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

ANNUAL CDIC REPORT

1994-1995

Canada

MISSION

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

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

Grant L. Reuber

Chairman of the Board
Président du conseil d'administration

June 30, 1995

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

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 year ended March 31, 1995.

Yours sincerely,

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

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

General Observations

Deposit insurance in Canada has attracted considerable public attention during the past two years. Many issues have been raised ranging from broad philosophical questions to narrow questions of administration. As far as the operations of CDIC are concerned, three issues in particular stand out:

- the cost of deposit insurance
- questions about accountability
- questions about the ongoing relationship between OSFI and CDIC

In addressing these issues, the range of options to be considered is, of course, constrained by the legislative framework within which CDIC functions. As already indicated, this framework was extensively examined during 1993 and 1994. It is the subject of a report of the Standing Senate Committee on Banking, Trade and Commerce issued last December and more recently of the Government's white paper on *Enhancing the Safety and Soundness of the Canadian Financial System.*

Many of the matters raised during these reviews were discussed in CDIC's Annual Report for 1993. This year the focus is more directly upon what has been done and can be done to deal with the three issues raised at the outset, working within the *present* legislative and policy framework.

In order to assess these questions satisfactorily, it is important to understand the underlying rationale for deposit insurance, as discussed in Appendix I.

DEPOSIT INSURANCE IN CANADA HAS ATTRACTED CONSIDERABLE PUBLIC ATTENTION DURING THE PAST TWO YEARS.

THE COST OF DEPOSIT INSURANCE

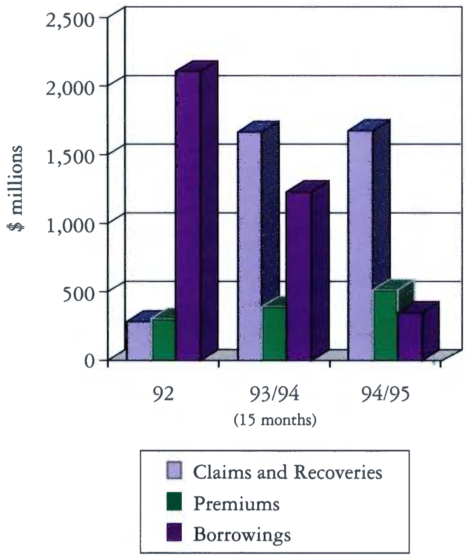
The Remaining Cost of Past Failures

At the end of March, 1995, CDIC had an accumulated deficit of $1.75 billion. This includes an increase of $50 million in the general provision for loss set up last year (1993/94 - $200 million) to cover potential losses on insured deposits in the active membership of CDIC. This brings the general provision for loss to $250 million as at March 31, 1995. In addition, this accumulated deficit covers the losses expected to result from the failure of Confederation Trust and Income Trust. During the fiscal year 1994/95, the addition to the deficit was $99 million.

While assets of failed institutions are held pending a satisfactory realization — a period that may last many years — the payouts or the financial assistance provided, as the case may be, has to be financed. At present, CDIC does this by borrowing from the Consolidated Revenue Fund (CRF) of the federal government.

Figures 1 and 2 indicate CDIC's major sources and uses of funds during the past three years.

FIGURE 1
SOURCES OF FUNDS

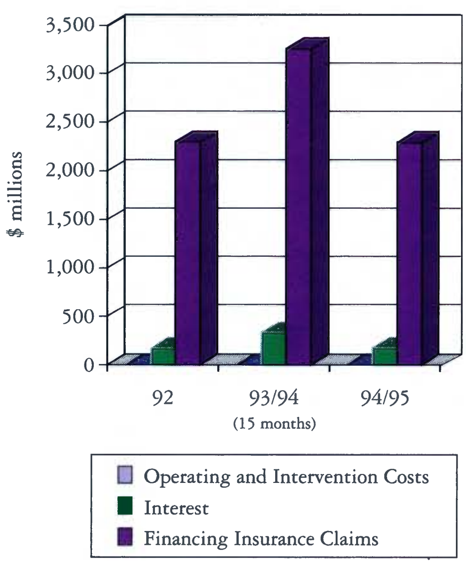


CDIC's largest single cash outlay after insurance claims and the repayment of CRF loans has been the interest paid on loans borrowed from the CRF. This amounted to $270 million in the 1993/94 fiscal year, a 15-month period, and $182 million in 1994/95, a 12-month period. During the past fiscal year, interest costs absorbed 35 percent of the premiums paid by members.

CDIC's interest costs are largely determined by the amount borrowed. At the beginning of 1993, CDIC's borrowing was at a record level of $3.7 billion. This amount was borrowed to fund outstanding claims paid to depositors of failed member institutions during the previous 27 years. At the end of March, 1995, borrowing was $2.2 billion. The reduction of $1.5 billion during the past two years was achieved even though five members failed during this period.

How was this major reduction in our borrowing requirements achieved? In several ways. First, Adelaide Capital Corporation, which holds the impaired assets of the defunct Central Guaranty Trust Company not taken by The Toronto-Dominion Bank or held by liquidators, issued $500 million of distress five-year preferred shares with a CDIC guarantee. In addition to reducing borrowing from the CRF, this transaction substantially reduced the cost of financing Adelaide Capital Corporation. The net interest cost savings over the next five years will be substantial.

FIGURE 2
USES OF FUNDS



A second major factor in reducing CDIC's borrowing has been the redeployment of resources and the adoption of an aggressive policy of liquidating assets and pursuing claims. This approach to claims is a primary focus and priority for CDIC and reflects clearer recognition of the time value of money and the need to base asset disposition decisions on a net present value basis. Improvement in CDIC's claims and recoveries performance has also reflected more disciplined and stringent arrangements with liquidators and enhanced monitoring of their activities by CDIC. This includes the development of a new approach, which establishes a benchmark value for assets at the time a member fails and relates the performance of liquidators to this benchmark value.

Traditionally, one liquidator has handled all the assets — good, bad and questionable — of a failed institution. Recent experience suggests that subdividing assets into groups of different quality and having different parties with different interests and expertise manage different classes of assets may in some cases be preferable to the traditional approach.

