



Canada Deposit  
Insurance Corporation

Société d'assurance-dépôts  
du Canada

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Canada



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R.A. McKinlay

Chairman of the Board

Président du conseil d'administration

March 29, 1988

The Honourable Tom Hockin, P.C., M.P.  
Minister of State - Finance  
House of Commons  
Ottawa, Ontario

Dear Minister:

I have the honour to submit to you the Annual Report of the  
Canada Deposit Insurance Corporation for the fiscal year  
ended December 31, 1987.

Yours very truly,

320 Queen Street  
22nd Floor  
P.O. Box 2340, Station D  
Ottawa, Ontario  
K1P 5W5

320 rue Queen  
22<sup>e</sup> étage  
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## CORPORATE PROFILE

The Canada Deposit Insurance Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act, R.S., c. C-3, as amended. The Corporation is for all purposes an agent of Her Majesty in Right of Canada and is a Crown corporation named in Schedule C Part I of the Financial Administration Act.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability and competitiveness of the financial system in Canada. The aforementioned objects are to be pursued for the benefit of depositors and in a manner so as to minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental in the furtherance of its objects including the acquisition of assets from or guarantee of loans to a member institution, it may make or cause to be made inspections of member institutions, prescribe standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

Membership with the Corporation is limited to banks, trust companies and loan companies. Members may be either federally or provincially incorporated. To obtain membership, an application must be submitted and approved. Approval is subject to the fulfillment of certain standards and conditions and, in the case of a provincial institution, authorization by the province of its incorporation.

Deposit insurance coverage is the same for all member institutions with the exception of deposits accepted in the Province of Quebec by provincially incorporated members. The Province of Quebec has a deposit insurance plan of its own under the administration of the Quebec Deposit Insurance Board (QDIB). Under the terms of an agreement between this Corporation and the QDIB, deposits made in Quebec with provincially incorporated members are insured by the QDIB and the deposits made outside Quebec with such members are insured by this Corporation. The maximum repayment from both agencies would not exceed \$60,000. Deposits with federally incorporated members are insured by this Corporation regardless of the province in which the deposit was made.

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 \$3.0 billion.

### Legislative Authorities:

Canada Deposit Insurance Corporation Act  
Canada Deposit Insurance Corporation General By-Law  
Investment Companies Act  
Cooperative Credit Associations Act  
Part XII of the Financial Administration Act

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## **BOARD OF DIRECTORS AND OFFICERS**

As at December 31, 1987 the Board of Directors consisted of the Chairman who is appointed by Governor in Council and the persons who hold the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions and a Deputy Superintendent of Financial Institutions.

### **Board of Directors**

R.A. McKinlay	Chairman
J.W. Crow	Governor of the Bank of Canada
S.H. Hartt	Deputy Minister of Finance
M.A. Mackenzie	Superintendent of Financial Institutions
R.M. Hammond	Deputy Superintendent of Financial Institutions

### **Senior Officers**

C.C. de Léry	President and Chief Executive Officer
J.P. Sabourin	Executive Vice-President and Chief Operating Officer
G.I. Ferguson	Corporate Secretary and General Counsel
T.F. Fagan	Vice-President, Insurance and Risk Assessment
H.J.W. Richards	Vice-President, Field Operations
B.C. Scheepers	Vice-President, Field Operations

### **Corporate Office**

Canada Deposit  
Insurance Corporation  
Place de Ville, Tower "A"  
P.O. Box 2340, Station D  
320 Queen Street  
22nd Floor  
Ottawa, Ontario  
K1P 5W5

### **Branch Office**

Canada Deposit  
Insurance Corporation  
3408 - 79 Wellington Street, W.  
P.O. Box 156  
Toronto-Dominion Centre  
IBM Tower  
Toronto, Ontario  
M5K 1H1

For additional copies, please contact Mr. D.E. Racine,  
Director of Public Relations and Human Resources,  
Ottawa office.

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## CHAIRMAN'S REMARKS

During 1987, the policies set out in the "New Directions for the Financial Sector" began to be reflected in relevant legislation. As a consequence, the Canadian financial institutions industry has undergone and continues to undergo major structural changes. CDIC was not unaffected by this evolution which continues to unfold as the new policies become enshrined in statutes and regulations.

Turning to the Corporation's operations during 1987, the only claim on the insurance fund was in connection with the failure of Principal Savings and Trust Company for which the net cost to CDIC is now estimated to be less than \$15 million, as compared with 1986 when the cost of claims against the fund totalled \$500 million. This dramatic improvement is, to a degree, a measure of both the basic soundness of the Canadian financial system and the effectiveness of the statutory and regulatory framework within which it operates.

Although the Corporation is still burdened with a very heavy deficit, it was reduced by the proceeds of operations during 1987 by \$138 million. The present outlook is for continuing reductions in future years and elimination in 1993.

### Board of Directors

The Corporation again made heavy demands on its Board of Directors. As was the case in 1986, the Board met 21 times during the year. This is a major dedication of time and effort by the senior government officers who sit on the Board and who have major responsibilities in connection with their primary duties. There is no doubt that the deliberations of the Board and the decisions emanating therefrom were an important factor contributing to the very satisfactory performance of the Corporation in 1987.

