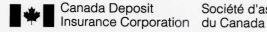


CDIC Ammwal Report 1993

Canada



Société d'assurance-dépôts du Canada

Grant L. Reuber

Chairman of the Board

Président du conseil d'administration

June 30, 1994

Dear Minister,

I have the honour to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Canada Deposit Insurance Corporation for the fifteen month period ended March 31, 1994.

Yours sincerely,

A fewber

The Honourable Paul Martin, P.C., M.P.

Minister of Finance 140 O'Connor Street

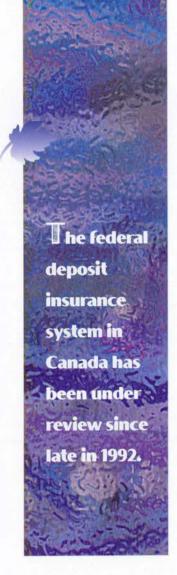
L'Esplanade Laurier East Tower, 21st Floor

Ottawa, Ontario

K1A 0G5

Contents

General Observations
Member Institutions: Major Developments
Risk Assessment and Management
Claims and Recoveries
Corporate Management
Objectives and Priorities, 1994–1998
Membership Profile, 1989–1993
Financial Overview, 1993–1994
Management Responsibility for Financial Statements 53
Auditor's Report
Financial Statements
Board of Directors
CDIC Officers
CDIC Committees



General Observations

he federal deposit insurance system in Canada has been under review since late in 1992 by a committee made up of representatives of the industry and the community, experts and officials. This committee was established under the auspices of the federal Department of Finance and is chaired by the Deputy Minister of Finance, Mr. David Dodge. In addition, the Sub-Committee on Financial Institutions of the Standing Committee on Finance of the House of Commons and the Standing Senate Committee on Banking, Trade and Commerce have produced reports on the policies and activities of Canada Deposit Insurance Corporation (CDIC). Also, the Auditor General began a second special examination of CDIC in 1993 as part of the normal five-year review cycle.

Canada is not alone in reviewing its system of deposit insurance. In the United States, deposits remain fully insured up to a limit of \$100,000, but new provisions have been adopted that call not only for stricter supervision and earlier intervention but also for risk-rated premiums geared to the capitalization of individual institutions. The European Community is set to adopt a deposit insurance directive that requires EC members to provide one of two types of deposit insurance. The first option would provide 100 percent coverage, with the minimum size of insured deposits set at 20,000 ECUs (CAD \$32,000). The second option permits deposit insurance to be limited to at least 90 percent coverage, with the minimum size of insured deposits set at 22,222 ECUs (CAD \$35,555). This has been combined with provisions intended to enhance competition and strengthen supervision and regulation.

This pattern of review and revision has reflected a variety of factors in different countries. In North America it has mainly reflected two concerns. The first has been the financial problems faced by deposit-taking institutions in recent years and the cost of deposit insurance. The second and related concern has reflected questions about the system of market incentives embedded in present arrangements and questions about the effectiveness and accountability of the regulatory and deposit insurance systems.

The Board and Management of CDIC have welcomed the reviews by the Dodge Committee as well as the parliamentary committees and have participated fully in their deliberations. In addition, the Chairman, the President and Chief Executive Officer and other CDIC officials have participated actively in discussions of these matters within the Government, particularly at the Financial Institutions Supervisory Committee chaired by Mr. Michael Mackenzie, the Superintendent of Financial Institutions, and the Senior Advisory Committee chaired by the Deputy Minister of Finance.

How is Deposit Insurance Provided?

Under its Act, CDIC is enjoined to provide insurance against the loss of part or all of deposits up to \$60,000, to promote standards of sound business and financial practices among member institutions, to contribute to the stability and competitiveness of the financial system and to pursue these objectives for the benefit of depositors in such a manner as minimizes the exposure of the Corporation to loss.

All deposit-taking institutions other than credit unions and certain provincial institutions must become members of CDIC and carry insurance. At present there are 131 member institutions.

CDIC is a Crown corporation. Under its legislation it is run by a board of directors and a chairman. It reports to Parliament through the Minister of Finance. The present Minister of Finance has delegated responsibility for CDIC matters to the Secretary of State (International Financial Institutions). The Board includes the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent and a Deputy Superintendent of Financial Institutions. It also includes four independent private-sector directors. In combination, these directors and the Chairman, all of whom are Governor-in-Council appointments, draw upon a range of considerable business experience, particularly in the areas of banking, finance, real estate, accounting, auditing, insolvency, corporate law, and management.

Today CDIC has a permanent staff of about 90, headed by the President and Chief Executive Officer, a Governor-in-Council appointment. Of these, about 35 are directly concerned with risk assessment, risk management and field operations (personnel who look after payouts to depositors when institutions fail and who monitor the claims and recoveries from assets in the hands of liquidators and others).

CDIC's operating costs in 1993/94 were \$17.6 million. In 1993/94 CDIC incurred additional costs of \$8.6 million in various interventions. The big cost, however, has been the cost of depositors' claims arising out of failed institutions.

For 1992, CDIC's loss from operations was \$861 million. This loss reflected mainly CDIC's intervention in the Central Guaranty Trust Company, First City Trust Company, Shoppers Trust Company, and their affiliates. For 1993/94, the Corporation registered a small gain from operations of \$3 million.

During the period under review (the 15 months from January 1, 1993, to March 31, 1994), three member institutions were liquidated: The Dominion Trust Company, Prenor Trust Company of Canada and Monarch Trust Company. The estimated loss to CDIC resulting from these three liquidations is \$55 million. Several other companies either ceased taking deposits or amalgamated with other institutions. In addition, the Royal Trust Corporation and its affiliates were purchased by the Royal Bank, and the Montreal Trust Company and its affiliates were purchased by the Bank of Nova Scotia. Neither transaction resulted in any cost to CDIC. The developments since January 1993 are discussed in more detail later in this report.

In order to provide a more accurate picture of its financial situation, CDIC changed its accounting policy in the current fiscal period to include a provision for the risk of failure of institutions that remain in business. A provision of \$200 million was established by assessing the aggregate risk in member institutions based on current market and economic conditions and by applying historical loss experience. Including this special provision, the estimated accumulated deficit of CDIC at March 31, 1994, was \$1.65 billion.

The deficit, it should be understood, is the estimated difference between the amount CDIC pays out to insured depositors together with the cost of financial assistance provided to failed institutions and the amount CDIC expects to recover when the assets of failed institutions are liquidated. While assets are being held pending a satisfactory realization, a period that may last many years, the payouts or the financial assistance provided, whatever the case may be, has to be funded. CDIC does this by borrowing from the Consolidated Revenue Fund (CRF) of the federal government at the Crown corporation borrowing rate. Today loans from the CRF total \$3.2 billion. During the year, CDIC paid interest costs on CRF loans totalling \$270 million.

CDIC pays for its expenses and insurance losses through a levy on the insured deposits of all member institutions. In 1994, the premium is one-sixth of one percent or about \$1.66

on every \$1,000 of insured deposits. The premium is the same regardless of the size or riskiness of the institution. With the present premium rate, CDIC estimates that it will eliminate the deficit and its borrowings from the Consolidated Revenue Fund in about five years.

How expensive is deposit insurance as now provided? The annual assessments collected in 1993 totalled \$391 million. For 1994 they are expected to be about \$537 million. Over the last few years these assessments have been equal to 8 to 10 percent of the average annual pre-tax profits of all deposit-taking institutions.

Because of its concerns about costs, CDIC has taken various steps, as outlined later in this report, to reduce its operating costs as well as the cost of interventions and liquidations. All these pale, however, compared with the cost of dealing with failed institutions. Major cost reductions can only be achieved by reducing the cost of failures and by modifying the terms on which insurance is provided.

To carry out its work, CDIC relies very heavily upon the Superintendent of Financial Institutions (SOFI) and provincial regulators. They are the regulators. They do the regulatory supervision and are responsible for seeing that member institutions follow the rules and regulations and remain financially viable. CDIC has no regulatory role. It receives and closely follows the regulators' reports. Only when an institution seems to be in trouble does CDIC become more active, working in close collaboration with the Office of the Superintendent of Financial Institutions (OSFI) or the provincial regulator. If an institution is deemed to pose a significant risk to the deposit insurance fund, CDIC usually undertakes an intensive special examination of the company's operations and the value of its assets. The purpose of these examinations is two-fold: to help clarify the risk of CDIC's exposure to loss and to help establish an information base upon which the Corporation can act more promptly should the institution eventually fail. Under the new Policy of Deposit Insurance put in place in 1993, such special examinations are now paid for by the company in question.

Some Leading Issues

Recent years have presented major challenges for many member institutions. And in the past few years the cost of deposit insurance has been increasing. These developments have reflected several factors. One has been the relative weakness of the economy during a time of increasingly competitive market pressures. A second factor has been the major weakness in real estate and other asset markets important to member institutions. Third, the industry has experienced continued cost pressures from a variety of sources. In addition, some firms are constrained by inadequate equity and very limited access to new sources of capital.

We are in a period of readjustment made more difficult by what appears to be overcapacity in the deposit-taking business. Although there are well-managed institutions that continue to perform profitably, few wish to enter the industry at present. Some of those in the business would like to exit if they could do so at a reasonable price. And some are being forced out by financial pressures through amalgamations and insolvency. Subject to the confines of its mandate, CDIC has had, and continues to play, a significant role in facilitating adjustments to today's circumstances and in making the process as painless as possible. Within this context there are two possible approaches to reduce the cost of deposit insurance.



CDIC estimates that it will eliminate the deficit and its borrowings from the Consolidated Revenue Fund in about five years.



1. Reducing the Cost of Failures

Canada has a well-developed system of regulation, supervision and monitoring under OSFI and provincial regulators. No system is perfect, and over time improvements will continue to be made.

For its part, CDIC has recently enacted standards of sound business and financial practices. Confirmation with these by member institutions will be reviewed by OSFI, provincial regulators and agents appointed for this purpose. Application of these standards will, it is expected, reduce the likelihood of failures. This expectation will be reinforced by levying premium surcharges on member institutions that fail to follow prescribed standards, legislation, regulations and agreements.

A criticism sometimes voiced against OSFI, provincial regulators and CDIC is that they have acted too late and too timidly in dealing with failing institutions. The implication is that by acting sooner and more firmly the health of some institutions might have been restored and, if not, the costs of liquidation or a takeover supported by CDIC would have been less.

To say after the event, with all the benefits of hindsight, that the timing of an intervention might have been better is to say very little. The difficulty is in knowing when to intervene and on what scale, as problems evolve day to day. At best, timing essentially is, and will always remain, a question of judgement.

This said, it is accepted that there may be scope to improve the form and timing of intervention in this country. It is also accepted that by intervening earlier and more systematically while members still have some equity left, the chances of saving institutions might be increased. And in cases where failures eventually result, earlier intervention may make it feasible to arrange a more orderly disposition at lower cost for all parties concerned.

This is another instance where the devil is in the details. One possibility being considered is to work out a more formal risk-rating system for member institutions and more explicit criteria for placing companies on CDIC's watch list. Tightening up procedures in this way might add more discipline to the process than there is at present.

Another step being considered is for CDIC to undertake an earlier special examination of the operations and accounts of companies on the watch list. Such special examinations are performed by CDIC. The purpose of undertaking these earlier would be to obtain a more precise assessment of the member and gather more reliable information earlier in the process, particularly on the all-important issue of asset values.

Asset valuation is the key to the whole process. As is well known, determining what many of the assets, particularly real estate assets, held by a member institution are worth is anything but exact. Estimates differ depending upon the basis on which the valuation is made. Fire sale values will normally be less than values derived from an orderly work-out basis. Going-concern values will differ from liquidation values. And so on. What's more, differences in the estimates tend to be very large. It is ambiguity about asset values that gives rise to much of the uncertainty about the timing of interventions. And it is this same ambiguity that makes doubtful various formulae that have been devised, such as those based on asset/capital ratios, as a means of triggering intervention automatically.

One other point to be noted in this connection is that regulatory intervention is the equivalent of the partial or full expropriation of private property, depending upon the severity of the intervention. Those who argue for less cautious intervention in effect are arguing for a more aggressive approach to the expropriation of private property by government regulators than is now being followed. In each situation the risks and costs



Asset
valuation
is the key
to the whole
process.



of taking expropriatory action through direct intervention need to be balanced against the risks and costs to the public of failing to do so. Furthermore, the policies and procedures for such action need to be spelled out and known in order to maintain both the reality and perception of fairness.

What happens once a company is in trouble depends upon the particular circumstances of the situation and the options available to rectify the situation. Broadly speaking, these options may be improvements in operating performance and profitability; strengthening management; additional injections of capital to compensate for asset impairment, operating losses, or weak capital ratios; a takeover by another firm; or liquidation. The primary regulator is in direct and frequent contact with the company. The regulator carefully monitors developments and takes actions within the powers available as deemed appropriate in light of unfolding developments. CDIC remains in close contact with the process through the regulator. Apart from its special examinations, CDIC normally has little direct contact with member institutions. Regulatory intervention, when it occurs, is undertaken in close consultation with CDIC. It is important to recognize that this process is more complicated when the financial problems arise primarily in a holding company that owns a member institution. Except for banks and insurance companies that own member institutions, such holding companies are normally outside the reach of regulators.

In an effort to enhance CDIC's early warning system and reduce risks and costs of failures, CDIC recently established the Committee on Risk Assessment and Intervention Policies, chaired by Mr. Peter Maurice of Canada Trust and made up of bank and trust company executives, a chartered accountant, and the head of CDIC's Insurance and Risk Assessment Division. The mandate of this group is to review and advise CDIC on the following questions:

- a) the methodology and procedures for assessing risks among member institutions and the nature of the information available to CDIC to assess these risks;
- b) the criteria and timing for undertaking special reviews of members and the methodology followed in such reviews;
- c) the criteria for placing members on CDIC's watch list and for classifying those on the list into different risk categories;
- d) the methodology and procedures followed for assessing the options for dealing with failing institutions;
- e) the criteria for determining the most appropriate time and methods for CDIC to intervene in a member's affairs so as to minimize losses;
- f) other pertinent matters considered important by the Committee.

A second aspect of reducing the cost of failures is to improve the amounts CDIC recovers from its position as a creditor of failed member institutions. Today CDIC holds claims on a portfolio of such assets, many of them impaired, totalling roughly \$4.3 billion. Most of these assets are held in estates under the control of court-appointed liquidators. Others are secured under terms of agreements whereby the assets of a failed institution were taken over by another company. The timely liquidation of these assets in a way that maximizes the net return to CDIC and minimizes its losses is an important determinant of the cost of deposit insurance.

During 1993, CDIC undertook a major review of its field operations in conjunction with six major accounting firms and the five largest chartered banks to explore ways and means of improving its activities in this area. This review included exploring the means and costs of liquidating financial institutions and investigating options to enhance recoveries and

reduce costs. The results generally confirmed that CDIC adds value to the process and that the functions being performed should be continued.

In addition, because many of these assets are based on real estate, the Real Estate Advisory Panel, chaired by Mr. Dan Sullivan of Scotia McLeod and consisting of experienced persons operating in this area, was established to provide advice on the disposition of real estate in general and on specific projects in particular. This panel is an updated version of the earlier Real Estate Advisory Committee, chaired by Mr. William Poole, which contributed greatly to CDIC's activities during the past decade.

Successfully liquidating a large portfolio of impaired assets is inevitably a complicated and difficult matter. There are no magic solutions. It requires patient, conscientious, and consistent effort over an extended period of time along with intelligent and well-informed market judgement.

In addition to these measures, during 1993/94 CDIC's Board of Directors adopted a policy, conforming with current practice, of initiating lawsuits against directors, officers, auditors and other relevant parties associated with each and every failed member institution where (i) CDIC has suffered financial loss and (ii) there is a reasonable legal case supporting a charge of negligence, willful misconduct or wrongdoing. Explicit affirmation of this policy serves not only to reinforce the incentive for prudent, careful and honest management of member institutions but also to provide a basis for recovering some of the cost of deposit insurance.

