the member institutions, has contributed in the rehabilitation of certain institutions which were showing signs of financial difficulties on audit.

In the light of a very detailed evaluation of each situation, the Corporation also made a re-assessment of its 1983 decision to cause the liquidation of some of the institutions in difficulty through an orderly, progressive wind-down of their activities.

In the case of Seaway Trust Company, the Board of Directors concluded that significant savings could be achieved by repaying immediately, by the expedient of a court-ordered liquidation, all the outstanding deposits which generally carried unduly high interest rates and using, for that purpose, the Corporation's own funds which generated a lower net (after-tax) return.

For 1985, the Board, while awaiting the Wyman report, has established priorities which complement those of the preceding year and which respond, at the same time, to the general concerns raised during the course of the last two years.

Anxious to reduce considerably his post-retirement activities, the undersigned indicated to the government, at the end of 1984, his intention to retire from the Chairmanship of the Corporation's Board of Directors during the spring. At the same time he assured the Minister of his complete on-going co-operation.

This 31st of May, 1985

REVIEW OF OPERATIONS — 1984

Since 1967 and up to the end of 1984 the Corporation has been called upon to meet its obligations as an insurer on twelve different occasions. These related to the following member institutions: Commonwealth Trust (1970), Security Trust (1972), Astra Trust (1980), District Trust (1982), Crown Trust, Greymac Trust, Greymac Mortgage, Fidelity Trust, Amic Mortgage, Seaway Trust, Seaway Mortgage (1983) and Northguard Mortgage (1984).

In addition to the above, during the beginning of the 1985 year, Pioneer Trust, Western Capital Trust and London Loan Limited became insolvent and the Corporation promptly paid off depositors to the extent of the $60,000 insured limit, and acquired by subrogation the corresponding claims against the estates of these companies.

Current Status

During 1984, the Corporation decided to accelerate the winding-down of the Seaway Trust Company, one of the member institutions that had been closed in 1983 and whose assets, deposits and other liabilities were being managed on a run-off basis by another member institution. This decision was based on an up-to-date report which showed that most of the remaining assets of Seaway Trust were of little or no value and that the cost of continuing a run-off arrangement would be much larger than previously expected. Accordingly, a liquidation order was sought and obtained in June of 1984. The Corporation then paid $152 million to approximately 21,000 depositors, representing the balance of the deposit claims against the estate of the company. In so doing, the Corporation acquired the claims of the depositors against Seaway.

A second member institution, Northguard Mortgage Corporation was placed in liquidation in the latter part of December 1984 by action initiated under the federal Loan Companies Act. The Corporation met its obligations by making payments to depositors soon thereafter, to the extent of the $60,000 insured limit and acquired the depositors claims against the estate of Northguard. The total amount so paid was approximately $28 million.

As mentioned above, during the early part of 1985, the Pioneer Trust Company, Western Capital Trust and London Loan Limited encountered financial difficulties and these companies were placed in liquidation. Again, the Corporation met its obligations as an insurer by making payments to depositors to the extent of the $60,000 insurance limit and acquired the depositors' claims against the estates of these companies. The total claims paid by the Corporation were approximately $305 million.

In all of the above four cases, the Corporation considered that it had no alternative to a liquidation since it could not identify any significant saving in costs had it otherwise been possible to effect a run-off arrangement.

The potential loss to the Corporation in these four cases (represented by the amounts paid to claimants less expected recovery from realization of the assets of the companies) cannot be reasonably estimated as yet. Accurate estimates must await the realization of a major portion of the assets by the respective liquidators.

As mentioned in the 1983 Annual Report, several member institutions encountered financial difficulties so serious that their business activities had to be terminated. In the case of Crown Trust Company, Greymac Trust Company, Greymac Mortgage Corporation, Seaway Trust Company, Seaway Mortgage Corporation and Fidelity Trust Company, arrangements were made whereby these companies were placed under agency and operating agreements to wind-down their affairs in an orderly manner. A similar arrangement was made in 1982 for District Trust Company. Except in the case of Seaway Trust, referred to earlier, these agreements are still in force and the Corporation is continuing to advance funds, or have funds advanced on its behalf by the agents, as needed to supplement funds obtained from the realization of assets of the companies so that depositors' liabilities may be met as they fall due.

