Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

CDIC

ANNUAL REPORT 1991

Canada

Mission

The mission of CDIC is to provide deposit insurance and to contribute to the stability and competitiveness of the financial system in Canada in a professional and innovative manner, meeting the highest standards of excellence, integrity and achievement, for the benefit of depositors of member institutions while minimizing the Corporation's exposure to loss. We will provide an environment wherein employees are treated fairly and given opportunities and encouragement to develop their maximum potential.

Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

R.A. McKinlay
Chairman of the Board
Président du conseil d'administration

March 31, 1992

The Honourable John McDermid, P.C., M.P.
Minister of State (Finance and Privatization)
140 O'Connor Street
L'Esplanade Laurier
East Tower, 21st Floor
Ottawa, Ontario
K1A 0G5

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, 1991.

Yours very truly,

Chairman

1200-79 Wellington St. W.
P.O. Box 156
Toronto — Dominion Centre
Toronto, Ontario
M5K 1H1

1200-79, rue Wellington ouest
C.P. 156
Toronto — Dominion Centre
Toronto (Ontario)
M5K 1H1

Telephone
Téléphone (416) 973-3082

Facsimile
Télécopieur (416) 973-3795

Canada

During 1991, the economic recession which began in Canada in 1990 showed some signs of recovery, although the economy remained weak for most of the year. The financial positions of a number of our member institutions were adversely affected by this recessionary environment and four members failed during the year, requiring CDIC to settle 150,000 insured claims totalling $1.4 billion. Nevertheless, CDIC was able again to reduce its deficit. As of December 31, 1991, the deficit stood at $590 million, reflecting a reduction of $52 million during the year and marking the fifth consecutive year during which significant reductions have been achieved. At the end of 1986, the accumulated deficit of CDIC was $1.25 billion and the total reductions achieved since then amount to $660 million, or an average of over $130 million per year. I believe this represents a very commendable accomplishment for which the Board and CDIC staff at all levels can take some considerable pride.

Despite a recessionary environment that adversely affected a number of its member institutions, CDIC was able again to reduce significantly its deficit for the fifth consecutive year.

Member Failures in 1991

While the President in his remarks comments in some detail concerning the 1991 failures, it seems appropriate to note here that the following member institutions failed during 1991, or early in 1992 prior to the filing of this report.

Standard Trust Company and Standard Loan Company (Standard)

Effective April 25, 1991, the Ontario Court of Justice ordered that Standard be wound up. This action was instituted following the bankruptcy of Standard's parent.

Standard was, at the time of its insolvency, Canada's ninth largest trust company, having insured deposit liabilities of approximately $1.3 billion carried in 160,000 accounts. It operated 31 branches in 7 provinces and employed about 275 people.

Notwithstanding the bankruptcy of the parent company and the fact that Standard was placed into liquidation, CDIC management was able to negotiate a transaction whereby Standard's branches were taken over by the Laurentian Bank of Canada on a going-concern basis. This minimized the upset to both depositors and borrowing customers and at the same time protected the jobs of the vast majority of Standard's employees.

Also of importance is the fact CDIC determined that the transaction represented the least-cost alternative, and hence it met our statutory Object at minimizing the Corporation's exposure to loss.

To our knowledge, this transaction was unique in Canada in that while insured deposits of $1.3 billion were paid out to depositors by June 24, 1991, within a matter of weeks CDIC was able to recover about $650 million of the amount paid out. As a consequence, the financing requirements of CDIC were reduced by a commensurate amount.

CDIC believes that it will recover the preponderance of the principal amount required to make the payout of claims in connection with these member institutions.

Bank of Credit and Commerce of Canada (BCCC)

Following the announcement that the foreign parent bank of this member institution had been seized by its regulators around the world because of serious allegations of fraud and money laundering, BCCC was immediately seized by the Superintendent of Financial Institutions on July 5, 1991, and subsequently was placed into liquidation. The insured depositors' claims amounted to about $22 million and these were paid out by CDIC within one week after the creditors' meeting which was held on August 28, 1991.

Present estimates indicate that CDIC will effect nearly a full recovery of the principal amount paid out to depositors. The liquidator has already made an initial distribution of about 10 cents on the dollar of proven claims.

Saskatchewan Trust Company

This member institution was placed in liquidation on October 31, 1991. On November 8, 1991, claims of depositors totalling about $58 million were paid out.

The Corporation expects that it may suffer a loss in the magnitude of $13 million.

Subsequent Events

First City Trust Company and First City Mortgage Company

On January 14, 1992, it was announced that CDIC would support a transaction whereby North American Life Insurance Company would acquire First City Trust Company and its subsidiary, First City Mortgage Company.

In the relevant press release, I was quoted as saying that "CDIC's Objects include the protection of depositors and the promotion of stability and competition in the Canadian financial system. We believe that these goals would be met through the proposed acquisition, and that it would be in the best financial interest of CDIC and its member institutions."

Before agreeing to become involved in this complex transaction, and following the process used in connection with Standard Trust, which is discussed more fully by Mr. Sabourin in his Review of Operations, CDIC commissioned an independent and rigorous examination of the situation. On the basis of the findings set out in the report of this examination and taking into account its own analysis of the situation, CDIC concluded that supporting the transaction was the best available alternative. As the transaction has not yet closed, any further comment could be inappropriate at this time.

Shoppers Trust Company

On March 6th, 1992, the Ontario Ministry of Financial Institutions took possession of the assets of this company after all of its directors had resigned. The company had insured deposit liabilities in the amount of about $500 million and operated from a single office in Toronto where it employed about 80 people.

On March 23, 1992, the Ontario Court of Justice granted a provisional Winding-up Order.

As a consequence, CDIC will be required to pay out the claims of insured depositors. This should be accomplished in about six weeks.

It is not possible at this time to assess the magnitude of our loss, if any.

The foregoing member institution difficulties have placed a heavy strain on the CDIC management and staff charged with the responsibilities of managing the insurance risk, effecting the payouts of insured claims, and working with liquidators to maximize recoveries.

Outlook

In my remarks contained in our 1990 Annual Report, I said that "the recession may abate during the second half of 1991, but that improvement thereafter may be gradual." The abatement appears to be taking longer than expected, and it still seems that improvement will continue to be gradual.

One of the difficulties with economic recessions is that they are somewhat like the Queen Mary—they cannot be turned around quickly—and there is a significant lag between when physical events actually transpire and when they are reflected in the reported results of financial institutions.

The residential, condominium and commercial real estate values, particularly in southern Ontario, remain depressed. It may be a number of months, or longer, before individual and commercial demands swing around to the point where an accelerating economic improvement will be discernable. Having said this, it does seem that the recession may have bottomed out.

Premium Levels

Notwithstanding the decline in CDIC earnings during 1991, the Board of Directors of the Corporation resolved to recommend to the Honourable John McDermid, P.C., M.P., the Minister of State for Finance and Privatization, that the premium levels for the 1992 premium year be continued at the rate of 1/10 of 1% of insured deposits in member institutions. While the Act does permit, with Governor in Council approval, for premiums to be as high as 1/6 of 1%, the Board of Directors considered that it would be best to leave the premium levels where they are for now.

Although it is difficult to forecast with accuracy the effect of the various factors which impinge on CDIC, it is now estimated that the Corporation's deficit may not be retired until 1995, if premiums are continued at the present level of 1/10 of 1%. Accordingly, it could be appropriate to adjust premiums upwards in 1993. However, before crystallizing its recommendation to the Minister in 1993, CDIC will seek the views of its members and their industry associations.

Bill C-48 - CDIC Act Amendments

In December 1991, Minister McDermid introduced Bill C-48 into the House of Commons. It was then referred to the House of Commons Standing Committee on Finance for study.

Among other things, this Bill provides for the restructuring of federal member institutions encountering serious and otherwise intractable financial problems. It reflects in some degree the proven process used to restructure the Bank of British Columbia in 1986, and the principles enunciated in the Blue Paper which was also released in 1986. When enacted, we believe that the Financial Institutions Restructuring Provisions (FIRP) contained in this Bill will be of significant assistance to CDIC in dealing with federal member institutions which the Superintendent of Financial Institutions determines are, or are about to become, no longer viable. These provisions contain a number of safeguards designed to ensure that involved parties (primarily subordinated debtholders and shareholders) are fairly treated.

The Bill also contains other provisions which the industry has been requesting for some years. These deal with the identification of deposit-taking instruments as to their insurability, or otherwise (the stamping provision), and with the extent to which member institutions may advertise and communicate with depositors concerning the basic elements of deposit insurance. It is contemplated that by-laws will be enacted which will permit trained personnel in member institutions to discuss deposit insurance with customers. CDIC believes that this will be beneficial for both members and their customers.