Although it is difficult to provide an accurate estimate, there is reason to believe that because of CDIC's more aggressive and more disciplined approach to claims and recoveries and to its monitoring activities, the cost of liquidations will be reduced.

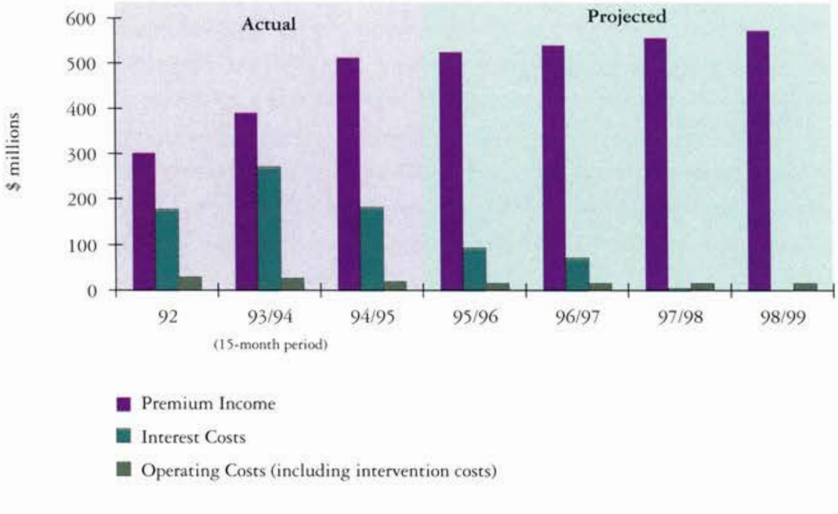
Another factor in improving CDIC's claims and recoveries has been the pursuit of its policy of initiating lawsuits against directors, officers, auditors and other relevant parties of failed institutions where (i) CDIC has suffered a financial loss and (ii) there is a reasonable legal case supporting a charge of negligence, willful misconduct or wrongdoing. The primary purpose of this policy is to provide a strong incentive for those responsible for the running of a member institution to be prudent and competent. The credibility of the policy depends upon CDIC's demonstrated willingness to enforce it. Recoveries from this source during the past two years have totalled about $5 million.

The rate of interest paid by CDIC on its loans is determined by the market. For each maturity borrowed, CDIC pays the Government's borrowing rate plus one-eighth of one percent. Under present legislation, CDIC is precluded from borrowing directly from the capital markets. It is also precluded from independently hedging its interest rate risks through the market. Accordingly, it has pursued a policy of matching the maturity of its borrowing from the CRF with the estimated cash flows provided by liquidators in order to reduce its exposure to risks arising from interest rate fluctuations.

Because of the importance to its costs of how well CDIC manages its finances, a small task force of experts from the Royal Bank of Canada, headed by Mr. Paul Taylor, Executive Vice-President, has been asked to review current policies and practices and advise CDIC on any improvements that might be made. The issues to be addressed include, *inter alia*, the effectiveness of CDIC's day-to-day cash management, its management of interest rate risks, legislative changes to permit borrowing in the capital markets and the hedging of interest rate risks, possible improvements in the information and systems available to manage CDIC's finances effectively, and the possibilities of obtaining cheaper sources of finance. This task is expected to be concluded by mid-1995.

On present projections, CDIC expects to eliminate its accumulated deficit and its borrowing from the CRF by the end of the 1999 fiscal year. As shown in Figure 3, premium income has increased substantially since 1993 and, at the same time, interest costs have been greatly reduced. Operating

FIGURE 3
PREMIUM INCOME, INTEREST COSTS AND OPERATING COSTS



costs, including intervention costs, have decreased from 1992 and are projected to remain unchanged in the foreseeable future.

The estimated time for eliminating the deficit assumes, of course, that there are no substantial changes in the terms upon which deposit insurance is provided, in CDIC's responsibilities and in the circumstances of its members. Until the deficit and borrowing from the CRF are eliminated, CDIC premiums can be expected to remain unchanged at one-sixth of one percent of insured deposits. During the fiscal year 1994/95, premium income totalled $513 million. This was equal to about seven percent of the pre-tax profits of CDIC members in 1994.

The Cost of Failures

The cost of failures reflects the number and size of failures that occur, the terms on which deposits are insured, and how rapidly intervention occurs as the financial viability of deposit-taking institutions deteriorates. The latter reflects, in turn, having a well-defined and credible set of rules and procedures for intervention widely known to the public.

The terms on which deposit insurance is provided are prescribed by law and are beyond CDIC's control. The number of failures in any given year is determined by a variety of factors. Many of these, such as a deterioration in economic conditions and a deterioration in the quality of management, are also beyond CDIC's control. At the same time, the continuing improvement in the regulatory system under the direction of the Superintendent of Financial Institutions and provincial regulators together with the requirements of CDIC's Standards of Sound Business and Financial Practices are expected to reduce unsound practices and the number and cost of failures of deposit-taking institutions significantly in future.

For this reason, as well as because of the requirements of the CDIC Act, the Standards Assessment and Reporting Program (SARP) has now been implemented. The focus of SARP is on the answers to three questions:

1. Does the member have a well-defined program of policies and procedures in place with respect to internal control, liquidity, interest rate and foreign exchange risks, credit risks and securities, real estate approvals and capital management?

2. Is the program sound and prudent?

3. Is the program in practice being followed?

To provide answers to these questions, members are asked to assess themselves. Generally, members meeting certain conditions need only submit a simplified brief descriptive return based upon whatever evaluation method they themselves choose. Others are required to complete a more detailed return. Full responsibility for compliance with CDIC's Standards rests with the senior officers and the board of directors of each member institution. The regulators review and report to CDIC on each institution's compliance.

In all this, the emphasis is on processes and procedures rather than on financial indicators. In dealing with failed institutions in the past, CDIC has found that many reported a satisfactory financial condition, measured in terms of capital adequacy, asset quality, earnings and so on, until shortly before they closed. Financial statements alone failed to reflect the vulnerability of these institutions.

