



Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada

1988 ANNUAL REPORT



Canada



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The 1988 Annual Report of the Canada Deposit Insurance Corporation
is published by the CDIC. For information and additional copies:

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Place de Ville, Tower "A"
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Ottawa, Ontario K1P 5W5



Canada Deposit
Insurance Corporation

Société d'assurance-dépôts
du Canada

R.A. McKinlay

Chairman of the Board

Président du conseil d'administration

March 31, 1989

The Honourable Gilles Loiselle
Minister of State (Finance)
Confederation Building
Room 117
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, 1988.

Yours very truly,

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Corporate Profile

Status and Objects

The Canada Deposit Insurance Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act, R.S.C. 1985, 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 III 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

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.

Premiums

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.

Authority and Relevant Laws

Canada Deposit Insurance Corporation Act
Canada Deposit Insurance Corporation General By-Law
Investment Companies Act
Cooperative Credit Associations Act
Part X of the Financial Administration Act
Financial Institutions and Deposit Insurance System Amendment Act

Insurance Agreement

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.

Deposit Insurance Coverage

The amount of deposit insurance protection provided by CDIC is established by legislation and in 1983 was increased from \$20,000 to the present maximum of \$60,000.

Board of Directors

The Corporation is administered by a Board of Directors which consists of the Chairman appointed by Governor in Council, the persons who hold the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, The Superintendent of Financial Institutions, a Deputy Superintendent of Financial Institutions and four private sector members, also appointed by Governor in Council.

Board of Directors

R.A. McKinlay ^{(1) (2)} Chairman

| | | | |
|-------------------------------|--|---------------------------------|---|
| J.W. Crow | Governor of the Bank of Canada | H.M. Caron, O.C. ⁽²⁾ | Executive Partner (retired) Clarkson Gordon Montreal, Quebec |
| F.W. Gorbet | Deputy Minister of Finance | E. Susan Evans ⁽²⁾ | Vice-President Law and Corporate Affairs Encor Energy Corp. Inc. Calgary, Alberta |
| M.A. Mackenzie ⁽¹⁾ | Superintendent of Financial Institutions | P.G. Morton ⁽¹⁾ | President Global Communications Ltd. Toronto, Ontario |
| R.M. Hammond ⁽²⁾ | Deputy Superintendent of Financial Institutions | R.N. Robertson, Q.C. | Partner and Chairman Fasken & Calvin Fasken, Martineau, Walker Toronto, Montreal |

1. Member of the Executive Committee
2. Member of the Audit Committee

CDIC Officers

| | |
|---|--------------------|
| Chairman of the Board | R.A. McKinlay |
| President and Chief Executive Officer | Charles C. de Léry |
| Executive Vice-President and Chief Operating Officer | J.P. Sabourin |
| Corporate Secretary and General Counsel | L.T. Lederman |
| Vice-President, Field Operations | J. Richards |
| Vice-President, Insurance and Risk Assessment | G. St. Pierre |
| Vice-President, Operations | B.C. Scheepers |

Head Office

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

Chairman's Remarks

The fiscal year which closed on December 31, 1988, was generally a very satisfactory one for CDIC. There were no demands on the deposit insurance fund and as a consequence, the deficit was reduced by \$91 million, marking the second consecutive year in which a deficit reduction has been achieved. These results speak well for the smooth functioning and regulation of the deposit-taking segment of the Canadian financial system as well as for the operations of CDIC.

The outlook is for steady annual reductions in the deficit until it is eliminated in 1994. At the 1988 year-end, the deficit amounted to \$1.017 billion, which was supported by borrowings from the Consolidated Revenue Fund totalling \$1.746 billion. These heavy borrowings make CDIC very sensitive to interest rate fluctuations. The continuation of, or increase in, the existing high level interest rates, over which CDIC has no control, will adversely affect the future operating results of the Corporation.

Board of Directors

Again, as in previous years, the Corporation made heavy demands on its Board of Directors. During 1988, the Board met 17 times and their collective wisdom and dedication contributed in a meaningful way to the resolution of many difficult and important policy and operating issues.

With the addition of the four directors chosen from the private sector, the diversity of background and experience of the Board was widened and additional perspectives were brought to bear upon issues presented to the Board for its consideration. John Stuart Mill would have recognized this "remarkable diversity of character and culture" as a major contributor to the progress of the Corporation.

With the expansion of the Board, it became practicable to create an Audit Committee which is chaired by director H. Marcel Caron, O.C., F.C.A. This Committee has met on several occasions to consider matters relating to the terms of reference and staffing of the Internal Audit Department, the 1988 statutory audit plan and the special examination being carried out as required by the Financial Administration Act. An Executive Committee was also struck and it met several times during the year to deal with matters referred to it by the Board.