Furthermore, the Bill provides that the present ceiling on CDIC borrowings from the Consolidated Revenue Fund be increased from $3 billion to $6 billion. It should be noted, however, that new actual borrowings in excess of those previously approved, will continue to require specific approval by the Governor in Council, subject of course to the $6 billion statutory ceiling.

Standards of Sound Business and Financial Practices

I stated in my remarks contained in our 1990 Annual Report that I expected that these Standards would be completed during 1991. Because of the heavy demands on CDIC people managing the foregoing listed failures, the completion of this project has slipped somewhat. However, progress continues to be made and I am confident that these Standards will be in place well before the end of 1992.

We continue to be grateful to our director, Mr. R. M. Hammond, and to the members of the Standards Sub-Committee and the Standards Advisory Group who have devoted much time to producing these Standards. They have received favourable comment from member institutions and involved professional associations.

Industry Relationships

We place a high level of importance on maintaining close and harmonious relationships with our member institutions, both directly and through their respective industry associations.

As an example, CDIC Standards of Sound Business and Financial Practices have been developed with significant assistance from officers of member institutions, and after thorough consultations with the industry and the accounting and legal professions. We believe that it is because of the sophisticated professional input and the careful consultation before the Standards were finalized that they have received wide acceptance.

In the future, we intend to accelerate our efforts to keep in close touch with our members, while at the same time respecting the provisions of the CDIC Act which require that we must keep in confidence all information we receive concerning the business or affairs of member institutions.

Mission Statement

During 1991, and following along from work which was started in 1990, the Corporation developed, and the Board of Directors approved, a Mission Statement which is set out at the beginning of this Report. This Statement stresses CDIC's statutory Objects and reflects the mutual obligations of the Corporation and the employees to each other and to the wider community which the Corporation serves. This Statement will provide important assistance to CDIC when new thrusts are examined and when existing activities are assessed. It is the policy of the Corporation that this Mission Statement will be reviewed from time to time.

Board of Directors

The Board of Directors met twelve times during the year. In addition to the meetings held in Ottawa and Toronto, meetings were held in Saint John, New Brunswick, and Winnipeg, Manitoba. As a federal Crown corporation, we continue to believe that it is important that the Board of Directors and senior officers of the Corporation seek opportunities to meet and speak with industry and business leaders in various centres across Canada.

Late in 1991, Mr. D. M. Macpherson, who had for a number of years served on the CDIC Board as a member and as an alternate member for the Superintendent of Financial Institutions, announced his retirement from the government service. He has made a significant contribution to the work of the Corporation over many years. I would like to reiterate here the Board's best wishes to him and Mrs. Macpherson on the occasion of his retirement.

Early in 1992, Mr. R. M. Hammond announced that he also was leaving the government service in May 1992 and that he was accepting the position as General Manager of the Canadian Payments Association. Mr. Hammond is the longest serving CDIC director and he will be very much missed by all of us.

Ms. Suzanne Labarge, a Deputy Superintendent of Financial Institutions, was appointed by the Minister as an Alternate Director for the Superintendent of Financial Institutions. She has assumed the responsibility for the regulation of federally incorporated deposit-taking institutions, being the duties formerly carried out by Mr. Macpherson. In this capacity we welcome her to the CDIC team.

Appreciation

The 1991 year has been an extremely demanding one for CDIC, its directors and all its employees. I know the Board would like me to express on its behalf our sincere thanks to the CDIC officers and employees for the outstanding manner in which they have carried out their various functions and responsibilities during this very difficult year.

As CDIC does not carry out its own inspection or regulation of its member institutions but rather relies on the federal Superintendent of Financial Institutions and the various provincial regulators to perform these responsibilities, it is important that cordial and effective working relationships exist between the regulators and CDIC. The cooperation received from regulators during 1991 was much appreciated by CDIC. Indeed, it was an important factor in allowing us to fulfil satisfactorily our statutory responsibilities of minimizing our exposure to risk of loss while contributing to stability and competitiveness within the financial system in Canada.

The Real Estate Advisory Committee continues to be chaired by Mr. W. Poole and we are very grateful for the work which this Committee does for the Corporation. This important Committee is moving into its seventh year of service with CDIC. Noting the increase in the number of member institutions which are being administered by liquidators on behalf of CDIC, I know that we will be relying heavily on them during 1992 and thereafter. Their seasoned wisdom has added great value to the Corporation in the past, and I know it will continue to do so in the future.

Because of the nature of the work of the Corporation, we look to both the legal and accounting professions to assist us, particularly in dealing with the affairs of troubled institutions. These professionals, all across the country, have greatly assisted the Corporation to reduce its exposure to loss. We truly appreciate their continuing support and assistance, without which it would not be possible for us to carry out effectively our statutory responsibilities.

From a personal point of view, I am genuinely grateful to the Board of Directors, to Mr. J. P. Sabourin, our President and Chief Executive Officer, and to the officers and employees of the Corporation for their consistent support and dedication to the work of CDIC. During 1991, circumstances dictated that many people had to devote much overtime and many were away from home for extended periods. This contributed in an important way to the satisfactory resolution of the major problems encountered by CDIC during 1991, and was a material factor in enabling the Corporation to effect a further reduction in its deficit.

The 31st day of March 1992.

Ronald A. McKinlay
Chairman

CDIC's organizational strengths and pro-active stance towards difficulties and opportunities enable it to perform well under most trying and challenging circumstances.

This past year was one of the most challenging in the history of the Corporation. The failure of four member institutions, onerous requirements for the payment of insured claims to depositors, interventions in the affairs of several member institutions in difficulty, the workload associated with the monitoring of the liquidation of twenty-one member estates still in the winding-up process, the increase in the number of member institutions being monitored by regulators and CDIC, and the extensive objectives and goals set for completion during 1991, all contributed to increase the demands on the Corporation. We are pleased to report that the Corporation rose to the challenge and performed well under such trying circumstances.

The Corporation provided extensive information in its 1990 Annual Report of corporate objectives, goals and strategies for 1991. This Review of Operations compares actual performance with these 1991 objectives and goals and discloses planned objectives and goals for the upcoming year. This information will help the reader to assess the overall performance of the Corporation over the past year and identifies the priorities of the organization for the 1992-1996 planning period. This change not only follows the theme of making Crown corporations more accountable in light of increased reporting requirements, but also reflects management's desire to improve communication with all of its stakeholders.

Corporate Status and Objects

As previously mentioned in the Corporate Profile on page 32 of this Report, CDIC is a Crown corporation subject to the Financial Administration Act (FAA), more particularly to Part X thereof.

In accordance with the requirements of the FAA, the Corporation is required each year to submit to the Minister of Finance a five-year Corporate Plan which details objectives, goals and strategies, and identifies the resources required to fulfil this Plan. The Plan sets out the major assumptions used and assesses actual performance to planned objectives and goals.

It is important to note that CDIC's strategic objectives and goals flow from the statutory Objects as reproduced on page 32 of this report.

The Year in Review: Strategic Objectives and Goals for 1991

The Corporation continued to place emphasis on strategic planning and management during 1991 and much progress has been achieved.

Strategic Objectives

In the 1991-1995 Corporate Plan, we developed three strategic objectives which directly related to the statutory Objects:

- To manage the risk to the Deposit Insurance Fund.
- To operate in an effective and financially efficient manner.
- To strengthen relationships with stakeholders.

From these objectives, the following major corporate goals were set for 1991:

- Implement and monitor the Standards of Sound Business and Financial Practices.
- Continue the development of a monitoring system for problem institutions, including early-warning capability.
- Finalize the development and implementation of by-laws.
- Develop and implement a corporate mission statement and a strategic management system, together with appropriate performance indicators.
- Finalize the development and codification of corporate policies and associated procedures in the form of a policy and procedures manual.

To address these three strategic objectives and five major corporate goals, ninety-nine departmental goals were identified. Of these, 47% were short-term goals and the remainder were identified as long-term goals to be completed post-1991.

When establishing these departmental goals in mid-1990, we assumed that CDIC would not be called upon to pay insured deposits of failed institutions during the planning period; an assumption which events disproved.

It became apparent in early 1991 that meeting all these planned objectives and goals would not be possible because of the increasing workload which was due to the decline in the financial health of a number of our member institutions. In fact, the Corporation not only paid insured deposits of four failed member institutions during 1991, but also monitored and in some cases was called upon to intervene in the affairs of several other member institutions suffering severe financial difficulties. CDIC's intervention was necessary to ensure that the solution to the problems would meet the Corporation's statutory Objects. These interventions are explained in more detail in the Chairman's Remarks and in the Notes to the Financial Statements which form part of this Annual Report.

This changing environment caused a major reassessment of priorities and an increased demand for resources. As a result, the Corporation filed a 1991 amended Corporate Plan.