Most of the decisions eventually causing problems were made when times were good and the firms were prospering. Failures mainly reflected the absence of prudent policies and procedures in assessing and managing risks and in the conduct of business activities. A lack of prudent standards and failure to follow them is an early indicator of potential problems and represents increased risk to CDIC.

The third important factor in determining the cost of failures, as already noted, is the timing of intervention. Earlier intervention should reduce the cost of failures in two ways: it increases the prospect that corrective action can be taken in time for failure to be avoided, and, if failure cannot be avoided, it reduces the cost of failure because intervention may occur before the company has suffered inescapable damage. When and how forcefully to intervene as events unfold is inevitably a difficult question of judgement. Moreover, it is essential that action be taken cautiously and after careful justification. On the other hand, excessive regulatory forbearance not only makes it less likely that the institution can be saved, but also means that the cost of the failure will increase as any remaining equity of the firm disappears and losses emerge. Saying after a failure that the timing of intervention could have been better is to say very little. The question is when and how to intervene on an ongoing basis as circumstances develop from day to day.

A considerable effort is currently under way to strengthen CDIC's capacity to make judgements about the timing of interventions. As explained below, this includes the development of a better database on member institutions, a system to screen institutions systematically on a regular basis to detect potential difficulties earlier, and an enhanced valuation model to assess an institution's strength at the first sign of trouble.

A LACK OF PRUDENT STANDARDS AND FAILURE TO FOLLOW THEM IS AN EARLY INDICATOR OF POTENTIAL PROBLEMS.

In addition, CDIC is developing a more comprehensive and more fully articulated system of risk assessment and rating for its members. Among the factors to be reflected in this system are a member's corporate structure, the quality and diversification of its assets, its financial strength as reflected by its capital/asset ratio and various other indicators, its financial performance and its profitability, its access to new capital injections if and when required, the quality of its management, its regulatory compliance, and any miscellaneous market information that may be available.

CDIC and OSFI maintain their own risk assessment systems, reflecting each agency's own needs and judgements about risk factors and their relative importance. Most of the underlying information is obtained from OSFI, provincial regulators and the Bank of Canada. When information deemed important is not available from these sources, CDIC may request the information directly from member institutions. In particular situations when special and preparatory examinations are called for during interventions, CDIC deals directly with the institution in question. All information obtained by CDIC is shared with OSFI and provincial regulators. Moreover, OSFI and CDIC regularly share their risk assessments of CDIC members with each other and fully discuss any differences in their judgements. The same is true of provincial regulators and CDIC. Developing greater capacity to know and evaluate the circumstances of an institution enables CDIC to assess its future prospects more accurately.

What has also been needed is a more clearly defined, credible, pre-specified structure for early intervention and resolution of problem institutions — a structure, moreover, generally well known to deposit-taking institutions and the public. A prime purpose of such a pre-specified structure is to affect the *ex ante* incentives and therefore the behaviour of deposit-taking institutions and depositors. In addition, such a structure imposes greater discipline on all concerned in the process. It also helps to reinforce both the reality and perception of fairness. In the absence of such a structure known to members and the public, the intervention process remains clouded in uncertainty, the actions of regulators may be seen as arbitrary and unfair, and inertia and caution may easily outweigh the will to act.

This raises the issue of rules versus discretion in developing a structured early intervention and resolution system. Rules have the advantage of predictability and clarity; they also serve to protect regulators and CDIC against *ex post* criticisms of poor judgement, of regulatory forbearance and of unwarranted caution and self-interest. Judgement and discretion, on the other hand, permit a more flexible approach tailored to fit particular circumstances more appropriately. Moreover, given the limited number of deposit-taking institutions in Canada, a tailor-made approach is more feasible here than in a country such as the U.S., which has adopted a formula-driven approach and which has a more heterogeneous range of institutions numbering in the thousands.

During recent months, OSFI and CDIC have worked out a "Guide to Intervention for Federal Financial Institutions" (Appendix 2). This guide reflects a compromise between rules and discretion based on judgement. It indicates the actions or options available to OSFI and CDIC, separately and together, in relation to the circumstances in which institutions find themselves. Although discretion remains, the actions indicated will be taken unless there are good and sufficient reasons not to do so. Moreover, enforcement of the guide has credibility in that a graduated and progressive set of responses is triggered as circumstances deteriorate, in the end resulting in liquidation. By explicitly describing and making transparent the supervisory assessment and intervention process, not only is the system more understandable, but it also provides positive incentives for all concerned to reduce the risk of losses.

Over time, this guide will be further developed. It will also be co-ordinated with provincial regulators. In the U.S. system, the stages of intervention and risk-rated premiums are directly linked to capital/asset ratios. Because of uncertainties about the quality of capital and the value of assets, this ratio is itself suspect in many cases and requires adjustment and interpretation. Moreover, a capital/asset ratio, even if reasonably accurate, *by itself* may not provide a satisfactory guide to the future financial viability of a deposit-taking institution. CDIC plans to link its expanded and improved risk-rating system directly to the stages of intervention. As described earlier, this system includes consideration of an institution's capital/asset ratio, but it also includes consideration of other important factors indicating the safety and soundness of an institution. Risk-based deposit insurance premiums for CDIC members, if enacted as proposed in the Government's white paper, would reflect this improved risk-rating system.

As for the costs of intervention in specific situations, these are budgeted separately from CDIC's operating budget. Since 1993, the intervention expenses have been about $6 million per year, which is less than half its level in 1992 and 1991. In large part, this reflects the restructuring of many smaller institutions experiencing financial difficulties and fewer failures in 1993 and 1994. It also reflects several actions to reduce the cost of intervention and the recovery of the costs of special examinations from member institutions.

THE COST OF OPERATIONS

CDIC's operating budget for the year ended March 31, 1995, was $15.3 million. Actual spending totalled $14.1 million. CDIC had 93 approved positions as at March 31. The same budget level has been maintained for the fiscal year 1996. Expenditure levels beyond 1996 are expected to remain about the same or be less, barring significant changes in CDIC's responsibilities or in circumstances affecting its members. The actual level of expenditure in 1994/95 was the same as in 1993/94 (adjusted for a 12-month period) and about 14.5 percent less than actual expenditures in 1992.