To fill vacancies which arose during the year, the Board appointed Mr. Lewis T. Lederman, LL.B., as Corporate Secretary and General Counsel, and Mr. Guy St. Pierre, C.A., as Vice-President, Insurance and Risk Assessment.

Operating Performance during 1988

In his review of operations, Mr. de Léry, the President and Chief Executive Officer, comments in detail concerning the operating and financial results for the 1988 year. However, it is worth highlighting that while the 1988 Corporate Plan called for the deficit to be reduced to \$1.035 billion, it was actually reduced to \$1.017 billion being a reduction of about \$91 million from the actual 1987 year-end deficit of \$1.108 billion. As a result of this and cash recoveries on account of claims, it was possible to eliminate all loans from member institutions and to confine borrowings to the Consolidated Revenue Fund. At the year-end these borrowings amounted to \$1.746 billion representing a reduction in total borrowings of \$94 million, after having disbursed a loan of \$74 million in connection with the Financial Trust Company sale and restructuring as commented on below.

Financial Trust Company

Towards the end of 1988, Financial Trust Company, a member institution, was sold and reorganized. Along with the Province of Ontario and the Province of Quebec regulatory authorities, CDIC participated in the negotiations of this restructuring and facilitated the transaction by making available a secured, interest-bearing loan in the amount of \$74 million. It is currently expected that the primary borrower will effect repayment in accordance with the terms of the loan and there will be no need to call upon the outside security.

Staff Development

The strength of any organization is the quality and competence of its people and there is at CDIC a dedicated group of professionals. It is interesting to note that seven staff members are engaged in professional accreditation programs and that about one-third of the CDIC total staff of 55 people holds at least one professional designation.

The availing by staff of continuing educational programs is encouraged by the Corporation as being in the best interest of all concerned.

Development of Standards

The 1987 amendments to the CDIC Act provide that the Corporation should develop various standards relating to the business practices of both the Corporation and its member institutions. In developing these standards which will be enshrined in by-laws, CDIC recognizes that it is an insurer and not an industry regulator, and hence the thrust of the standards will be towards risk management, while at the same time reflecting the Corporation's statutory object:

"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."

Reflecting the importance to which the Board attaches to this task, director R.M. Hammond, a Deputy Superintendent of Financial Institutions and the longest serving director on the CDIC Board, has agreed to chair a CDIC committee to see to the development of these standards. While the basic staffing will be provided by CDIC under the direction of the Vice President, Insurance and Risk Assessment, other agencies have volunteered to provide staff assistance to the extent that this will be helpful.

The Standards Development process contemplates, at appropriate stages, consultation with provincial and federal regulators, the Canadian Bankers' Association, the Trust Companies' Association, the Canadian Institute of Chartered Accountants and with industry leaders.

The present thinking is to include as part of the Standards a requirement that members have business plans. Further, and as part of the annual audit process, it is likely that some form of opinion will be sought from the shareholders' auditors concerning the business plans of members.

Termination of Liquidations and Cash Recoveries Therefrom

It is a continuing double faceted objective of the Corporation to accelerate the recovery of funds due from the proceeds of the 20 liquidations currently in progress, while simultaneously seeking to bring the liquidations to a formal termination. At the time of writing, it was expected that the first such liquidation — District Trust of London, Ontario — would be concluded within a matter of weeks. This liquidation was instituted first as an Agency Agreement in March, 1982 and then converted into a liquidation in March, 1987.

The reduction of the Corporation's heavy debt load is, to a great degree, dependent upon the payout of funds from these liquidations.

Awareness Campaign

In January of 1989, a Public Awareness Campaign was launched. This was the result of some six months of careful planning in which the Board of Directors was fully involved. The purpose of the campaign was to acquaint the depositing public with the essential aspects of deposit insurance available in Canada, and thereby further the first object of the Corporation — to provide deposit insurance.

Indications to date are that the campaign has been well-received. The 1-800 information telephone number has been widely availed of and appears to be filling a need.

Premium Levels

In 1988, the Board of Directors recommended to the Minister that the premium levels be continued at the rate of 1/10 of 1% of insured deposits for that year. In view of the outlook for 1989 and consistent with its Corporate Plan which was approved by Order-in-Council on December 22, 1988, the Corporation will be repeating this recommendation for 1989.

Appreciation

As one rose does not a garden make, it is indeed gratifying that the Corporation has now had two consecutive years of very satisfactory results which in total have resulted in a reduction in the deficit by well over \$220 million along with a commensurate reduction in total borrowings. Results such as these do not just happen. They reflect the dedicated work of the CDIC staff at all levels, as well as the effective work of liquidators, receivers, and agents and their legal advisors who are managing the affairs of the 20 insolvent members on behalf of the Corporation. To all of these I wish, on behalf of the Board, to express our genuine appreciation for their individual contribution towards our success in 1988.