In accordance with the provisions of the CDIC Act and because of a realignment of his responsibilities, Mr. D.M. Macpherson, Deputy Superintendent of Financial Institutions, ceased to be a director. However, the Minister appointed him to be an alternate director and in that capacity his talents and many years of experience with the Corporation and the regulatory process will continue to be available to us.

Early in 1988, and in accordance with amendments to the CDIC Act contained in Bill C-86, the Governor in

Council, on the recommendation of the Minister, appointed the following new directors from the private sector:

E. Susan Evans, Vice-President  
Law and Corporate Affairs,  
Encor Energy Corp, Inc.  
Calgary, Alberta

H. Marcel Caron, O.C., F.C.A.  
Executive Partner (retired)  
Clarkson Gordon, Chartered Accountants  
Montreal, Quebec

Paul G. Morton, President  
Global Communications Limited  
Toronto, Ontario

Ronald Neil Robertson, Q.C.  
Partner and Chairman  
Fasken and Calvin  
Partner, Fasken, Martineau, Walker  
Toronto, Ontario

It is a great pleasure to welcome these new directors. We are indeed fortunate that persons of their quality are prepared to make their diverse talents and experience available to the Board of this Crown corporation.

### Operating Performance during 1987

Mr. Charles de Léry, the President and Chief Executive Officer of CDIC, in his review of operations, comments in some detail concerning the operating and financial performance during 1987. As mentioned at the outset, the deficit was reduced by some \$138 million. As a consequence of this, coupled with the receipt of proceeds from the liquidation of assets of insolvent member institutions, direct and indirect borrowings for which CDIC is responsible, were reduced by a total of \$400 million during the year. This was accomplished while premiums were maintained at the rate of 1/10 of 1% of insured deposits.

During the year under review, the officers of the Corporation developed closer working relationships with their opposite numbers in the Office of the Superintendent of Financial Institutions (the federal regulator) as well as with provincial regulators upon whom CDIC relies for the initial regulation of provincially incorporated members.



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### **Principal Savings and Trust Company**

This Alberta based company was the only CDIC member institution in the Principal group reported to include some 127 entities whose serious financial difficulties became widely known during 1987. When the parent company of Principal Savings and Trust Company made a voluntary assignment in bankruptcy and other companies in the group availed themselves of other insolvency legislation, CDIC moved in the Courts to have Principal Savings and Trust Company put into liquidation under the provisions of the Winding-up Act (of Canada). The application for Order was granted by the Alberta Court of Queen's Bench on August 17, 1987.

Within less than four weeks the insured deposits of Principal Savings and Trust Company were transferred to Metropolitan Trust Company in accordance with the authority to do so contained in the CDIC Act. The insured depositors were able to effect full recovery of their deposits, or if they chose, as many did, they could leave their deposits with Metropolitan Trust Company recognizing that it is a member institution of CDIC. Hence, deposit insurance would continue in force with respect to both the transferred deposits and any new deposits which were made subject, of course, to the limitations set out in the Act. This deposit transfer process has worked well.

Arrangements were also made for Metropolitan Trust Company to take over the operations of Principal Savings and Trust Company. As a result, many of its employees have been retained by Metropolitan Trust Company and most branch offices have remained open, thereby minimizing the upset and hardship which otherwise would have accompanied a conventional liquidation.

### **CDIC Thrusts Planned for 1988**

The organizational structure of the Corporation which was in the planning stages in 1986 has now been largely implemented and all key positions have been filled.

This structure is designed to serve three basic functions; namely,

- the administration of the Corporation's business, including its financial and legal management;
- the supervision of the operations of member institutions as required to carry out the Corporation's statutory responsibilities as an insurer of deposits. This is done by CDIC officers working closely with the Superintendent of Financial Institutions and with provincial regulators. The presence on the CDIC Board of Directors of both the Superintendent

of Financial Institutions and a Deputy Superintendent has greatly assisted this process. From the point of view of CDIC, this function has loss prevention as its key objective;

- the supervision of the administration of the liquidation of some 21 insolvent member institutions. This function has as its objectives, the maximization and acceleration of the realizations derived from the liquidations in process, thereby providing funds to reduce borrowings for which CDIC is responsible. The importance of this function is underlined when it is recognized that during 1987, interest costs on CDIC borrowings were in excess of 90% of the Corporation's total costs.

In summary therefore, the major operating thrusts of CDIC during 1988 will be directed towards avoiding losses and optimizing liquidation proceeds.

### **Business Plans of Member Institutions**

Loss prevention is essential if the Corporation is to meet its financial objective of eliminating its deficit in 1993. Hence, strong pressure will be exerted on regulators, member institutions and CDIC officials to identify potential problems at an early stage so as to provide an opportunity to effect cures before financial illness of members become terminal. In this regard, the Corporation will be placing increasing emphasis on the use by members of business plans, as being "a sound business and financial practice". These plans will be monitored and this process will be a key element in identifying problems at an early stage.

### **Appreciation**

The performance of the Corporation during 1987 evaluated by any reasonable standard has been indeed most satisfactory. But such results do not just happen. They are the result of much dedicated and effective work by the staff of the Corporation and others.

The focusing of their collective efforts to achieve the 1987 results brings much credit to Mr. Charles de Léry, the President, and to Mr. J.P. Sabourin, the Executive Vice-President. It is interesting to note that of the total complement of 50 people, only 11 have been with the Corporation for more than 3 years.