During 1984, $552 million was obtained from the realization of assets and $672 million in deposits was repaid. The total advanced by the Corporation under these agency arrangements was $1,065 million at the end of 1984. Such advances are secured by specific or floating charges on the remaining assets of the companies concerned. Some repayment in respect of the sums advanced should occur in 1985 since the assets then realized by the agents will likely exceed the maturing deposit liabilities.

In the case of Amic Mortgage Investment Corporation, which was placed in liquidation in July 1983, the CDIC paid off the depositors and acquired their claims against the estate of Amic. Most of the assets have yet to be realized but the CDIC is of the view that the recoveries will be significant.

In March of 1985, the Canadian Commercial Bank was found to be having serious financial problems by reason of a number of non-performing loans in the United States secured by oil well drilling machinery and also a number of loans in Western Canada secured by real estate. To help ensure the long term viability of the Bank, the CDIC agreed to participate in an arrangement to purchase an interest in an identified package of assets of the Bank. The total interest to be purchased will be the sum of $255 million of which the share of the CDIC is $75 million. Other participants in the arrangement were six of the chartered banks, the Government of Canada and the Government of Alberta.

To the extent that the purchase price is not recovered through realization of the assets in the package, the Bank agreed to apply fifty percent of its pre-tax profits to repay the purchase price advanced by the participants in the arrangement until the full amount is repaid. Repayments to the CDIC will be made only after all of the other participants have been repaid in full.

Until the amounts advanced under the support arrangement have been repaid in full, dividends on the Bank's shares and interest on principal payments under its outstanding debentures will be suspended. Also, the participants in the arrangement will receive warrants entitling them to purchase common shares of the Bank. These will be issued in proportion to the extent of the participation by each member and will represent in total the right to acquire shares equal in number to three times the number of shares now outstanding.

The amount of the CDIC's participation, $75 million is considered to be less than the cost that would have fallen on the Corporation if the Bank had gone into liquidation. As a consequence, the arrangement enabling the Bank to continue in business is more favorable to the Corporation than seeing the Bank liquidated and paying the claims in respect of insured deposits. In addition, the Corporation has the expectation of recovering this sum over future years and it may gain through the sale of the share warrants. In the meantime, the necessary financing will represent a further strain on the resources of the Corporation.

Inspections

Under the terms of the Canada Deposit Insurance Corporation Act, acting on behalf of the CDIC, the Superintendent of Insurance examined the affairs of the federally incorporated trust companies and loan companies, which number 68, and the Inspector General of Banks examined the affairs of the 72 banks. Forty-six (46) provincial institutions were also examined on behalf of CDIC, by persons designated by it for that purpose.

Financial

Financial transactions for the year are shown in the attached statements.

For the year ended December 31, 1984, CDIC's income from interest on investments and administrative operations amounted to $12.4 million and its expenses and provisions for income taxes totalled $8.9 million, leaving an excess of $3.5 million.

Further, the Corporation received $112 million in income from loans made to member institutions under agency agreements and it has paid offsetting interest of $109 million to agents who had advanced loans on behalf of the Corporation. It is to be noted that since these institutions are insolvent, their interest payments increases their deficits and therefore increases the Corporation's losses as mentioned below.

The premiums assessed during the year totalled $54 million. The accumulated premiums as at year end totalled $287 million (1983 - $233 million).