2. Changing the Terms of Insurance

A cogent case has been made that the terms on which deposit insurance is made available today have two consequences: the number of firms has increased and firms are induced to take on riskier, higher-yielding investments with depositors' funds. By modifying the terms on which insurance is provided to reduce the subsidy to entry and to high-risk investment, the cost of insurance over time would probably be reduced. Saying this, of course, focuses only on the cost side of deposit insurance and says nothing about the benefit side such as depositor protection. If costs should ever be construed as the sole consideration and if it is assumed that the benefits are negligible, the logical conclusion would be to abolish deposit insurance, not simply to amend the terms on which it is made available. Those who argue only for modifying the terms but who do not go so far as to advocate the abolition of deposit insurance, which includes virtually everyone who has commented on this subject recently, implicitly accept that there are substantial benefits worth paying for.

What are these benefits? The CDIC Act points to three:

- a) to protect small and relatively uninformed depositors against losses in member institutions licensed and regulated by governments;
- b) to protect member institutions against undesirable runs that produce wasteful insolvencies, i.e., to promote financial stability;
- c) to foster competition by making it feasible for more institutions to enter and survive in the business.

Among the measures that have been discussed in this context to reduce the cost of insurance are the following:

a) Adding an element of co-insurance for the depositor: One recent suggestion is that only a certain percentage of insured deposits should be covered. This would give the depositors and deposit brokers an incentive to pay some attention to the safety and soundness of the institution to which they entrust their money, and this,

in turn, would put pressure on member institutions to manage their affairs more prudently and would force member institutions to disclose their financial performance in order to gain and maintain the confidence of depositors. In other words, more market discipline would be introduced into the system.

- b) Eliminating interest on deposits from insurance coverage: Such a change would mean that the principal amount of deposits would be fully insured up to the \$60,000 limit, i.e., there would be no impairment of capital. Moreover, the co-insurance arising from the exclusion of interest from insurance would have two special features. First, it would be progressive in that the larger the deposit, the greater the level of co-insurance, and on small deposits it would be very small. Second, the level of co-insurance would be larger the longer the original term of the deposit.
- c) Eliminating stacking within institutions: At present, depositors can insure for more than the limit of \$60,000 per member institution by placing their funds in a variety of eligible deposits and in affiliates, all of which are separately insured. Restricting coverage to \$60,000 per depositor in any one institution and its affiliates, no matter how many accounts are held, might reduce the share of deposits covered by insurance. More important perhaps, it might place fewer insured deposits in any one institution and its affiliates at risk, thereby diversifying CDIC
- d) Instituting risk-rated premiums: Relating premiums to the riskiness of institutions would serve to increase market discipline in the system. This might be done, as in the United States, by relating premium rates to capital ratios and other factors.

Whatever the merits of these proposals, several considerations need to be kept in mind. First, to be implemented, any of these proposals would require changes in legislation. Second, legislative changes would need to be justified in terms of achieving a significantly better balance for the community as a whole between the costs and benefits of deposit insurance. Third, the timing of changes in the terms on which insurance is provided would be important. Undertaken at the wrong time, the short-term consequences of such changes could precipitate increases in the costs of deposit insurance, the very opposite of what was intended and despite any long-term benefits. Fourth, by modifying the terms of insurance on deposits, the competitive position of deposits in CDIC members would be altered. Reducing the cost of insurance would improve the competitive position of such deposits relative to some money market funds and similar assets. At the same time it would reduce their competitive position relative to funds held in insurance companies, credit unions and some provincial institutions unless insurance arrangements covering these institutions were similarly amended.

What legislative changes may eventually evolve from the current review of Canada's deposit insurance system remains for the Government and Parliament to decide. In the meantime, CDIC, working within existing legislation, has undertaken several initiatives intended to improve its efficiency and effectiveness and to provide improved information to the public. Some of these have already been mentioned; others are discussed later in this report. In summary:

- 1. Implementation of by-laws, as provided for under the CDIC Act, dealing with Standards of Sound Business and Financial Practices, Application and Policy of Deposit Insurance, and Premium Surcharge. The development of by-laws on Consumer Information and Joint and Trust Accounts is underway.
- 2. Changes in CDIC's policies regarding the payment of interest on insured deposits after the winding-up order of a member institution has been granted by



CDIC has undertaken several initiatives intended to improve its efficiency and effectiveness and to provide improved information to the public.



the court; the cost-recovery of special examinations of member institutions in difficulty undertaken by CDIC; and reductions in CDIC expenditures on operations and interventions.

- An external review of CDIC's policies and procedures for dealing with liquidations, guarantees, deficiency coverage agreements and other forms of support for failed institutions.
- 4. Creation of an external advisory committee on CDIC's risk assessment and intervention policies with a view to providing a better early warning system and opportunities to reduce risks and the cost of failed institutions; establishing a new Real Estate Advisory Panel.
- 5. Renewed efforts to strengthen and improve co-operation and close collaboration, particularly with OSFI and provincial regulators, but also with the Bank of Canada, the Department of Finance and other federal agencies, the Canadian Bankers Association, the Trust Companies Association of Canada, parliamentary committees, the Minister of Finance and the Secretary of State (International Financial Institutions).
- Changes in accounting policy to reflect more accurately CDIC's financial situation; adoption of an explicit policy on lawsuits for gross negligence or fraud against officers, directors, auditors and others associated with failed member institutions.
- 7. An increase in CDIC's premium rate to one-sixth of one percent with the objective of eliminating CDIC's deficit and borrowings from the Consolidated Revenue Fund in about five years.
- 8. Presentation of more data giving a profile of the characteristics and financial performance of member institutions.

Taking into account these developments and mindful of the cost of providing deposit insurance, CDIC has sharpened its priorities and reordered its spending in relation to its mandate and strategies. In addition, considerable attention has been given during 1993 to reviewing, improving and codifying our human resources policies. How well CDIC functions depends fundamentally upon the calibre of its employees and the ability to provide a congenial working environment in which employees can develop their talents and work to their potential. To assist in advancing this objective, the Employee Relations Committee of the Board of Directors was established.

Close collaboration and co-operation between OSFI and CDIC is particularly important at every level for the success of the regulatory and the deposit insurance system in this country and its cost effectiveness. During 1993, the OSFI/CDIC Liaison Committee, consisting of senior officials of each agency, was established. The committee meets to deal with issues, to exchange information and ideas, to weed out unproductive duplication and to maintain close and constructive working relationships.



Close
collaboration
between OSFI
and CDIC
is particularly
important at
every level for
the success
of the
regulatory
and
the deposit
insurance
system.



All in all, CDIC has been quite active during the period under review. At its June 1994 meeting, the Board of Directors passed a resolution expressing its appreciation to the management and staff for their hard work and also for the quality of the work done.

During the past year, two members of CDIC's Board of Directors retired: Mr. Paul Morton, whose term expired after six years on the Board, and Mr. John Crow, who retired as an *ex officio* director when he retired as Governor of the Bank of Canada. Both contributed greatly to the work of CDIC during their terms of office.

Two new directors were welcomed to the Board: Mr. Bernard Ghert, an experienced businessman, particularly in the field of real estate, and Mr. Gordon Thiessen, the newly appointed Governor of the Bank of Canada. In addition, Mr. H. Marcel Caron's term on the Board was extended for a further three years.

During the period, the Board of Directors met 12 times. Five of these meetings were held in Charlottetown (one), Montreal (one) and Toronto (three); the others were held in Ottawa. In addition to its regular business agenda, at the time of these meetings, the Board arranged to have general discussions on matters related to deposit insurance with the past Minister of Finance, the Honourable G. Loiselle, and the current Secretary of State (International Financial Institutions), the Honourable Doug Peters. It also met with provincial regulators dealing with this area: Mr. B. Cass in Ontario and Mr. J.M. Bouchard in Quebec.

G.L. Reuber Chairman of the Board

J.P. Sabourin President and Chief Executive Officer



Member Institutions: Major Developments

uring the period under review, three member institutions were liquidated, and CDIC met its obligations by paying claims to insured depositors. Several other companies either ceased taking deposits or amalgamated with other institutions. Four of CDIC's largest trust company members, Royal Trust Corporation of Canada and The Royal Trust Company, and Montreal Trust Company and Montreal Trust Company of Canada, were purchased respectively by the Royal Bank of Canada and the Bank of Nova Scotia. At the time of their purchases, the combined companies were respectively the second and fourth largest CDIC trust company members.

Major Transactions

Royal Trust Corporation of Canada The Royal Trust Company (Royal Trust)

In mid to late 1992, the well-publicized financial problems of Royal Trustco Limited (Trustco), Royal Trust's parent, began adversely to affect the operations of its Canadian trust company subsidiaries.

In early 1993, Trustco publicly announced its intention to strike a strategic alliance with a well-capitalized institution. Throughout the early months of 1993, CDIC worked closely with officials from OSFI, the Bank of Canada and the Department of Finance to develop comprehensive contingency plans in the event that regulatory and CDIC intervention would be required.

On March 18, 1993, Trustco and the Royal Bank of Canada (RBC) signed an agreement in principle whereby RBC purchased certain Canadian and international operations, including most of Royal Trust's assets, and assumed all of its deposit liabilities. Following a number of months in which the operations of Royal Trust continued to be closely monitored, the transaction closed as anticipated on September 1, 1993. CDIC was not requested to facilitate the transaction and did not participate in any manner.

Fortunately, the contingency plans on which CDIC spent considerable time and resources were, in the end, not required. Nevertheless, the effort expended led to several important developments in CDIC's approach and capacity to deal with such major problems in the future. Significant strides were made in addressing a number of issues, particularly with respect to the Financial Institutions Restructuring Process (FIRP), payout processes, and liquidity management.

Montreal Trust Company Montreal Trust Company of Canada (Montreal Trust)

The announcement on April 11, 1994, that The Bank of Nova Scotia (BNS) had completed the purchase of Montreal Trust's parent, Montreal Trustco Inc., from BCE Inc. brought to a conclusion the significant transaction announced some time before. BNS acquired all of the common shares of Montreal Trustco Inc. in exchange for 10 million of its common shares in a transaction valued at approximately \$300 million (prior to any post-closing adjustments).

CDIC had been monitoring the transaction with interest. This transaction provided more evidence of a consolidation process under way in the Canadian deposit-taking sector. Montreal Trust's ultimate parent, BCE Inc., was willing and able to support the company throughout this process, thus obviating the need for

CDIC to develop contingency plans in this case.

Member Failures

The Dominion Trust Company (Dominion)

Dominion was an Ontario-regulated company incorporated in 1964. Dominion's earnings had been under pressure for some time because of the downturn in the economy and its significant exposure to real estate, both as an investor and as a lender. The deterioration of its portfolio resulted in the company experiencing large losses of principal and interest, which weakened its capital base.

Commencing in early 1993, its parent attempted to rectify the situation. Throughout the summer months, the shareholder attempted to sell the company or to find other ways of restoring its capital position. These efforts were not successful.

The annual examination undertaken during the summer by the Ontario regulator indicated that the company was substantially under capitalized because of the need to increase its loan loss provisions substantially. As a result, an additional urgent request was made to Dominion to pursue alternative plans to deal with its deficiencies. Concurrently, CDIC undertook a special examination of Dominion's assets and liabilities in order to assess its exposure to loss.

During September and early October 1993, Dominion made further attempts to solicit the interest of potential investors. However, the limited interest generated during this period waned following completion of CDIC's review, which identified still further losses in the portfolio. When these were taken into account, Dominion's reported capital was almost extinguished.

In the absence of any concrete plans to pursue a going-concern option and after considering the circumstances of the company, Dominion's Board of Directors decided the only appropriate option was a formal liquidation under a court process.

On November 10, 1993, Dominion made an application to wind up operations. Peat Marwick Thorne Inc. was appointed liquidator. The financial statements of the company reflected total assets of \$446 million and deposits of \$444 million, 97 percent of which were insured. CDIC requested and received bids from a number of interested parties and subsequently negotiated, for a fee, the transfer of the insured deposits of about 17,000 customers to the National Trust Company (National Trust) amounting to \$431 million. Depositors were provided with access to the insured portion of their funds on November 29, 1993.

In addition to the deposit transfer transaction, the liquidator completed the simultaneous sale of certain branch assets to National Trust. As part of this transaction, National Trust offered employment to many Dominion employees.

Prenor Trust Company of Canada (Prenor)

Prenor was a federally regulated trust company formed as a result of an amalgamation of three trust companies in 1989.

Prenor had been reporting losses since 1991 and had been under increasing financial pressures throughout 1992 and 1993. Based on CDIC's assessment of its exposure, the Board of Directors authorized a special examination of the company, which was completed in mid-1993. The special examination identified the need for additional loss provisions, which, when included, meant that the company was overborrowed. This raised concerns about the company's ability to continue in operation. Notwithstanding the loss provisions identified, Prenor continued to show a level of capital sufficient to preclude CDIC from considering facilitating a sales process.

Concurrent with CDIC's review, the shareholder engaged an investment firm to assist in soliciting offers for the sale or merger of Prenor. Following a protracted effort, it became clear that the possibility of successfully concluding such a process was remote.

Following the withdrawal of a potential purchaser in late November 1993, Prenor's Board of Directors decided that the most appropriate course of action was to proceed with a winding-up of the trust company.

On December 3, 1993, Prenor petitioned the court for a winding-up order, which was granted. Deloitte & Touche Inc., was appointed liquidator.

At that time, Prenor had assets of approximately \$858 million and deposit liabilities of some \$833 million. Approximately 98 percent, or \$820 million, of the deposits were insured. CDIC requested and received bids from a number of interested parties. Subsequently, a transaction was negotiated with the Laurentian Bank of Canada (Laurentian) whereby Laurentian assumed the insured deposits of approximately 78,000 customers for a fee. The transfer took place on January 24, 1994.

In a separate transaction, the court-appointed liquidator arranged for Laurentian to purchase, for \$572 million, financial and operating assets having a book value of \$565 million. The operating assets included the 13 branches of Prenor; thus their purchase preserved

about 75 jobs. The transaction closed on December 31, 1993, for a cash consideration payable on January 24, 1994. As a result, the liquidator was able to advance \$600 million to CDIC against its anticipated receipts, thereby reducing the Corporation's borrowings related to this payout to \$200 million.

Monarch Trust Company (Monarch)

Monarch was an Ontario-based company incorporated in 1977. Monarch had been unprofitable prior to 1993 and suffered further losses throughout the early part of the year. As a result, in mid-1993 CDIC commenced a special examination of the company to determine its exposure. Based on the results of the examination, CDIC was authorized by its Board of Directors to pursue a solution that would minimize CDIC's exposure to loss, including the possibility of going-concern solutions.

Late in 1993, the company, assisted by CDIC, attempted to work out a going-concern solution. However, following the termination of discussions with a third party in early 1994, the pursuit of such a solution came to an end.

On February 8, 1994, Monarch petitioned the court for a winding-up order, which was granted. Coopers & Lybrand Inc. was appointed liquidator.

Approximately 1,700 Monarch depositors held insured deposits totalling \$65 million. CDIC made payments to the holders of these insured deposits by cheque on February 14, 1994.

Risk Assessment and Management

hree of CDIC's major responsibilities within the terms of the Corporation's mandate are to assess, on an ongoing basis, the risks of insuring the deposits of its members, to manage these risks, and to promote standards of sound business and financial practices for member institutions. These functions are carried out by the Insurance and Risk Assessment Division of CDIC.

The monitoring functions are undertaken by two groups: the Risk Management Group and the Risk Assessment Group. The Risk Management Group essentially works with those members whose risk profile is such that they pose a relatively high or increasing risk to CDIC. The department identifies such high-risk situations and works at containing these risks by developing alternative action plans and work-out scenarios designed to minimize CDIC's exposure to loss.