The Real Estate Advisory Committee, chaired by Mr. W. Poole, continued during the year to provide valuable advice to both the Corporation and liquidators in connection with the disposal of major real estate type assets. As liquidations begin to wind down and we are able to avoid new insolvencies, the demands put upon

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this Committee will lessen. Because of the diverse and successful business experience of the members of this Committee coupled with their knowledge of the workings of the Corporation, we intend during 1988 to seek ways to widen the scope of their terms of reference thereby providing an opportunity for them to expand their assistance to CDIC.

On behalf of the Board of Directors I wish to express sincere appreciation to the officers and employees of the

Corporation, to the Real Estate Advisory Committee and to the liquidators and agents for their dedicated work during 1987.

During the year the Board dealt with many difficult and sensitive issues which were resolved in an effective manner as reflected in the results of the Corporation for the year. I wish to record my own appreciation for the contribution of the Board to this achievement.

The 28th day of March 1988

A handwritten signature in dark ink, appearing to read "Speckler", is written in a cursive style.



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## **PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS FOR 1987**

The Canada Deposit Insurance Corporation has just completed its twenty-first year of operation having been established by an Act of Parliament in 1967.

During its first sixteen years, the Corporation was called upon only on four different occasions to meet its obligations as insurer of deposits, i.e. Commonwealth Trust in 1970, Security Trust in 1972, Astra Trust in 1980 and District Trust in 1982.

During the period 1983 to 1986 inclusive, there were sixteen more member institutions placed under agency agreements or winding-up orders where on each occasion the Corporation met its responsibilities as deposit insurer: Crown Trust, Greymac Trust, Greymac Mortgage, Seaway Trust, Seaway Mortgage, Fidelity Trust and Amic Mortgage in 1983; Northguard Mortgage in 1984; Pioneer Trust, Western Capital Trust, London Loan Ltd., Continental Trust, Canadian Commercial Bank, CCB Mortgage Investment Corporation and Northland Bank in 1985; Columbia Trust in 1986. During 1986, after extensive negotiations, an agreement was reached with The Hongkong and Shanghai Banking Corporation and its Canadian subsidiary, the Hongkong Bank of Canada, to assume the banking business of the Bank of British Columbia as a going concern basis.

In 1987, negotiations between Alberta regulators and officials of the Province and CDIC culminated in an agreement with regard to the rehabilitation of North West Trust Company, an Alberta incorporated trust company doing business in Western Canada. At the same time, the Alberta authorities merged with North West Trust another Alberta incorporated company, Heritage Savings and Trust Company, which had been for some time experiencing major difficulties. The cost of shutting down and liquidating North West Trust and eventually Heritage Savings and Trust would have been considerably greater for CDIC than its contribution of \$275 million for rehabilitation and overall restructuring purposes.

In 1987, the Corporation also worked closely with the Alberta regulators and government officials to seek a solution to the Principal Savings and Trust Company problems that CDIC had been trying to resolve for the past several years. However, notwithstanding our joint efforts, the Principal Group Ltd. filed for bankruptcy in early August under the Federal Bankruptcy Act and in response thereof the Alberta Government issued a ministerial order directing the Alberta Director of Trust

Companies to take possession and control of the Principal Savings and Trust Company assets and deposits. On August 17, 1987, the Court of Queen's Bench of Alberta ordered on application from CDIC that Principal Savings and Trust Company be wound-up pursuant to the provisions of the Winding-up Act of Canada.

The CDIC Act requires that insured depositors be paid their insurance claims as soon as possible after the obligation arises but the Act also provides that CDIC may effect payment of its obligations to insured depositors by way of a transfer of deposits to another member institution. The Corporation arranged a transfer of all insured deposits to Morguard Trust Company which subsequently changed its name to Metropolitan Trust Company. Similarly and in co-operation with the liquidator and with the approval of Revenue Canada to ensure that transferred funds of Registered Retirement Savings Plans and Registered Retirement Income Funds not become deregistered for income tax purposes, CDIC also transferred to Morguard Trust the insured portion of these RRSPs and RRIFs. The total of the amounts transferred for approximately 47,000 depositors and planholders aggregated approximately \$117 million. In so doing the Corporation acquired by way of subrogation these depositors' claims against the estate of Principal.

### **Agency and Operating Agreements**

The Corporation as indicated and more fully explained in previous annual reports decided in the case of the insolvencies of District Trust, Seaway Trust, Seaway Mortgage, Crown Trust, Greymac Trust, Greymac Mortgage and Fidelity Trust to proceed to the wind-down of these companies in an orderly manner over a five-year period under respective agency and operating agreements with another member institution.

In 1984, CDIC decided to accelerate the winding-down of Seaway and a liquidation order was obtained in June 1984 requiring the Corporation to pay the balance of the deposit claims. The District Trust agency agreement terminated on March 17, 1987 while the Greymac agreements terminated on December 31, 1987 and all outstanding loans made on behalf of the Corporation by the respective agents were repaid on these dates. Subsequent to year-end, on February 6, 1988, the agreement in respect of Crown Trust with Central Trust terminated and the outstanding loan was also paid in full. There is presently still in operation only the Fidelity Trust agreement with First City Trust which terminates

on June 30, 1988. As at the 1987 year-end, there only remained some \$3.1 million of deposit liabilities plus interest to be paid as they mature to Fidelity Trust depositors.