The gross loss from insurance operations as at the year end 1983, totalled $587 million and the total deficiency in the Deposit Insurance Fund amounted to $332 million as at that year end. The deficiency in the Deposit Insurance Fund at year end 1983, was due to the recording of a general provision for loss in respect of the afore-mentioned insolvent institutions amounting to $650 million. This general provision was however a preliminary estimate and, as stated in our Annual Report, was subject to change. As indicated in the Chairman's Overview, the Corporation in 1984 recorded an additional provision for loss of $600 million.

As at December 31, 1984, the gross loss from insurance operations totalled $543 million which added to the 1983 year end deficiency of $332 million less the previously mentioned profits from its investment and administrative operations of $3.5 million resulted in a year end deficiency of $871 million. However, it is to be noted that even though the Corporation's financial statements show a deficit, the ability of the CDIC to meet its obligations as an insurer is not at risk. The Corporation was able to pay from its own resources amounts in excess of $179 million in 1984 to pay off insured depositors. Further the

Corporation is assured of adequate financial resources either by way of yearly premiums paid by member institutions or by temporary financing through interest-bearing loans from the Consolidated Revenue Fund. Statutory authority exists to authorize such loans to an aggregate of $1.5 billion (see note 7 of Financial Statements).

The Corporation's capital and operating budgets for 1984 were prepared in the latter part of 1983. However, at that time the Corporation had no knowledge of the forthcoming liquidations of Seaway Trust and Northguard Mortgage Corporation. As previously mentioned, the CDIC in discharge of its obligations thereunder made payments to depositors in excess of $179 million. To obtain the necessary funds it disposed of the majority of its investments in treasury bills. In the circumstances, a comparison of actual performance to budget would be meaningless and is therefore not attempted in this report.

At year end, total insured deposits with member institutions amounted to $162 billion, made up of $149 billion in federally incorporated institutions and $13 billion in provincially incorporated institutions.

Corporate Plan

In accordance with the requirements of the new part XII of the Financial Administration Act, the Corporation submitted to the Minister of State for Finance a 5 year corporate plan and its annual operating and capital budgets for 1985. The corporate plan of the Corporation for the period 1985-89 and the 1985 budgets were approved by the Governor in Council on December 21, 1984.

Private Sector Committee

In early 1985, the Honourable Barbara McDougall, Minister of State for Finance, announced the appointment of a private sector committee to review the legislation and operations of the Corporation. This Committee is Chaired by Robert Wyman of Vancouver, Chairman of Pemberton, Houston and Willoughby Inc. Members are J.A.L. Colhoun of Toronto, Vice-Chairman of the Board of National Victoria and Grey Trust Company, André Bédard of Montreal, Senior Executive Vice-President of the National Bank of Canada and Hugh Brown, Financial Services Analyst of Burns Fry Limited, Toronto. The Committee is assisted by E.A. Fricker, a private consultant.

The Committee will be addressing such issues as the powers of the Corporation, the scope of deposit insurance coverage, the funding of the Corporation, the supervision and monitoring of member institutions as well as the organization and staffing of the Corporation.

Advisory Committee

The Corporation has established an advisory committee made up of some of the most knowledgeable real estate experts in Canada. Its main objective is to assist the Corporation in the liquidation of the real estate and real estate related assets of the insolvent institutions.

This Advisory Committee is Chaired by Mr. William C. Poole, Senior Vice-President, Realty Advisory Group, of the Toronto-Dominion Bank. Other members of the committee are Joseph Berman, co-founder and formerly a director of The Cadillac Fairview Corporation, David C. Howard, Chairman, Citicom Inc., and formerly President Gulf Realty Co., a division of Gulf Canada, John W. McCool, Senior Vice-President, Real Estate, Bank of Montreal, Kenneth Rotenberg, Chairman of the Board, Rostland Corporation, and Herbert I. Stricker, President, Heathcliffe Developments Limited.