Although the level of operating expenditures remains at about $15 million, there has been some redeployment of resources within the total to reflect CDIC's current priorities. Areas that have received more resources include human resource management, by-law development, infrastructure related to risk assessment and management, and field operations dealing with claims and recoveries.

Allocating more resources to some areas has meant economizing in others. This has been possible by improving efficiency, by reducing or discontinuing lower priority activities and by exercising closer cost control. To assist in aligning resources with priorities, budgeting and planning have been further developed to clarify the allocation of resources by function.

ACCOUNTABILITY

CDIC, under its Act, is accountable to Parliament and ultimately to the public. What assurances can it provide to Parliament and the public that it is doing a satisfactory job of meeting its responsibilities?

Unlike a private company, CDIC is not subject to various market tests of its performance. Moreover, much of the information on which CDIC bases its decisions is confidential at the time the decisions are made, and this information necessarily remains confidential for some time thereafter in order to avoid seriously adverse commercial and legal implications. Thus it is difficult for those outside CDIC to review CDIC's decisions on a fully informed basis.

> OSFI AND CDIC HAVE WORKED OUT A "GUIDE TO INTERVENTION FOR FEDERAL FINANCIAL INSTITUTIONS."

The issue of accountability can usefully be divided into two parts. The first deals with the policies and procedures. These do not conflict with confidentiality requirements and can be open to full public scrutiny. The second deals with how well CDIC executes its policies and procedures.

During the past two years CDIC has undertaken a number of initiatives to expose its policies and procedures to external review. The Advisory Committee on Risk Assessment and Intervention Policy, made up of experienced private-sector members with Mr. Peter Maurice of Canada Trust as Chairman, has been reviewing CDIC's activities in the area of risk assessment and management. The Real Estate Advisory Panel, chaired by Mr. Daniel Sullivan of ScotiaMcLeod and consisting of experienced private-sector persons in the real estate business, reviews CDIC's activities and provides advice on the disposition of real estate assets in general and on specific projects in particular. In 1993, CDIC's claims and recoveries activities were reviewed by a team of five senior bankers and six accounting firms. In 1994, a review of CDIC's Legal Division and legal expenditures was completed by a team from Stikeman-Elliott and Ernst & Young. As indicated earlier, a group from the Royal Bank, led by Mr. Paul Taylor, is reviewing CDIC's cash and debt management activities. The Advisory Committee on Consumer Information, made up largely of bankers and trust company officials and chaired by Mr. J.P. Sabourin, is helping to develop an improved system for consumer information, which will be incorporated into a new CDIC by-law. In addition, a study of CDIC's Operations and Finance divisions by Price Waterhouse has been undertaken to seek out ways of improving efficiency and effectiveness and of reducing costs. Outside help and advice have also been sought to assist in assessing CDIC's policies and practices in other areas as shown in Table 1.

In addition to these various activities, CDIC consults actively with members and other interested parties on a wide range of matters, such as the development of its by-laws.

TABLE 1
EXTERNAL REVIEW AND INTERNAL MONITORING OF CDIC ACTIVITIES BY FUNCTION, 1993-1995

Function	*External Review*	*Board Monitoring*
Insurance and Risk Assessment	Advisory Committee on Risk Assessment and Intervention — ongoing	Full Board
Field Operations	Field Operations Review Committee — 1994 Real Estate Advisory Panel — ongoing	Full Board
Consumer Information	Advisory Committee on Consumer Information — 1995	Full Board
Cash and Debt Management	Cash and Debt Management Review Committee — 1995	Full Board
Legal Division	Ernst & Young with Stikeman-Elliott — 1993	Executive Committee
Operations and Finance Divisions	Price Waterhouse — 1995	Executive Committee and full Board
Corporate Communications	Likely Communication Strategies Ltd. — 1993	Executive Committee
Human Resources	Phillips Group — ongoing Ernst & Young — 1993	Employee Relations Committee
Internal Audit	Auditor General — 1994	Audit Committee
Five-Year Special Examination	Auditor General — 1994	Audit Committee and full Board
Procurement and Contracting	Ernst & Young — 1995	Audit Committee

As indicated, within the past two years virtually every aspect of CDIC's policies and procedures has been exposed to review by outside experts. CDIC has also had the benefit of the normal five-year special examination conducted by the Auditor General of Canada. Apart from ongoing arrangements, the time has now come to de-emphasize further reviews and to concentrate instead on sifting, developing and implementing the proposals that have been made to improve CDIC's effectiveness and efficiency. This process is being monitored by the Board of Directors as a whole and through its committees as shown in Table 1.

In addition to exposing its policies and procedures to external review, CDIC has made more information available to the public through its Annual Report, its Summary of the Corporate Plan, its periodic press releases and in its testimony before House and Senate committees.

The need to deal openly with CDIC's policies and procedures stems not only from the need to be accountable, but also from the benefits to be derived from the criticisms and suggestions from outside the organization. CDIC can use all the useful ideas it can collect to improve its activities and greatly appreciates the assistance it has received from outside sources, frequently on a voluntary basis.

The second part of the accountability issue relates to how well CDIC executes its policies and procedures. At present, CDIC's performance in this regard is largely monitored by the Minister of Finance and the Secretary of State (International Financial Institutions) through whom CDIC reports to Parliament.

As far as Parliament and the general public are concerned, CDIC attempts to make available as much information as it can without violating legal constraints and without incurring risks of seriously adverse commercial and legal repercussions. Requiring members themselves to disclose more and better information on their operations and financial viability to the public on a regular basis would help the public to make better assessments not only of the performance of member institutions but also of CDIC.

THE RELATIONSHIP BETWEEN OSFI AND CDIC

The institutional framework within which Canada's financial system functions includes a variety of agencies. These differ with respect to purpose, political jurisdiction, authority and lines of reporting and accountability. Table 2 presents a simplified picture of the agencies concerned with regulation, supervision, deposit insurance, and investor/consumer protection.