The Risk Management Group works closely with OSFI, provincial regulators and the Quebec Deposit Insurance Board (QDIB) in its monitoring activity and in developing and co-ordinating action plans in respect of specific member institutions. CDIC has consistently advocated an early intervention approach to resolving problem situations. Such an approach focuses on determining CDIC's exposures before an institution's financial condition deteriorates to the point of irreversibility. In the event that CDIC determines that it is exposed to a significant degree of risk and that the potential of improvement seems remote, the Risk Management Group recommends that a special examination be undertaken in order to better assess the situation (this process is discussed in more detail later in this section). As noted in the previous section of this Report, CDIC undertook three such special examinations in 1993/94 and helped

resolve these high-risk situations while the institutions still seemed to have some capital.

The Risk Assessment Group focusses on CDIC's membership as a whole. It has responsibility for co-ordinating the information received on all member institutions. In addition to performing a regular review of CDIC's portfolio of members, the Group administers the Return of Insured Deposits, assesses and recommends for acceptance or rejection member applications and cancellations of deposit insurance, and deals with compliance issues arising from newly enacted CDIC by-laws on Policy of Deposit Insurance, Application for Deposit Insurance, Standards, and Premium Surcharge. In addition, this Group reviews and assesses the reports emanating from the annual examinations of CDIC's members performed by OSFI, provincial regulators and other appointed agents.

A major focus of the department has been the development and refinement of monitoring tools to assess the financial performance of member institutions, including a component that allows CDIC to forecast a member's financial performance. A major advance took place in 1993 when CDIC commenced the development of a comprehensive data bank including information on each member institution.

The data bank will provide access to information to all departments at CDIC, improving their efficiency and effectiveness. Further, the Insurance and Risk Assessment Division will reap the benefits of computerized access to a comprehensive data base containing both current and historical financial information of all member institutions. Such a facility will prove valuable in allowing further development of technically advanced monitor-



ing tools. Because these data systems will use existing computer hardware and application software, the incremental costs of the project will be largely related to programming and should be minimal.

A number of milestones were passed in pursuing this project in 1993/94, including a comprehensive analysis of CDIC's needs, which led to the preparation of a detailed system specification plan. A special effort was made to ensure that there would be no duplication of work with other supervisory agencies. In this regard, CDIC entered into an agreement with the Bank of Canada whereby the bank will supply, for a fee, processing services for the data received from member institutions.

As part of this project, CDIC is also examining applicable financial models and forecasting techniques to be used to assess the financial condition of members. A prototype of a forecasting model was developed and tested during the year and will be used for risk assessment activities in the coming year.

CDIC's risk assessment and management functions have been discussed frequently by CDIC's Board of Directors and with regulatory agencies in Canada. As a result of its activities in the recent past, including several interventions designed to mitigate the losses to which it was exposed, CDIC has gained a wealth of experience that can be drawn upon in the future. In late 1993, a specific project was initiated to commit such activities to a corporate policy and procedures manual, which will be available for CDIC's future needs. It is expected that the project will be completed in late 1994.

In addition, CDIC established regular and ongoing close working relationships with both federal and provincial regulators and the QDIB. These will be of considerable value in the event that CDIC intervention is required. Meetings, both regularly scheduled and informal, have been estab-

lished to ensure that relevant issues can be communicated and acted upon expeditiously.

In these activities CDIC has been very much aware of the need to keep the burden of financial reporting on member institutions to a minimum. It has consulted regularly with federal and provincial regulators to ensure that its activities are not duplicated and that its information needs are met within the framework of the Financial Information Committee, a federal interagency committee charged with developing a common financial reporting process for federally regulated institutions.

As was stated in the 1992 Annual Report, CDIC and OSFI executed a strategic alliance agreement to clarify the relationship between the two organizations. This agreement is intended to avoid duplication and overlap, while at the same time promoting and enhancing the supervision of federally incorporated CDIC member institutions. OSFI, as the primary regulator of federal members, and CDIC, as the deposit insurer, recognize that their respective governing legislative authority clearly provides separate and distinct mandates. Both organizations recognize 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 addresses matters related to, among other things, incorporation licensing and applications for deposit insurance; risk assessment and management processes; regulatory and insurance intervention processes; development and implementation of regulatory and insurance policies and other initiatives; and human resource training and development.

During 1993/94, substantial work was undertaken by OSFI and CDIC officials to develop procedures for the proper implementation and management of the agreement.

Failure Resolution Methods

For most of its history, CDIC has handled failures of member institutions in one of four general ways:

- i) deposit payout: CDIC pays depositors up to the limit of their insured deposits, the member goes into liquidation and CDIC becomes a creditor up to the amount paid to depositors;
- ii) purchase and assumption (P&A): the failed member is sold to another institution and CDIC supports the transaction financially in one of several ways;
- iii) agency agreement: another institution acting as an agent of CDIC takes over the running of the failed member and is paid for doing so;
- iv) financial assistance: CDIC provides direct financial assistance to the failing member by making or guaranteeing loans and advances, by acquiring assets and by guaranteeing or making a deposit at the member institution.

In order to appreciate why one method is chosen over another, it is important to understand how CDIC deals with problem member institutions.

As noted previously in this report, CDIC relies in the first instance on OSFI to report on the financial condition of its federal members. When a member is provincially incorporated, CDIC works closely with the provincial regulators and, if necessary, the QDIB. If a member is identified as a particular concern, the Board of Directors of CDIC is provided with continually updated reports on the status of the institution. When CDIC's Board determines that an institution poses a high risk of loss and that it may be necessary for CDIC to intervene, a special

examination of the troubled member is undertaken.

A special examination involves a detailed review and assessment of the member institution's assets and liabilities. It includes a review of the institution's performing assets to determine if there is any "softness"; an assessment of adequacy of recorded provisions for loan losses; the derivation of the deposit liability profile (including the breakdown of insured and uninsured deposits); an assessment of the member's spread analyses, financial projections, and cash flow forecasts; and an examination of contingent and off-balance sheet liabilities. The member's systems technology is also examined, as are the adequacy of its internal controls and corporate governance. On occasion, the auditors' working papers and internal audit reports are reviewed as well.

With this detailed information, CDIC is in a position to assess more thoroughly the value of the institution. CDIC can then independently assess the extent of its exposure, and all options for intervention can be weighed. In most cases, the review will reveal two intervention options: a P&A transaction with a strong sponsor, which may require CDIC support, or the formal liquidation of the institution. Each of these options must be assessed in the light of CDIC's objects. CDIC normally will deal with a problem member institution by following these two tracks simultaneously.

In assessing a potential P&A transaction, CDIC deals with the management of the member institution to ensure that a formal, open and equitable process is followed whereby all interested parties are given the opportunity to consider acquiring or investing in the member. Even if the problem institution has been marketed in the past, CDIC may require that it be re-tendered. Once offers are received, the problem member institution and CDIC's officials evaluate and compare them.

The CDIC Board of Directors is advised of all offers. If the Board finds that a bid may provide an effective solution to the problem, CDIC then advises the member that it may be prepared to facilitate the P&A transaction if, after negotiations, it is determined that this is the best way to meet CDIC's objects. In each case, CDIC's participation in a transaction must compare favourably with the cost of a formal liquidation.

To prepare for a liquidation, CDIC expends substantial resources in developing processes and strategies. Repaying insured depositors is a complex undertaking. A significant amount of planning is required prior to the date of a winding-up so that insured depositors can be repaid quickly.

Although preparing for a payout and determining the cost of a liquidation is a significant undertaking, these procedures must be completed before the appropriate course of action can be determined. The CDIC Board of Directors is then provided with all relevant information on the costs associated with each available option. This information is weighed in the context of CDIC's objects by the Board of Directors in reaching its decision.

Standards of Sound Business and Financial Practices

CDIC Standards of Sound Business and Financial Practices (Standards) were made into law on August 17, 1993. The specific Standards documents and by-laws relate to liquidity management, interest rate risk management, foreign exchange risk management, credit risk management, securities portfolio management, capital management, real estate appraisals and internal control. The coming into force of the Standards followed some four years of extensive consultation with regulators, member institutions and their associations, and other interested parties.

Each standard sets out what CDIC considers to be the minimum policies, procedures and control criteria that member institutions need to have in place and apply in order to manage their business activities on a sound basis and prudently control their exposure to risk. The enactment of the standards is a significant achievement. In dealing with over 30 interventions during its 26-year history, CDIC has found that failures of its members have frequently arisen because of the failure to develop and follow prudent policies and procedures in assessing and managing risks and in the conduct of business activities.

Many of these failed institutions reported a satisfactory financial condition (measured in terms of capital adequacy, asset quality and earnings) until shortly before they were closed. It is apparent that financial statements alone inadequately reflect the viability and strength of member institutions. The Standards set out the practices already followed by leading member institutions. Failure to follow the Standards represents increased risk to CDIC and non-adherence is seen as an early indicator of potential problems.

The next step is the implementation of a method to assess compliance with the Standards. A self-assessment approach by member institutions is being developed, supported by follow-up confirmation by the regulator of the member's self-assessment. CDIC is presently drafting a document to assist member institutions with their self-assessments. Extensive consultations on the process to be followed are under way with members and regulators.

Premium Surcharge By-law

Under the provisions of its Act, CDIC is authorized to assess and collect a premium surcharge from any member institution if, in the opinion of the Corporation, a member is engaging in practices warranting a premium surcharge. A by-law providing for such a premium surcharge was enacted on January 26, 1994.

Under the by-law, the following practices may warrant a surcharge:

- failure to follow any standard of sound business and financial practice established under the Standards by-laws;
- failure to comply with the record-keeping and information provision requirements of the Policy of Deposit Insurance By-law;
- failure to comply with one or more provisions of a governing statute (the Bank Act, the Trust and Loan Companies Act or the applicable provincial Act); and
- failure to fulfil the terms of an undertaking given to CDIC.

The premium surcharge provides a strong incentive to avoid the practices that could give rise to its imposition and, should such practices arise, to resolve them as quickly as possible. If the problem is not corrected, the next step available to CDIC is the termination or cancellation of deposit insurance. This would, in effect, close down the member's deposit taking operations since the member would be prevented by its statutory legislation from accepting deposits from the public.

Following consultation with industry, CDIC recently developed procedures for the administration of the Premium Surcharge By-law. This procedural framework for the assessment of a premium surcharge is intended to assist member institutions to understand the process by which a surcharge may be imposed. As a premium surcharge is only one of a range of measures that may be used when the practices of a member institution cause concern, the application of the premium

surcharge will need to be tailor-made for each particular situation.

Policy of Deposit Insurance and Application for Deposit Insurance **Bv-laws**

A new form of application for deposit insurance and a revised policy of deposit insurance were approved by the CDIC Board of Directors in October 1993 and registered as separate by-laws under the CDIC Act.

The completion of the Application for Deposit Insurance By-law and the Policy of Deposit Insurance By-law followed extensive consultation with members, regulators and other interested parties and reflects the many helpful comments and suggestions received.

One of CDIC's first tools for controlling the quality of its membership is the application process. As a result of CDIC's experience, the parent of each applicant is asked to provide guarantees and/or undertakings together with more detailed information about the applicant's business plans and the experience and expertise of its board of directors and management. Such control over entry to the deposit insurance system is intended to reinforce CDIC's efforts to minimize losses and maintain the stability of the financial system.

The by-law formally enacting a policy of deposit insurance applies to all members. In addition to requiring that members provide regular financial information and business plans on request, it is designed to ensure that CDIC has access to information about the member, including proposed changes in ownership or significant changes in the structure or business plans of the member.

In order to avoid unnecessary duplication of requests for information, CDIC obtains information already filed directly with

the member institution's regulator, whenever possible. In addition, the federal agencies have been working together to develop more harmonized reporting arrangements. As previously mentioned, once this project has been completed, filing will be done by electronic means, and information will be obtained directly from a common data base.

Return of Insured Deposits

Discussions have continued on an ongoing basis with the regulators to define an

acceptable process for determining the accuracy of a member institution's reports of its insured deposits. In late 1993, a specific project was initiated by CDIC to assemble the information gleaned about insured deposits during recent deposit payout work. The objective of this project is to provide guidelines to member institutions to help them prepare the Return of Insured Deposits. In addition, it will be valuable for defining specific processes to be undertaken by those charged with confirming the accuracy of the return. Completion of this project is planned for 1994.

Claims and Recoveries

ne of the primary objects of CDIC is to reimburse insured depositors upon the failure of a member institution. To the extent a depositor is insured, the depositor exchanges by subrogation his or her claim against the failed member institution in return for an insurance payment. CDIC acquires the depositor's claim and assumes the depositor's share of the loss implicit in the failure. The assets of the failed member institution (the "estate") are normally liquidated according to the provisions of the Winding-Up Act under the jurisdiction of a court-appointed liquidator.

CDIC does not own, manage, or liquidate the assets under administration in an estate. CDIC is a creditor and pursues its claim against each estate. CDIC recoveries and losses arise mainly from the liquidation of the assets under administration and from the costs of managing payouts and financial assistance. At present, the assets held in estates are mainly made up of real estate and mortgages and loans secured by real estate.

Under its legislation, CDIC may also provide financial support to a member institution through loans, guarantees or commitments if these meet CDIC's statutory objects.

CDIC's current exposures in respect of claims paid and loans made total \$4.3 billion. CDIC estimates that it will recover \$2.3 billion from its claims and loans. The difference of \$2.0 billion arises because CDIC is not the only claimant to the proceeds from the liquidation of assets nor is the market value of the assets sufficient to pay all claims, including the costs of liquidation.

Approximately \$7 billion of remaining assets are eligible for coverage under the terms of the deficiency coverage agreements. CDIC's maximum potential commitment is limited to \$2.86 billion and its current exposure to loss is estimated at \$615 million.

Liquidator Appointment

A formal liquidation proceeding may be begun in a number of ways. CDIC may, in certain circumstances, make an application for an order winding up a member institution under the Winding-up Act. The member institution itself, its shareholder(s), creditor(s) or regulators may also apply to have the member wound up.

Before CDIC can launch such an application, CDIC must have formed the opinion that the member is, or is about to become, insolvent and must have received the approval of the Minister of Finance, if the member institution is federally incorporated.

The winding-up order is made at the discretion of the court. The member is provided with an opportunity to be heard during the court process. The court appoints a liquidator who is given certain powers to realize the assets and to pay creditors that have claims against the estate. The liquidator is a court-appointed officer and is independent of any creditor.

Typically, CDIC nominates a liquidator as part of its preparatory work. The nomination agreement documents the pay scales and the reporting and administrative arrangements between CDIC and the prospective liquidator. Liquidators are nominated on the basis of capacity, expertise, experience, and absence of conflict.



Payout

When a court order is made to liquidate a member institution, CDIC is obliged to pay depositors the amount of their deposit covered by insurance. In certain circumstances, CDIC may make advance payments to insured depositors prior to the winding-up order being made.

CDIC independently calculates the insured deposit liability of a failed member institution. This requires independent control of relevant data files. Normally there are adjustments to both principal and interest on many accounts resulting from the cessation of clearing and the winding-up process. Deposit insurance limits are applied and the uninsured portion of each customer's deposit is identified. An audit opinion on the accuracy of this process in each payout is obtained from a public accounting firm. In order to respond to the concerns of depositors, CDIC operates a depositor information line for both inquiries and claims. This function is managed by CDIC employees but is staffed by temporary employees specifically hired for this purpose.

Sorting out the information on deposits and making the necessary adjustments inevitably results in a period between the closure date and the date all depositors are paid. Improvements in CDIC practices have resulted in a significant decrease in the period between closure and payment while at the same time significantly reducing costs. Payments to the insured depositors of Dominion Trust, Monarch Trust and Prenor Trust were effected in 18 days, 5 days, and 51 days respectively. The average cost of payments in 1993/94 decreased 33 percent compared with 1992 and 71 percent since 1991. The quality and complexity of members' existing systems, both accounting and information, and CDIC's scope to undertake preparatory work prior to failure significantly affects the speed and costs with which payments are made.

When a failure occurs, CDIC legislation provides that depositors in dire need may receive advanced insurance payments. This program has been used extensively by depositors holding insured demand deposits. In the case of Prenor Trust for example, more than 30,000 inquiries were received, resulting in 3,500 advanced payments from a customer base of 78,000.