Former Cadillac Fairview Properties

On October 25, 1984, the Honourable Mr. Justice Craig, of the Supreme Court of Ontario directed that the Clarkson Company Limited, Receiver and Manager of these properties, jointly prepare with Mr. Bruce Robertson, the provisional liquidator of Seaway Trust Company, a disposition strategy for submission to the Court. These properties are encumbered by second and third mortgages to Crown Trust Company, Greymac Trust Company and Seaway Trust Company. On February 28, 1985, the Clarkson Company Limited and Bruce Robertson advised the Court that considerable progress had been made on the assignment and estimated that they would be able to deliver to the Court their joint report on a disposition strategy on or before June 30, 1985.

Organization and Staffing

Over the past few years the workload and responsibilities of the Corporation have increased well beyond its existing resources. The Corporation is now involved in the liquidation and wind-down of twelve trust and loan companies. While the number of staff have increased from seven employees in 1982 to sixteen in 1984, it has become very evident that the Corporation will require more personnel with specialized backgrounds to allow it to discharge its objectives and obligations and face any future problems. The Corporation is giving this matter priority. On behalf of the Corporation, management extends its sincere appreciation to each and every member of the staff for their efforts and support.

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

The Honourable Michael Wilson, P.C., M.P.
Minister of Finance

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1984 and the statements of investment and administrative operations, deposit insurance fund and changes in financial position 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 present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting policy as described in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements, have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 23, 1985

CANADA DEPOSIT INSURANCE CORPORATION
BALANCE SHEET
as at December 31, 1984

ASSETS

	1984	1983
	(in thousands of dollars)	
Cash and treasury bills	$ 79,459	$ 145,424
Investments	–	21,001
Premiums and other accounts receivable	12,388	10,643
Accrued interest on treasury bills	541	2,043
Mortgages	2,224	9,174
Loans to member institutions (note 4)	1,064,790	944,625
Claims in respect of insured deposits (note 5)	200,974	23,514
Furniture, equipment and leasehold improvements	186	81
	$1,360,562	$1,156,505

LIABILITIES

	1984	1983
	(in thousands of dollars)	
Bank indebtedness	$ 22,273	$ –
Accounts payable	4,737	726
Income taxes payable	454	1,145
Loans from member institutions	953,910	805,266
Loans from Consolidated Revenue Fund	–	30,000
Deferred income taxes	545	1,473
	981,919	838,610
General provision for loss (note 6)	1,250,000	650,000
	2,231,919	1,488,610
DEPOSIT INSURANCE FUND		
Deficiency at year end	(871,357)	(332,105)
	$1,360,562	$1,156,505

Approved by the Board:

Chairman

Director

CANADA DEPOSIT INSURANCE CORPORATION

Statement of Investment and Administrative Operations
for the year ended December 31, 1984

	1984	1983
	(in thousands of dollars)	
Interest revenue		
Treasury bills	$ 11,352	$ 10,723
Canada bonds	163	3,961
Mortgages	752	1,255
Other	123	401
	12,390	16,340
Expenses		
Inspection and other fees	1,629	1,683
General, administrative and other	1,008	807
Salaries and employee benefits	433	262
	3,070	2,752
Earnings before income taxes	9,320	13,588
Income taxes		
Current	6,709	12,045
Deferred	(928)	(325)
	5,781	11,720
Net earnings from investment and administrative operations	$ 3,539	$ 1,868

CANADA DEPOSIT INSURANCE CORPORATION

Statement of Deposit Insurance Fund
for the year ended December 31, 1984

	1984	1983
	(in thousands of dollars)	
Deficiency (surplus) beginning of year	$ 332,105	$(253,129)
Insurance operations		
Premiums	53,884	51,098
Interest on loans to member institutions	112,451	62,188
	166,335	113,286
General provision for loss (note 6)	600,000	650,000
Recovery of claim	—	(440)
Interest on loans from member institutions	109,126	50,828
	709,126	700,388
Gross (loss) from insurance operations	(542,791)	(587,102)
Deficiency before net earnings from investment and administrative operations	874,896	333,973
Net earnings from investment and administrative operations	3,539	1,868
Deficiency end of year	$ 871,357	$ 332,105