Notwithstanding this reassessment, of the forty-seven short-term goals, twenty-eight, or 60%, were completed during the year and significant progress was made on the remainder. Of the fifty-two long-term goals to be achieved between 1992 and 1995, two were actually completed during 1991.

Prior to elaborating on the specific progress made in meeting objectives and goals established for the planning period, a summary of the activities relating to the failure of these institutions is warranted.

Member Institution Failures

Standard Trust Company and Standard Loan Company (Standard)

Although the actual failure of these two companies occurred in late April 1991, considerable preparatory work by CDIC had commenced in December 1990.

CDIC participated in an effort to find a going-concern solution, but recognized that formal liquidation might be necessary and made preparations for this possibility. Following these two tracks simultaneously was the best way for CDIC to deal with its increasing exposure to loss and also to promote or otherwise contribute to the stability and competitiveness of the financial system. To this end, management utilized all available internal resources and supplemented these with external resources. The CDIC's Board of Directors recognized that this priority would have an adverse impact on the Corporation's performance compared with planned objectives and goals.

To find the best solution, CDIC organized three teams made up of multi-disciplinary internal and external resources. They were:

1. Sales Process Team

Working with the management of Standard, the team tried to find a going-concern solution, i.e., a buyer for the company.

The Insurance and Risk Assessment Division of CDIC monitored the Standard's sale process, its liquidity position and its compliance with undertakings provided to CDIC under an Assistance Agreement which was entered into with Standard's clearing bank. Standard's clearing arrangements were maintained with a $17 million guarantee provided by CDIC. This guarantee was never called upon and therefore CDIC is no longer at risk.

2. Liquidation Evaluation Team

The Field Operations Division of CDIC was responsible for determining the Corporation's exposure to loss in case of a formal liquidation. As part of this process, CDIC assessed the value of Standard's assets to determine if adequate loan loss provisions had been recorded. This review and analysis allowed CDIC to compare the cost of its participation in a sale with those associated with the liquidation of Standard.

3. Payout Planning Team

The Operations Division of CDIC was responsible for the review of the deposit base, and converted Standard's deficient information systems to an independent computer base. This team assessed the deposit profile and the cost of funds, and also performed an interest spread analysis—providing further information to help CDIC assess its exposure to loss.

Since it is the practice of CDIC to evaluate all the options at its disposal, various scenarios were prepared and analyzed. The overall process required months of extensive work by a large contingent of CDIC personnel. Furthermore, the Corporation was operating within an atmosphere of uncertainty since many of the key decisions were not within CDIC's control. As examples, various regulators were in a position to precipitate a formal winding-up of Standard, or Standard's shareholders, creditors or potential purchasers could have terminated the sale process.

Any possibility of a going-concern sale ended when the creditors of Standard's parent, Standard Trustco Limited, rejected the offer of the sole bidder, Laurentian Bank of Canada (Laurentian), and formally petitioned Standard Trustco into bankruptcy. Laurentian's offer, including CDIC's participation, was therefore never formally considered by CDIC.

Since no going-concern solution meeting CDIC's Objects was available and since the Corporation concluded that Standard was indeed insolvent, CDIC, together with the Office of the Superintendent of Financial Institutions (OSFI), recommended to the Minister of Finance and to the Minister of State for Finance and Privatization that Standard be formally liquidated under the provisions of the Winding-up Act.

OSFI took control of Standard's operations on April 17, 1991. CDIC, with the requisite approval of the Minister of State for Finance and Privatization, immediately established a program to provide advance insurance payments in order to assist insured depositors who were denied access to their funds.

CDIC's information lines were staffed by over twenty operators and were kept open twelve hours a day, seven days a week for eight weeks. Over 40,000 telephone enquiries were received and some 8,000 advance insurance payments were processed. This program was highly successful and provided emergency funds to insured depositors holding demand deposits. In some cases, depositors were able to receive funds within a matter of hours.

This program took a number of CDIC employees away from their regular responsibilities. As a result, other corporate objectives and administrative duties suffered. Although organizational matters were delayed, CDIC recognizes that this emergency service has become an important element in the deposit insurance program.

The failure of Standard affected some 140,000 depositors, with insured deposits valued at approximately $1.3 billion. Uninsured deposits totalling nearly $106 million, owed to some 2,900 depositors, were not paid by CDIC and these depositors must look to the liquidation process for a recovery. It was by far the largest and most complex member institution failure experienced by CDIC.

In addition to carrying out its insurance payment functions, CDIC negotiated a cost-effective transaction whereby Laurentian acquired, with Court approval, a significant portion of Standard's assets, deposit branch network and insured deposit base. This acquisition minimized the inconvenience caused by the Standard failure since it provided continued service to Standard's customers, both depositors and borrowers, maintained employment for approximately 200 former Standard employees and provided the same access to financial services previously available in about thirty communities across Canada where Standard had branches.

The transfer of the insured deposits to Laurentian was completed on June 25, 1991, approximately nine weeks after Standard's operations were ceased.

With the requisite approval of Revenue Canada, CDIC arranged to transfer in bulk to Laurentian all insured deposits held in Registered Plans. For depositors holding insured funds in Registered Plans, this arrangement eliminated any adverse tax consequences which would have arisen had CDIC paid them directly.

As part of the Laurentian transaction, CDIC also received an advance distribution of $650 million from the liquidator on July 19, 1991. Obtaining funds so promptly in respect of a substantial portion of the insured deposit claims paid by CDIC was innovative and required the cooperation of many parties. This significant accomplishment for CDIC resulted in reducing financing costs and borrowings from the Consolidated Revenue Fund.

Bank of Credit and Commerce Canada (BCCC)

On July 5, 1991, the Superintendent of Financial Institutions seized control of the four branches of BCCC. Approximately 3,400 depositors, with insured deposits totalling some $22 million, were paid. Uninsured deposits totalling $82 million, owed to some 2,400 depositors, were not reimbursed by CDIC. Once again, an advanced payment program (including the 1-800 information lines) was implemented, and the final payment to all insured depositors was completed on September 6, 1991. CDIC subsequently negotiated a transfer of the insured deposits held in Registered Plans to another member institution. Since the CDIC insurance payment took place before the formal liquidation of the bank, the Minister's approval was required. A formal Winding-up Order for BCCC was granted by the Court on September 23, 1991.

Saskatchewan Trust Company (STC)

CDIC entered into a secured loan agreement with STC to provide it with liquidity support while both organizations tried, with the provincial regulator's support, to find a going-concern solution that would result in a least-cost alternative to CDIC. Discussions and negotiations were held with several interested parties. All negotiations relating to the sale of STC ceased in mid-October, after many months of discussions, when the remaining interested party declined to make a formal offer.

STC was liquidated on October 31, 1991, requiring CDIC to pay some $58 million to approximately 4,500 depositors holding insured deposit claims. Uninsured deposits totalling

$800,000, owed to some forty-five depositors, were not paid by CDIC. Cheques were issued to insured depositors on November 8, 1991, and insured deposits held in Registered Plans were transferred to another member institution shortly thereafter.

CDIC's 1991 cumulative insurance payments of some $1.4 billion were made to approximately 150,000 insured depositors.

Organizational Issues

In 1991, CDIC was in a position to take a more pro-active stance towards the difficulties facing it. This is due in large measure to the development of internal expertise and organizational strengths over the last several years.

CDIC relies on a diverse, experienced and dedicated group of employees and management team. As previously stated in the 1990 Annual Report, the Corporation's structure, objectives, goals and strategies are continually evaluated and, where necessary, enhanced to ensure they fit in with CDIC's environment. During 1991, CDIC's human resources and operating budgets were significantly increased to provide the Corporation with the tools necessary to meet current and future challenges.

As a comparison, in 1985, a year where CDIC contended with seven insolvencies, it could only *react* to failures. Virtually all of CDIC officers were in the field for most of 1985, staffing the payout teams, handling depositor enquiries, providing advance insurance payments, and performing other administrative responsibilities related to these failures.

Few corporate objectives of a structural nature were undertaken or performed during this time and there was no opportunity, expertise or time to improve CDIC's capacity to diagnose, prevent, rehabilitate or *mitigate the Corporation's exposure to loss.*

In 1991, by contrast, CDIC was able to identify and assess the options of a going-concern solution or a liquidation of several member institutions.

CDIC has taken a number of significant initiatives to take advantage of the lessons learned over the years and these initiatives are proving of value to the effectiveness and efficiency of the organization.

Performance Assessment to Planned Objectives and Goals

The major accomplishments during the past year included:

Standards of Sound Business and Financial Practices (Standards)

As was stated in the 1990 Review of Operations, the development and implementation of Standards attempt to reflect proper practices already existing in leading member institutions and not to create artificial yardsticks or yet another layer of regulatory requirements. Accordingly, full consultation with member institutions and regulators has been of paramount concern.