#### **Insurance coverage**

In 1967 when the Parliament of Canada established the Corporation, the amount of the insurance coverage was \$20,000 per depositor per member institution. In April 1983, the Parliament passed legislation increasing the coverage effective January 4, 1983, to \$60,000 where it remains at present.

#### **Realization**

During 1987, \$219 million were obtained from the realization of assets in respect of institutions under agency agreement while \$31 million of maturing deposits were repaid in respect thereof. The total advanced by the Corporation under these agency agreements was \$1.062 billion at the end of 1987 and are secured by specific or floating charges on the remaining assets of the companies concerned. Additional repayments in respect of the sums advanced will occur in 1988 since assets being realized should exceed the maturing deposit liabilities referred to earlier in this review. It is anticipated that there will be substantial recoveries in this regard during the course of 1988.

With respect to those institutions under liquidation, the Corporation received during 1987 some \$260 million from the Court appointed liquidators by way of dividends from the realization of assets under their administration. The Corporation anticipates receiving during the course of 1988 approximately \$200 million of additional recoveries in this regard.

#### **Inspections**

Under the terms of the Canada Deposit Insurance Corporation Act, acting on behalf of the CDIC, the Superintendent of Financial Institutions (prior to June 29, 1987, the Superintendent of Insurance and the Inspector General of Banks) examined the affairs of sixty-nine (69) banks and sixty-one (61) federally incorporated trust companies and loan companies. Thirty-seven (37) provincial member institutions were also examined on behalf of CDIC by persons designated by it for that purpose and all reported thereon to CDIC in accordance with the provisions of its statute (Section 23).

#### **Corporate Plan**

In accordance with the requirements of the Financial Administration Act, the Corporation submitted to the Minister of State for Finance a five-year corporate plan and its annual operating and capital budgets for 1988 which were all approved by the Governor in Council in December 1987.

#### **Financial**

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

For the year ended December 31, 1987, the Corporation's income from interest on investments and administrative operations amounted to \$3.973 million while expenses totalled \$8.913 million, therefore leaving a net loss of \$4.94 million.

The Corporation recorded \$92 million in interest from loans to member institutions under agency agreements and incurred interest of \$81 million on loans from agents that had advanced loans on behalf of the Corporation.

The premiums assessed during the year totalled \$200 million, a decrease of some \$17 million over the previous year. This is due to the fact that the premiums collected for 1986 (1/10 of 1% of insured deposits as in 1987) covered a 15 month period, February 1, 1986 to April 30, 1987, while for 1987 it covered the twelve month period of May 1, 1987 to April 30, 1988. The accumulated premiums at year-end totalled \$762 million (1986-\$562 million).

The deficiency from insurance operations as at year-end 1986 totalled \$10.8 million and the total deficit of the Deposit Insurance Fund amounted to \$1.245 billion as at that year-end.

As at December 31st 1987, the gain from insurance operations of \$142.7 million and the net loss from investment and administrative operations of \$4.9 million, decreased the year-end deficit by \$137.8 million to its current level of \$1.107 billion. The Corporation's payments of claims in respect of insured deposits plus the previously reported payment of \$275 million in respect of North West Trust Company totalled \$392 million in 1987 using in part its own revenues plus interest bearing loans from the Consolidated Revenue Fund.

Even though the Corporation's financial statements show this substantial deficit, its ability to meet its obligations as an insurer is not at risk. The Corporation is assured of adequate financial resources either by way of annual premiums paid by member institutions or by temporary financing through interest-bearing loans from the Consolidated Revenue Fund.

The Corporation's capital and operating budgets for 1987 were prepared in the latter part of 1986 at a time when the Corporation had no knowledge of some of the events it was called upon to face in 1987. In the circumstances a comparison of actual performance to budget has not been attempted in this respect.



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At year end, total insured deposits with member institutions amounted to \$199 billion (an increase of 6%) made up of \$183 billion in federally incorporated institutions and \$16 billion in provincially incorporated institutions.

### Legislation

The proclamation of the Financial Institutions and Deposit Insurance System Amendment Act (Bill C-42) on July 2, 1987, amended amongst other things the Corporation's Consolidated Revenue Fund borrowing authority from \$1.5 billion to \$3.0 billion. The maximum annual premium rate was increased to 1/6 of 1% or such smaller amount as may be fixed by the Governor in Council. The rate for the current year (1988) is 1/10 of 1%.

Another major amendment under this legislation was the appointment to the Board of Directors of CDIC of the Superintendent of Financial Institutions and a Deputy Superintendent of Financial Institutions in lieu of the former Inspector General of Banks and Superintendent of Insurance whose office and department were merged under the Office of the Superintendent of Financial Institutions. The new legislation also provides for the promotion of standards of sound business and financial practices prescribed by by-laws, premium surcharges against member institutions engaging in practices that warrant a surcharge and advertising controls.

The appointment on February 4, 1988 of four outside directors (whose names are listed elsewhere in this report) to the Corporation's board as called for under earlier legislation (Bill C-86) will provide the Corporation with an effective and useful balance of background and experience.

### Advisory Committee

The Corporation is most grateful to its Real Estate Advisory Committee chaired by Mr. William C. Poole, retired Senior Vice-President, Realty Advisory Group of the Toronto-Dominion Bank. The other members of this Committee are Messrs. Joseph Berman, co-founder and formerly a Director of the Cadillac-Fairview Corporation, David E. Howard, Chairman, Citicom Inc. and formerly President of Gulf Realty Co., Kenneth Roten-

berg, Chairman of the Board, Rostland Corporation and Herbert I. Stricker, President, Heathcliffe Developments Limited.