CANADA DEPOSIT INSURANCE CORPORATION

Statement of Changes in Financial Position
for the year ended December 31, 1984

	1984	1983
	(in thousands of dollars)	
Source of funds		
Operations		
Net earnings from investment and administrative operations	$ 3,539	$ 1,868
Items not affecting funds		
Deferred income taxes	(928)	(325)
Net amortization of premiums and discounts	(77)	(333)
Depreciation and amortization	50	31
	2,584	1,241
Loans from member institutions	148,644	805,266
Interest on loans to member institutions	112,451	62,188
Loans from Consolidated Revenue Fund	—	140,000
Repayment of loans by member institutions	—	50,000
Decrease in investments		
— Canada bonds	20,000	32,350
— Other bonds & debentures	1,006	162
Recoveries of claims in respect of insured deposits	407	1,060
Increase in accounts payable	4,011	225
Increase in income taxes payable	—	1,125
Premiums for the year	53,884	51,098
Realization of mortgages	7,021	4,397
Bank overdraft	22,273	—
Decrease in accrued interest	1,502	—
	373,783	1,149,112
Application of funds		
Loans to member institutions	120,165	942,483
Interest on loans from member institutions	109,126	50,828
Repayment of loans from Consolidated Revenue Fund	30,000	110,000
Increase in premiums and other accounts receivable	1,745	9,358
Increase in accrued interest	—	771
Purchase of furniture, equipment and leasehold improvements	154	78
Payment of claims in respect of insured deposits	177,867	22,783
Decrease in income taxes payable	691	—
	439,748	1,136,301
Increase (decrease) in cash and treasury bills	(65,965)	12,811
Cash and treasury bills at beginning of the year	145,424	132,613
Cash and treasury bills at end of the year	$ 79,459	$ 145,424

CANADA DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements
December 31, 1984

(amounts in thousands of dollars unless otherwise stated)

1. **Authority and Objective**

The Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act (the Act). It is a Crown corporation named in Schedule C Part I of the Financial Administration Act.

The Corporation's principal objective is to provide insurance on deposits with member institutions (banks, and federal and provincial trust and loan companies) up to $60,000 per depositor per institution. Under section 11 of the Act, the Corporation may acquire assets from, or advance funds to, member institutions to reduce or avert a threatened loss to the Corporation.

2. **Accounting Policies (See Note 3)**

Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Note 3 sets out a change in an accounting policy which has taken place in the current year.

These financial statements do not reflect the assets, liabilities and operations of member institutions whose operations the Corporation is financing in order to secure an orderly wind down.

The more significant policies adopted are set out below.

Premium Recognition

Premiums are based on insured deposits accepted by member institutions as at April 30 of each year and are collectible by December 31 of the year. Premiums are recognized when collectible.

General Provision for Loss

The general provision for loss reflects the Corporation's best estimate of losses arising in respect of funds advanced to member institutions, of claims against insolvent member institutions for payments made to insured depositors and likely claims and costs resulting from operations up to year end and insolvencies reported subsequently (note 9).

3. **Change in Accounting Policy**

The Corporation has adopted an accounting policy in respect of the general provision for loss as reflected in note 2 above. Previously the general provision for loss represented only the accumulated deficits of insolvent member institutions as at the financial statement date.

The effect of this change in accounting policy, which has not been applied retroactively, has been to increase the general provision for loss by approximately $460 million (see note 6.)

4. **Loans to Member Institutions**

During 1983, certain member institutions experienced financial difficulties and were placed under the control of regulatory authorities. Subsequently, and in accordance with section 11(a) of the CDIC Act, the Corporation entered into agency agreements with other member institutions (agents) to ensure that the respective operations of these troubled companies would be wound down in an orderly fashion over a five year term. The liabilities and operations of these companies are being financed on a continuing basis by way of direct loans or by the respective agents providing loans on behalf of the Corporation.