As the assets under administration reduce in size and as liquidations are completed, there is less demand on the Real Estate Advisory Committee chaired by Mr. W. Poole. However, during 1988, this Committee provided important advice to CDIC and the liquidators. We continue to explore other areas where their special talents can be of assistance to us and to the regulators. On behalf of the Board of Directors, I wish to express again our sincere appreciation for the work of Mr. Poole and his excellent Committee.

Finally, I would like to express my personal appreciation to the full Board for their work on CDIC matters during 1988. The fact that a group with such superior and diverse backgrounds and talents worked together so effectively is a tribute to them all and I am most grateful.

The 31st day of March, 1989



Ronald A. McKinlay
Chairman

President and Chief Executive Officer's Review of Operations for 1988

This year was only the third year during the last decade that the Canada Deposit Insurance Corporation (CDIC) has not had to meet its obligations of insurer of deposits for any of its member institutions. This is by itself quite an achievement and speaks well for the financial system in Canada generally but more particularly so if one considers what has and continues to occur in the United States with over 200 financial failures in 1988.

For the benefit of the readers who are not fully familiar with all of the past events and occurrences that CDIC has had to cope with since its establishment in 1967, the following is a listing of those failed and insolvent institutions dealt with by the Corporation:

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)
Northguard Mortgage (1984)
Pioneer Trust, Western Capital Trust,
London Loan Limited, Continental Trust,
Canadian Commercial Bank,
CCB Mortgage Investment Corporation and
Northland Bank (1985)
Columbia Trust, Bank of British Columbia (1986)
Principal Savings and Trust (1987)

The Corporation also in 1987 finalized an agreement with the Province of Alberta with regard to the rehabilitation of an Alberta incorporated trust company, North West Trust Company.

Last October after intense and lengthy negotiations, CDIC and the Quebec Deposit Insurance Board (QDIB) announced that they had agreed together with the Ontario Ministry of Financial Institutions to assist in financing the restructuring of Financial Trust Company in order to facilitate its acquisition by Central Guaranty Trustco of Halifax. CDIC's assistance, in cooperation with the Quebec Deposit Insurance Board, the insurer of approximately 23 percent of the insured deposits of Financial Trust in branches located in Quebec, took the form of a \$74 million interest-bearing secured loan. It should be noted that the Ontario Ministry of Financial Institutions also agreed to provide a secured guarantee of \$10 million of additional financing. The parent company of Financial Trust, Morgan Financial Corporation, guaranteed the loans which are secured by a pledge of all significant assets of Morgan Financial.

The Corporation has since its establishment paid out some \$4.6 billion in depositors' claims and rehabilitation costs excluding approximately \$800 million paid out as Agent of the Government of Canada in respect of Bill C-79, the Financial Institutions Depositors Compensation Act which dealt with the uninsured depositors of the Canadian Commercial Bank and the Northland Bank.

Agency and Operating Agreements

The Corporation as indicated in earlier annual reports decided in the case of the earlier 1980 insolvencies to manage their winding-down by way of five year agency and operating agreements with other member institutions.

The last of these agreements terminated in 1988 and all outstanding loans made on behalf of CDIC were repaid to Central Trust in respect of Crown Trust, First City Trust in respect of Fidelity Trust and Midland Bank (now Hongkong Bank of Canada) in respect of Seaway Trust and Seaway Mortgage.

Individual Court orders under the Winding-Up Act were applied for and obtained placing every 1982 and 1983 insolvent institution with the exception of Amic Mortgage Investment Corporation under the one liquidator.

Realization

During 1988, \$110 million were received from the Court appointed liquidators by way of dividends from the realization of assets under their administration.

There still remains well over \$1 billion worth of assets held by the sundry liquidators, receivers and agents. Although many of these assets cannot be easily and expeditiously disposed of due to economic conditions as well as legal difficulties, it is expected that most will be disposed of during the course of the next few years. In this regard the Corporation anticipates receiving \$170 million during 1989 and responsibility to achieve these results rests with the liquidators and CDIC's Field Operations Division.

Inspections

Under the terms of the Canada Deposit Insurance Corporation Act, the Superintendent of Financial Institutions on behalf of CDIC, examined the affairs of sixty seven (67) banks and sixty (60) federally incorporated trust companies and loan companies. Thirty six (36) provincial member institutions were also examined on behalf of CDIC by persons designated by it for that purpose and all reported to CDIC as provided for under section 29 (formerly section 23) of its statute.

Corporate Plan

In accordance with the requirements of the Financial Administration Act, the Corporation prepared and submitted to the Minister of State, Finance, a five-year corporate plan as well as its annual operating and capital budgets for 1989. These were all approved by the Governor in Council this past December.

I am pleased to report that CDIC is generally on target and has met the goals and objectives (corporate and financial) which were set out in its 1988 approved corporate plan with two exceptions.