The Committee reviews, evaluates and makes recommendations on proposals received from agents, liquidators and receivers with respect to the realization of major real estate assets in which the Corporation has an interest. Since this small real estate group was set up in 1984, its expertise and professional knowledge has been and continues to be of great and vital importance not only to the directors and officers of the Corporation but also to the sundry liquidators, agents and receivers involved in the several insolvent institutions under their administration.

### Organization and Staffing

This Corporation has grown rather dramatically since 1983 when its total staff count numbered only eleven employees.

As indicated in our 1986 report, the Corporation then began to develop and staff an organizational structure designed to meet its growing needs. This was virtually completed during 1987 and is serving the Corporation well.

Some of the Corporation's main objectives in 1988 are the development, implementation and maintenance of policies and procedures concerning member admission, premium administration, monitoring of members' activities, risk assessment and the establishing and implementation of standards of sound business and financial practices as well as the procedures for standard examination and compliance requirements.

The Corporation now has in place an experienced team with a wide range of skills and the experience which will enable the Corporation to meet the challenges that lie ahead.

We are extremely proud of this team and thank all employees of CDIC for their efforts, commitment to quality and contribution to our overall achievements.

The 28th day of March 1988



Robert L. de la Haye

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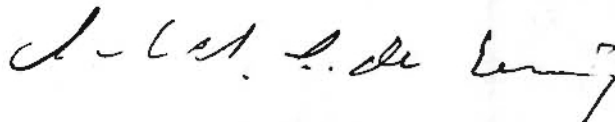
**CANADA DEPOSIT INSURANCE CORPORATION  
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The accompanying financial statements of the Canada Deposit Insurance Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained in accordance with the Financial Administration Act and regulations as well as the Canada Deposit Insurance Corporation Act and by-laws of the Corporation. The system of internal controls is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. The Board of Directors acts as an audit committee which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The internal and external auditors have access to the audit committee.

These financial statements have been independently examined by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.



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Charles C. de Léry  
President & Chief Executive Officer



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J.P. Sabourin  
Executive Vice-President and  
Chief Operating Officer



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Johanne R. Lanthier  
Comptroller



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

## AUDITOR'S REPORT

To the Minister of Finance

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1987 and the statements of deposit insurance fund, investment and administrative operations 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, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied 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 Part XII of 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  
March 3, 1988



**Balance Sheet**  
**as at December 31, 1987**  
**(in thousands of dollars)**

Approved by the Board:

**Chairman**

Director

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**CANADA DEPOSIT INSURANCE CORPORATION**

**Statement of Deposit Insurance Fund  
for the year ended December 31, 1987**

(in thousands of dollars)

	<u>1987</u>	<u>1986</u>
Deficit, beginning of year	\$(1,245,285)	\$(1,235,378)
Insurance Operations		
Premiums (Note 10)	199,665	216,792
Interest on loans to member institutions	91,826	109,553
Other interest	53	90
	<u>291,544</u>	<u>326,435</u>
Interest on loans from Consolidated Revenue Fund	99,287	82,820
Interest on loans from member institutions	81,224	108,859
Cost of guarantees (Note 5)	2,801	475,000
Interest in respect of insured deposits	570	561
Provision for loss adjustment	(35,000)	(330,000)
	<u>148,882</u>	<u>337,240</u>
Gain (deficiency) from insurance operations for the year	<u>142,662</u>	<u>(10,805)</u>
Deficit before net earnings (loss) from investment and administrative operations	(1,102,623)	(1,246,183)
Net earnings (loss) from investment and administrative operations	<u>(4,940)</u>	<u>898</u>
Deficit, end of year	<u>\$(1,107,563)</u>	<u>\$(1,245,285)</u>

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**CANADA DEPOSIT INSURANCE CORPORATION**

**Statement of Investment and Administrative Operations  
for the year ended December 31, 1987**

(in thousands of dollars)

	<u>1987</u>	<u>1986</u>
Interest revenue		
Treasury bills	\$ 3,032	\$ 2,859
Other	941	134
Income tax recovery	—	5,640
	<u>3,973</u>	<u>8,633</u>
Expenses		
Inspection and other fees	5,427	5,191
Salaries and employee benefits	1,955	1,432
General, administrative and other	1,531	1,112
	<u>8,913</u>	<u>7,735</u>
Net earnings (loss) from investment and administrative operations	<u>\$ (4,940)</u>	<u>\$ 898</u>

# CANADA DEPOSIT INSURANCE CORPORATION

## Statement of Changes in Financial Position for the year ended December 31, 1987

(in thousands of dollars)