Development

To date, CDIC has issued Standards documents respecting Liquidity Management, Interest Rate Risk Management, Credit Risk Management, Real Estate Appraisals, Foreign Exchange Risk Management and Securities Portfolio Management.

Standards addressing Internal Controls and Capital Management are in the process of development and we expect that these two Standards will be issued during 1992.

The response to our consultation approach has been positive and encouraging. We have received helpful comments from our member institutions, their trade associations, their regulators and the legal and accounting professions.

We thank those who have taken the time to provide us with input and we confirm that their contribution has increased the overall quality of the Standards issued.

Implementation

The Standards which have already been issued to the industry are now being implemented by many of our member institutions, even though these Standards will only have the force of law when they are formally approved by the Privy Council Office (PCO).

Compliance with Standards and Monitoring of Member Institutions

As part of the Standards process, CDIC expects that the primary regulators will examine the affairs of member institutions to ensure compliance with Standards of Sound Business and Financial Practices. By relying on the existing regulators, *CDIC will avoid the creation of another level of regulation*. The Corporation plans to develop a Standards examination framework during 1992, which will provide guidance to regulators. The development of an examination framework will also require close consultation with member institutions and their regulators.

The compliance with Standards will form part of our risk assessment and will be helpful as an early-warning signal. Any member institution which fails to comply with Standards will be closely monitored, and where warranted, a member institution's policy of deposit insurance may be terminated.

The implementation, monitoring and compliance with Standards are of great importance to CDIC as risk assessment tools.* As was stated in our 1990 review, our experience leads us to conclude that insolvency is closely linked to management-related inadequacies and more specifically to the failure to utilize basic risk management techniques. If these inadequacies can be detected early and remedied quickly, then it is less likely that an institution will find itself in serious difficulty.

Continuation of the development of a monitoring system for problem member institutions, including an early-warning capability

The establishment of a comprehensive computer-supported risk-monitoring system for member institutions is a key long-term goal for the Corporation. A strategy document has been finalized and the development of a system has commenced. However, the timing of the future development of the system will depend on the progress made by the Financial Information Committee (FIC) (a Committee made up of representatives of OSFI, the Bank of Canada, the Department of Finance and CDIC) in developing common reporting forms for member institutions. These common forms and the FIC process should improve the timeliness and usefulness of the information being collected, and minimize regulatory burden and duplication.

Finalization and implementation of by-laws

The following by-laws are in the process of formulation. The purpose and status of each are indicated below.

Policy of Deposit Insurance By-Law

A revised Policy of deposit insurance applicable to all current and future member institutions is being developed and is scheduled to be completed by year-end 1992. The Policy will set out certain obligations that member institutions must meet and will provide for periodic disclosure of information which will be used in assessing risk and monitoring the affairs of member institutions.

* *Copies of CDIC Standards of Sound Business and Financial Practices are available upon request and will be distributed as a package when PCO approval is received.*

Being cognizant of the need to coordinate the flow of information, CDIC will not duplicate the efforts of regulators, but will cooperate with them to avoid additional demands on our member institutions, if at all possible.

We intend to consult with member institutions, regulators and other interested parties prior to the finalization and implementation of the Policy.

Form of Application for Deposit Insurance By-Law

A revised form of application for deposit insurance has also been developed and approved in principle by the Board of Directors during 1991. The revised form will outline the minimum level of information initially required by CDIC, will reduce duplication by permitting applicants to incorporate by reference information already filed with the regulators, and will clarify the nature of supplementary information required by CDIC before consideration is given to membership. The acceptance or rejection of any application will remain at the discretion of the CDIC Board of Directors.

The intent once again is to consult with the industry prior to the finalization and implementation of this by-law in late 1992.

By-law prescribing the time, form and manner of recording trusteeship, joint interest and beneficial interest in a deposit in member institutions

Through this by-law, CDIC will develop a proper framework for the disclosure requirements regarding joint interests, trusteeships and beneficial interests. To the extent practical, CDIC wishes to aid in standardizing, simplifying, and streamlining the administrative practices of member institutions with respect to such disclosure. Standardization of the time, form and manner of disclosure will clarify the application of the Schedule to the CDIC Act, which determines the deposit insurance coverage of trust and joint deposits. The by-law will also provide more accurate information so that premiums are correctly calculated, and will allow CDIC to determine the extent of its exposure.

Industry consultation was commenced in 1991 on this by-law and we expect that the by-law will be issued in mid-1992.

Premium Surcharge By-law

The Corporation is authorized to assess and collect a premium surcharge from any member institution if, in the opinion of CDIC, that member institution is engaging in such practices warranting a premium surcharge, as prescribed in the by-law.

This by-law was identified as a long-term goal to be finalized in 1993. CDIC has already made progress in determining issues and alternative approaches to developing it. A number of studies identifying and evaluating methodologies that might be used and the practices that might warrant a premium surcharge have been completed.

The intent is to distribute a premium surcharge policy paper to the industry for comment during 1992. This will provide interested parties with the opportunity to ensure that the alternatives being considered are comprehensive and suitable for the purpose.

Development and implementation of a corporate mission statement and strategic management, together with appropriate performance indicators

In May 1991, the Board of Directors approved the Vision, Mission and Values statements of the Corporation. Along with the statutory Objects, these statements form the foundation for the strategic planning process and will assist in developing the objectives and goals for future planning periods. As well, in May 1991, a Corporate Planning Department was established.

Appropriate detailed performance indicators are presently being developed. However, reasonably comprehensive reporting already occurs. Detailed quarterly reports on the status of objectives and goals, together with financial information, are provided to the Board of Directors. An annual overview is provided after year end.

These reports provide up-to-date information on the performance of the Corporation compared with its plan, and further provide the opportunity for the management and the Board of Directors to review priorities.

Development and implementation of an automated commitment control system for budgeting control and planning purposes

Although identified as a long-term goal, an automated commitment control system was developed internally and was fully operational in July 1991. This system strengthens the Corporation's control over expenditures, enables CDIC to obtain current reports on financial commitments, and enhances budgetary control and planning.

Finalization and codification of corporate policies and associated procedures in the form of a policy and procedures manual

Little progress was made on this goal in 1991 due to the activities in other areas of the organization. The Corporation continues to recognize the importance of a policy and procedures manual and will take steps to address this goal in the near future.

Strategic Alliance Agreements with Examining Agents

The CDIC Act provides that OSFI examines federal member institutions on CDIC's behalf. OSFI and CDIC have been working together to develop an agreement clarifying the relationship between these organizations. This agreement is another initiative aimed at avoiding duplication and overlap, while at the same time promoting and enhancing the efficient and effective supervision of federally incorporated CDIC member institutions. OSFI, as the primary regulator, and CDIC, as the insurer, recognize that their governing legislative authority clearly provides separate and distinct mandates. Both organizations also recognize that they form part of the supervisory system and that they must have clear links and common objectives respecting the solvency of member institutions and the stability of the financial system in Canada.

The agreement will address, among other things, the cooperative approach to dealing with requests for incorporation, licensing and applications for deposit insurance, risk assessment of member institutions, supervisory intervention processes, development and implementation of policies, human resources training and development, and other initiatives.

CDIC and OSFI have made significant progress in developing the Strategic Alliance Agreement, which should be approved by the parties during the course of 1992.

Public Awareness Program

The Corporation continued its public awareness campaign during 1991. A new membership sign was developed and distributed to all branches of member institutions. As in previous years, CDIC's campaign was supported by television commercials, by print media advertisements and by toll-free information lines. The information lines not only provide routine information on deposit insurance, but also serve as an important link between CDIC and depositors of failed institutions. During the year, CDIC received close to 68,000 calls.

Substantial progress continues to be made in improving public awareness and knowledge of deposit insurance. This progress is monitored closely through pre- and post-public awareness campaign surveys and through CDIC information lines.

Human Resource Levels

As a matter of policy, CDIC aims at conducting its affairs with a relatively lean in-house staff who have a mix of skills and training and who function in teams. Most employees are drawn from the fields of accounting, banking, bankruptcy and law, and CDIC supplements its resources as needed through the contracting of outside experts.

The Corporation was forced to deviate from its original human resource plan during 1991 due to the very heavy demands facing the organization. These demands are explained in this report. The 1991 Corporate Plan originally called for eighty positions. This was increased to ninety-nine positions with the approval of the 1991 amended Corporate Plan. At year end, CDIC employed ninety-two persons.

The 1992 human resource plan calls for one hundred and five positions. The Corporation believes that these additional human resources are necessary to enable CDIC to continue to carry out its Objects and to complete the identified 1992 strategic objectives.