TABLE 2
REGULATION, SUPERVISION, DEPOSIT INSURANCE, AND INVESTOR/CONSUMER PROTECTION IN THE CANADIAN FINANCIAL SYSTEM

	Regulation and Supervision		*Deposit Insurance and Investor/Consumer Protection*		
Products	Federal Agency	Provincial Agency	Federal Agency	Provincial Agency	Private Agency
Mutual Funds, Stocks and Bonds		✘			CIPF / IDA
Pensions	OSFI	✘			
Property and Casualty Insurance	OSFI	✘			PACIC
Life Insurance and Health Benefits	OSFI	✘			CompCorp
Deposits	OSFI	✘	CDIC	QDIB	
Credit Union Deposits		✘		✘	

	Regulation and Supervision	
Institutions	Federal Agency	Provincial Agency
Payment System	CPA	
Stock Exchange		✘
Investment Dealers		✘
Banks	OSFI	
Trust and Loan Companies	OSFI	✘
Insurance Companies	OSFI	✘
Pension Funds	OSFI	✘
Credit Unions		✘
Credit Union Centrals	OSFI	✘

CDIC
Canada Deposit Insurance Corporation

CIPF
Canadian Investor Protection Fund

CompCorp
Canadian Life and Health Insurance Compensation Corporation

CPA
Canadian Payments Association

IDA
Investment Dealers Association

OSFI
Office of the Superintendent of Financial Institutions

PACIC
Property and Casualty Insurance Compensation Corporation

QDIB
Quebec Deposit Insurance Board

As is apparent, there are many interfaces among the agencies that make up this system. Although some of these interfaces are closer than others, it is important that all the agencies in the system collaborate fully in order to make the system as effective and efficient as possible. CDIC accepts this as one of its responsibilities and is committed to this objective.

CDIC's closest interface is with OSFI and provincial regulators. As is clear from Table 2, CDIC insures deposits and specifies the terms on which insurance is made available; it does not insure institutions, nor is it a regulator or a supervisor of deposit-taking institutions. This latter responsibility lies with OSFI and provincial regulators. That said, in order to meet its responsibilities as an insurer effectively, CDIC must necessarily collaborate very closely with OSFI and provincial regulators and supervisors.

It has sometimes been suggested that OSFI and CDIC fail to co-ordinate their activities, that their activities overlap and duplicate one another, and that having two agencies adds unnecessarily to the burdens and costs of member institutions. Following from this perception, the suggestion has also been made by some that the two agencies should be combined in one form or another or one made clearly subordinate to the other. Sometimes it is proposed that most of CDIC's functions be taken over by OSFI, i.e., a return more or less to the situation prevailing prior to 1987. More often during the past decade, it has been suggested that the 1987 reforms did not go far enough and that OSFI's functions should be largely taken over by CDIC.

There is, of course, some overlap of effort between OSFI and CDIC as there is between provincial regulators and CDIC. But that is essentially irrelevant to the question at hand. The relevant question is whether such overlap is productive or unproductive, i.e., whether the benefits outweigh the costs. Vague generalities about duplication and overlap by themselves are unhelpful. They also ignore the widespread duplication found throughout the private and public sectors in virtually every field. Such duplication arises for good reason: the benefits of having checks and balances; of bringing into play different perspectives, incentives and skill sets; of having an independent second opinion; and of satisfying simple prudential concerns.

TABLE 3
ROLES IN THE REGULATION, SUPERVISION AND DEPOSIT INSURANCE FOR DEPOSIT-TAKING INSTITUTIONS

	CDIC	*OSFI*	*Provincial Regulators*
Intervention, by stages*			
0. No problems/normal activities	✓	×	×
1. Early warning	×	×	×
2. Risk to financial viability or solvency	×	×	×
3. Future financial viability in serious doubt	×	×	×
4. Non-viability/insolvency imminent	×	×	×
Liquidation	×	✓	✓
Asset disposal and monitoring of liquidation process	×	Not applicable	
Litigation	×		
Standards, By-laws, and CDIC Act administration	×		

* as defined in Appendix 2
✓ minor duplication
× regulatory or insurance activities

Table 3 provides a breakdown of CDIC's major activities and relates these to the activities of OSFI and provincial regulators. Well over two-thirds of CDIC's operating and intervention expenses occur in areas where there is little overlap with OSFI and provincial regulators. These areas include activities related to the liquidation process, by-laws, and CDIC Act administration. In the remaining area concerned with monitoring and intervention, as described in Appendix 2, only minor duplication occurs between CDIC and the regulators vis-à-vis members without problems and subject to normal supervisory activities (stage 0). Most of the duplication that occurs arises as institutions move through the spectrum from "early warning" (stage 1) to "insolvency" (stage 4) and as the responsibility and activity shifts more and more to CDIC and away from the regulators, reflecting the increase in CDIC's financial exposure. At the most, this range of activity accounts for roughly one-quarter of CDIC's total operating budget, including intervention costs — well below one percent of CDIC's premium income. It is fantasy to suggest that the cost of deposit insurance and the cost of regulation and supervision could be materially reduced by eliminating overlap and duplication between OSFI and CDIC.

What about the internal costs to CDIC members of having two agencies? At present, the only information CDIC receives directly from members is routine financial statements and the annual returns on Standards and on the level of insured deposits. These returns are assessed by the regulators as part of their annual examinations. In addition, under exceptional circumstances, CDIC may request information from members after determining that it is not available from the Bank of Canada or from regulators. Such requests have been very rare. These exceptions apart, *no* member without problems and functioning under normal supervisory arrangements (stage 0) files *any* information directly with CDIC.

If and when intervention begins and becomes more active (stages 1 to 4), CDIC may request information directly from members, but only after determining that the information is not already available in a satisfactory form from the Bank of Canada, OSFI or a provincial regulator. And as mentioned earlier, CDIC may undertake special and preparatory examinations.