	<u>1987</u>	<u>1986</u>
Cash provided by (used in) Investment and Administrative Operations		
Interest revenue	\$ 3,651	\$ 8,601
Income tax recovery	—	44,025
Inspection and other fees	(5,040)	(6,275)
Salaries and employee benefits	(1,903)	(1,421)
General, administrative and other	(1,187)	(1,133)
Purchase of furniture, equipment and leasehold improvements	(284)	(470)
	<u>(4,763)</u>	<u>43,327</u>
Cash provided by (used in) Insurance Operations		
Premiums	194,803	219,054
Recoveries of claims in respect of insured deposits	153,733	144,329
Repayment of loans to member institutions	27,348	23,033
Interest on loans to member institutions	4,597	7,284
Realization of mortgages	381	376
Cost of guarantees	(277,801)	(200,000)
Repayment of loans from member institutions	(201,591)	—
Payment of claims in respect of insured deposits	(116,673)	(97,933)
Interest on loans from Consolidated Revenue Fund	(88,908)	(90,271)
Loans to member institutions	(13,050)	(29,076)
Interest in respect of insured deposits	(570)	(1,200)
Quebec sales tax on insurance premiums	(258)	1,023
Repayment of due to member institutions	—	(27,647)
	<u>(317,989)</u>	<u>(51,028)</u>
Cash provided by (used in) Financing Activities		
Loans from Consolidated Revenue Fund	473,000	260,000
Repayment of loans from Consolidated Revenue Fund	(190,788)	(243,547)
	<u>282,212</u>	<u>16,453</u>
Increase (decrease) in cash	(40,540)	8,752
Cash balance at beginning of year	<u>62,411</u>	<u>53,659</u>
Cash balance at end of year	<u>\$ 21,871</u>	<u>\$ 62,411</u>
Cash comprised of:		
Treasury bills and term deposits	\$ 22,239	\$ 63,251
Bank indebtedness	(368)	(840)
	<u>\$ 21,871</u>	<u>\$ 62,411</u>



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## CANADA DEPOSIT INSURANCE CORPORATION

### Notes to Financial Statements December 31, 1987

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#### 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 objects of the Corporation are to provide insurance against the loss of part or all of deposits, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability and competitiveness of the financial system in Canada. The aforementioned objects are to be pursued for the benefit of depositors and in a manner so as to minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental in the furtherance of its objects including the acquisition of assets from or guarantee of loans to a member institution, it may make or cause to be made inspections of member institutions, prescribe standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

#### 2. Accounting Policies

##### *Basis of Preparation*

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

These financial statements do not reflect the assets, liabilities or 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 in two equal installments on June 30 and December 31 of the year. Premiums are recognized when assessed.

##### *General Provision for Loss*

The general provision for loss reflects the Corporation's best estimate of losses in respect of member institutions against which the Corporation has or is certain to have a financial claim. This estimate

includes consideration of losses expected in respect of claims arising from payments made to insured depositors, loans to member institutions and operations for the duration of the wind-down period of member institutions under management by agents.

The general provision for loss is reduced by identified losses on loans to member institutions and on claims in respect of insured deposits.

The general provision for loss does not include an estimated contingent liability for potential claims of depositors of any member institution not specifically identified as being in difficulty.

##### *Identified Losses*

Identified losses are recognized and recorded against the related assets after a sufficient time has elapsed since the date of intervention by the Corporation to establish, with reasonable assurance, the amount of the loss. In practice, the period to establish an identified loss has been a minimum of two years.

##### *Loans to Member Institutions and Claims in Respect of Insured Deposits*

Loans to member institutions and claims in respect of insured deposits are reported net of identified losses.

##### *Interest Recognition*

The Corporation charges interest on loans advanced directly or indirectly to member institutions that are operating under agency agreements. It ceases to charge interest when a member institution is placed in liquidation. It charges interest on other loans in accordance with the terms of the specific loan agreements. Accrued interest is included on the balance sheet as part of "loans to member institutions".

#### 3. Loans to Member Institutions

Certain member institutions that have experienced financial difficulties have been placed under the control of regulatory authorities. In accordance with Section 11 of the CDIC Act, the Corporation entered into agency agreements with other member institutions (agents) to ensure that the respective operations of institutions experiencing financial difficulties 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. The Corporation has also made direct loans to other member institutions experiencing financial difficulties.

As at December 31, 1987, direct loans or loans made by agents on behalf of the Corporation were as follows:

Member Institutions	Direct	By Agents	Total 1987	Total 1986
	(in thousands of dollars)			
<b>Under Agency Agreements</b>				
Fidelity Trust Company	\$ 52,349	\$ 386,800	\$ 439,149	\$ 412,670
Crown Trust Company	3,761	89,444	93,205	211,117
CCB Mortgage Investment Corporation	36,599	—	36,599	50,936
	92,709	476,244	568,953	674,723
<b>In Liquidation</b>				
Greymac Trust Company	191,069	—	191,069	201,381
Seaway Trust Company	—	129,001	129,001	132,501
Greymac Mortgage Corporation	126,688	—	126,688	129,789
Seaway Mortgage Corporation	—	30,234	30,234	54,135
District Trust Company	15,560	—	15,560	14,510
	333,317	159,235	492,552	532,316
<b>Other</b>				
Bank of British Columbia	—	—	—	3,200
	426,026	635,479	1,061,505	1,210,239
Identified losses	358,896	445,235	804,131	712,825
	<u>\$ 67,130</u>	<u>\$ 190,244</u>	<u>\$ 257,374</u>	<u>\$ 497,414</u>

The Corporation has registered a floating charge on all the assets of member institutions under agency agreements as security for 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 the economy, interest rate levels and the real estate market.

The District Trust Company agency agreement terminated in March 1987. At that time, the Corporation repaid its agent the full amount of loans outstanding and placed the Company into formal liquidation.

The Greymac Trust Company agency agreement terminated on December 31, 1987 and all outstanding agent loans were repaid on that date. On January 11, 1988, a winding-up order was issued placing Greymac Trust into formal liquidation.