Proof of Claim

When CDIC pays out insured depositors, it becomes a creditor in their place, ranking equally with the uninsured depositors. The claims of secured creditors, if any, and the costs of estate administration are paid before the claims of CDIC and uninsured depositors. Subordinated debt and equity rank behind the claims of CDIC and uninsured depositors.

Claims Against Failed Member Institutions

CDIC holds claims in 21 estates administered by court-appointed liquidators. These claims currently have a net realizable value of \$1.3 billion. In most estates there are other depositors that rank equally with CDIC in receiving proceeds of realization. The loss to CDIC on a claim against an estate in liquidation is a function of the cumulative net losses of the estate at the date of failure, asset realizations, income earned on assets under administration, professional fees and operating costs, and the ranking of claims against the estate.

Interest on CDIC's claim does not accrue unless a surplus of funds exists after all claims against the estate have been paid. The claim is recorded for financial statement purposes at net realizable value on a nominal dollar basis, after factoring in the costs and the distributions received to date. Three estates now account for the majority of the claims held against estates in liquidation (Prenor Trust, Standard Trust, and Dominion Trust). CDIC has

received the majority of distributions it expects to receive in most of the other estates. The Columbia Trust and Northguard Mortgage estates were concluded during 1993, and the liquidators were discharged.

At December 31, 1993, the equivalent of 370 full-time staff members (including 90 professional staff) worked on the liquidation of \$3.4 billion in assets under administration. The total liquidation costs incurred by the estates in 1993, including operating and legal costs, amounted to \$42 million. (Comparable 1992 figures are 650 staff, including 170 professionals, at a total cost of \$54 million). These numbers exclude legal counsel and related costs.

The total costs of liquidations vary considerably from one institution to another because of the varying circumstances of each failure. Total overhead costs can range from 5 percent to 30 percent. The overhead costs include the costs of administering the assets and costs unique to liquidations, such as claim vetting and forensic reviews. Estates in liquidation generally experience a higher level of litigation than do solvent companies. Transaction costs associated with asset dispositions are also deducted from the proceeds received from asset sales.

Recoveries on claims against estates in liquidation have generally increased over the last decade. The average nominal dollar recovery on claims against insolvent member institutions is calculated to be 90 percent over the last decade and 95 percent over the last five years. This is due to a variety of factors, but primarily the experience and expertise of insolvency practitioners from the legal and public accounting communities. CDIC monitoring and intervention have played a large part in the control of costs and the increase in recoveries.

Support Packages

The most significant loans monitored by CDIC are those made to Adelaide Capital Corporation (ACC) as part of the Central Guaranty Trust (CGT) transaction and the loan to NAL Trustco (NAL) as part of the First City Trust transaction.

In the case of CDIC's intervention in CGT, which was reported in the 1992 Annual Report, the Toronto-Dominion Bank (TD) purchased approximately \$9.8 billion of CGT's assets.

The remaining \$1.6 billion of assets that TD did not acquire were purchased by Central Guaranty Mortgage Corporation, now ACC. This purchase was financed by a secured loan of \$1.5 billion made by CDIC. The funds were used by CGT to pay TD for the difference between the assets acquired and the deposit liabilities assumed.

ACC is a work-out company set up to maximize net recoveries. It has an independent board of directors. CDIC's role is solely as a secured creditor. Its Field Operations Division clearly monitors the performance of ACC in realizing assets.

Proceeds from asset realizations are used to repay CDIC's secured loans. During 1993/94, ACC repaid \$658 million in loans, leaving a principal balance owing to CDIC of \$857 million at March 31, 1994. ACC's business plan calls for repayment of substantially all of the outstanding principal balance of the loans, 85 percent of which is to be repaid during the period 1993/97.

Approximately 130 people worked at ACC in 1993, managing the disposition of approximately \$800 million in gross assets. Total operating costs in 1993 were \$30 million. Many of these costs were related to closing the CGT transaction and setting up ACC.

Assets Under Administration

Many of the assets under administration are difficult to convert into cash, a fact that is directly related to the failure of the institution in the first place. Fully half of the assets held in estates are sub-performing or non-performing. At December 31, 1993, the assets under administration in the estates in liquidation and supported by loans from CDIC (except the loan to NAL Trustco) were estimated to have a net realizable value of \$3.4 billion. As explained previously, CDIC estimates a recovery of \$2.3 billion in net proceeds.

The chart below summarizes the composition of the assets under administration at the estates in liquidation (i.e., excluding the assets subject to DCA guarantees) by asset category and by performance quality. The chart shows that almost half (45 percent) of the assets under administration are classified as commercial loans and that only one-third of these are performing. (Table 1)

The mortgages and most of the loans are secured by real estate. Liquidating these and other assets is a function of the quality of assets, market conditions, and the skill of the vendors. Although these assets are widely distributed across Canada, fully half are in Southern Ontario, including the greater Toronto area.

Eighty percent of the assets under administration as at December 31, 1993, were in four estates: Prenor (25 percent), ACC (24 percent), Standard Trust and Standard Loan (16 percent), and Dominion Trust (13 percent).

Deficiency Coverage Agreements (DCAs)

As an alternative to liquidation, CDIC provided DCA commitments to TD as part of the CGT transaction and a combination of loans and DCA commitments in the case of North American Trust (NAT. formerly First City Trust). These commitments are designed to reduce the risk of loss on eligible assets by providing compensation to TD and NAT for most, but not all, of the losses of income and capital arising from the assumption of these impaired assets. These agreements effectively provide time for markets to recover, leave asset management with professionals, and avoid the direct costs of managing assets. At the same time, they encourage managers to deal with the problems within reasonable time limits and require the sharing of such losses as occur.

CDIC monitors the management of these assets in much the same way as it monitors assets administered by liquidators, and approves payments made under the agreements. Currently, NAT and TD administer approximately \$7 billion in assets,

Table 1 Total Liquidation Assets under Administration - Percentage

	Performing	Sub-Performing and Non-Performing	Total
Cash and Securities	20	0	20
Commercial Loans	15	30	45
Residential Mortgages	10	5	15
Real Estate	0	10	10
Other Assets	5	5	10
Total	50	50	100

which are eligible for coverage under the terms of these agreements.

Payments to NAT in the first two years of the 10-year agreement were approximately \$58 million. Payments to TD in the first year of the agreement (also a 10-year term) were approximately \$7 million. At this time, neither NAT nor TD expects that it will call on the full amount available under the DCAs. As previously mentioned, CDIC has recorded \$615 million in its provision for losses under these DCA arrangements.

CDIC Claim and DCA Management

An essential element of the management of claims and commitments is the review of significant transactions and business plans. The review provides CDIC with an ongoing assessment of the quality of estate management and provides an opportunity to discuss material issues.

CDIC concurrence is normally requested by estate managers for the following types of transactions: appointment of a receiver; completion of a project (including development); asset preservation costs; sale of a property; renewals and vendor take back financing; and major administrative costs such as staffing, contracting and information systems. CDIC officials attend credit meetings, review business plans, and physically inspect assets.

The Real Estate Advisory Panel (REAP) is called upon to advise the Corporation on major real estate asset liquidation strategies. In the past, these matters were referred to the Real Estate Advisory Committee (REAC), which has been succeeded by REAP. The panel reviews, evaluates and gives advice on matters identified by CDIC officials.

Business plans are produced for each estate and are submitted in a report format requested by CDIC. The plan provides a measure of the performance of the estate

management and cash flow estimates. All claims made under the DCAs are subject to audit by an independent public accounting firm.

CDIC relies on the standard of care of the professionals managing the estates. There are no additional material costs to estate managers resulting from CDIC's monitoring of its claims. CDIC absorbs these costs internally.

CDIC monitors the cash flows and reviews projections received in order to manage its cash requirements. In order to facilitate interim advances against anticipated receipts, CDIC will provide refund agreements to liquidators. These agreements provide for repayment of funds to the liquidator in the event that CDIC has received more than its share of the funds distributed.

Detailed billings are requested from liquidators and their counsel in order to assess the management of the estate. Billings are reviewed by the courts on an annual basis. Depending on the size and complexity of the estate, an independent auditor may be retained to examine the accounts.

The court-appointed liquidator is often involved in litigation, both as defendant and plaintiff. This litigation may be based on personnel issues, lender liability, environmental issues and the usual lender borrower disagreements. Litigation is normally the main factor delaying the termination of most estates.

Depending upon circumstances, some court-appointed liquidators have undertaken actions against directors, officers and auditors (DOA) of insolvent members. CDIC, as a creditor, has concurred with all liquidator DOA actions taken. In some circumstances, CDIC has undertaken its own actions against such parties and subsequently recovered substantial funds.

Claim and Recovery Performance Management

As mentioned previously, CDIC established an independent review of the claims and recoveries function in order to assess the performance of the Field Operations Division. The Real Estate Advisory Committee, a committee of senior representatives from the chartered banks and six public accounting firms acting independently, performed this review.

The review was voluntary and without compensation. CDIC provided unlimited access to its employees and records. The project was completed during the year and a full report was provided to the CDIC Board of Directors. One important conclusion from the review was confirmation that Field Operations is playing an effective and valuable role in maximizing

CDIC's net claims and recoveries from the assets of failed institutions.

During the 15-month fiscal period, CDIC recovered \$1.7 billion from the estates under administration and from loans outstanding (1992: \$280 million). During 1993/94, CDIC disbursed \$1.3 billion of insured deposits in three payouts (Dominion Trust, Prenor Trust, and Monarch Trust).

Payment and Recovery Summary

The following table (Table 2) provides a chronological summary of payments by CDIC in respect of member institutions in liquidation. It does not include payments under the DCA. The table is in nominal dollars. The CDIC provision for loss is based on total expected receipts.

Table 2 **Schedule of Payments and/or Rehabilitation Costs Recoveries and Gross Provisions**

(in millions of dollars)

Year	Member Institution	Payments and/or Rehabilitation Costs	Recoveries to March 31, 1994	Gross Provision at March 31, 1994
1970	Commonwealth Trust Company	\$5	\$5	\$ O
1972	Security Trust	9	9	0
1980	Astra Trust Company	21	18	3
1982	District Trust Company	231	216	15
1983	Amic Mortgage Investment Corp.	28	14	14
1983	Crown Trust Company	930	918	5
1983	Fidelity Trust Company	792	434	354
1983	Greymac Mortgage Corp.	174	71	103
1983	Greymac Trust Company	240	96	143
1983	Seaway Mortgage Corp.	120	116	4
1983	Seaway Trust Company	300	229	69
1984	Northguard Mortgage Corp.	28	20	8
1985	Continental Trust Company	113	113	0
1985	Pioneer Trust Company	201	172	25
1985	Western Capital Trust Company	77	74	3
1985	Canadian Commercial Bank	352	39	184
1985	CCB Mortgage Investment	35	7	24
1985	London Loan Limited	24	17	7
1985	Northland Bank	318	175	107
1986	Bank of B.C.	200	0	200
1986	Columbia Trust	99	99	0
1987	North West Trust	275	0	275
1987	Principal Trust	116	99	0
1990	Settlers Savings & Mortgage			
	Corp.	43	18	22
1991	Standard Trust Company	1,164	494	135
1991	Standard Loan Company	157	123	0
1991	Bank of Credit & Commerce			
	Canada	22	9	4
1991	Saskatchewan Trust	64	48	9
1992	Shoppers Trust	492	332	18
1992	CGMC (ACC)/CGT/TD	1,684	658	239
1992	First City Trust (NAT)	175	17	0
1993	Dominion Trust Company	431	86	25
1993	Prenor Trust Company	821	600	25
1994	Monarch Trust Company	65	30	5



Corporate Management

Mission and Values

he 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. CDIC will provide an environment wherein employees are treated fairly and given opportunities and encouragement to develop their maximum potential."

The mission statement was adopted in 1992. It is a statement of unique purpose and direction for CDIC. It communicates to employees, as well as to others, CDIC's business philosophy and corporate culture. In addition, the mission provides a framework for determining the corporate objectives and the underlying business strategies that are required to live up to its mandate.

CDIC also identified corporate values it wished to advance. They are professionalism and excellence, integrity and trustworthiness, communication and teamwork, and respect and fairness. The values represent the organizational behaviour deemed essential to satisfy CDIC's mission.

Planning Process and Budget

In accordance with the requirements of the Financial Administration Act, each year CDIC submits a five-year Corporate Plan to the Minister of Finance and the President of the Treasury Board. The Plan defines CDIC's objectives and goals, strategies to achieve them, and the resources required to carry them out. The Plan also reports actual performance against previous-year objectives and goals. The Corporate Plan Summary is tabled in Parliament each year and is available to the public by contacting CDIC directly.

The direction of CDIC is determined by the Board of Directors in consultation with the President and Chief Executive Officer and senior management, who are responsible for formulating the management policies and business strategies required to support the chosen direction. The strategic planning process facilitates the development of business objectives that are directly related to CDIC's statutory objects, its mission and the direction set out by the Board of Directors. Management is responsible for developing specific goals that form the basis for achieving the selected objectives. The approach used to achieve these goals is planned, implemented and monitored within the framework of the business model, shown in Figure 1.

Planning is a continuous process at CDIC. Soon after the Corporate Plan and budgets are approved for the upcoming years, the management group meets to focus on the issues facing CDIC over the next five-year planning horizon. The next step is to determine the appropriate high-level business objectives needed in order to manage the critical issues effectively. Concurrent with this process, the President and Chief Executive Officer and the Chairman, in consultation with the Board of Directors, determine CDIC's priorities in order to provide a practical statement of business direction. Specific goals, action plans, and resource requirements are then developed by managers of the functional groups to support the priorities. Adjustments are made as necessary for resource constraints, and, following a fi**Corporate Management**

Policy

Finance

Internal

Audit

Planning and Performance Assessment

Organization

Office

Services,

Records

and

Administration

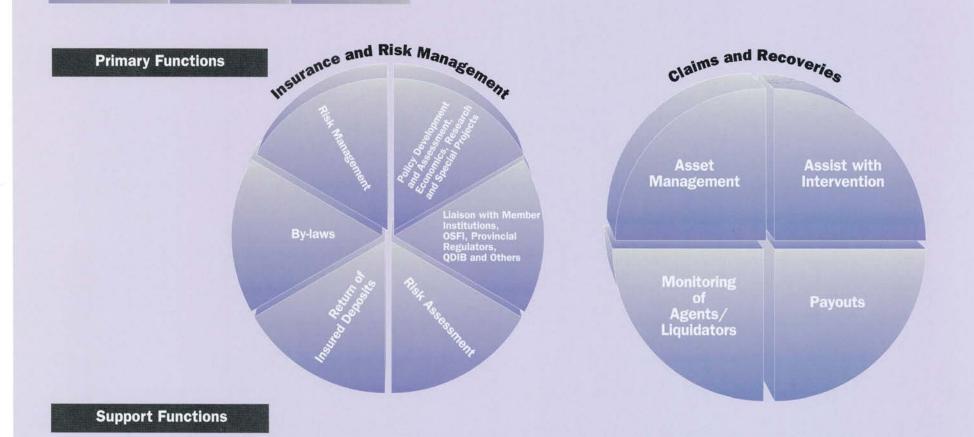
Figure 1. CDIC Eusiness Model

Corporate

Communications

Human

Resources



Linguistic

and

Publishing

Services

Legal

Information

Systems

nal review by the Executive Management Committee, a comprehensive business plan is prepared.

As mentioned throughout this report, CDIC has been functioning for some time in an environment of financial and operational constraint. In an effort to improve its operations and to understand and manage costs better, the financial and budgeting systems of CDIC are being upgraded. CDIC is developing an integrated financial information system (IFIS) that will permit, among other things, a functional accounting of costs. To further reduce costs, the fiscal year end of CDIC was changed to coincide with that of the Government of Canada.

The budgetary policies have also been refined to allow for the segregation of normal operational activities and intervention-related costs. This allows for closer monitoring and control of operational costs. Intervention costs fluctuate considerably from year to year depending upon the number and size of CDIC interventions. They are approved, monitored and controlled on a case-by-case basis.

Human Resources

In keeping with CDIC's commitment to provide an environment where employees are treated fairly and given opportunities and encouragement to develop their potential, various human resources initiatives were undertaken during the past fiscal year.