What about duplication between CDIC's Standards and OSFI's Guidelines? The Standards and the Standards Assessment and Reporting Program (SARP) were developed by the two agencies working in full collaboration with each other and in close co-operation with deposit-taking institutions. The then Deputy Superintendent of Financial Institutions, Mr. Hammond, chaired the committee that developed CDIC's Standards. Another Deputy Superintendent, Ms. Labarge, served on the committee that developed the Standards Assessment and Reporting Program. Furthermore, both the Superintendent and the Deputy Superintendent supported the Standards and their implementation as they were reviewed and eventually approved by CDIC's Board of Directors. Avoiding unwarranted duplication and administrative costs has been and remains a priority for both agencies as the Standards and Guidelines evolve in future. To this end, a review process has been put in place, including member institutions as well as OSFI and CDIC, to evaluate the first year of experience in applying SARP and to consider what, if any, adjustments might be made to streamline procedures, avoid duplication and reduce costs.

> AVOIDING UNWARRANTED DUPLICATION AND ADMINISTRATION COSTS HAS BEEN AND REMAINS A PRIORITY FOR BOTH AGENCIES.

The central questions when discussing overlap and duplication are whether the benefits from this degree of overlap and duplication are more than justified by the cost, and whether, with better co-ordination, the benefits could be maintained at a lower cost. These are precisely the issues that the two agencies address on an ongoing basis through the Liaison Committee and other channels discussed below.

What are the arguments against unification? There are several. First, as already emphasized, how and when to intervene is essentially a matter of judgement. The judgements made are very important. They have a substantial impact on the property rights of individuals and the cost of deposit insurance to the community. They also have wider implications for the stability, competitiveness and other characteristics of the financial system. The judgements arrived at, and the decisions made, on average, are likely to be better, and to be more acceptable, if they reflect two independent assessments rather than one, based upon a common core of information, which is as up-to-date and as comprehensive as possible.

Secondly, having two independent agencies reduces the moral hazard of assigning responsibility for supervision and regulation along with insuring deposits exclusively to one agency. Providing regulators with powers to tax deposits to cover potential delays, misjudgements and mismanagement is as questionable as providing the deposit insurer with powers to avoid losses by potentially suffocating the system with restrictions and regulations and undertaking premature interventions. A better balance is likely to be struck by having two agencies working in collaboration with each other but each pursuing its own separate mandate. Under present arrangements, the system is not solely dependent upon the judgements, priorities and incentives of one agency single-mindedly pursuing its own agenda.

This was recognized in the Blue Paper in 1986, which stated that by ensuring that the views and concerns of the deposit insurer are given full weight in decisions on the nature and timing of supervisory actions, the supervisor's will to act will be strengthened. This was also an important concern raised by Mr. Justice Estey.

There are other advantages as well. With two agencies it is easier to deal with differences in their jurisdictions. As shown in Table 2, OSFI deals with life and health insurance, property and casualty insurance, and pensions functioning under federal law as well as some credit union centrals. CDIC does not. But CDIC does deal with provincially chartered deposit-taking institutions that are outside OSFI's jurisdiction.

In addition, as a Crown corporation, CDIC is able to bring into its decision-making process an experienced group of private-sector people to work with the officials on its Board. The outside directors are a very distinguished group with a wide range of experience in banking, finance, real estate, accounting, auditing, insolvency, corporate law and management. They are not there as consultants or advisors. They are full partners in the decision-making process and participate actively and directly in it on the same basis as the government officials on the Board.

What about the views of others, such as the Wyman Report in 1985, the Blue Paper and the Estey Report in 1986, and the Economic Council of Canada Report in 1987?

None of these reports supports a return to the passive CDIC system prevailing before 1987. Under that system, CDIC was essentially a paying agency and a collection agency, the Board consisted entirely of government officials, and premium rates were set by the Board to cover costs. Virtually all the reports cited agree that CDIC should largely have the mandate and powers it now has. Some, such as the Estey Report, go further and argue that CDIC's mandate and powers should be expanded to largely absorb OSFI's responsibilities.

These two broad conclusions apart, it is somewhat more difficult to discern a clear consensus on specific aspects of CDIC's mandate and powers. Nonetheless, these reports generally support the following propositions:

(i) It is important that CDIC pursue its mandate in such a manner as to minimize its exposure to loss.

(ii) To fulfil its mandate, it is essential that CDIC, with ministerial approval as appropriate, have the power to set standards and the terms on which insurance is provided, discretion to decide which applicants obtain insurance, discretion to cancel insurance, as well as discretion to set premiums and impose penalties.

(iii) To function effectively, CDIC requires powers to monitor the performance of institutions and to undertake special examinations when called for in CDIC's view. The Economic Council study in fact goes further, arguing that CDIC should be actively involved in the normal supervision of its members.

(iv) In order to minimize its exposure to loss, CDIC must actively assess and manage its risks, and to do so effectively it must have access to all the information it needs about member institutions.

The complex regulator/deposit insurance system in the U.S. is so different from the Canadian system that it is difficult to draw lessons from their experience that are relevant to Canada. Suffice it to say that the FDIC has all the powers that CDIC has as well as others that give it a stronger position than CDIC in dealing with impaired institutions.

All this, of course, does not obviate in any way the need for close co-operation between OSFI and CDIC. The Chairman of CDIC, the Superintendent of Financial Institutions, and their senior colleagues are personally committed to do everything they can to ensure that the tensions mentioned earlier remain salutary and creative. Moreover, important mechanisms are in place to facilitate easy and frequent consultation and collaboration between the two agencies. Both the Superintendent and a Deputy Superintendent of OSFI are on CDIC's Board and play an important part in its deliberations and co-ordination decisions. A strategic alliance document is in place providing a framework for OSFI and CDIC to co-ordinate their related activities by promoting consultation and the exchange of information. A working group has been established to ensure implementation of the document by developing protocols and so forth. The Chairman of CDIC is a member of the Financial Institutions Supervisory Committee chaired by the Superintendent of Financial Institutions, and both are members of the Senior Advisory Committee chaired by the Deputy Minister of Finance. Both meet regularly with the Secretary of State (International Financial Institutions). Further, the OSFI/CDIC Liaison Committee, jointly chaired by the Superintendent and the Chairman and including, in addition, three senior officers from each agency, deals directly with issues of substance as well as with frictions as they arise.