In the first case the Corporation had forecasted Consolidated Revenue Fund borrowings of \$1.4 billion for the period ended December 31, 1988 in relation to actual borrowings of some \$1.7 billion. This increase is due in large part to a shortfall of recoveries from liquidations caused by timing differences, higher balances outstanding in respect of the agency loans referred to earlier and repaid in 1988, the secured loan of \$74 million to facilitate the sale of Financial Trust also referred to earlier and higher loans and cost of funds from the Consolidated Revenue Fund than originally estimated. These are all items and areas beyond the full control of the Corporation.

The other area where the Corporation has fallen short of its objectives is in the area of Insurance and Risk Assessment and particularly in the prescription of standards of sound business and financial practices. This was partly due to occurring emergencies, staffing shortages and also the fact that we underestimated this large undertaking. The Board of Directors is very much aware of this tremendous task and has authorized several staffing additions in the Insurance and Risk Assessment function as the development and maintenance of standards are the Corporation's major priority in 1989.

Financial

Financial transactions for the year 1988 are shown in the attached statements.

For the year ended December 31, 1988, the Corporation's income from interest on investments and administrative operations amounted to \$2.2 million while expenses totalled \$8.1 million, therefore leaving a net loss of \$5.9 million.

The Corporation recorded \$5.8 million in interest income on loans to member institutions under agency agreements and incurred interest expense of \$22.7 million on loans from agents that had advanced loans on behalf of the Corporation. Interest on loans from the Consolidated Revenue Fund totalled \$142.5 million (budgeted \$98.2 million) as compared to \$99.3 million for 1987. The Corporation's net interest expense amounted to \$159.4 million being its overwhelming operating cost.

The premiums assessed during the year totalled \$216 million, an increase of \$16 million (8%) over the previous year. The accumulated premiums collected since the Corporation's establishment now total \$977 million.

The gain from insurance operations as at year-end 1987 totalled \$142.7 million and the deficit of the Deposit Insurance Fund totalled \$1.108 billion.

As at December 31, 1988, the gain from insurance operations of \$96.4 million and the net loss from investment and administrative operations of \$5.9 million, decreased the year-end deficit by \$90.5 million to its current level of \$1.017 billion. The Corporation's repayment of the agency loans plus the previously reported secured loan of \$74 million in respect of the Financial Trust sale totalled \$650 million in 1988 using in part the Corporation's own revenue plus interest bearing loans from the Consolidated Revenue Fund which account for the increase of \$489 million.

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

The Corporation's objective is to eliminate its total deficit over the next five years based on the present premium rate of 1/10 of 1% of insured deposits and barring any major disasters.

At year end, the total of insured deposits with member institutions amounted to \$216 billion (an increase of 8%) made up of \$198 billion in federally incorporated institutions and \$18 billion in provincially incorporated institutions.

Advisory Committee

The Corporation is most grateful to its Real Estate Advisory Committee members who met on seven occasions during 1988.

The Committee is chaired by Mr. William C. Poole, retired Senior Vice-President, Realty Advisory Group of the Toronto-Dominion Bank while the other members are Mr. Joseph Berman, co-founder and formerly a Director at Cadillac Fairview Corporation, Mr. David E. Howard, Chairman, Citicom Inc. and formerly President of Gulf Realty Co., Mr. Kenneth Rotenberg, Chairman of the Board, Rostland Corporation and Mr. Herbert I. Stricker, President, Heathcliffe Developments Limited.

Their advice to CDIC on real estate matters and marketing strategies continues to be of great benefit resulting in increased recoveries for the Corporation. Their role, dedication and contribution is very much appreciated.

Special Examination

During 1988 and as required by Part X of the Financial Administration Act, the Office of the Auditor General of Canada carried out a special examination of the financial and management control and information systems and management practices of CDIC.

This special examination which started in April 1988 has now been completed and a final report is being prepared for submission to the Corporation's Audit Committee and eventually Board of Directors.

Public Awareness Advertising Campaign

A comprehensive communication and advertising program was developed by the Corporation with the help of a national advertising agency and received final Board approval during the latter part of the year under review. The Quebec Deposit Insurance Board (QDIB), the Canadian Bankers' Association and the Trust Companies Association of Canada were also consulted in the development of the plan.

The campaign was officially launched this mid January across the country with press conferences to announce the details in Toronto, Montreal and Vancouver. A national television campaign was run for six weeks in French and English with specific creative adaptations in the Province of Quebec for CDIC and QDIB.

The television spot was designed to create awareness of the CDIC and its mandate, to direct viewers to a national householder mailing (10.3 million) and the introduction of a permanent toll free CDIC information number as well as the printing and distribution of some 4 million new information and members brochures.

The inaugural two weeks resulted in over one thousand enquiries per week prior to the distribution of the householder, building up to well over one thousand calls per day during the month of February.