In order to emphasize the importance of human resources management, the reporting relationship of this department was changed during 1993/1994. The Director, Human Resources, now reports to the President and Chief Executive Officer for the purpose of establishing human resource policies and priorities but continues to report to the Vice-President, Operations, for day-to-day activities.

A comprehensive revision of human resources policies was completed during the year, and the new policies were communicated to all employees. As part of this process, a comprehensive policy on harassment in the workplace was implemented, and, subsequently, all employees attended mandatory sensitization sessions. In 1994/95, efforts will be directed toward developing procedures for administering the policies established.

CDIC is also developing a centralized and comprehensive corporate training and development program. The program is intended to articulate the short- and long-term training goals and address CDIC's overall needs in the areas of management skills, succession planning, and career development.

An employee handbook was issued to all employees. The handbook is designed to give employees a general overview of CDIC and highlights basic policies, procedures, benefits and operations guidelines. To inform employees on an ongoing basis, articles about human resources issues and new corporate developments are published regularly in the CDIC weekly newsletter.

The Human Resources Committee, comprised of representatives from all parts of CDIC, was established to obtain employees' input on matters affecting employees. In addition, a review of CDIC's benefit programs was undertaken during the year and the findings are currently under review by the Committee. Recommendations will be considered during the fiscal year 1994/1995.

During the year, work began on the integration of the annual employee performance evaluation system with the corporate business planning and performance assessment process to foster improved employee motivation and commitment to CDIC's business. A working group, comprised of department heads, was formed to develop and implement a job evaluation and classification system. The revised system addresses external and internal equities and takes into account current labour law. This system was approved by the Board of Directors. Given that the current government restraint program does not permit performance pay increases, a planned payfor-performance system was deferred but will be revisited during the 1995/1996 period.

Recently, the employees were asked to complete a confidential survey to provide CDIC with information concerning working conditions, communication tools, compensation, management effectiveness, career development, and training. The survey was designed to highlight areas where employee relations can be improved. It will also be a useful tool in identifying opportunities to enhance management practices in the human resources area.

In line with the federal government and corporate cost reduction initiatives, CDIC committed itself to reduce the level of permanent staff. The Corporate Plan target of 93 for the end of this fiscal year was met through attrition. CDIC's permanent staff level is now at 92. During the fiscal year, the employee turnover rate was 11 percent, compared with a turnover rate of 18 percent for the previous year.

Organization

CDIC is organized into five functional divisions and a separate internal audit function. This structure provides an operational framework for accountability and control of day-to-day operations. Coordination between management, the Chairman and the Board of Directors occurs at the level of the President and Chief Executive Officer. The Executive Management Committee provides a forum for ongoing communication and co-operation between divisions. The activities of

the Insurance and Risk Assessment and Field Operations divisions have been discussed earlier in this Report.

In 1993, CDIC changed its primary organizational structure to move the payout function from the Operations Division to the Field Operations Division. As a result, responsibilities for asset management, estate monitoring and payouts are now in one business unit. In order to improve service levels, the Operations Division was reorganized by separating the systems development and related support function from the technical services function and by combining the office services and records management groups. In addition, official languages responsibilities were assigned to the Human Resources Department. This structure allows for a more efficient delivery of internal services.

Internal Audit

The Internal Audit Department requires independent status and therefore reports directly to the President and Chief Executive Officer and to the Audit Committee of the Board of Directors. Internal Audit is responsible for assessing, on an ongoing basis, compliance with the requirements of the *Financial Administration Act* and for determining if CDIC keeps books and records and maintains systems and practices that provide reasonable assurance that

- i) assets are safeguarded and controlled;
- ii) transactions are in accordance with specified authorities;
- iii) resources are managed economically and efficiently; and
- iv) operations are carried out effectively.

During the period, in addition to regularly auditing the accounting systems and testing for compliance with authorities,

Internal Audit performed reviews of CDIC's human resources and corporate communications functions as well as the Legal Division.

The department is also actively involved in reviewing recent systems development projects and monitoring payout audits.

Legal Division and Corporate Secretariat

The Corporate Secretariat serves as a primary resource and support for the Chairman and the Board of Directors.

The Legal Division provides legal advice and support throughout CDIC. Its work concentrates on legal advice to the Field Operations and the Insurance and Risk Assessment divisions and on strategy in respect of the monitoring of members, rehabilitations, wind-ups, payouts, and recoveries. It also represents CDIC's interests in dealing with corporate legal matters and oversees the work of retained counsel. In particular, the Division has the responsibility for the supervision and management of litigations, for certain compliance matters, and for ensuring that CDIC's obligations under the Access to Information and Privacy Acts are met.

During the fiscal year, the Legal Division's focus related to the development and enactment of the following by-laws: the eight Standards by-laws; the Application for Deposit Insurance By-law; the Policy of Deposit Insurance By-law; and the Premium Surcharge By-law. The Division also provided counsel for the winding-up and payouts of three failed members, was closely involved in contingency planning efforts concerning Royal Trust, and played a central role in investigations respecting potential lawsuits. Finally, significant resources of the Division were directed throughout the year to legal matters concerning the implementation and ongoing monitoring and administration of deficiency coverage agreements.

In the coming year, the Legal Division will concentrate on the development of other by-laws, specifically those relating to advertising and consumer information, and trust and joint accounts. In developing these by-laws, legal staff will be involved in the consultation process with member institutions and other stakeholders.

The Division is also developing a central precedent registry to ensure efficiency and consistency with respect to CDIC-specific documents, legal opinions, precedents and procedures used.

During the 12-month period from January 1, 1993, to December 31, 1993, legal fees totalling \$2.4 million were incurred for outside counsel in respect of work on various situations involving member institutions and corporate matters. In the three months from January 1, 1994, to March 31, 1994, an additional \$500,000 was incurred. This compares with a total expenditure of \$2.6 million for the 12-month period ended December 31, 1992.

Finance Division

The Finance Division encompasses the accounting, corporate planning and treasury functions. The Accounting Department is responsible for reporting financial information on a timely basis while ensuring the integrity of CDIC's financial systems by maintaining proper financial records, exercising appropriate internal controls and preparing timely financial statements and other financial information.

The Corporate Planning Department deals with the preparation of the annual Corporate Plan as well as all aspects of strategic planning, budgeting and performance assessment.

The treasury function is guided by a debtmanagement policy intended to minimize the adverse impact on financial performance of changes in interest rates. This is accomplished through regular review of interest rate risk limits and funding strategies by the Asset/Liability Management Committee (ALCO). The committee meets quarterly to assess interest rate risk, review market conditions, develop and test alternative courses of action and recommend appropriate risk strategies.

During the year, the Finance Division was responsible for the development of a change in accounting policy covering the general provision for loss. This initiative initially commenced during the 1992 fiscal year with the establishment of a joint task force between CDIC and the Office of the Auditor General (OAG). The task force's mandate was to review all policies relating to the issue of loss provisioning at CDIC and to make recommendations where appropriate.

Many recommendations in respect of claims against member institutions in which CDIC had already intervened were implemented in fiscal 1992. At that time, however, the largely unexplored area of general provision for losses against future deposit insurance claims was deferred. During 1993, the issue was revisited, and after consultation with other deposit insurance agencies in Canada and elsewhere, the OAG and other accounting experts, a method was developed to estimate what is effectively a general provision for losses on future claims against the Deposit Insurance Fund.

The method employed is non-memberspecific and reflects an estimate of losses on the total portfolio of \$303 billion of insured deposits held by CDIC's members. The provision is calculated using a risk-based approach, adjusted for current market and economic conditions, and applied to total insured deposits reported by member institutions. Based on this method, a general provision for loss was derived and is described in greater detail in the notes to the financial statements.

Operations Division

This division, which was reorganized during the course of the year, is made up of three departments: the Systems Development and Support Department, which plans, develops, implements and supports computer applications; the Operations Department, which provides technical services, corporate communications (including the 1-800 lines), linguistic and publishing services and office services (including records management); and the Human Resources Department, which was discussed earlier in this section.

During the year, the Operations Division streamlined its functions and combined certain positions to create more efficient workloads and foster empowerment of employees. While still maintaining adequate service and support levels, the division reduced its person years from 48 in 1992 to 40 at March 31, 1994.

In keeping with CDIC's priorities, continuing effort was expended to maintain and improve communications with member institutions, relevant industry associations, regulators and government agencies. These stakeholder groups were provided with copies of all CDIC news releases, and further requests for information were responded to as promptly as possible.

Although budgetary constraints did not allow for a concerted public awareness campaign in 1993, a number of less-costly techniques of communicating with the public were employed, such as distributing news releases to news media across the country on major events affecting CDIC. A series of questions and answers regarding deposit insurance was developed and circulated to community newspapers across the country. Public presentations provided by CDIC officials also provided opportunities to reach stakeholders. Membership and information brochures were also made available at CDIC's offices and through its member institutions.

For the 1994/95 fiscal year, an enhanced system for managing inquiries received through corporate communications, incorporating the CDIC toll-free 1-800 telephone lines, will be implemented. The new system will assist in identifying emerging issues and will form an integral component of the measurement techniques that will be used to track delivery of service to depositors.

In 1993, a program to modernize the records storage and retrieval system was developed to facilitate the identification, retrieval and disposition of corporate documents. An essential records program designed to protect documents vital to the operation and mandate of CDIC was also implemented.

In compliance with the Official Languages Act and CDIC's language policy, the Corporation ensures that regularly and widely used work instruments are available in both official languages. Major bilingualization projects, mostly in the area of information systems, were completed in 1993. Further, new system applications and corresponding user documentation are made available in both official languages as they are identified and developed. The bilingualization of work instruments and information systems is now a regular activity.

CDIC also completed the development of a language program. The implementation stage of the program is ongoing and future efforts will focus on monitoring to ensure that policies are respected. In addition, a corporate-wide language training program is now fully operational. A letter of understanding was executed between CDIC and the Treasury Board, which will result in the Corporation submitting, in the coming fiscal year, its first languages program annual report.

CDIC continued the development of system applications in accordance with its information management strategic plan. Two major projects were identified as priorities: the Member Institution Data Analysis System (MIDAS) and the Integrated Financial Information System (IFIS). Both projects are under way. The MIDAS project has been divided into five distinct phases. The work on the first phase commenced in January 1994 and will take up to 15 months to complete. The requirements definition phase for IFIS is scheduled for completion by the end of May 1994, and the acquisition and implementation of commercial software is scheduled to be completed by the spring of 1995.

Objectives and Priorities 1994-98 Plan

he linkages among CDIC's statutory objects, its strategic objectives and its priorities are shown in Figure 2. The priorities for 1994-98 were developed in 1993, as part of the five-year corporate plan process. They are based upon CDIC's mandate and responsibilities and the Board of Directors' views of the current economic and financial environment in which CDIC members function. The urgency to pursue these priorities has been reinforced by the historically large number of impaired member institutions in recent years and the increased cost of deposit insurance.

Within the objects, powers and resources provided in its Act, the priorities of CDIC are as follows. With the exception of the first two priorities, they are not intended to be in order of importance.

- 1. To maintain and further develop a strong core operational capacity (i) to assess the risks of losses likely to arise from insuring deposits in member institutions and (ii) to maximize net recoveries (maximize total recoveries and reduce the total cost of recoveries to a minimum) via liquidation, asset transfers and other means with insurance claims arising from failed institutions.
- 2. To reduce the risk of losses through improved risk management, earlier intervention and improved incentives embedded in the system. This priority will be achieved through close liaison with regulators and others outlined in priority number eight.

- 3. To put in place the by-laws provided for in the Act:
 - standards
 - CDIC application and policy
 - premium surcharge
 - consumer information
 - trust and joint accounts
- 4. To improve productivity and cost effectiveness by (i) exploring possible improvements in field operations, (ii) tightening budgets, (iii) redeploying resources to higher priority activities and (iv) applying and monitoring effective measures of performance.
- 5. To maintain fair and effective human resource and salary policies that recognize and reward performance and fully comply with linguistic, employment equity and other regulatory provisions.
- 6. To improve the accounting, information and reporting systems within CDIC, particularly with respect to developing a general provision for loss and functional accounting of costs.
- 7. To develop greater capacity to propose and assess public policies related to financial institutions in general and CDIC members in particular.



Figure 2. CDIC Mandate, Objectives and Priorities for 1994-1998

Statutory Objects

Provide Deposit Insurance

Promote standards and contribute to the stability and competitiveness of the financial system

Pursue objectives for the benefit of depositors and minimize exposure to loss

Strategic Objectives

Manage the Deposit Insurance Fund prudently Proactively assess and manage the risk created by member institutions Operate in an effective and financially efficient manner

Strengthen relationships with stakeholders

Priorities

To maintain and further develop a strong core operational capacity to assess the risks of losses likely to arise from insuring deposits in member institutions and to maximize net recoveries (maximize total recoveries and reduce the total cost of recoveries to a minimum) via liquidations, asset transfers and other means with insurance claims arising from failed institutions.

To put in place the by-laws provided for in the Act;

- · Standards
- CDIC application and policy
- · Premium surcharge
- · Consumer information
- · Trust and joint accounts

To reduce the risk of losses through improved risk assessment, earlier intervention and improved incentives embedded in the system. This priority will be achieved through close liaison with regulators and others outlined in priority No. 8.

To improve productivity and cost effectiveness by exploring possible improvements in field operations, tightening budgets, redeploying resources to higher priority activities and applying and monitoring effective measures of performance.

To improve the accounting, information and reporting systems within CDIC, particularly with respect to developing a general provision for loss and functional accounting of costs.

To maintain fair and effective human resources and salary policies that recognize and reward performance and fully comply with linguistic, employment equity and other regulatory provisions.

To develop greater capacity to propose and assess public policies related to financial institutions in general and CDIC members in particular.

To develop and maintain close liaison and co-operation with member institutions, TCA and CBA, OSFI and provincial regulators, Bank of Canada, Finance and other pertinent government departments, members of FISC, parliamentary committees, the Minister of Finance and the Secretary of State (International Financial Institutions).

8. To develop and maintain close liaison and co-operation with member institutions, TCA and CBA, OSFI and provincial regulators, the Bank of Canada, the Department of Finance and other pertinent government departments, members of FISC, parliamentary committees, the Minister of Finance and the Secretary of State (International Financial Institutions).

Several priorities have been completed and work has commenced on others. How far and how fast CDIC will be able to pursue some of these priorities will depend upon several factors beyond CDIC's control. One such factor is the economic and financial environment in Canada, including the rate of economic growth, the level of price inflation and interest rates, and the growth in deposits. Another factor is developments in the real estate and other asset markets particularly important for certain member institutions. A third factor is the number of failures of member institutions and the level of CDIC support required to deal with such situations.



Membership Profile

ommencing with this Annual Report, CDIC intends to publish annually a profile of CDIC's membership for the latest five years for which data are available. The central purpose of doing so is to provide comparative information over time on CDIC member institutions in a tabular format not otherwise readily available to the general public.

The profile is not presented or intended, in whole or in part or by the categorizations selected, to reflect or otherwise comment on risk to CDIC.

The profile has been prepared from data supplied by CDIC members and the Office of the Superintendent of Financial Institutions. Although every effort has been made to ensure the correctness of the compilation, the information comes from other sources, and CDIC does not guarantee its accuracy.

In providing such information, CDIC is necessarily limited by the availability of data in a readily accessible form and by confidentiality requirements. Moreover, the data presented are aggregates and averages. It should be recognized that within the aggregate or average picture the data for individual members differ considerably.

The data have been classified into six major categories: Schedule I banks ("domestic banks") and their subsidiaries, Schedule II banks and their subsidiaries ("foreign bank subsidiaries"), the depositaking affiliates of life insurance companies, large trust and loan companies, small trust and loan companies, and CDIC member affiliates of credit unions and caisses populaires. These categories reflect different characteristics established by incorporating and governing

legislation, regulatory frameworks, and size.