Financial Results for the Year 1991

A five-year financial and statistical summary and a table of key comparative indicators are included on pages 36 and 37 of this report. The Corporation has decided to include this information in order to provide the reader with an overview of comparative financial results, with the relevant Corporate Plan financial targets, and with an explanation on the material variances from actual to budget.

Five-Year Financial and Statistical Summary

Claims in Respect of Insured Deposits

The amount of $1,406 million represents the payments made to the insured depositors of the aforementioned four failed member institutions.

Recoveries of Claims

During the year, the Corporation recovered $728 million in respect of outstanding claims against insolvent member institutions. CDIC had expected that the liquidation of three estates would have been finalized and that the liquidators would have been discharged by the Courts during 1991. This was not achieved since there remains outstanding litigation which must be dealt with prior to the finalization of these estates.

CDIC expects to receive $689 million from further distributions in 1992 and projects to recover an additional $1,046 million over the next five years from the proceeds of liquidation of assets of the remaining estates.

Loans from the Consolidated Revenue Fund (CRF)

Due to the insolvencies in 1991, the Corporation was obliged to increase its borrowings from the CRF in order to pay the insured deposits of the failed member institutions. CDIC borrowed $1,375 million and repaid $785 million during the year, leaving a net additional loan requirements of $590 million.

Based on the 1992-1996 Corporate Plan projections, CDIC anticipates that these interest-bearing loans will be completely repaid by the end of 1995; however, these projections are sensitive to factors beyond the Corporation's control, such as further member institution failures.

Administrative Operating Expenses

The administrative operating expenses for 1991 totalled $27.7 million, compared with the amended 1991 operating budget of $25.4 million. This represents a significant increase over 1990 expenditures of $12.3 million. It is important to note that of the $27.7 million in expenditures, approximately $13 million, or 46%, was a direct result of the four aforementioned insolvencies and was mostly attributable to the costs to effect the payments to insured depositors. These expenses are related to data processing costs and professional fees incurred for accounting, auditing and legal services, among others.

The remaining expenditures of $14.7 million represent a fairer comparison to the 1990 expenditures of $12.3 million. This change relates mainly to increased human resources and premises costs. A breakdown of the administrative operating expenses is provided in Note 11 which forms part of the Corporation's financial statements.

The approved 1992 Corporate Plan provides for an administrative operating budget of $23.4 million. This is a reduction of approximately $2 million, or 8% of the approved 1991 amended Corporate Plan.

Key Comparative Indicators

The Corporation's 1991 amended Corporate Plan reflects the important events that took place and their effect on the financial and general direction of the organization. The key comparative indicators highlighted on page 37 are therefore being reported against the 1991 amended Corporate Plan.

Deposit Insurance Fund

Despite the four insolvencies referred to above, the Deposit Insurance Fund deficit was reduced by $52.6 million during 1991, to $590 million at year end. This was some $54 million short of the goal in the 1991 revised Corporate Plan projections. This variance was mostly the result of increasing the general provision to account for losses in Standard Trust Company.

In its 1992 Corporate Plan, CDIC projects that the deficit will be eliminated by 1994, barring any further call on the Deposit Insurance Fund. It now appears more likely that the deficit will be eliminated in early 1995.

Once again, these projections are extremely sensitive to many factors beyond the control of the Corporation.

Premiums

The Canada Deposit Insurance Corporation Act provides for an annual assessment of premiums. The rate is set by the Governor in Council on the recommendation of the Minister of Finance. The maximum rate allowed by the legislation is one-sixth of one percent of member institutions' insured deposits. Since 1988, member institutions have been assessed annual premiums at one-tenth of one percent of insured deposits.

For Corporate Plan purposes, CDIC assumed that the current premium level would remain constant throughout the planning period.

Insured deposits as a percentage of total deposit liabilities increased from 48.3% in 1990 to 50.9% in 1991. Premiums assessed in 1991 amounted to $290 million (1990 - $271 million). Since its inception in 1967, the Corporation has assessed premiums totalling $1,790 million.

Asset/Liability Management

The Asset/Liability Management Committee continues to manage the Corporation's debt with a view to minimizing possible adverse effects of fluctuating interest rates. During the year, the Corporation restructured a portion of its debt to take advantage of decreasing interest rates. This initiative saved the Corporation $1.5 million over the remaining terms of those loans and considerably reduced the weighted average cost of funds. The annual average cost of funds in 1991 was 9.8%, compared with 10.9% in 1990.

In early January 1992, a significant portion of the debt portfolio was once again restructured at an estimated net saving of $12.5 million. The weighted average cost of funds for CDIC's Consolidated Revenue Fund loans has now been reduced to 7.25%, compared with 1992 Corporate Plan projections of 9.70%.

The Challenges Ahead - Strategic Objectives, 1992

In line with the Vision, Mission and Values, four strategic objectives have been established for the 1992 Corporate Plan (1992-1996). These are:

- To manage the risk to the Deposit Insurance Fund.
- To operate in an effective and financially efficient manner.
- To strengthen relationships with stakeholders.
- To strive to live our values.

All of these objectives flow directly from the statutory Objects.

In order to achieve these strategic objectives, the following critical success factors and major goals have been identified for 1992:

To Manage the Risk to the Deposit Insurance Fund

The Corporation remains committed to fulfilling its statutory Objects of contributing to the stability and competitiveness of the financial system in Canada. Given the current environment, this is a particularly challenging objective.

Critical Success Factors

- Elimination of the Deposit Insurance Fund deficit and minimization of losses.
- Development, implementation and compliance with Standards of Sound Business and Financial Practices.
- Effective working relationships with regulators.
- Development of risk assessment and risk management functions.
- Increased depositor confidence in the stability of the financial system.

Specific Goals for 1992

- Define, develop and implement formal risk management strategies.
- Issue the by-laws respecting Standards of Sound Business and Financial Practices.

- Issue the by-law prescribing the form of application for deposit insurance.
- Issue the by-law prescribing the new form of the policy of deposit insurance.
- Complete the development of the new Return of insured deposits.

Longer Term Goals

- Establish a state-of-the-art risk assessment function.
- Continue the development of a CDIC Premium Surcharge By-Law.

To Operate in an Effective and Financially Efficient Manner

Critical Success Factors

- Recruitment, development and retention of competent, professional personnel.
- Continued motivation and commitment to values by all employees.
- Implementation and communication to employees of formal policies and procedures.
- Commitment to the budgetary process and enhancement of the accountability of managers.
- Assessment of performance against approved objectives.

Specific Goals for 1992

- Conduct preparatory reviews of important aspects of troubled member institutions, including a review of information systems and of the institutions' deposit bases.
- Refine and formalize the role of strategic planning and management.

Longer Term Goals

- Develop new information system applications as identified and ranked in the Information Resource Plan.
- Work with court-appointed liquidators to complete the winding-up of the estates of insolvent members in the most cost-effective manner.
- Establish a management accountability framework for the federal Official Languages Program.

To Strengthen Relationships with Stakeholders

Critical Success Factors

- On-going dialogue and consultation with key interested parties and the development and implementation of an issues management system.
- Continued increase of the level of public awareness of the Corporation and its members.
- Employee perception that they are being treated fairly and with respect and that they are a valuable asset to the Corporation.

Specific Goals for 1992

- Continue to improve and enhance consultation processes with stakeholders.
- Produce external bulletins informing member institutions, industry associations, regulators and Members of Parliament of important deposit insurance issues.
- Set up a flexible and accessible language training program to meet the needs of the Corporation and its employees.
- Continue to direct the national Public Awareness Program which has placed significant emphasis on television, brochures and 1-800 information lines.

Longer Term Goals

- Pursue administrative agreements with provincial regulators to strengthen the monitoring system of member institutions.
- Develop a member institution deposit insurance information program aimed at employees of member institutions.

To Strive to Live our Values

Critical Success Factors

- Adequate resources to carry out statutory Objects and strategic objectives.
- Appropriate management training and development.
- Recognition for behaviour in keeping with our values.
- Continued commitment to the corporate Vision, Mission and Values.

Specific Goals for 1992

- Develop an internal communications strategy aimed at employees.
- Implement consistent human resource policies and procedures.
- Complete a management skills assessment and define training and development needs.
- Review the current Job Evaluation and Classification System.

Longer Term Goals

- Promote pride in job ownership, which will include providing the budgetary support to fulfil responsibilities, resulting in empowerment of employees.
- Further emphasize performance in the remuneration system in order to attract and retain achievement-oriented employees.
- Establish a Career Development and Succession Planning System.