These figures are very much indicative not only of the need of the campaign but also its success to date. A study will be conducted after the campaign has been completed to analyse responses.

Organization and Staffing

As indicated earlier in this review of operations, the Board approved in 1988 several additions to staff in the Insurance and Risk Assessment Department where seven positions were identified as necessary to allow the Corporation to meet both the objective and priorities as set out in its corporate plan.

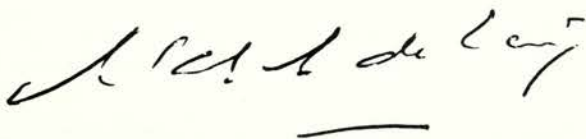
In addition, although the Board had approved the creation of an Information Systems (I.S.) Department at the time of its organizational structure started in 1986 and mostly completed in 1987, it was not until 1988 that the Corporation engaged the services of a large multi-national consulting firm to help develop an information systems (I.S.) strategy for the future. The studies carried out by the consulting firm and the proposals made by management to the Board were reviewed and approved in the latter part of 1988.

Five positions including that of the Director of I.S. were identified to develop, implement and maintain proper information systems through computerized applications. Three of the incumbents are now in place and we are now in the initial stages of the implementation of a local area network.

Our past achievements are indicative of the hard work and dedication of all our people. We welcome the opportunities and challenges of a changing financial environment and each and every one of us understand and are most conscious of the extent and seriousness of the challenges that lie ahead.

We thank one and all for their enthusiasm, resourcefulness, loyalty and commitment to quality during very difficult and demanding times.

The 31st day of March 1989.

A handwritten signature in dark ink, appearing to read "Charles C. de Léry". The signature is fluid and cursive, with a horizontal line drawn underneath it.

Charles C. de Léry
President and Chief Executive Officer

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 generally accepted accounting principles which have been consistently applied, except for the change in the method of accounting for interest income recognition as explained in Note 3. 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. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

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



Charles C. de Léry
President & Chief Executive Officer



Bert C. Scheepers
Vice-President, Operations



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, 1988 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, 1988 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, except for the change in the method of recognizing interest income as explained 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 Part X of the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

A handwritten signature in black ink, appearing to read 'Kenneth M. Dye'.

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

Ottawa, Canada
February 20, 1989

Balance Sheet

as at December 31, 1988

| <i>Assets</i> | 1988 <i>(in thousands of dollars)</i> | 1987 |
|--|--|-------------------|
| Cash and treasury bills | \$ 62,348 | \$ 22,239 |
| Premiums and other accounts receivable | 2,245 | 13,237 |
| Mortgages | 147 | 316 |
| Furniture, equipment and leasehold improvements | 591 | 670 |
| | <u>65,331</u> | <u>36,462</u> |
| Loans to member institutions and others (Note 4) | 162,368 | 1,061,505 |
| Claims against insolvent member institutions (Note 5) | 1,088,247 | 867,148 |
| | 1,250,615 | 1,928,653 |
| General provision for loss (Note 6) | (584,000) | (1,230,000) |
| | <u>666,615</u> | <u>698,653</u> |
| | <u>\$ 731,946</u> | <u>\$ 735,115</u> |

Liabilities

1988 1987
(in thousands of dollars)

| | | |
|--|------------------|------------------|
| Bank indebtedness | \$ — | \$ 368 |
| Accounts payable | 2,565 | 2,636 |
| Loans from member institutions | — | 581,871 |
| Loans from Consolidated Revenue Fund (Note 7) | 1,746,486 | 1,257,803 |
| | <u>1,749,051</u> | <u>1,842,678</u> |

Deposit Insurance Fund

| | | |
|---------------------|--------------------|--------------------|
| Deficit at year end | <u>(1,017,105)</u> | <u>(1,107,563)</u> |
| | <u>\$ 731,946</u> | <u>\$ 735,115</u> |

Approved by the Board:



Chairman



Director

Statement of Deposit Insurance Fund

for the year ended December 31, 1988

| | 1988 <i>(in thousands of dollars)</i> | 1987 |
|--|--|----------------|
| Deficit, beginning of year | \$ (1,107,563) | \$ (1,245,285) |
| Insurance operations | | |
| Premiums (Note 8) | 215,631 | 199,665 |
| Interest on loans to member institutions and others | 5,771 | 91,826 |
| Other interest | 139 | 53 |
| | 221,541 | 291,544 |
| Interest on loans from Consolidated Revenue Fund | 142,458 | 99,287 |
| Interest on loans from member institutions | 22,713 | 81,224 |
| Cost of guarantees | — | 2,801 |
| Interest in respect of insured deposits | — | 570 |
| Provision for loss adjustment | (40,000) | (35,000) |
| | 125,171 | 148,882 |
| Gain from insurance operations for the year | 96,370 | 142,662 |
| Deficit before net loss from investment and administrative operations | (1,011,193) | (1,102,623) |
| Net loss from investment and administrative operations | (5,912) | (4,940) |
| Deficit, end of year | \$ (1,017,105) | \$ (1,107,563) |