On December 31, 1987, the operating and loan agreement between the Corporation and Standard Trust Company, the receiver-manager of Greymac

Mortgage, terminated and all outstanding loans were repaid by the Corporation to Standard Trust. At the request of Standard Trust Company, a new receiver-manager was appointed for Greymac Mortgage Corporation on January 11, 1988.

On February 6, 1988, the agency and operating agreement between Central Trust and the Corporation in respect of Crown Trust Company terminated. An extension was entered into for purposes of facilitating the formal winding-up of Crown Trust Company. On February 19, 1988, the Supreme Court of Ontario issued a winding-up order placing Crown Trust into formal liquidation.

#### 4. 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 against the assets of the member institution. The Corporation's claims in respect of payments to insured depositors of the following member institutions are identified below:

	1987	1986
	(in thousands of dollars)	
Amic Mortgage Investment Corporation	\$ 22,791	\$ 22,791
Astra Trust Company	339	339
Canadian Commercial Bank	276,839	276,836
Columbia Trust Company	23,787	84,309
Continental Trust Company	15,811	41,008
London Loan Limited	10,019	23,854
Northguard Mortgage Corporation	8,843	27,634
Northland Bank	317,502	317,503
Pioneer Trust Company	56,774	81,721
Principal Savings & Trust Company	116,230	—
Seaway Trust Company	9,354	86,968
Western Capital Trust Company	8,859	19,321
	867,148	982,284
Identified losses	62,745	22,960
	<u>\$804,403</u>	<u>\$959,324</u>

#### 5. Cost of Guarantees

In December 1986, the Corporation made a payment of \$200 million to The Hongkong & Shanghai Banking Corporation for purposes of reducing a risk or averting a threatened loss to the Corporation in respect of the Bank of British Columbia.

In March 1987, the Corporation entered into an agreement ("North West Trust Company Rehabilitation Agreement") with the Province of Alberta to make a loan of \$275 million to the North West Trust Company. This loan, which was made to reduce a

risk or avert a threatened loss to the Corporation, will not be repaid. Since this transaction arose as a result of conditions that existed at December 31, 1986, this loan was charged directly to the Deposit Insurance Fund in 1986. During 1987, a further \$2.8 million was paid under this agreement.

#### 6. Loans from Consolidated Revenue Fund

The Financial Institutions and Deposit Insurance System Amendment Act provided specific amendments to the Act, one of which increased the Corporation's borrowing authority to \$3 billion with the approval of the Governor in Council.

#### 7. General Provision for Loss

	<u>1987</u>	<u>1986</u>
	(in thousands of dollars)	
Balance, beginning	\$ 529,215	\$ 918,836
Provision for loss adjustment	(35,000)	(330,000)
	<u>494,215</u>	<u>588,836</u>
Less identified losses:		
Loans to member institutions	91,306	36,661
Claims in respect of insured deposits	39,785	22,960
	<u>131,091</u>	<u>59,621</u>
Balance, ending	<u>\$ 363,124</u>	<u>\$ 529,215</u>

On December 17, 1987, the Income Tax Act was amended to eliminate the possibility of double taxation of member institutions in liquidation in respect of amounts paid by the Corporation to insured depositors of the institution. Consequently, the Corporation has not taken into account any estimate of potential taxes payable by member institutions in arriving at its estimated recoveries of claims in respect of insured deposits and accordingly the general provision for loss.

#### 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. 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. Income Taxes

The Corporation is subject to federal income taxes although it is not subject to taxation on premiums assessed and may not take a deduction for claims paid.

The Corporation has available losses which can be carried forward to reduce future years' earnings otherwise subject to taxation. Such losses total \$281 million and expire as follows:

<u>Originating Taxation Year</u>	<u>Expiring Taxation Year</u>	<u>Amount</u>
		(in thousands of dollars)
1984	1991	\$ 44,000
1985	1992	81,000
1986	1993	85,000
1987	1994	<u>71,000</u>
		<u>\$281,000</u>

#### 10. Premiums

The Act provides the Corporation with financing through its premium assessments. The amendments to the Act arising from the Financial Institutions and Deposit Insurance System Amendment Act have provided the Corporation the authority, with Governor in Council approval, to set the premium rate to a maximum of 1/6 of 1% of insured deposits. For the premium year 1987, the rate was set at 1/10 of 1% of insured deposits. The 1986 figure for premiums includes a three month retroactive adjustment representing an additional \$29 million.

#### 11. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1987 and 1986 were as follows:

	<u>1987</u>	<u>1986</u>
	(in billions of dollars)	
Federal Institutions	\$183	\$173
Provincial Institutions	<u>16</u>	<u>15</u>
	<u>\$199</u>	<u>\$188</u>

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**12. Long-Term Operating Lease Commitments**

The following is a schedule of future minimum lease payments for premises expiring in 1991.

<u>Year Ending December 31</u>	<u>Amount</u>
1988	\$ 436,406
1989	436,406
1990	436,406
1991	213,767
	<u>\$1,522,985</u>

**13. Comparative Figures**

Certain of the 1986 figures have been reclassified so as to conform with the presentation adopted for 1987 as follows:

- a) On the balance sheet, the general provision for loss has been netted against loans to member institutions and claims in respect of insured deposits.
- b) Certain figures in the statement of changes in financial position have been reclassified.