Conclusion

The 1991 overall corporate results speak for themselves. The Corporation was able to be pro-active in dealing with opportunities and difficulties because of the organizational strengths developed throughout the years. Our employees' experience, professionalism, loyalty and dedication make the difference. Also, CDIC employees are achievement-oriented, which enables them to develop innovative approaches, such as finding new solutions to member institutions facing financial difficulties while meeting the statutory Objects of CDIC.

The Mission statement, developed and approved in 1991, is highlighted on page one of this report. Although this was CDIC's first attempt to define a mission, it has proven to be fitting and well-founded. The Mission statement outlines the purpose of CDIC, reflects corporate values, beliefs and aspirations and provides long-term direction to the organization.

The 31st day of March 1992.

Jean Pierre Sabourin
President and Chief Executive Officer

Status and Objects

The Canada Deposit Insurance Corporation (CDIC) was established in 1967 by the *Canada Deposit Insurance Corporation Act* (CDIC 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 Part I of Schedule III to 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. These objects are to be pursued for the benefit of persons having deposits with member institutions and in such a manner as will minimize the exposure of the Corporation to loss.

To fulfill its objects, CDIC may, among other things, acquire assets from a member institution; make or guarantee loans to a member; make or cause to be made inspections of member institutions; prescribe standards of sound business and financial practices for members; and act as liquidator, receiver or inspector of a member institution or subsidiary thereof.

Membership

Membership with CDIC is limited to banks, federally incorporated trust or loan companies and provincially incorporated trust or loan companies. To obtain membership, an application must be submitted and approved by the Board of Directors. Provincially incorporated institutions must be authorized by the province of incorporation to apply for deposit insurance.

Inspections

Under the terms of the *Canada Deposit Insurance Corporation Act*, the Superintendent of Financial Institutions, on behalf of CDIC, examines the affairs of the sixty-four (64) banks and fifty (50) federally incorporated trust companies and loan companies. The thirty-two (32) provincial member institutions are examined by persons designated by the Corporation for that purpose and the reporting thereof to CDIC as provided for under section 29 of its Statute.

Our Values

Professionalism and Excellence,
Integrity and Trustworthiness,
Communication and Teamwork,
Respect and Fairness

Premiums

The Corporation is funded by premiums which are assessed on the insured deposits of member institutions as at April 30th of each year. Premium levels for the 1991 premium year continued at the rate of 1/10 of 1% of insured deposit liabilities of member institutions.

Deposit Insurance Protection

The maximum deposit insurance limit is established by the CDIC Act. The maximum basic insurance is $60,000 per person in each member institution. The $60,000 maximum applies to all of the insurable deposits that a person has with the same member. CDIC provides separate protection for joint deposits, trust deposits and deposits held in registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs).

Insurance Agreement

Deposit insurance protection 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 CDIC and QDIB, deposits made in Quebec with provincially incorporated members are insured by QDIB and deposits made outside Quebec with such members are insured by CDIC. The maximum repayment from both agencies would not exceed $60,000. Deposits made with federally incorporated members are insured by CDIC regardless of the province in which the deposit was made.

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

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 and a Deputy Superintendent of Financial Institutions, as well as four private-sector members, also appointed by Governor in Council.

Ronald A. McKinlay[1][2]
Chairman

H. Marcel Caron, O.C.[2]
Chairman,
Executive Committee,
La Presse

John W. Crow
Governor of the Bank
of Canada

Frederick W. Gorbet
Deputy Minister of
Finance

E. Susan Evans[2]
Vice-President,
Law & Corporate Affairs
and Corporate Secretary,
Encor Inc.

Robert H. Hammond[2]
Deputy Superintendent
of Financial Institutions

Michael A. Mackenzie[1]
Superintendent of
Financial Institutions

Paul G. Morton[1]
President,
Security Investment
Corporation Ltd.

Ronald N. Robertson, Q.C
Partner and Co-Chairman,
Fasken Campbell Godfrey,
Fasken Martineau Davis

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

CDIC Committees

Real Estate Advisory Committee

Chairman

William C. Poole, DFC
(retired) Senior Vice-President,
Realty Advisory Group of the
Toronto-Dominion Bank

Members

Joseph Berman
Co-founder and
formerly Director,
Cadillac-Fairview
Corporation

David E. Howard
(retired) Chairman,
Citicom Inc.

Kenneth Rotenberg
Chairman of the Board,
Rostland Corporation

Herbert I. Stricker
President,
Heathcliffe Development
Limited

Standards Sub-Committee

Chairman

R.M. Hammond
Deputy Superintendent
Insurance and Pensions
Sector,
Office of the Superintendent
of Financial Institutions

Vice-Chairman

G. St-Pierre
Vice-President,
Insurance and
Risk Assessment,
CDIC

Members

J. Martin Castonguay
Partner,
Deloitte & Touche,
Montreal

R.C. (Mac) McDonald
Senior Manager,
(Corporate Banking),
Royal Bank of Canada

U. Menke
Senior Corporate Advisor,
Office of the Superintendent
of Financial Institutions

J.R. Moffat
Managing Partner
and Associate
General Counsel,
Royal Trust

K.E. Mylrea
Director,
Policy Development
and Standards,
CDIC

Standards Advisory Group

Members

Marcel Cazavan
(retired) Chairman,
General Trustco
of Canada

Alan R. Marchment
(retired) Chairman,
President and Chief
Executive Officer,
Guaranty Trustco Ltd.

Graeme K. Rutledge
Senior Partner,
Deloitte & Touche

Robert A. Utting
(retired) Vice Chairman,
Royal Bank of Canada

Standards Committee Secretary

Ms. Gillian Strong
Legal Counsel,
CDIC

Executive Management Committee (EMC)

Chairman

J.P. Sabourin
President and Chief
Executive Officer

Member Ex Officio

R.A. McKinlay
Chairman of the Board

Members

J.R. Lanthier
Vice-President,
Finance

L.T. Lederman, Q.C.
Corporate Secretary
and General Counsel

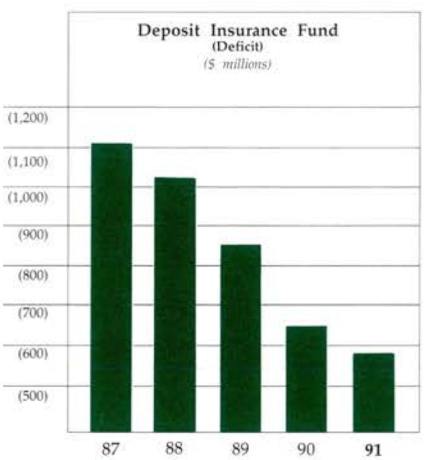
J. Richards
Vice-President,
Field Operations

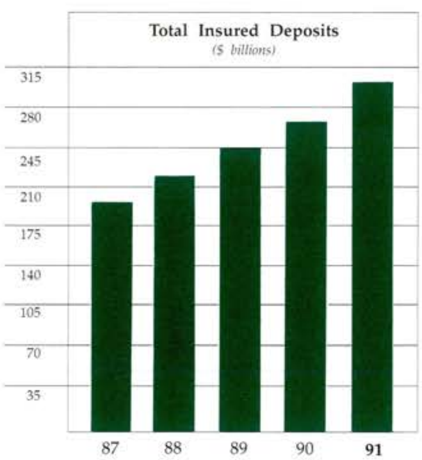
G. St-Pierre
Vice-President,
Insurance and
Risk Assessment

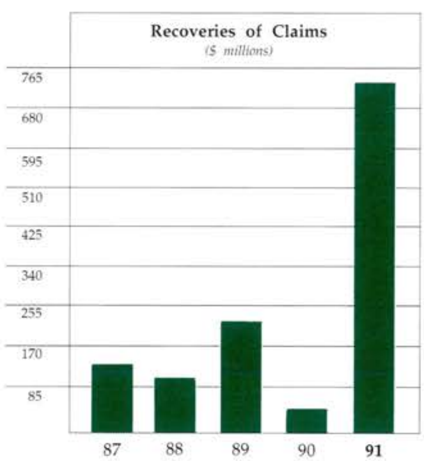
B.C. Scheepers
Vice-President,
Operations

Five-Year Financial and Statistical Summary

	1991	1990	1989	1988	1987
			($ millions unless otherwise indicated)		
Insurance Program					
Deposit Insurance Fund (deficit)	(590)	(643)	(851)	(1,017)	(1,108)
Total insured deposits ($ billions)	290	270	245	216	199
Premiums assessed	290	271	245	216	200
Assets and Liabilities					
Payment of claims in respect of insured deposits	1,406	-	4	-	117
Recoveries of claims	728	49	198	110	154
Additional loans from the Consolidated Revenue Fund (repayments)	590	(150)	(320)	461	282
Operations					
Administrative operating expenses	28	12	12	8	9
Member Institutions					
Number of Federal Institutions - Banks	64	64	65	65	67
Number of Federal Institutions - Trust and Loan companies	50	52	56	55	58
Number of Provincial Institutions	32	35	33	36	37
Number of Insolvencies	4	-	-	-	1
Employees					
Number of employees	92	65	63	48	45