Statement of Investment and Administrative Operations

for the year ended December 31, 1988

| | 1988 | 1987 |
|---|----------------------------------|--------------------------|
| | <i>(in thousands of dollars)</i> | |
| Interest revenue | | |
| Treasury bills | \$ 1,936 | \$ 3,032 |
| Other | 247 | 941 |
| | <u>2,183</u> | <u>3,973</u> |
| Expenses | | |
| Inspection and other fees | 3,189 | 5,427 |
| General and administrative | 2,519 | 1,531 |
| Salaries and employee benefits | 2,387 | 1,955 |
| | <u>8,095</u> | <u>8,913</u> |
| Net loss from investment and administrative operations | <u><u>\$ (5,912)</u></u> | <u><u>\$ (4,940)</u></u> |

Statement of Changes in Financial Position

for the year ended December 31, 1988

| | 1988 <i>(in thousands of dollars)</i> | 1987 <i>(in thousands of dollars)</i> |
|--|--|--|
| Operating Activities | | |
| Gain from insurance operations | \$ 96,370 | \$ 142,662 |
| Net loss from investment and administrative operations | (5,912) | (4,940) |
| Non-cash items included in gain or net loss: | | |
| Depreciation and amortization | 193 | 166 |
| Decrease in other non-cash items | (12,882) | (45,959) |
| Collection of mortgages | 168 | 424 |
| Loans to member institutions and others | (58,612) | 14,298 |
| Repayment of loans from member institutions | (576,654) | (201,591) |
| Cost of guarantees | — | (275,000) |
| Payments of claims against insolvent member institutions | (375) | (116,673) |
| Recoveries of claims against insolvent member institutions | 109,613 | 153,733 |
| Cash used in operating activities | (448,091) | (332,880) |
| Investing Activities | | |
| Purchase of fixed assets - net | (115) | (251) |
| Financing Activities | | |
| Increase in loans from Consolidated Revenue Fund | 488,683 | 292,591 |
| Increase (decrease) in cash | 40,477 | (40,540) |
| Cash, beginning of year | 21,871 | 62,411 |
| Cash, end of year | \$ 62,348 | \$ 21,871 |
| Cash comprised of: | | |
| Treasury bills | \$ 62,348 | \$ 22,239 |
| Bank indebtedness | — | (368) |
| | \$ 62,348 | \$ 21,871 |

Notes to Financial Statements

December 31, 1988

1. Authority and Objective

The Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act (the CDIC Act). It is a Crown corporation named in Schedule III (formerly 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 with 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 only those 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 against insolvent member institutions arising from payments made to insured depositors and of loans made to member institutions under an agency or loan agreement.

Claims against insolvent member institutions and loans to member institutions and others, may be written-off in full or in part when, in the opinion of the Corporation, there is reasonable certainty that the claims and loans will not be fully realized. This would generally occur when a period of three years has elapsed since the intervention by the Corporation. The Corporation is required to exercise judgement in arriving at its decision to write-off all or a portion of its claims and loans. Also the amount written-off depends largely on the availability of reliable information regarding the amount the Corporation expects to lose with respect to a particular insolvent member institution.

Interest Income Recognition. The Corporation charges interest on loans advanced, directly or indirectly, by it in accordance with the specific terms of the loan agreements. It ceases to recognize interest income when an insolvent member institution is placed in liquidation or when there is a reasonable doubt as to the ultimate collectibility of the interest. When reasonable doubt is present, interest revenue is recognized only as cash is received.

3. Changes in Accounting Policies

General Provision for Loss. During the year, the Corporation changed its policy with respect to accounting for identified losses. In previous years assets were reported net of identified losses on the balance sheet, but were not formally written-off. The Corporation's new policy is explained in Note 2. Identified losses are no longer segregated from the general provision for loss. Accordingly, all identified losses recorded as at December 31, 1987 have been reversed to the general provision for loss prior to writing-off \$606 million as at December 31, 1988. This change in accounting policy has no effect on the Corporation's deficit.

Interest Income Recognition. During the year, the Corporation changed its policy with respect to the recognition of interest income on loans to member institutions and others. In prior years, interest was recognized on all interest bearing loans except those made to insolvent member institutions in liquidation. If the ultimate collectibility of the interest was in doubt, a provision for loss was recorded to reflect the uncertainty. The new policy is explained in Note 2 and the change in policy has no effect on the Corporation's deficit. Under the old policy, the Corporation would have recorded an additional \$43 million of interest income during 1988 but would have provided for it fully in its general provision for loss.

This accounting policy change is being applied prospectively because its effect on prior periods cannot be reasonably determined.