Schedule I banks are the six largest banks and Canadian Western Bank. Schedule II banks are, for the most part, subsidiaries of foreign banks. Large trust and loan companies and their affiliates have been classified as those with assets totalling \$10 billion or more. The small trust and loan companies and their affiliates have been classified as those whose assets total less than \$10 billion. Members with common ownership have been grouped together. When a related group contains more than one member, they have been categorized according to the largest member. Obviously, some members could be placed in more than one category. None of the figures includes the assets under administration of CDIC members.

The data can, of course, be assembled in a wide variety of ways. The general format adopted here is as follows:

- A list of members, classified by selected categories, membership changes, and regional location
- 2. Assets: size and quality ratios
- 3. Deposit liabilities
- 4. Capitalization ratios
- 5. Profitability ratios: size, spreads, non-interest expenses, ROAA, ROAE and productivity
- 6. CDIC premiums

In considering the profile, it is important to recognize that CDIC's membership changed from January 1, 1988, to March 31, 1994, as shown later in this section. This report takes a historical look at the

membership of CDIC. Unless otherwise stated, the tables are based on members' 1993 fiscal year end. Only the institutions that were members at March 31, 1994, are included in the aggregate figures for 1993. The institutions not in existence as at this date and some historical data for merged institutions are excluded. Therefore, this membership profile should be interpreted with caution.

Members and their Regional Location

List of CDIC members as at March 31, 1994, classified by selected categories.

Domestic Banks and Subsidiaries

Bank of Montreal
Bank of Montreal Mortgage Corporation
The Trust Company of the Bank
of Montreal
Bank of Nova Scotia (The)
Scotia Mortgage Corporation
Bank of Nova Scotia Trust Company
(The)
Canadian Imperial Bank of Commerce
CIBC Mortgage Corporation

CIBC Mortgage Corporation
CIBC Trust Corporation
Canadian Western Bank
National Bank of Canada
Natcan Trust Company
General Trust of Canada
Royal Bank of Canada
Royal Bank Mortgage Corporation
RBC Trust Company
Royal Trust Corporation of Canada

Royal Trust Company (The)
Toronto-Dominion Bank (The)
TD Mortgage Corporation
TD Pacific Mortgage Corporation

TD Trust Company Total: 22

Foreign Bank Subsidiaries

ABN AMRO Bank Canada Amex Bank of Canada BT Bank of Canada

Banca Commerciale Italiana of Canada Banca Nazionale Del Lavoro of Canada

Banco Central Hispano-Canada

Bank Hapoalim (Canada)

Bank of America Canada

Bank of Boston Canada

Bank of China (Canada)

Bank of East Asia (Canada) (The)

Bank of Tokyo Canada (The)

Banque Nationale de Paris (Canada)

Barclays Bank of Canada

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

Fuii Bank Canada

Hanil Bank Canada

Hongkong Bank of Canada

HongkongBank Mortgage Corporation

Industrial Bank of Japan (Canada) (The)

International Commercial Bank

of Cathay (Canada)

Israel Discount Bank of Canada

Korea Exchange Bank of Canada

Mellon Bank Canada

Mitsubishi Bank of Canada

Morgan 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)

Sakura Bank (Canada)

Sanwa 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

Tokai Bank of Canada

Union Bank of Switzerland (Canada)

United Overseas Bank (Canada) U.S. Bank (Canada) Total: 53

Trust and Loan - Assets Greater than \$10 billion

Canada Trustco Mortgage Company
Canada Trust Company (The)
Montreal Trust Company of Canada
Montreal Trust Company
National Trust Company
Premier Trust Company (The)
Victoria and Grey Mortgage
Corporation
Total: 7

Trust and Loan - Assets Less than \$10 billion

AGF Trust Company Bayshore Trust Company Effort Trust Company (The) Equitable Trust Company (The) Evangeline Savings and Mortgage Company Evangeline Trust Company Fortis Trust Corporation Granville Savings and Mortgage Corporation Home Savings & Loan Corporation Household Trust Company Income Trust Company Inland Trust and Savings Corporation Limited International Trust Company (The) Investors Group Trust Company Ltd. London Trust & Savings Corporation M.R.S. Trust Company MTC Mortgage Investment Corporation Merchant Private Trust Company (The) Municipal Savings & Loan Corporation (The) Municipal Trust Company (The) North West Trust Company Northern Trust Company, Canada (The) Pacific & Western Trust Corporation Peace Hills Trust Company Peoples Trust Company Savings and Investment Trust

Security Home Mortgage Investment Corporation Settlers Savings and Mortgage Corporation Total: 28

Life Insurance Affiliates

Aetna Trust Company
Bonaventure Trust Inc.
Confederation Trust Company
Family Trust Corporation
FirstLine Trust Company
Manulife Bank of Canada
Metropolitan Trust Company of Canada
Mutual Trust Company (The)
NAL Mortgage Company
North American Trust Company
Sun Life Trust Company
Sun Life Savings and Mortgage
Corporation
Total: 12

Credit Union Affiliates

Citizens Trust Company
Civil Service Loan Corporation
Community Trust Company Ltd.
Co-operative Trust Company of Canada
Desjardins Trust Inc.
Laurentian Bank of Canada
Laurentian Bank Savings and Mortgage
Corporation
Laurentian Trust of Canada Inc.
League Savings & Mortgage Company
Total: 9

Total: 131 members

Membership Changes: January 1, 1988 - March 31, 1994

New Members:

April 24, 1989: TD Pacific Mortgage Corporation October 7, 1989: Bank of New York Canada (The) October 26, 1989: Laurentian Trust of Canada Inc.

October 30, 1989: Desjardins Trust Inc. September 26, 1990: Bonaventure Trust Inc.

October 31, 1990: Cho Hung Bank of Canada

November 30, 1990: Sottomayor Bank Canada

December 20, 1990: Fortis Trust Corporation

September 6, 1991: Amex Bank of Canada September 8, 1992: Bank of China (Canada)

September 11, 1992: MTC Mortgage Investment Corporation

September 30, 1992: Bank of East Asia (Canada) (The)

October 14, 1992: Bank of Nova Scotia Trust Company (The)

October 14, 1992: TD Trust Company October 29, 1992: Civil Service Loan Corporation

November 11, 1992: Laurentian Bank Savings and Mortgage Corporation November 11, 1992: Natcan Trust Company

November 11, 1992: Trust Company of the Bank of Montreal (The) August 11, 1993: U.S. Bank (Canada) November 5, 1993: RBC Trust Company January 26, 1994: Northern Trust Company, Canada (The)

Other Membership Changes:

January 11, 1988: Greymac Mortgage Corporation and Greymac Trust Company were placed in liquidation — policies cancelled.

April 29, 1988: Bank of Alberta amalgamated with Western & Pacific Bank of Canada — continuing as Canadian Western Bank.

May 1, 1988: Midland Bank of Canada amalgamated with Hongkong Bank of Canada—continuing as Hongkong Bank of Canada.

July 1, 1988: Bank of British Columbia Mortgage Corporation amalgamated with Hongkong Bank Mortgage Corporation — continuing as Hongkong Bank Mortgage Corporation.

November 21, 1988: The Fidelity Trust Company was placed in liquidation — policy cancelled.

December 31, 1988: Central and Eastern Mortgage Corporation amalgamated with Nova Scotia Savings and Loan Company — continuing as Central Guaranty Mortgage Corporation.

December 31, 1988: Central Trust Company, Guaranty Trust Company of Canada, The Nova Scotia Savings and Trust Company and Yorkshire Trust Company amalgamated — continuing as Central Guaranty Trust Company.

May 11, 1989: Atlantic Trust Company Canada purchased the assets and assumed the deposit liabilities of CanWest Trust Company — continuing as Prenor Trust Company of Canada.

August 9, 1989: Nipissing Mortgage Corporation ceased to accept deposits — policy cancelled.

October 11, 1989: Royal Trust Company Mortgage Corporation ceased to accept deposits — policy cancelled.

October 27, 1989: Montreal Trustco Mortgage Corporation was wound up — policy cancelled.

November 1, 1989: Canborough Corporation amalgamated with National Trust Company — continuing as National Trust Company.

November 1, 1989: Lloyds Bank Canada amalgamated with Hongkong Bank of Canada — continuing as Hongkong Bank of Canada.

December 31, 1989: Central and Guaranty Trust Corp. (The) amalgamated with Central Guaranty Trust Company—continuing as Central Guaranty Trust Company.

December 31, 1989: Vanguard Trust of Canada Limited amalgamated with Prenor Trust Company of Canada — continuing as Prenor Trust Company of Canada.

January 25, 1990: Royal Trustco Mortgage Company ceased to accept deposits — policy cancelled.

April 1, 1990: Mitsui Bank of Canada amalgamated with Taiyo Kobe Bank (Canada) — continuing as Mitsui Taiyo Kobe Bank (Canada).

April 2, 1990: Provincial Trust Company ceased to accept deposits — policy cancelled.

July 1, 1990: Crédit Commercial de France (Canada) amalgamated with Société Générale (Canada) — continuing as Société Générale (Canada).

August 31, 1990: HongkongBank Mortgage Corporation amalgamated with Lloyds Bank of Canada Mortgage Corporation — continuing as HongkongBank Mortgage Corporation.

November 21, 1990: Mandate National Mortgage Corporation ceased to accept deposits — policy cancelled.

January 1, 1991: Counsel Trust Company amalgamated with Sun Life Trust Company — continuing as Sun Life Trust Company.

May 2, 1991: Standard Trust Company was placed in liquidation — policy cancelled.

May 2, 1991: Standard Loan Company was placed in liquidation — policy cancelled.

August 12, 1991: Bank of Credit and Commerce Canada was placed in liquidation — policy cancelled.

October 31, 1991: Saskatchewan Trust Company was placed in liquidation — policy cancelled.

December 31, 1991: Chemical Bank of Canada amalgamated with Manufacturers Hanover Bank of Canada — continuing as Chemical Bank of Canada.

January 1, 1992: Montreal Trust Company of Canada amalgamated with Wellington Trust Company — continuing as Montreal Trust Company of Canada.

February 4, 1992: CanWest Trust Company ceased to accept deposits — policy cancelled.

March 23, 1992: Shoppers Trust Company was placed in liquidation — policy cancelled.

April 8, 1992: Bank of New York Canada ceased operations — policy cancelled.

April 8, 1992: The First National Bank of Chicago (Canada) ceased operations — policy cancelled.

June 17, 1992: Guardian Trust Company ceased to accept deposits — policy cancelled.

August 6, 1992: Guardor Loan Company ceased to accept deposits — policy cancelled.

September 29, 1992: Comerica Bank Canada ceased operations — policy cancelled.

October 30, 1992: Citibank Canada Mortgage Corporation amalgamated with Citibank Canada — continuing as Citibank Canada.

November 25, 1992: The Dominion Trust Company amalgamated with Security

Trust Company — continuing as The Dominion Trust Company.

December 1, 1992: Laurentian Bank of Canada Mortgage Corporation ceased to accept deposits — policy cancelled.

December 30, 1992: National Bank Mortgage Corporation ceased to accept deposits — policy cancelled.

December 31, 1992: Bank of America Canada amalgamated with Security Pacific Bank of Canada — continuing as Bank of America Canada.

December 31, 1992: Focus National Mortgage Corporation ceased to accept deposits — policy cancelled.

December 31, 1992: Toronto-Dominion Bank (The) acquired most of the assets and deposit liabilities of Central Guaranty Trust Company and Central Guaranty Mortgage Corporation.

January 1, 1993: Cabot Trust Company, Regional Trust Company and Huronia Trust Company amalgamated — continuing as Manulife Bank of Canada.

April 6, 1993: General Trust Corporation of Canada ceased to accept deposits — policy cancelled.

April 30, 1993: ANZ Bank of Canada amalgamated with Hongkong Bank of Canada — continuing as Hongkong Bank of Canada.

September 24, 1993: Seel Mortgage Investment Corporation ceased to accept deposits — policy cancelled.

November 1, 1993: Landmark Savings and Loan Association ceased to accept deposits — policy cancelled.

November 10, 1993: The Dominion Trust Company was placed in liquidation — policy cancelled.

December 3, 1993: Prenor Trust Company of Canada was placed in liquidation — policy cancelled.

December 6, 1993: Bank Leumi Le-Israel (Canada) amalgamated with Republic National Bank of New York (Canada) — continuing as Republic National Bank of New York (Canada).

December 31, 1993: Morguard Mortgage Investment Company of Canada amalgamated with Metropolitan Trust Company of Canada — continuing as Metropolitan Trust Company of Canada.

January 20, 1994: First Interstate Bank of Canada, ceased operations — policy cancelled.

February 8, 1994: Monarch Trust Company was placed in liquidation — policy cancelled.

Note: Name changes excluded.

1.0 Regional location of CDIC members, based upon the location of the Chief Executive Officer

March 31, 1994	Western	Ontario	Quebec	Eastern	Total
Domestic Banks and Subs.	1	18	3	0	22
Foreign Bank Subsidiaries	4	43	6	0	53
Life Insurance Affiliates	1	10	1	0	12
T&L Large and Affiliates	0	5	2	0	7
T&L Small and Affiliates	7	17	1	3	28
Credit Union Affiliates	2	2	4	1	9
Total	15	95	17	4	131

2.0 Assets: Size and Quality Ratios

2.1 Total Assets - \$ Billions and Percentage

	1993	%	1992	%	1991	%	1990	%	1989	%
Domestic Banks and Subs.	659.1	80.4	611.5	79.6	568.7	79.1	540.4	79.1	493.2	79.6
Foreign Bank Subsidiaries	62.9	7.7	59.8	7.8	56.9	7.9	55.5	8.1	46.6	7.5
Life Insurance Affiliates	11.3	1.4	11.9	1.6	11.7	1.6	9.3	1.4	7.9	1.3
T&L Large and Affiliates	63.9	7.8	64.1	8.3	62.0	8.6	59.7	8.7	55.6	9.0
T&L Small and Affiliates	8.6	1.1	8.6	1.1	8.7	1.2	8.4	1.2	7.4	1.2
Credit Union Affiliates	13.8	1.7	12.5	1.6	11.0	1.5	9.9	1.5	8.8	1.4
Total	819.6	100	768.4	100	719.0	100	683.2	100	619.5	100

Total Assets

2.2 Non-Performing Loans (NPLs) to Total Assets – Percentage

	1993	1992	1991	1990	1989
Domestic Banks and Subs.	3.8	4.2	3.0	2.8	2.8
Foreign Bank Subsidiaries	5.6	5.4	2.5	2.1	N/A
Life Insurance Affiliates	6.1	6.7	5.5	2.7	0.7
T&L Large and Affiliates	1.7	1.8	1.3	0.9	0.3
T&L Small and Affiliates	3.0	3.3	4.1	3.6	1.4
Credit Union Affiliates	2.6	2.9	1.3	1.5	0.7

Non-Performing Loans (gross) / Total Assets (gross)

2.3 NPLs to Total Loans - Percentage

	1993	1992	1991	1990	1989
Domestic Banks and Subs.	5.5	5.8	4.2	3.9	3.9
Foreign Bank Subsidiaries	9.1	8.7	4.3	3.6	N/A
Life Insurance Affiliates	7.6	8.4	7.1	3.6	1.0
T&L Large and Affiliates	2.1	2.3	1.7	1.1	0.5
T&L Small and Affiliates	3.8	4.2	5.2	4.6	1.7
Credit Union Affiliates	3.2	3.5	1.6	1.8	0.9

Non-Performing Loans (gross) / Total Loans (gross)

2.4 NPLs Unprovided for – Percentage

	1993	1992	1991	1990
Domestic Banks and Subs.	49.4	53.9	54.2	43.8
Foreign Bank Subsidiaries	54.6	56.7	53.8	58.2
Life Insurance Affiliates	73.2	76.0	62.7	76.5
T&L Large and Affiliates	50.8	59.2	77.6	88.0
T&L Small and Affiliates	72.9	72.1	81.6	85.9
Credit Union Affiliates	69.2	60.7	82.4	86.8

1 – (Loan Provisions / Non-Performing Loans (gross))

2.5 Net NPLs to Total Shareholders' Equity - Percentage

	1993	1992	1991	1990
Domestic Banks and Subs.	37.8	43.5	31.2	25.3
Foreign Bank Subsidiaries	52.7	50.9	21.3	21.5
Life Insurance Affiliates	59.8	97.6	81.9	38.8
T&L Large and Affiliates	19.5	24.8	24.9	19.2
T&L Small and Affiliates	30.0	33.9	52.3	51.8
Credit Union Affiliates	36.3	35.1	22.2	26.2

Non-Performing Loans (net) / Average Shareholder's Equity

3.0 Deposit Liabilities

3.1 Total Deposits - \$ Billions and Percentage

	1993	%	1992	%	1991	%	1990	%	1989	%
Domestic Banks and Subs.	483.5	78.2	445.8	74.8	417.7	73.3	413.4	73.8	426.5	76.4
Foreign Bank Subsidiaries	46.9	7.6	43.8	7.4	42.4	7.4	41.2	7.4	38.2	6.8
Life Insurance Affiliates	11.0	1.8	7.2	1.2	7.1	1.2	4.0	0.7	2.1	0.4
T&L Large and Affiliates	57.7	9.3	83.3	14.0	84.2	14.8	81.1	14.5	73.1	13.1
T&L Small and Affiliates	8.8	1.4	14.5	2.4	16.7	2.9	18.8	3.4	17.2	3.1
Credit Union Affiliates	10.4	1.7	1.7	0.3	1.6	0.3	1.5	0.3	1.4	0.2
Total	618.3	100	596.3	100	569.7	100	560.0	100	558.5	100

These data have been grouped according to each member's actual classification as at April 30 of each year.