As at December 31, 1984, loans made directly or by agents on behalf of the Corporation were as follows:

Member Institutions Under Agency Agreements	Direct	By Agents	Total
Greymac Mortgage Corporation	$ 55,000	$ 50,250	$ 105,250
Greymac Trust Company	40,434	119,500	159,934
Fidelity Trust Company	38,332	257,774	296,106
Crown Trust Company	—	297,750	297,750
Seaway Mortgage Corporation	—	54,500	54,500
District Trust Company	—	11,026	11,026
	133,766	790,800	924,566

In Liquidation	Direct	By Agents	Total
Amic Mortgage Investment Corporation	2,083	—	2,083
Seaway Trust Company	—	137,651	137,651
	135,849	928,451	1,064,300
Accrued interest receivable	490	—	490
Balance December 31, 1984	$136,339	$928,451	$1,064,790
Balance December 31, 1983	$139,359	$805,266	$ 944,625

The Corporation has registered a floating charge on all the assets of the above member institutions to secure the loans. During the term of the agreements, the agents are paying all liabilities on maturity and are disposing of the assets in a manner to optimize recovery. The assets of these member institutions consist primarily of mortgages and real estate. The ultimate realization of these assets is dependent on the state of economy, interest rate levels and the real estate market in general.

During 1984, the Corporation ceased to charge interest on loans advanced directly or by agents to member institutions placed in liquidation. It continues to assess interest on member institutions under agency agreements. Accrued interest is included on the balance sheet as part of Loans to member institutions.

5. Claims in Respect of Insured Deposits

When the Corporation pays a depositor's claim it acquires a subrogation of the rights and interest of the depositor as against the assets of the member institution in liquidation. The Corporation's claims in respect of payments to insured depositors of insolvent member institutions are identified below. The date of liquidation appears in brackets.

	Claims Paid to date	Recoveries to date	Write Offs	Net Claim 1984	Net Claim 1983
Astra Trust (1980)	$ 21,625	$18,086	$3,200	$ 339	$ 731
Amic Mortgage Investment (1983)	22,783	15		22,768	22,783
Seaway Trust (1984)	150,062	—		150,062	—
Northguard Mortgage (1984)	27,805	—		27,805	—
	$222,275	$18,101	$3,200	$200,974	$23,514

6. General Provision for Loss

	1984	1983
Balance, beginning	$ 650,000	$ —
Reported deficits of insolvent members	140,000	650,000
Anticipated future losses of insolvent members	330,000	—
Provision for loss resulting from subsequent events (note 9)	130,000	—
	600,000	650,000
Balance, ending	$1,250,000	$650,000

7. Loans from Consolidated Revenue Fund

With the approval of the Governor in Council, the Corporation can borrow up to $1.5 billion from the Consolidated Revenue Fund. Between year end and May 17, 1985 the Corporation borrowed $325 million from the Consolidated Revenue Fund.

8. Contingent Liabilities

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions over the past years. The Corporation does not believe it has any liability as a result of these actions and has therefore not provided for any potential claims.

9. Subsequent Events

Subsequent to year end the following member institutions became insolvent and are being liquidated:

Pioneer Trust	February 1985
Western Capital Trust	April 1985
London Loan	April 1985

The Corporation has made payments of claims in respect of insured deposits of approximately $305 million relative to the above insolvent members. As a result, the Corporation has acquired a subrogation of the rights and interest of the depositors as against the assets of these member institutions in liquidation.

Further, the Canadian Commercial Bank was provided with a refinancing loan whereby CDIC participated to the extent of $75 million. No provision for loss has been projected since CDIC expects to be fully reimbursed.

10. Deposit Insurance Fund Deficiency

The Corporation does not believe that its current rate of premium assessments which are the maximum allowed by the Act are sufficient to permit the elimination of the deposit insurance fund deficiency.