4. Loans to Member Institutions and Others

All loans to member institutions that were under agency agreements, with the exception of the CCB Mortgage Investment Corporation arrangements, expired during 1988.

The Crown Trust Company, Greymac Trust Company and Fidelity Trust Company were all placed in liquidation during the year. The Corporation asserted claims against all of these insolvent member institutions. The amount of the claims has been reclassified from "Loans to member institutions and others" to "Claims against insolvent member institutions".

In October 1988, under the general powers of subsection 10(1) (formerly subsection 11(1) of the CDIC Act), the Corporation entered into a loan agreement to assist in the sale of a member institution. As at December 31, 1988, the Corporation has a fully secured \$74 million loan outstanding with respect to this transaction.

5. Claims Against Insolvent Member Institutions

Claims against insolvent member institutions arise through the subrogation of the rights and interests of the depositor when the Corporation pays that depositor's claim. The Corporation also asserts a claim against insolvent member institutions in liquidation, arising out of loans previously advanced by the Corporation. The Corporation has asserted claims against all its insolvent member institutions which were placed in liquidation.

6. General Provision for Loss

The following table provides details of the calculation of the general provision for loss as reflected on the balance sheet:

| | 1988 | 1987 |
|--|---------------------------|--------------------|
| | (in thousands of dollars) | |
| Balance, beginning of year | \$1,230,000 | \$1,265,000 |
| Provision for loss adjustment | (40,000) | (35,000) |
| | <u>1,190,000</u> | <u>1,230,000</u> |
| Less write-offs: | | |
| Loans to member institutions and others | 90,193 | — |
| Claims against insolvent member institutions | 515,807 | — |
| | <u>606,000</u> | <u>—</u> |
| Balance, end of year | <u>\$ 584,000</u> | <u>\$1,230,000</u> |

The Corporation is a claimant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. The general provision for loss does not take into account any potential recoveries which may arise should an action be resolved in the Corporation's favour.

7. Loans from Consolidated Revenue Fund

With the approval of the Governor in Council, the Corporation can borrow up to \$3 billion from the Consolidated Revenue Fund.

8. Premiums

In accordance with subsection 21(1)(b) (formerly subsection 19(2)(b)) of the CDIC Act, the Corporation, with the approval of the Governor in Council, sets the premium rate for any premium year at one-sixth of one percent, or such smaller proportion of one percent, of insured deposits. For the premium year 1988, the premium rate was set at one-tenth of one percent of insured deposits, the same rate as in 1987.

9. 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.

10. 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 \$542 million and expire as follows:

| Originating Taxation Year | Expiring Taxation Year | Amount (in thousands of dollars) |
|------------------------------|---------------------------|-------------------------------------|
| 1984 | 1991 | \$ 44,000 |
| 1985 | 1992 | 81,000 |
| 1986 | 1993 | 85,000 |
| 1987 | 1994 | 167,000 |
| 1988 | 1995 | 165,000 |
| | | <u>\$542,000</u> |

11. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1988 and 1987 were as follows:

| | 1988 (in billions of dollars) | 1987 |
|-------------------------|----------------------------------|--------------|
| Federal Institutions | \$198 | \$183 |
| Provincial Institutions | 18 | 16 |
| | <u>\$216</u> | <u>\$199</u> |

12. Long-Term Operating Lease Commitments

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

| Year Ending December 31 | Amount |
|-------------------------|--------------------|
| 1989 | \$ 436,000 |
| 1990 | 436,000 |
| 1991 | 214,000 |
| | <u>\$1,086,000</u> |

13. Comparative Figures

Certain of the 1987 figures have been reclassified so as to conform with the presentation adopted for 1988.

Five Year Financial & Statistical Summary

| | 1988 | 1987 | 1986 | 1985 (Restated) | 1984 (Restated) |
|---|---------|---------|---------|--------------------|--------------------|
| (\$ millions unless otherwise indicated) | | | | | |
| Operations | | | | | |
| Total revenues | 2 | 4 | 9 | 4 | 12 |
| Total expenses | 8 | 9 | 8 | 7 | 3 |
| Income taxes recovered | — | — | — | — | 39 |
| Net earnings (loss) from investment and administrative operations | (6) | (5) | 1 | (3) | 48 |
| Assets and Liabilities | | | | | |
| Total assets | 732 | 735 | 1,001 | 758 | 153 |
| Total liabilities | 1,749 | 1,843 | 2,246 | 1,993 | 980 |
| Insurance Program | | | | | |
| Deposit Insurance Fund | (1,017) | (1,108) | (1,245) | (1,235) | (827) |
| Total insured deposits | 216,000 | 199,000 | 188,000 | 174,000 | 162,000 |
| Premiums assessed | 216 | 200 | 217 | 58 | 54 |
| Member Institutions | | | | | |
| Federal # | 120 | 125 | 123 | 134 | 140 |
| Provincial # | 36 | 37 | 40 | 43 | 46 |
| Insolvencies # | — | 1 | 1 | 6 | 1 |
| Wind Downs # | — | — | — | 1 | — |
| Employees | | | | | |
| Number of employees | 48 | 45 | 33 | 23 | 16 |