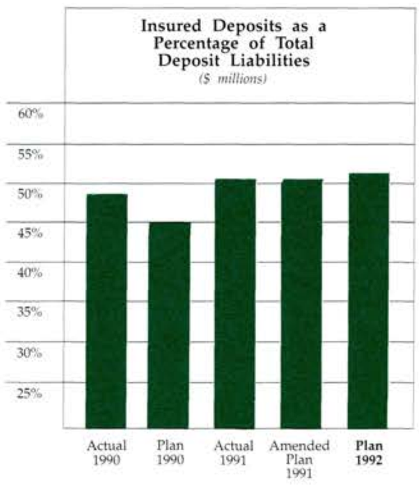


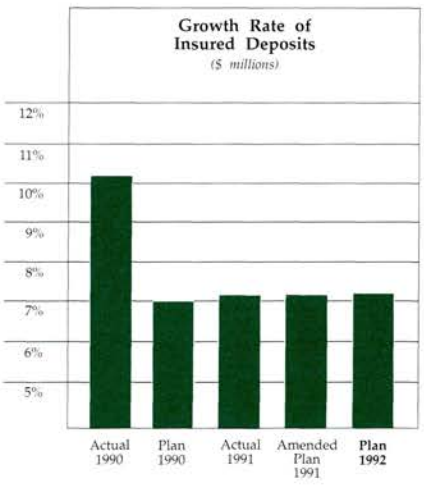


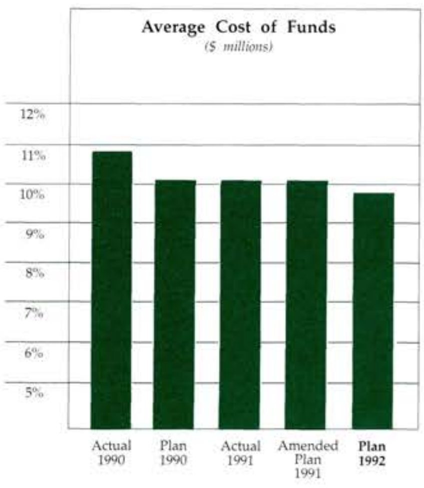


Key Comparative Indicators

	Plan 1992	Amended Plan 1991	Actual 1991	Plan 1990	Actual 1990
		($ millions unless otherwise indicated)			
Financial					
Deposit Insurance Fund (deficit)	(397)	(536)	(590)	(760)	(643)
Loans from the Consolidated Revenue Fund	1,530	1,909	1,904	1,194	1,283
Premiums	312	291	290	262	271
Recoveries of claims	689	699	728	51	49
Interest expense on loans from the Consolidated Revenue Fund	155	170	168	137	146
Operating budget	23	25	28	17	12
Others					
Insured deposits as a percentage of total deposit liabilities	51.0%	50.9%	50.9%	45.0%	48.3%
Growth rate of insured deposits	7.4%	7.3%	7.3%	7.0%	10.4%
Average cost of funds	9.7%	10.2%	10.2%	10.2%	10.9%







Management Responsibility for Financial Statements

February 28, 1992

The accompanying financial statements of the Canada Deposit Insurance Corporation and all information in this annual report are the responsibility of management and the financial statements 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. 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 control 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.

In accordance with its Statutory Objects, the Corporation monitors the operations of its member institutions with varying degrees of intensity, as circumstances warrant. Except for the contingencies disclosed in note 4 of the financial statements where we have not yet been able to estimate the exposure to loss, we are not aware of any other situations at this time where the Corporation is exposed to a material loss.

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

J.P. Sabourin
President and Chief Executive Officer

Johanne R. Lanthier
Vice-President, Finance

AUDITOR GENERAL OF CANADA | VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1991 and the statements of income and deposit insurance fund, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1991 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. As required by the Financial Administration Act, I report that, in my opinion, these principles have been 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 X of the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

I wish to draw to your attention that, as the Corporation describes in Note 4 to the financial statements, it is facing a significant increase in its exposure to losses. This is due to the deterioration during the year of the financial condition of certain member institutions. No provision for loss has been taken in the financial statements in respect to these institutions, as the Corporation is not in a position at this time to estimate the extent of its exposure. However, if these contingent liabilities materialize, they could have a significant impact on future years' operating results.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 26, 1992

Balance Sheet

as at December 31, 1991

	1991	1990
	(in thousands of dollars)	
Assets		
Cash and treasury bills	$ 201,742	$ 74,426
Premiums and other accounts receivable	3,401	7,451
Assets acquired from insolvent member institutions	181	219
Furniture, equipment and leasehold improvements	1,541	1,053
	206,865	83,149
Loans to member institutions and others (Note 5)	47,400	104,765
Claims against insolvent member institutions (Note 6)	1,431,755	751,653
	1,479,155	856,418
General provisions for loss (Notes 3 and 4)	(357,000)	(296,000)
	1,122,155	560,418
	$1,329,020	$ 643,567
Liabilities		
Accounts payable	$ 15,088	$ 3,414
Loans from the Consolidated Revenue Fund (Note 7)	1,903,910	1,282,715
	1,918,998	1,286,129
Deposit Insurance Fund		
Deficit at year end	(589,978)	(642,562)
	$1,329,020	$ 643,567

Approved by the Board:

Chairman

Director

Statement of Income and Deposit Insurance Fund

for the year ended December 31, 1991

	1991	1990
	(in thousands of dollars)	
Income		
Premiums	$ 290,473	$ 271,449
Interest on loans to member institutions and others	3,384	8,140
Interest on treasury bills	5,482	3,198
Other interest	9,498	4,679
	308,837	287,466
Expenses		
Interest on loans - Consolidated Revenue Fund	167,604	145,595
Administrative operating expenses (Note 11)	27,649	12,328
Provision for loss adjustment	61,000	(78,694)
	256,253	79,229
Net income	52,584	208,237
Deficit, beginning of year	(642,562)	(850,799)
Deficit, end of year	$ (589,978)	$ (642,562)

Statement of Changes in Financial Position

for the year ended December 31, 1991

	1991	1990
	(in thousands of dollars)	
Operating Activities		
Net income	$ 52,584	$ 208,237
Non-cash items included in net income:		
Amortization	379	451
Provision for loss adjustment	61,000	(78,694)
Receivables and payables - net	15,724	(3,233)
Increase (decrease) in accrued interest on loans from the Consolidated Revenue Fund	31,195	(5,939)
Realization of assets from insolvent member institutions	38	97
Loans to member institutions and claims against insolvent member institutions - net	(622,737)	18,451
Cash provided by (used in) operating activities	(461,817)	139,370
Investing Activities		
Purchase of capital assets - net	(867)	(434)
Financing Activities		
Loans from the Consolidated Revenue Fund:		
Advances	1,375,000	0
Repayments	(785,000)	(150,000)
Cash provided (used in) by financing activities	590,000	(150,000)
Cash and treasury bills:		
Increase (decrease) during the year	127,316	(11,064)
Balance, beginning of year	74,426	85,490
Balance, end of year	$ 201,742	$ 74,426

December 31, 1991

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 Part I of Schedule III to 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 of member institutions and in such 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. Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with generally accepted accounting principles.

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 policies adopted are set out below.

Premium Recognition. Premiums are recognized when assessed and are based on insured deposits with member institutions as at April 30 of each year. Premiums are collectible in two equal instalments, on June 30 and December 31.

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 and others under an agency or loan agreement.

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. General Provision for Loss

In accordance with the accounting policy set out in note 2, the following table provides details of the calculation of the general provision for loss as reflected on the balance sheet:

	1991	1990
	(in thousands of dollars)	
Balance, beginning of year	$ 296,000	$ 502,000
Provision for loss adjustment	61,000	(78,694)
	357,000	423,306
Less write-offs:		
Claims against insolvent member institutions	-	90,812
Loans to member institutions and others	-	36,494
	-	127,306
Balance, end of year	$ 357,000	$ 296,000

4. Contingent Liabilities

Exposure to loss in respect of member institutions

At the request of two related member institutions, the Corporation provided to their bank an underlying guarantee of $75 million in respect of their clearing arrangements. Subsequent to the year-end, the Corporation agreed to provide financial assistance in support of the proposed restructuring of these member institutions. Should the proposed arrangement be approved by all concerned parties, the Corporation will be required to make a 12-year secured interest-bearing loan of $175 million and to provide deficiency guarantees to a maximum of $370 million. Although the above amounts represent the maximum exposure of the Corporation in respect of this transaction, no provision for loss has been taken against these commitments since the transaction has yet to close and losses cannot be reasonably estimated at this time. Any loss incurred from the proposed restructuring will be accounted for as a charge to the Deposit Insurance Fund in accordance with the accounting policy described in note 2.