In order to improve further the relationship between CDIC and OSFI, as well as to dispel public perceptions of unproductive duplication and discord, the Chairman of CDIC and the newly appointed Superintendent in September set out a specific agenda of issues to be addressed by the Liaison Committee during 1995, including the following:

(i) resolution of reporting issues arising from section 29 of the CDIC Act;

(ii) further development of the arrangements under the strategic alliance protocol governing relationships between the two agencies;

(iii) assembly of a common database under the Financial Information Committee chaired by OSFI;

(iv) completion of the Assessment and Reporting Program for CDIC's Standards of Sound Business and Financial Practices; and

(v) further development of the OSFI/CDIC "Guide to Intervention for Federal Financial Institutions" recently worked out jointly by the two agencies.

In addition to these broad topics, the Liaison Committee will continue to deal with particular issues as they arise.

In all this, emphasis is being placed on ensuring that the two agencies work well together as a team instead of making one subordinate to the other and thereby altering the balance of priorities in the system between the cost of insurance and other considerations.

As has been described, during the past two years CDIC has been actively grappling with the three main issues facing the deposit insurance system in this country: the cost of deposit insurance, accountability questions and the OSFI/CDIC relationship. Progress in these areas has depended heavily upon the excellent and conscientious work of its employees. At its June 1995 meeting, the Board of Directors passed a resolution reiterating its appreciation to the management and staff for their hard work and also for the quality of the work done.

It is also appropriate to express the Board's appreciation to the members of the Advisory Committee on Risk Assessment and Intervention Policies, the Field Operations Review Committee, the Real Estate Advisory Panel, the Advisory Committee on Consumer Information and the Cash and Debt Management Review Committee. All have contributed greatly to developing and improving CDIC's activities, and, apart from CDIC employees, all have served with little or no financial remuneration from CDIC.

During the past year, four members of the Board retired: Ms. Susan Evans and Mr. Ron Robertson, whose terms expired at the end of 1994, Mr. Michael Mackenzie, who retired as an *ex officio* member when his term as Superintendent of Financial Institutions expired in June 1994, and Ms. Suzanne Labarge, who resigned as Deputy Superintendent of Financial Institutions in March 1995. With one exception, all were members of the Board since the new CDIC Act was passed in 1987 and all, without exception, contributed greatly to the development of the institution and its work since then during their terms in office.

Three new members were welcomed to the Board: Mr. Garfield Emerson, a lawyer experienced in the areas of investment banking and corporate finance and Chairman and Chief Executive Officer of Rothschild Canada Limited; Mr. Colin MacDonald, a partner of the legal firm Howard, Mackie, and expert in the fields of corporate and commercial law; and Mr. John Palmer, the newly appointed Superintendent of Financial Institutions.

During the fiscal year 1994/95, the Board of Directors met ten times. Two of these meetings were held in Victoria (one) and Toronto (one), five were held in Ottawa, and three were specially convened meetings conducted by telephone. Apart from its regular business agenda, the Board arranged to have discussions with Mr. D. Sullivan, Chairman of CDIC's Real Estate Advisory Panel, and Mr. P. Maurice, Chairman of CDIC's Advisory Committee on Risk Assessment and Intervention Policies. The Board also met with provincial regulators dealing with this area: Mr. R. Hobart in British Columbia and Mr. B. Cass in Ontario. As well, it met during its regular business meetings with the Auditor General of Canada to discuss his special examination report and with Senator M. Kirby to review the report of the Standing Senate Committee, which he chaired, entitled "Regulation and Consumer Protection in the Federally Regulated Financial Services Industry: Striking a Balance." In addition, the Board met with the Secretary of State (International Financial Institutions) and with representatives of the Canadian Bankers Association and the Trust Companies Association of Canada.

G.L. Reuber
Chairman of the Board

J.P. Sabourin
President and Chief Executive Officer

APPENDIX I

The Rationale for Deposit Insurance

The original rationale for having deposit insurance was to guarantee the nominal value of the greater part of the domestic money supply, i.e., deposits. Put another way, deposit insurance was intended to ensure that the public could have as much confidence in a Canadian dollar on deposit in a bank or trust company as in a dollar in its wallet. Both have the same ultimate guarantee — the creditworthiness of the country.

Because of this guarantee, it was argued, the public would have no cause to worry whether it held currency or deposits. As a result, much greater use would be made of deposits, which had many practical advantages over currency as money. Equally important, "runs on banks" would be eliminated since the safety or otherwise of the institution in which the deposit was held was irrelevant to the safety of the nominal value of the deposit to its holder.

In his testimony before the Senate Committee, P. Bartholomew, Director, Bank Research, U.S. Congressional Budget Office, was asked about the goals of deposit insurance. After acknowledging that the emphasis shifts with different times, he indicated that, in his view, protecting and stabilizing the payments system was the most important.

Pushed to its conclusion, the logic of this case is that all deposits, in their use as substitutes for currency, should be fully insured to unlimited amounts — just as there is no limit on the Government's backing of its currency, either as a medium of exchange or as a store of value. The logic breaks down, however, as soon as deposits earning interest are included in the money supply and are insured. Such deposits, like currency, can be used to settle transactions and as a store of value. However, unlike currency, they earn interest. Moreover, in many cases their use is subject to restrictions, such as giving notice or agreeing not to use them for an agreed term. Their "money-ness," so to speak, is reduced, and their function as a financial asset for investment purposes becomes more prominent. How much their "money-ness" is reduced depends upon the rate of return on the deposits and the restrictions placed on their use.

CDIC's insured deposits at the end of 1994 totalled over $308 billion. If one uses M1[1] as a reasonable proxy of the money supply when deposits are defined more narrowly in terms of their "money-ness," it is apparent that CDIC's insurance coverage extends well beyond what is required to ensure the credibility of deposits as the equivalent of currency and provides substantial coverage to deposits as investment assets. M1 at the end of 1994 totalled $54.5 billion.

CDIC's insurance coverage is based on a compromise between the objectives of guaranteeing the nominal value of money and investor/consumer protection. The compromise is reflected in limiting the guarantee to $60,000 and extending the coverage to deposits having a term of up to five years. This leaves open the question of where to draw a line. How far should insurance be extended beyond its present boundaries?