Federally Incorporated Member Institutions

Chartered Banks

| | |
|--|---|
| ABN Bank Canada | Lloyds Bank Canada |
| ANZ Bank Canada | Manufacturers Hanover Bank of Canada |
| Banca Commerciale Italiana of Canada | Mellon Bank Canada |
| Banca Nazionale Del Lavoro of Canada | Mitsubishi Bank of Canada |
| Banco Central of Canada | Mitsui Bank of Canada (The) |
| Bank Hapoalim (Canada) | Morgan Bank of Canada |
| Bank Leumi Le-Israel (Canada) | National Bank of Canada |
| Bank of America Canada | National Bank of Detroit, Canada |
| Bank of Boston Canada | National Bank of Greece (Canada) |
| Bank of Credit and Commerce Canada | National Westminster Bank of Canada |
| Bank of Montreal | Overseas Union Bank of Singapore (Canada) |
| Bank of Nova Scotia (The) | Paribas Bank of Canada |
| Bank of Tokyo Canada (The) | Republic National Bank of New York (Canada) |
| Banque Nationale de Paris (Canada) | Royal Bank of Canada (The) |
| Barclays Bank of Canada | Sanwa Bank Canada |
| BT Bank of Canada | Security Pacific Bank Canada |
| Canadian Imperial Bank of Commerce | Société Générale (Canada) |
| Canadian Western Bank | Standard Chartered Bank of Canada |
| Chase Manhattan Bank of Canada (The) | State Bank of India (Canada) |
| Chemical Bank of Canada | Sumitomo Bank of Canada |
| Citibank Canada | Swiss Bank Corporation (Canada) |
| Crédit Commercial de France (Canada) | Taiyo Kobe Bank (Canada) |
| Crédit Lyonnais Canada | Tokai Bank Canada |
| Credit Suisse Canada | Toronto-Dominion Bank (The) |
| Dai-Ichi Kangyo Bank (Canada) | Union Bank of Switzerland (Canada) |
| Daiwa Bank Canada | United Overseas 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 | |

Federally Incorporated Member Institutions

Trust Companies and Loan Companies

| | |
|---|---|
| AGF Trust Company | Lloyds Bank Canada Mortgage Corporation |
| Atlantic Trust Company of Canada | Merchant Trust Company (The) |
| Bank of Montreal Mortgage Corporation | Metropolitan Trust Company of Canada |
| Bayshore Trust Company | Montreal Trust Company of Canada |
| Canada Trust Company (The) | Montreal Trustco Mortgage Corporation |
| Canada Trustco Mortgage Company | Morgan Mortgage Corporation |
| CanWest Trust Company | Morgan Trust Company of Canada |
| Central Guaranty Mortgage Corporation | Morguard Mortgage Investment Company of Canada |
| Central Guaranty Trust Company | Mutual Trust Company |
| CIBC Mortgage Corporation | National Bank Mortgage Corporation |
| Citibank Canada Mortgage Corporation | Pacific Savings and Mortgage Corporation |
| Citizens Trust Company | Peace Hills Trust Company |
| Co-operative Trust Company of Canada | Peoples Trust Company |
| Coronet Trust Company | Premier Trust Company (The) |
| Equitable Trust Company (The) | Regional Trust Company (The) |
| Evangeline Savings and Mortgage Company | Royal Bank Mortgage Corporation |
| Evangeline Trust Company | Royal Trust Corporation of Canada |
| First City Mortgage Company | Royal Trustco Mortgage Company |
| Focus National Mortgage Corporation | Scotia Mortgage Corporation |
| General Trust Corporation of Canada | Security Home Mortgage Investment Corporation |
| Granville Savings and Mortgage Corporation | Seel Mortgage Investment Corporation |
| Guardcor Loan Company | Settlers Savings and Mortgage Corporation |
| Hongkong Bank Mortgage Corporation | Standard Loan Company |
| Household Trust Company | Standard Trust Company |
| Income Trust Company | TD Mortgage Corporation |
| International Trust Company (The) | Victoria and Grey Mortgage Corporation |
| Laurentian Bank of Canada Mortgage Corporation | Wellington Trust Company |
| League Savings & Mortgage Company | |

Provincially Incorporated Member Institutions

Trust Companies and Loan Companies

Aetna Trust Company
Cabot Trust Company
Canborough Corporation
Central and Guaranty Trust Corp. (The)
Community Trust Company Ltd.
Confed Trust Company
Counsel Trust Company
Dominion Trust Company (The)
Effort Trust Company (The)
Family Trust Corporation
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 Co. 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
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