The financial condition of certain other member institutions deteriorated during the year which significantly increased the Corporation's exposure to loss. In accordance with the applicable statutory requirements, the affairs of these member institutions are being closely monitored by the regulators and CDIC. The Corporation cannot, at this time, determine its exposure to loss in respect of these member institutions.

Other Obligation

In October 1988, the Corporation advanced $74 million by way of a secured loan to facilitate the sale of a member institution. During 1991, the outstanding loan balance of $50.75 million was repaid from the proceeds of an issue of preferred shares. The purchaser of the shares has the right to put the shares to the Corporation in the event of non-performance. The preferred shares are adequately secured and therefore, the Corporation does not anticipate a loss from this transaction.

Litigation

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.

5. Loans to Member Institutions and Others

Under the general powers of subsection 10(1) of the CDIC Act, the Corporation has, under the provisions of loan agreements, made secured loans to member institutions and others. The Corporation is not accruing interest on its loans since the ultimate collectibility of the interest is doubtful.

The CCB Mortgage Investment Corporation, which was under an agency agreement, was placed in receivership during the year.

6. 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 is asserting claims against all its insolvent member institutions which were placed in liquidation. During 1991, four member institutions (Standard Trust Company, Standard Loan Company, Saskatchewan Trust Company and Bank of Credit and Commerce of Canada) were placed in liquidation under the provisions of the *Winding-up Act*. In total, the Corporation paid $1,406 million in claims relating to insured deposits and has so far recovered $652 million in respect of these estates.

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. In addition, Bill C-48 amending the CDIC Act was tabled in the House of Commons in December and, if enacted, will increase the Corporation's borrowing authority to $6 billion.

As at December 31, 1991, the Corporation has $1,904 million in outstanding loans including accrued interest of $89 million (1990: $1,283 million including accrued interest of $58 million).

These loans bear interest at various annual rates ranging from 9.02% to 10.76% and are repayable according to the following schedule:

	(in millions of dollars)
1992	$ 539
1993	595
1994	340
1995	341
Accrued interest at December 31, 1991	89
	$1,904

8. *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 $752.8 million and expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount (in millions of dollars)
1985	1992	$ 15.7
1986	1993	88.5
1987	1994	82.9
1988	1995	136.7
1989	1996	144.4
1990	1997	143.3
1991	1998	141.3
		$ 752.8

9. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1991 and 1990, were as follows:

	1991	1990
	(in billions of dollars)	
Federal Institutions	$ 268	$ 248
Provincial Institutions	22	22
	$ 290	$ 270

10. Long-Term Operating Lease Commitments

The Corporation has entered into long-term operating leases for its offices. Minimum lease payments are as follows:

Year Ending December 31	Amount (in thousands of dollars)
1992	$ 1,035
1993	1,279
1994	1,288
1995	1,312
1996	1,340
1997 to 2001	5,991
	$ 12,245

11. Administrative Operating Expenses

The following are the administrative operating expenses:

	1991	1990
	(in thousands of dollars)	
Inspection, legal and other fees	$ 8,082	$ 2,487
Salaries and other personnel costs	4,744	3,531
Public awareness program	3,958	4,062
General expenses	1,977	1,293
Premises	1,261	636
Data processing of claims	7,627	308
Interest on premiums	-	11
	$ 27,649	$ 12,328

12. Comparative Figures

Certain of the 1990 figures have been reclassified to conform with the presentation adopted for 1991.

CDIC Member Institutions

Federally Incorporated Banks

ABN AMRO Bank Canada
Amex Bank of Canada
ANZ Bank Canada
Banca Commerciale Italiana of Canada
Banca Nazionale Del Lavoro of Canada
Banco Central of Canada
Bank Hapoalim (Canada)
Bank Leumi Le-Israel (Canada)
Bank of America Canada
Bank of Boston Canada
Bank of Montreal
Bank of New York Canada
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
Canadian Western Bank
Chase Manhattan Bank of Canada (The)
Chemical Bank of Canada
Cho Hung Bank of Canada
Citibank 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)
Israel Discount Bank of Canada
Korea Exchange Bank of Canada
Laurentian Bank of Canada
Manufacturers Hanover Bank of Canada
Mellon Bank Canada
Mitsubishi Bank of Canada
Mitsui Taiyo Kobe Bank (Canada)
Morgan Bank of Canada
National Bank of Canada
National Bank of Greece (Canada)
National Westminster Bank of Canada
NBD Bank, Canada
Overseas Union Bank of Singapore (Canada)
Paribas Bank of Canada
Republic National Bank of New York (Canada)
Royal Bank of Canada
Sanwa Bank Canada
Security Pacific Bank Canada
Société Générale (Canada)
Sottomayor Bank Canada
Standard Chartered Bank of Canada
State Bank of India (Canada)
Sumitomo Bank of Canada
Swiss Bank Corporation (Canada)
Tokai Bank of Canada
Toronto-Dominion Bank (The)
Union Bank of Switzerland (Canada)
United Overseas Bank (Canada)

Federally Incorporated Trust and Loan Companies

AGF Trust Company
Bank of Montreal Mortgage Corporation
Bayshore Trust Company
Canada Trust Company (The)
Canada Trustco Mortgage Company
Central Guaranty Mortgage Corporation
Central Guaranty Trust Company
CIBC Mortgage Corporation
Citibank Canada Mortgage Corporation
Citizens Trust Company
Confederation Trust Company
Co-operative Trust Company of Canada
Equitable Trust Company (The)
Evangeline Savings and Mortgage Company
Evangeline Trust Company
First City Mortgage Company
Focus National Mortgage Corporation
General Trust Corporation of Canada
Granville Savings and Mortgage Corporation
Guardcor Loan Company
HongkongBank Mortgage Corporation

Household Trust Company
Income Trust Company
International Trust Company (The)
Laurentian Bank of Canada Mortgage Corporation
League Savings & Mortgage Company
Merchant Trust Company (The)
Metropolitan Trust Company of Canada
Montreal Trust Company of Canada
Morgan Trust Company of Canada
Morguard Mortgage Investment Company of Canada
The Mutual Trust Company
National Bank Mortgage Corporation
Peace Hills Trust Company
Peoples Trust Company
Premier Trust Company (The)
Prenor Trust Company of Canada
Regional Trust Company (The)
Royal Bank Mortgage Corporation
Royal Trust Corporation of Canada
Scotia Mortgage Corporation
Security Home Mortgage Investment Corporation
Seel Mortgage Investment Corporation
Settlers Savings and Mortgage Corporation
Sun Life Savings and Mortgage Corporation
Sun Life Trust Company
TD Mortgage Corporation
TD Pacific Mortgage Corporation
Victoria and Grey Mortgage Corporation
Wellington Trust Company

Provincially Incorporated Trust and Loan Companies

Aetna Trust Company
Bonaventure Trust Inc.
Cabot Trust Company
Community Trust Company Ltd.
Desjardins Trust Inc.
Dominion Trust Company (The)
Effort Trust Company (The)
Family Trust Corporation
First City Trust Company
Firstline Trust Company
Fortis Trust Corporation
General Trust of Canada
Guardian Trust Company
Home Savings & Loan Corporation
Huronia Trust Company
Inland Trust and Savings Corporation Limited
Investors Group Trust Co. Ltd.
Landmark Savings and Loan Association
Laurentian Trust of Canada Inc.
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
North West Trust Company
Pacific & Western Trust Corporation
Royal Trust Company (The)
Savings and Investment Trust
Security Trust Company
Shoppers Trust Company

CONSUMER ASSISTANCE

CDIC offers a toll-free information service which provides answers to commonly asked questions about deposit insurance.

1-800-461-CDIC

HEAD OFFICE

Canada Deposit Insurance Corporation
50 O'Connor Street
17th Floor
P.O. Box 2340, Station D
Ottawa, Ontario
K1P 5W5

TORONTO OFFICE

Canada Deposit Insurance Corporation
1200-79 Wellington Street, W.
P.O. Box 156
Toronto-Dominion Centre
IBM Tower
Toronto, Ontario
M5K 1H1

PUBLICATIONS

Annual Report
Canada Deposit Insurance Corporation Act
Canada Deposit Insurance Corporation General By-Law
Summary of Corporate Plan
Standards of Sound Business and Financial Practices:

- Liquidity Management
- Interest Rate Risk Management
- Credit Risk Management
- Real Estate Appraisals
- Foreign Exchange Risk Management (draft)
- Securities Portfolio Management (draft)

Information brochure
Membership brochure

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