3.2 Insured Deposits to Total Deposits - Percentage

	1993	1992	1991	1990	1989
Domestic Banks and Subs.	46.0	46.7	47.2	44.4	39.2
Foreign Bank Subsidiaries	13.4	12.7	12.5	11.3	10.9
Life Insurance Affiliates	93.4	94.6	94.0	91.3	86.7
T&L Large and Affiliates	81.2	80.4	76.3	74.1	74.6
T&L Small and Affiliates	94.4	93.6	92.3	92.5	92.6
Credit Union Affiliates	87.6	86.1	85.9	85.5	87.0

These data have been grouped according to each member's actual classification as at April 30 of each year.

3.3 Agent Deposits to Total Deposits* - Percentage

	1993	1992	1991	1990	1989		
Life Insurance Affiliates	22.5	32.3	56.4	33.1	33.0		
T&L Large and Affiliates	10.0	9.5	1.6	0.0	0.0		
T&L Small and Affiliates	30.2	33.8	40.2	22.3	31.9		
Credit Union Affiliates	29.1	8.8	23.7	16.0	14.8		

Deposits obtained through Agents / Total Deposits

^{*} In the past, banks did not report summary data on retail deposits obtained via agents; bowever, reporting of these data will begin in 1994.

4.0 Capitalization Ratios

4.1 Capitalization - Percentage

	1993	1992	1991	1990	1989
Domestic Banks and Subs.	5.17	5.38	5.32	5.07	4.94
Foreign Bank Subsidiaries	5.93	6.19	6.48	6.27	6.06
Life Insurance Affiliates	7.30	5.30	4.71	5.63	6.03
T&L Large and Affiliates	4.32	4.32	4.20	4.05	4.10
T&L Small and Affiliates	7.41	7.06	6.49	6.38	6.50
Credit Union Affiliates	5.11	5.26	5.03	5.10	5.52

Average Shareholder's Equity / Average Total Assets

4.2 BIS Capital (Risk-Based Capital)* - Percentage

	1993	1992	1991	1990
Domestic Banks	9.82	8.99	8.95	7.81
Foreign Banks	10.29	9.94	9.41	8.21

^{*} BIS (Bank for International Settlements): The minimum targets were 7.25% for 1990 and 1991 and 8.00% for 1992 and beyond. Federal trust and loan companies were required to meet the 8.00% target for 1993. Data have not been presented here, since this information is not available for certain provincial trust and loan companies.

5.0 Profitability Ratios: Size, Interest Spread, Fees and other, Non-Interest Expenses, ROAA, ROAE and Productivity

5.1 Net Income - \$ Millions

	1993	1992	1991	1990	1989
Domestic Banks and Subs.	2,905	1,758	3,802	3,617	2,007
Foreign Bank Subsidiaries	-133	-378	31	184	245
Life Insurance Affiliates	-143	-121	-324	-30	55
T&L Large and Affiliates	99	92	281	331	343
T&L Small and Affiliates	14	19	32	44	63
Credit Union Affiliates	18	29	34	50	49
Total	2,760	1,399	3,856	4,196	2,762

5.2 Interest Spread, Fees and Other, Non-Interest Expenses, ROAA, ROAE and Productivity – Percentage

	1993							
	Interest Spread	Fees and Other	Non- Interest Expenses	ROAA	ROAE	Productivity		
Domestic Banks and Subs.	2.79	1.34	3.67	0.46	8.84	63.74		
Foreign Bank Subsidiaries	1.44	1.43	3.09	-0.22	-3.66	71.62		
Life Insurance Affiliates	1.32	0.92	3.47	-1.23	-16.86	60.04		
T&L Large and Affiliates	1.95	0.53	2.32	0.15	3.56	62.21		
T&L Small and Affiliates	1.87	0.48	2.18	0.17	2.26	65.21		
Credit Union Affiliates	2.49	0.77	3.12	0.14	2.65	79.34		

1992

	Interest	Fees and	Non- Interest			
	Spread	Other	Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.85	1.28	3.83	0.30	5.54	63.39
Foreign Bank Subsidiaries	1.51	1.35	3.50	-0.65	-10.47	69.74
Life Insurance Affiliates	0.98	0.86	2.86	-1.02	-19.25	58.77
T&L Large and Affiliates	2.04	0.41	2.30	0.15	3.38	64.70
T&L Small and Affiliates	1.86	0.32	1.96	0.22	3.07	63.97
Credit Union Affiliates	2.64	0.87	3.26	0.24	4.60	71.53

1991

	Interest	Fees and	Non- Interest			
	Spread	Other	Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.89	1.27	3.47	0.69	12.89	62.16
Foreign Bank Subsidiaries	1.74	1.31	3.00	0.06	0.86	63.67
Life Insurance Affiliates	1.06	0.67	3.84	-3.09	-65.71	54.07
T&L Large and Affiliates	2.08	0.60	2.22	0.46	10.98	66.95
T&L Small and Affiliates	1.97	0.50	2.09	0.37	5.78	57.37
Credit Union Affiliates	2.35	0.80	2.83	0.33	6.48	75.43

1990

	Interest Spread	Fees and Other	Non- Interest Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.77	1.25	3.32	0.70	13.81	64.16
Foreign Bank Subsidiaries	1.68	0.95	2.28	0.36	5.74	59.99
Life Insurance Affiliates	1.41	1.52	3.29	-0.35	-6.23	60.50
T&L Large and Affiliates	2.05	0.95	2.42	0.57	14.18	71.85
T&L Small and Affiliates	2.34	0.42	2.19	0.56	8.83	61.19
Credit Union Affiliates	2.45	0.80	2.71	0.54	10.58	74.87

	1989								
	Interest Spread	Fees and Other	Non- Interest Expenses	ROAA	ROAE	Productivity			
Domestic Banks and Subs.	2.98	1.26	3.82	0.42	8.46	59.48			
Foreign Bank Subsidiaries	1.67	0.86	1.95	0.57	9.44	54.62			
Life Insurance Affiliates	1.40	2.73	3.31	0.82	13.52	74.91			
T&L Large and Affiliates	1.86	1.45	2.67	0.65	15.85	76.06			
T&L Small and Affiliates	2.47	1.05	2.55	0.97	14.94	62.61			
Credit Union Affiliates	0.59	0.96	2.74	0.59	10.68	77.28			

Interest Spread:

Interest Income – Interest Expenses / Average Assets

Fees and Other:

Other Income + Extraordinary Items / Average Assets

Non-Interest Expenses:

Total Non-Interest Expense + Provision for Income Tax + Minority Interest in Subsidiaries

+ Provisions for Loss / Average Assets

ROAA:

Net Income / Average Assets

ROAE:

Net Income / Average Equity

Productivity:

Total Non-Interest Expenses / Net Interest Income (before provisions) + Other Income

6.0 CDIC Premiums

6.1 CDIC Premiums - \$ Millions and Percentage

	1993		19	1992 1991		991	1990		1989	
	\$	%	\$	%	\$	%	\$	%	\$	%
Domestic Banks and Subs.	290.0	74.3	208.2	69.9	197.4	67.9	183.4	67.8	167.2	68.3
Foreign Bank Subsidiaries	7.9	2.0	5.7	1.9	5.4	1.9	4.7	1.7	4.2	1.7
Life Insurance Affiliates	12.8	3.3	6.9	2.3	6.6	2.3	3.6	1.3	1.8	0.7
Γ&L Large and Affiliates	58.6	15.0	62.1	20.9	64.3	22.1	60.1	22.2	54.5	22.3
T&L Small and Affiliates	9.6	2.4	13.6	4.6	15.4	5.3	17.3	6.4	16.0	6.5
Credit Union Affiliates	11.4	2.9	. 1.4	0.5	1.4	0.5	1.3	0.5	1.2	0.5
Total	391.2	100	302.4	100	290.5	100	270.4	100	244.9	100

These data have been grouped according to each member's actual classification as at April 30 of each year.

Financial Overview

his section provides a narrative of the financial performance highlights for the period January 1, 1993, to March 31, 1994. This reporting period is unique in that it covers a 15-month horizon, as a result of the change in CDIC's year end from December 31 to March 31.

A five-year financial and statistical summary and a table of key comparative indicators are included on pages 51 and 52 of this report.

Highlights

Claims Receivable

Since January 1, 1993, the Corporation paid some \$1.32 billion to reimburse the insured depositors of Dominion Trust Company, Prenor Trust Company and Monarch Trust Company — three member institutions that were placed in liquidation.

Recoveries of Claims

When an institution is liquidated, CDIC is subrogated to the rights and interests of the insured depositors to the extent of the insurance payment made. The Corporation therefore has an interest in the disposition of the institution's assets by the liquidator. During 1993/94, CDIC recovered approximately \$1.048 billion from the estates of insolvent member institutions, with over \$700 million coming from the three recent insolvencies mentioned above.

The 1994–1998 Corporate Plan indicates that \$383 million is expected to be recovered from the proceeds of the sale of assets of failed members in 1994/95. More recent financial projections indicate that the recoveries will be approximately \$643 million in 1994/95, with a further \$1.5 billion to be received over the next four years.

Loans Receivable

During 1993/94, CDIC advanced \$157 million to member institutions and collected \$618 million in loan repayments.

Allowance for Losses on Loans and Claims Receivable and Provision for Guarantees

In 1993/94, the Corporation allowed for an additional amount of \$29.5 million against its existing claims and loans receivable, bringing the amount of the allowance for losses on claims and loans receivable to \$446 million.

The Corporation also set up, in 1992, a provision of \$615 million on the commitment under the deficiency coverage agreements and an additional \$79 million interest spread guaranty during 1993. As at March 31, 1994, the cost of these commitments is estimated to be \$629 million.

General Provision for Loss

The general provision for loss represents a major change in the Corporation's financial statements. During the fiscal period 1993/94, CDIC changed its accounting policy with respect to the general provision for loss, thereby recognizing an amount in its financial statements. The provision of \$200 million reflects the Corporation's best estimate of losses on insured deposits where such losses cannot be identified by institution. It is based on current market and economic conditions and on historical loss experience. The general provision is in respect of CDIC's total active membership. Once a member fails, its insured deposit base is removed from the base used to calculate the general provision for loss, and a specific allowance for loss is made against the member.



Financing

To meet its obligations, CDIC relies on two sources of funding:

Premium Assessments

The Canada Deposit Insurance Corporation Act (the CDIC 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. In April 1993, the Governor in Council fixed the premium rate for the premium year beginning May 1, 1993, at one-eighth of one percent of insured deposits (up from one-tenth of one percent). Effective May 1, 1994, the premium rate was fixed at the maximum rate allowable by the CDIC Act — one-sixth of one percent of insured deposits.

Premiums assessed in 1993/94 amounted to \$391 million (1992/93 – \$302 million). Since its inception in 1967, the Corporation has assessed premiums totalling \$2.483 billion. Based on projections, CDIC expects to receive \$537 million in premiums in 1994/95.

Loans from the Consolidated Revenue Fund (CRF)

The CDIC Act also provides for the Governor in Council to authorize the Minister of Finance to advance amounts from the CRF to the Corporation by way of interest-bearing loans. The maximum amount allowable under this provision is \$6 billion.

During the fiscal period, CDIC borrowed \$1.230 billion from the CRF and repaid \$1.729 billion of outstanding loans, leaving a balance of \$3.151 billion at year end.

Taking into consideration the revised premium rates, CDIC projects that these

loans are likely to be repaid within the next five years; however, these projections are sensitive to many factors beyond the Corporation's control.

Deposit Insurance Fund

The deficit in the Deposit Insurance Fund as at March 31, 1994, stood at \$1.648 billion. This compares with \$1.519 billion in the most recent Corporate Plan. Recent projections indicate that the deficit could be eliminated within five years barring unexpected material new claims.

Operating and Intervention Expenses

The operating and intervention expenses for 1993/94 totalled \$26.2 million. This compares with a forecast of \$29.7 million. Of the \$26.2 million of actual expenses, \$8.6 million was incurred for intervention expenses. The remaining \$17.6 million represents the operating costs of CDIC for the 15-month period ended March 31, 1994.

For purposes of comparability, note 11 to the financial statements shows the operating and intervention expenses that were incurred as at December 31, 1993. The actual operating and intervention expenses as at December 31, 1993, amounted to \$20 million, compared with \$28.7 million for 1992. Excluding intervention expenses, the reduction in operating costs on a calendar year basis was 23 percent

Asset/Liability Management

The Asset/Liability Management Committee continues to manage CDIC's debt with a view to minimizing the potential adverse effects of fluctuating interest rates.

The 1993/94 average weighted cost of funds was 6.3 percent, compared with 7.2 percent in 1992.

Five-Year Financial Summary

	15 Months ended March 31, 1994	12 Months ended December 31, 1992	12 Months ended December 31, 1991	12 Months ended December 31, 1990	12 Months ended December 31 1989
	14 4 2 3 3	(\$ mill.	ions unless otherwise in	ndicated)	
Insurance Program					
Deposit Insurance Fund (deficit)	(1,648)	(1,451)	(590)	(643)	(851)
Total insured deposits (\$ billions)	303	302	290	270	245
Premiums assessed	391	302	290	271	245
Assets and Liabilities		<u> </u>	, i		X X X X X X X X X X X X X X X X X X X
Claims paid	1,351	493	1,408	+	4
Claims recovered	1,048	263	728	49	198
Loans disbursed	. 157	1,539	39	43	
Loans recovered	618	19	96	13	15
Additional loans (repayments) from the Consolidated Revenue Fund	(499)	1,835	590	(150)	(320)
Payment of guarantees	65	V - 1 - 1			
Operations					
Operating expenses	17 ⁽¹⁾	17	15	12 ⁽²⁾	12 ⁽²⁾
Intervention expenses	9 ⁽¹⁾	12	13	N/A	N/A
Interest expense on CRF loans	270 ⁽¹⁾	177	168	146	171

⁽¹⁾ The figures provided in the schedule are for a fifteen-month period. Comparative numbers as at December 31, 1993, are as follows:

Operating expenses

\$13

Intervention expenses

6

Interest expense on CRF loans 219

⁽²⁾ Includes both operating and intervention expenses.