11. Income Taxes

The Corporation is subject to federal income tax on its investment income less administrative expenses. Neither premium nor claims in respect of the insurance program are subject to taxation.

12. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions as at April 30, 1984 and 1983 are as follows:

	1984	1983
	(in billions of dollars)	
Federal Institutions	$149	$142
Provincial Institutions	13	12
	$162	$154

13. Comparative Figures

Certain of the 1983 figures have been reclassified so as to conform with the presentation adopted in 1984.

FIVE YEAR FINANCIAL & STATISTICAL SUMMARY

	1984	1983	1982	1981	1980
	($ millions unless otherwise indicated)				
Operations					
Total revenues	12	16	26	26	18
Total expenses	3	3	1	0.7	0.8
Income taxes paid	6	12	12	12	8
Net earnings after tax	3	1	13	13	9
Assets and Liabilities					
Total assets	1,361	1,157	255	233	200
Total liabilities	2,232	1,489	2	7	4
Insurance Program					
Deposit Insurance Fund	(871)	(332)	253	226	196
Total insured deposits	162,000	154,000	118,000	109,000	96,078
Premiums assessed	54	51	15	20	22
Member Institutions					
Federal #	140	137	133	91	69
Provincial #	46	51	53	54	54
Insolvencies #	2	1	—	—	1
Wind Downs #	—	6	1	—	—
Employees					
Number of employees	16	11	7	6	5

MEMBER INSTITUTIONS

Chartered Banks

ABN Bank Canada
Banca Commerciale Italiana of Canada
Banca Nazionale del Lavoro of Canada
Banco Central of Canada
Bank of Alberta
Bank of America Canada
Bank of Boston Canada
Bank of British Columbia
Bank of Credit and Commerce Canada
Bank Hapoalim (Canada)
Bank Leumi le-Israel (Canada)
Bank of Montreal
Bank of Nova Scotia (The)
Bank of Tokyo Canada (The)
Banque Nationale de Paris (Canada)
Barclays Bank of Canada
BT Bank of Canada
Canadian Commercial Bank
Canadian Imperial Bank of Commerce
Chase Manhattan Bank of Canada (The)
Chemical Bank of Canada
Citibank Canada
Comerica Bank Canada
Continental Bank of Canada
Continental Illinois Bank (Canada)
Crédit Commercial de France (Canada)
Crédit Lyonnais Canada
Credit Suisse Canada
Dai-Ichi Kangyo Bank (Canada)
Deutsche Bank (Canada)
Dresdner Bank Canada
First Interstate Bank of Canada
First National Bank of Chicago (Canada) (The)
Fuji Bank Canada
Grindlays Bank of Canada
Hanil Bank Canada
Hongkong Bank of Canada
Industrial Bank of Japan (Canada) (The)
International Commercial Bank of Cathay (Canada)
Irving Bank Canada
Israel Discount Bank of Canada
Korea Exchange Bank of Canada
Lloyds Bank International Canada
Manufacturers Hanover Bank of Canada
Mellon Bank Canada
Mercantile Bank of Canada (The)
Midland Bank Canada
Mitsubishi Bank of Canada
Mitsui Bank of Canada (The)
Morgan Bank of Canada
Morguard Bank of Canada
National Bank of Canada
National Bank of Detroit, Canada
National Bank of Greece (Canada)
National Westminster Bank of Canada
Northland Bank
Overseas Bank (Canada)
Overseas Union Bank of Singapore (Canada)
Paribas Bank of Canada
Republic National Bank of New York (Canada)
Royal Bank of Canada (The)
Sanwa Bank Canada
Security Pacific Bank Canada
Société Générale (Canada)
Standard Chartered Bank of Canada
State Bank of India (Canada)
Swiss Bank Corporation (Canada)
Toronto Dominion Bank (The)
Union Bank of Switzerland (Canada)
Wells Fargo Bank Canada
Western & Pacific Bank of Canada