## FIVE-YEAR FINANCIAL & STATISTICAL SUMMARY

1987      1986      1985      1984      1983  
 (Restated) (Restated) (Restated)

(\$ millions unless otherwise indicated)

### Operations

Total revenues	4	9	4	12	15
Total expenses	9	8	7	3	3
Income taxes paid (recovered)	—	—	—	(39)	12
Net earnings (loss) from investment and administrative operations	(5)	1	(3)	48	—

### Assets and Liabilities

Total assets	735	1,001	758	153	507
Total liabilities	1,843	2,246	1,993	980	839

### Insurance Program

Deposit Insurance Fund	(1,108)	(1,245)	(1,235)	(827)	(332)
Total insured deposits	199,000	188,000	174,000	162,000	154,000
Premiums assessed	200	217	58	54	51

### Member Institutions

Federal #	125	123	134	140	137
Provincial #	37	40	43	46	51
Insolvencies #	1	1	6	1	1
Wind Downs #	—	—	1	—	6

### Employees

Number of employees	45	33	23	16	11
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## MEMBER INSTITUTIONS

### Chartered Banks

ABN Bank Canada  
ANZ 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 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 Imperial Bank of Commerce  
Chase Manhattan Bank of Canada (The)  
Chemical Bank of Canada  
Citibank Canada  
Crédit Commercial de France (Canada)  
Crédit Lyonnais Canada  
Credit Suisse Canada  
Dai-Ichi Kangyo Bank (Canada)  
Daiwa Bank Canada  
Deutsche Bank (Canada)  
Dresdner Bank Canada  
First Interstate Bank of Canada  
First National Bank of Chicago (Canada) (The)  
Fuji Bank 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  
Laurentian Bank of Canada  
Lloyds Bank Canada  
Manufacturers Hanover Bank of Canada  
Mellon Bank Canada  
Midland Bank Canada  
Mitsubishi Bank of Canada  
Mitsui Bank of Canada (The)

Morgan Bank of Canada  
National Bank of Canada  
National Bank of Detroit, Canada  
National Bank of Greece (Canada)  
National Westminster Bank of 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)  
Sumitomi Bank of Canada  
Swiss Bank Corporation (Canada)  
Taiyo Kobe Bank (Canada)  
Tokai Bank Canada  
Toronto-Dominion Bank (The)  
Union Bank of Switzerland (Canada)  
United Overseas Bank (Canada)  
Western & Pacific Bank of Canada

### Federal Trust and Loan Companies

Atlantic Trust Company of Canada  
Bank of British Columbia Mortgage Corporation  
Bank of Montreal Mortgage Corporation  
Bayshore Trust Company  
Canada Trust Company (The)  
Canada Trustco Mortgage Company  
CanWest Trust Company  
Central and Eastern Mortgage Corporation  
Central Trust Company  
Chancellor Trust Company  
CIBC Mortgage Corporation  
Citibank Canada Mortgage Corporation  
Citizens Trust Company  
Co-operative Trust Company of Canada  
Coronet Trust Company  
Equitable Trust Company (The)  
Evangeline Savings and Mortgage Company



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Evangeline Trust Company  
First City Mortgage Company  
Focus National Mortgage Corporation  
Granville Savings and Mortgage Corporation  
Guaranty Trust Company of Canada  
Guardcor Loan Company  
Household Trust Company  
Income Trust Company  
International Trust Company (The)  
Laurentian Bank of Canada Mortgage Corporation  
League Saving & Mortgage Company  
Lloyds Bank Canada Mortgage Corporation  
Merchant Trust Company (The)  
Metropolitan Trust Company of Canada  
Montreal Trust Company of Canada  
Montreal Trustco Mortgage Corporation  
Morgan Mortgage Corporation  
Morgan Trust Company of Canada  
Morguard Mortgage Investment Company of Canada  
Mutual Trust Company  
National Bank Mortgage Corporation  
Nova Scotia Savings & Loan Company  
Nova Scotia Savings and Trust Company  
Pacific Savings and Mortgage Corporation  
Peace Hills Trust Company  
Peoples Trust Company  
Premier Trust Company (The)  
Regional Trust Company (The)  
Royal Bank Mortgage Corporation  
Royal Trust Corporation of Canada  
Royal Trustco Mortgage Company  
Scotia Mortgage Corporation  
Security Home Mortgage Investment 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

#### **Provincial Trust and Loan Companies**

Aetna Trust Company  
Canborough Corporation  
Cabot Trust Company  
Community Trust Company Ltd.  
Confed Trust Company  
Counsel Trust Company  
Dominion Trust Company (The)  
Effort Trust Company (The)  
Family Trust Corporation  
Financial Trust Company  
First City Trust Company  
Firstline Trust Company  
General Trust of Canada  
Guardian Trust Company  
Home Savings & Loan Corporation  
Huron Trust Company  
Inland Trust and Savings Corporation Ltd.  
Investors Group Trust Company Ltd.  
Landmark Savings and Loan Association  
London Trust & Savings Corporation  
Mackenzie Trust Company  
Monarch Trust Company  
Montreal Trust Company  
Municipal Savings & Loan Corporation (The)  
Municipal Trust Company (The)  
National Trust Company (The)  
Nipissing Mortgage Corporation  
North West Trust Company  
Pacific & Western Trust Corporation  
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  
Vanguard Trust of Canada Limited  
Yorkshire Trust Company