Five-Year Statistical Summary

	15 Months ended March 31, 1994	12 Months ended December 31, 1992	12 Months ended December 31, 1991	12 Months ended December 31, 1990	12 Months ended December 31, 1989
Member Institutions					
Number of federal institutions – banks	61	61	64	64	65
Number of federal institutions – trust and loan companies	47	51	50	52	56
Number of provincial institutions	23	30	32	35	33
Total number of institutions	131	142	146	151	154
Number of insolvencies	3	5	4	-	- -
Employees					
Number of permanent employees	90	94	92	65	63
Other					
Insured deposits as a percentage of total deposit liabilities	49.1%	50.8%	50.9%	48.3%	43.9%
Growth rate of insured deposits	0.2%	3.8%	7.3%	10.4%	13.6%
Average cost of funds	6.3%	7.2%	10.2%	10.9%	10.8%

Management Responsibility for Financial Statements

May 19, 1994

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 and recommending the annual report and financial statements to the Board of Directors.

In accordance with its Statutory Objects, the Corporation monitors the operations of its member institutions with varying degrees of intensity, as circumstances warrant. This year, the Corporation changed its policy with respect to the general provision for loss. In prior years, CDIC did not recognize in its accounts an amount for a general provision for losses on insured deposits where such losses could not be identified by institution, although the exposure to loss was disclosed by way of note to the financial statements. The general provision for loss reflects the Corporation's best estimate of losses on insured deposits where such losses cannot be reasonably estimated by institution. However, future economic conditions are not predictable with certainty and actual losses may vary from the Corporation's estimate.

These financial statements have been independently audited 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 March 31, 1994 and the statements of operations and deposit insurance fund, and changes in financial position for the fifteen month period 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 March 31, 1994 and the results of its operations and the changes in its financial position for the fifteen month period 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, after giving retroactive effect to the introduction of a general provision for loss 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 audit 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.

L.Denis Desautels, FCA Auditor General of Canada

Ottawa, Canada May 19, 1994

Balance Sheet

as at March 31, 1994 (in thousands of dollars)

	March 31, 1994	December 31 1992
Assets		
Cash and short-term investments	\$26,091	\$321,068
Premiums and other accounts receivable	6,649	5,191
Deferred interest expense	7,464	24,455
Capital assets	1,982	2,043
	42,186	352,757
Loans receivable (Note 4)	1,049,338	1,566,974
Claims receivable (Note 4)	1,742,077	1,381,997
	2,791,415	2,948,971
Allowance for losses on loans and claims receivable (Note 6)	(446,000)	(416,500)
	2,345,415	2,532,471
	\$2,387,601	\$2,885,228
Liabilities		
Accounts payable	\$28,709	\$5,705
Provision for guarantees (Notes 5 and 6)	629,448	615,000
General provision for loss (Notes 3 and 6)	200,000	0
Loans from the Consolidated Revenue Fund (Note 7)	3,177,096	3,715,180
Actorial Land (110cc 1)	4,035,253	4,335,885
Deposit Insurance Fund		
Deficit, end of period	(1,647,652)	(1,450,657)
	\$2,387,601	\$2,885,228

Approved by the Board:

Chairman

Director

Statement of Operations and Deposit Insurance Fund for the fifteen months ended March 31, 1994

(in thousands of dollars)

March 31, 1994 (15 months)	December 31, 1992 (12 months)
\$391,161	\$302,371
7,081	3,212
11,054	2,273
409,296	307,856
108,500	959,532
269,679	176,950
26,219	28,652
1,893	3,401
406,291	1,168,535
3,005	(860,679)
	(589,978)
A GOLDAN AND A PROPERTY OF	-
A NUMBER OF STREET	(\$1,450,657)
	\$391,161 7,081 11,054 409,296 108,500 269,679 26,219 1,893

Statement of Changes in Financial Position for the fifteen months ended March 31, 1994

(in thousands of dollars)

	March 31, 1994 (15 months)	December 31, 1992 (12 months)
Operating Activities		
Gain (loss) from operations	\$3,005	(\$860,679)
Non-cash items included in gain (loss) from operations		
Provisions for loss	108,500	959,532
Other	100	(63,501)
Payment of guarantees	(64,552)	
Loans disbursed	(157,459)	(1,538,705)
Loans recovered	618,159	19,131
Claims paid	(1,350,912)	(492,981)
Claims recovered	1,047,768	262,539
Cash provided by (used in) operating activities	204,609	(1,714,664)
Investing Activities		
Purchase of capital assets - net	(586)	(1,010)
Financing Activities		
Loans from the Consolidated Revenue Fund		
Advances	1,230,000	2,105,000
Repayments	(1,729,000)	(270,000)
Cash provided by (used in) financing activities	(499,000)	1,835,000
Cash and Short-Term Investments		
Increase (decrease) during the period	(294,977)	119,326
Balance, beginning of period	321,068	201,742
Balance, end of period	\$26,091	\$321,068

Notes to the Financial Statements March 31, 1994

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. These 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, and providing guarantees or 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 in which the Corporation has intervened.

Premium Revenue

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.

Interest Revenue

The Corporation charges interest on loans it disburses, directly or indirectly, in accordance with the specific terms of the loan agreements. This interest continues to accrue to the benefit of the Corporation but is not recognized in the accounts when an insolvent member institution is placed in liquidation or when there is a reasonable doubt as to the ultimate collectibility of the interest. In such cases, cash receipts are recognized as a reduction of the loan principal until such time as the loans are retired. Subsequent cash receipts are recognized as interest revenue on a cash basis.

Provisions for Loss

CDIC has three types of provisions for loss in its financial statements:

Loans and Claims Receivable

The allowance for losses on loans and claims receivable reflects the Corporation's best estimate of losses in respect of claims against insolvent member institutions arising from payments made to insured depositors and loans made to member institutions and others under a loan agreement. The allowance is established by assessing business plans and other information provided by the liquidators of the various estates and/or agents acting on behalf of the Corporation

Guarantees

In facilitating the restructuring of certain member institutions, CDIC may provide certain guarantees to member institutions. The amount estimated to be required to cover these guarantees is recorded as a charge against operations and is reflected on the balance sheet as a provision for guarantees.

General

The general provision for loss reflects the Corporation's best estimate of losses on insured deposits where such losses cannot be reasonably estimated by institution. The provision is established by assessing the aggregate risk in the member institutions based on current market and economic conditions and by applying historical loss experience.

Future economic conditions are not predictable with certainty and the actual losses may vary from the Corporation's estimate.

3. Change in Accounting Policy

General Provision

During the period, the Corporation changed its policy with respect to its general provision for loss. In prior years, the Corporation did not recognize in its accounts an amount for a general provision for losses on insured deposits where such losses could not be identified by institution, although the exposure to loss was disclosed by way of note to the financial statements. The revised accounting policy on the general provision for loss is described in note 2.

The retroactive impact of this change in accounting policy on the opening deficit is an increase of \$200 million.

4. Loans and Claims Receivable

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 disbursed by the Corporation. The Corporation is asserting claims against all the insolvent member institutions that have been placed in liquidation. During the 15-month period, three member institutions, Dominion Trust, Prenor Trust and Monarch Trust, were

placed in liquidation. In respect of these three members, the Corporation paid \$1.32 billion in claims relating to their insured deposits and has so far recovered \$716 million.

Under the general powers of subsection 10(1) of the CDIC Act, the Corporation made secured loans to member institutions and others through the provisions of loan agreements. No new loan agreements were entered into during the period.

5. Provision for Guarantees

The Corporation has \$2.86 billion outstanding in guarantees to certain member institutions under deficiency coverage agreements. These guarantees were provided in respect of potential principal and income losses on eligible assets of these member institutions. Of the \$615 million estimated loss recognized in 1992 on these guarantees, \$550 million remains unpaid. The guarantees will be in force, on a diminishing basis, for a nine-year period ending in 2002.

The Corporation also provided an interest rate spread guarantee of \$170 million to a member institution of which \$79 million remains unpaid.

6. Provisions for Loss

The following table is a continuity schedule for the provisions for losses on loans and claims receivable, guarantees and the general provision as at March 31, 1994.

	Loans and Claims Receivable	Guarantees	General Provision	Total				
	(in thousands of dollars)							
Beginning of Period	416,500	615,000		1,031,500				
Adjustment for Prior Years		-	200,000	200,000				
Provisions for Loss	29,500	79,000	12.5	108,500				
Payment of Guarantees	N/A	(64,552)	N/A	(64,552)				
End of Period	446,000	629,448	200,000	1,275,448				

7. Loans from the Consolidated Revenue Fund

With Governor-in-Council approval, the Corporation can borrow up to \$6 billion from the Consolidated Revenue Fund.

As at March 31, 1994, the Corporation has \$3,177 million in outstanding loans including accrued interest of \$26 million (December 31, 1992: \$3,715 million including accrued interest of \$65 million).

These loans bear interest at various annual rates ranging from 4.1% to 7.5% and are repayable according to the following schedule:

Year Ended March 31	Amount (in millions of dollars)
1995	\$1,102
1996	467
1997	872
1998	710
Total	\$3,151

8. Income Taxes

The Corporation is subject to federal income tax and has available losses which can be carried forward to reduce future years' earnings.

Such losses total \$1,107 million and expire as follows:

Year	Amount (in millions of dollars)	
1995	\$136.7	
1996	144.4	
1997	143.3	
1998	141.4	
1999	223.4	
2000	221.4	
2001	96.4	
Total	\$1,107.0	

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. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1993 and 1992, were as follows:

	1993 1992 (in billions of dollars)	
Federal Institutions	\$282	\$280
Provincial Institutions	21	22
Total	\$303	\$302

11. Operating and Intervention Expenses

	March 31, 1994 (15 months)	March 31, 1994 (3 months) (in thousan	December 31, 1993 (12 months) ads of dollars)	December 31, 1992 (12 months)
Inspection, legal and other fees	\$9,741	\$2,108	\$7,633	\$ 9,978
Salaries and other personnel costs	8,290	1,846	6,444	6,098
Premises	2,896	566	2,330	2,058
General expenses	2,688	805	1,883	2,219
Data processing	2,005	578	1,427	5,229
Public awareness	599	313	286	3,070
	\$26,219	\$6,216	\$20,003	\$28,652

12. Premiums

In accordance with paragraph 21(1)(b) of the CDIC Act, the premium rate for the premium year 1994 was set at one-sixth of one percent of insured deposits. The premium rate in 1993 was one-eighth of one percent of insured deposits.

13. Change in Year End

In accordance with section 40 of the CDIC Act, the Corporation requested, and the Governor in Council approved, a change in the financial year end from December 31 to March 31. Accordingly, these financial statements have been prepared for fifteen months covering the period January 1, 1993 to March 31, 1994.

Board of Directors March 31, 1994

The Corporation is administered by a board of directors that consists of the Chairman, appointed by the 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 the Governor in Council.

Grant L. Reuber (1)
Chairman of the Board
Canada Deposit
Insurance Corporation
(Jan. 8, 1993, 5 years)*

H. Marcel Caron (2)
Chairman
Executive Committee
La Presse
(June 2, 1993, 3 years)*

David A. Dodge Deputy Minister of Finance (ex officio)

E. Susan Evans^{(2) (5)} Lawyer Calgary, Alberta (May 23, 1991, 3 years)*

President Ghert Realty Holdings Ltd. (June 9, 1993, 3 years)*

Bernard I. Ghert

Suzanne B. Labarge (2) Deputy Superintendent of Financial Institutions (ex officio)

Michael A. Mackenzie (1) Superintendent of Financial Institutions (ex officio) Ronald N. Robertson (5)
Partner
Fasken Campbell Godfrey
Fasken Martineau Davis
(April 4, 1991, 3 years)*

Gordon G. Thiessen Governor of the Bank of Canada (ex officio)

CDIC Officers

Grant L. Reuber Chairman of the Board (Jan. 8, 1993, 5 years)* Jean Pierre Sabourin President and Chief Executive Officer (April 17, 1991, 5 years)* Guy Saint-Pierre Senior Vice-President Insurance and Risk Assessment

Wayne Acton Vice-President Field Operations Johanne R. Lanthier Vice-President Finance Lewis T. Lederman Corporate Secretary and General Counsel

Bert C. Scheepers Vice-President Operations

All officers are members of the Executive Management Committee chaired by the President and Chief Executive Officer. The Committee also includes Mrs. M. Kopke, Director, Internal Audit and Mrs. P. Griffin-Dobson, Director, Human Resources.

* Date of Governor-in-Council appointment, term of appointment.



⁽¹⁾ Member of the Executive Committee

⁽²⁾ Member of the Audit Committee

⁽³⁾ Member of the Employee Relations Committee

^{*} Date of appointment, term of appointment



CDIC Committees

Advisory Committee on Risk Assessment and Intervention Policies

Chairman

Peter C. Maurice Deputy Chairman The Canada Trust Company

Members

William T. Brock Vice Chairman Credit The Toronto-Dominion Bank Richard S. Buski Partner and Chairman Coopers & Lybrand

Maxwell L. Rotstein Chairman Trust Companies Association of Canada Chairman and Chief **Executive Officer** The Municipal Trust Company

Guy Saint-Pierre Senior Vice-President Insurance and Risk Assessment CDIC

Legal Counsel

Donald E. Milner Partner Fasken Campbell Godfrey

Secretary

Ken Mylrea Director Policy Development, Standards and Economics CDIC

OSFI/CDIC Liaison Committee

Co-Chairmen

Michael A. Mackenzie Superintendent of Financial Institutions OSFI

Grant L. Reuber Chairman of the Board CDIC

Members

Keith Bell Director, Compliance Branch **OSFI**

Jack W. Heyes Director General Examinations **OSFI**

Suzanne Labarge Deputy Superintendent of Financial Institutions **OSFI**

Jean Pierre Sabourin President and Chief Executive Officer CDIC

Guy Saint-Pierre Senior Vice-President Insurance and Risk Assessment Monitoring CDIC

Thomas Vice Director **CDIC**

Field Operations Review Committee

Bankers

Bernie Barth Pierre Senior Vice-President Senior Special Accounts Management Credit Bank of Montreal Toront

Pierre Boulanger Louise Cannon
Senior Vice-President Senior Vice-President
Credit Special Accounts
Toronto-Dominion Bank Management
Bank of Nova Scotia

Paul Farrar Terry McDermid
Senior Vice-President Senior Vice-President
Special Loans Special Loans
Canadian Imperial Bank of Royal Bank of Canada
Commerce

Accountants

Frank Brown John Curran Peter Lane
Partner Partner Partner Partner
Deloitte & Touche Arthur Andersen & Co. Coopers & Lybrand

Henry PankratzJoe TuckerLarry WardPartnerPartnerPartnerErnst & YoungPeat Marwick ThornePrice Waterhouse

Real Estate Advisory Panel

Chairman

Daniel F. Sullivan Deputy Chairman Scotia McLeod Inc.

Members

Lorne Braithwaite Roger Green and Chief Executive Officer Four Seas Cambridge Shopping Centres Ltd.

Roger Garland Randy Grimes
Executive Vice-President Director
Four Seasons Hotels Ltd. IBI Group

Steve JohnsonJohn LatimerWilliam LavinePresidentPresidentChairmanThe Dorchester CorporationMonarch Development
CorporationWestern Corporate
Enterprises Inc.

Alvin Poettcker William C. Poole Kenneth Rotenberg
President Former Senior Vice-President
REDEKOP Properties Inc. Realty Advisory Group of The Toronto-Dominion Bank

Kenneth Rotenberg
Chairman of the Board
Rostland Corporation

Board of Director Liaison Secretary

Bernard I. Ghert Christopher J. Porter
President Manager
Ghert Realty Holdings Ltd. Field Operations
CDIC

Consumer Assistance

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

1-800-461-CDIC (1-800-461-2342)

Head Office

Canada Deposit Insurance Corporation 50 O'Connor Street 17th Floor P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5 Reception: (613) 996-2081

Toronto Office

Canada Deposit Insurance Corporation 1200-79 Wellington Street W. P.O. Box 156 Toronto-Dominion Centre Aetna Tower Toronto, Ontario M5K 1H1 Reception: (416) 973-3887

Publications

Annual Report
Application and Policy of Deposit Insurance
Canada Deposit Insurance Corporation
General By-law
Premium Surcharge 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
Securities Portfolio Management
Capital Management
Internal Control

Credits

Johanna Kaeppner, Graphic Design and Desktop Publishing



This entire publication has been produced with recycled stock and vegetable-based inks.