Savings Bank

Montreal City & District Savings Bank (The)

Federal Trust and Loan Companies

Atlantic Trust Company of Canada
Bank of America Canada Mortgage Corporation
Bank of British Columbia Mortgage Corporation
Bank of Montreal Mortgage Corporation
Bayshore Trust Company
Canada Permanent Mortgage Corporation
Canada Permanent Trust Company
Canada Trust Company (The)
Canada Trustco Mortgage Company
CCB Mortgage Investment Corporation
Central and Eastern Mortgage Corporation
Central Trust Company
CIBC Mortgage Corporation
Citibank Canada Mortgage Corporation
Citizens Trust Company
Continental Bank Mortgage Corporation
Continental Trust Company
Co-Operative Trust Company of Canada
Coronet Trust Company

Discovery Trust Company of Canada
Eaton Bay Trust Company
Equitable Trust Company (The)
Evangeline Savings and Mortgage Company
Evangeline Trust Company
Fedco Mortgage Investment Company
Fidelity Trust Company (The)
Fidmor Mortgage Investors Corporation
First City Mortgage Company
Granville Savings and Mortgage Corporation
Greymac Mortgage Corporation
Guaranty Trust Company of Canada
Household Trust Company
Income Trust Company
Interior Trust Company (The)
International Trust Company (The)
League Savings and Mortgage Company
MBC Mortgage Corporation
Merchant Trust Company (The)
Montreal Trust Company of Canada
Morgan Mortgage Corporation
Morgan Trust Company of Canada
Morguard Mortgage Investment Company of Canada
Morguard Trust Company
National Bank of Greece (Canada) Mortgage Corporation
National Bank Mortgage Corporation
Nova Scotia Savings & Loan Company
Nova Scotia Savings and Trust Company
Overseas Bank (Canada) Mortgage Corporation
Pacific Savings and Mortgage Corporation
Peace Hills Trust Company
Pioneer Trust Company
Premier Trust Company (The)
Provincial Trust Company
Regional Trust Company (The)
Royal Bank Mortgage Corporation
Royal Trust Corporation of Canada
Royal Trustco Mortgage Company
Scotia Mortgage Corporation
Seaway Mortgage Corporation
Seel Mortgage Investment Corporation
Settlers Savings and Mortgage Corporation
Standard Loan Company
Standard Trust Company
Sterling Trust Corporation
TD Mortgage Corporation
Victoria and Grey Mortgage Corporation
Wellington Trust Company
Western Capital Trust Company

Provincial Trust and Loan Companies

Cabot Trust Company
Canborough Corporation (The)
Columbia Trust Company
Community Trust Company Ltd.
Counsel Trust Company
Credit Foncier
Credit Foncier Trust Company
Crown Trust Company
District Trust Company
Dominion Trust Company (The)
Effort Trust Company (The)
Executive Trust Company
Family Trust Corporation
Financial Trust Company
First City Trust Company
First Western Trust Company
General Trust of Canada
General Trust Inc.
Greymac Trust Company
Guardian Trust Company
Heritage Savings & Trust Company
Home Savings & Loan Corporation
Huronia Trust Company
Inland Trust and Savings Corporation Ltd.
Investors Group Trust Co. Ltd.
Landmark Savings and Loan Association
London Loan Limited
London Trust & Savings Corporation
Monarch Trust Company
Montreal Trust Company
Municipal Savings & Loan Corporation (The)
Municipal Trust Company (The)
National Victoria & Grey Trust Company (The)
Nipissing Mortgage Corporation
North West Trust Company
Pacific & Western Trust Corporation
Principal Savings and Trust Company
Royal Trust Company (The)
Royal Trust Company Mortgage Corporation (The)
Saskatchewan Trust Company
Savings and Investment Trust Company
Security Trust Company
Shoppers Mortgage and Loan Corporation
Termguard Savings & Loan Company
Vanguard Trust of Canada Limited
Yorkshire Trust Company