1 *M1: Currency outside banks and chartered bank Canadian dollar demand deposits (less private-sector float) excluding Government of Canada deposits plus adjustments to M1.*

The case for emphasizing the function of deposit insurance as guarantor of the nominal value of money as compared to the investor/consumer protection function is strongly reinforced by recognizing that there is no practical substitute for deposits as money in the payments system. Governments do, however, provide a fully guaranteed substitute for non-deposit financial assets in which the public can invest its savings, i.e., government treasury bills and bonds.

APPENDIX 2

GUIDE TO INTERVENTION FOR FEDERAL FINANCIAL INSTITUTIONS

The Office of the Superintendent of Financial Institutions (OSFI) was established in 1987 and is responsible, among other things, for regulating and supervising banks, federally incorporated trust companies and loan companies, and federally incorporated or registered insurance companies. OSFI has primary responsibility for supervisory actions with respect to an institution.

The Canada Deposit Insurance Corporation (CDIC) is a federal Crown corporation that insures deposits in both federal and provincial deposit-taking institutions (banks, trust companies and loan companies) that are its members. In order to fulfil its legislated "objects," control risk to the Deposit Insurance Fund and minimize the exposure of CDIC to loss, CDIC may take certain measures in respect of its member institutions.

Insofar as federally incorporated deposit-taking institutions are concerned, the intervention aspects of OSFI and CDIC are closely intertwined, and a high level of co-ordination and co-operation between the two agencies is expected. It should be stressed that OSFI is the regulator and CDIC is the insurer. OSFI is a primary source of information for CDIC, and CDIC relies on OSFI to examine and report annually on the financial condition of CDIC's member institutions.

Insurance companies supervised by OSFI include domestic life insurance companies, property and casualty insurance companies, and fraternal benefit societies as well as foreign insurance companies and fraternal benefit societies operating in Canada on a branch basis. The Canadian Life and Health Insurance Compensation Corporation (CompCorp) and the Property and Casualty Insurance Compensation Corporation (PACIC) are industry-run compensation corporations set up to protect policyholders of life and health insurers and property and casualty insurers respectively. These organizations are not federal government agencies; therefore, this appendix does not describe their activities.

The financial institution statutes administered by OSFI and the *Canada Deposit Insurance Corporation Act* provide a wide range of discretionary intervention powers to address situations that give OSFI and, when one of CDIC's member institutions is involved, CDIC cause for concern. The objective of the intervention process is to identify areas of concern early and intervene effectively to minimize problems and losses to depositors and other creditors, as the case may be, of financial institutions.

The table that follows provides an outline of the intervention processes applied to federally regulated deposit-taking institutions by OSFI and CDIC. It incorporates the measures proposed in the Department of Finance's white paper.

The objective of this table is to promote awareness and enhance transparency of the system of intervention for federal deposit-taking financial institutions and other interested parties. The table summarizes the circumstances under which certain intervention measures may be expected, and it describes the co-ordination mechanisms in place between OSFI and CDIC when dealing with federally regulated deposit-taking institutions.

Over time, the table will be updated to expand, where appropriate, on the circumstances under which action may be taken, including the authorities' risk-rating systems, for example. In addition, more detail on the nature of extended and special exams carried out by OSFI and CDIC will be considered.

The table does not specifically describe the system of intervention for life or property and casualty insurance companies supervised by OSFI or the co-ordination mechanisms in place between OSFI and the two insurance compensation funds. However, they are similar to those described for deposit-taking institutions.

The table outlines what financial institutions can normally expect from OSFI and CDIC. However, circumstances can vary significantly from case to case, and this table should not be interpreted as limiting the scope of action that may be taken by OSFI or CDIC in dealing with specific problems or institutions. It is important to note that OSFI's and CDIC's intervention process is not a rigid regime under which every institution or every situation is necessarily addressed with a predetermined set of actions.

No problems/Normal activities — Routine supervisory and regulatory activities pursuant to mandates of OSFI and CDIC. In addition, both agencies conduct research and analyze industry-wide issues and trends, appropriate to their respective functions.

OSFI Activities

Incorporation of new financial institutions and issuance of orders to carry on business:

- review and assess all relevant documents and information
- make recommendation to Minister.

Review and assess wide range of applications and requests for regulatory consents required by statutes including

- corporate reorganizations
- changes in ownership
- acquisitions of other financial institutions
- transfers of business.

Ongoing monitoring of supervised institutions via information obtained from statutory filings and financial reporting requirements:

- consider compliance with statutory and other regulatory requirements
- assess financial situation and operating performance.

Periodic on-site examinations of supervised institutions as required by statutes:

- inform management and board of directors of findings
- management requested to provide copy of report to external auditors
- require that concerns be addressed by institutions
- monitor remedial measures if required.

Statutory and Inter-Agency Activities/Responsibilities

OSFI informs Minister of status of supervised institutions.

OSFI reports to CDIC on post examination results for individual deposit-taking member institutions and confirms material compliance with standards of sound business and financial practices.

Monthly OSFI-CDIC inter-agency meeting held to discuss corporate governance and activities of member institutions.

CDIC Activities

Process application for policy of deposit insurance and obtain appropriate guarantees and undertakings.

Ongoing risk assessment of selected individual institutions via:

- information available from OSFI, the Bank of Canada and, where necessary, individual financial institution reports
- contacts with regulators
- rating agency results
- review and analysis of results of annual examinations of federal member institutions carried out by OSFI
- other sources.

Ensure compliance with CDIC Act and standards of sound business and financial practices by-laws, policy of deposit insurance and CDIC by-laws.

Stage 1 — Early warning — Deficiency in policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2. Situation is such that it can be remedied before it deteriorates into a Stage-2 problem.

OSFI Activities/Intervention

Management and board of directors of financial institution are formally notified of concerns and are requested to take measures to rectify situation.

Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations.

OSFI may require that institution's external auditor enlarge scope of examination of institution's financial statements or that external auditor perform other procedures, and prepare a report thereon. OSFI may assign cost of external auditor's work to institution.

Statutory and Inter-Agency Activities/Responsibilities

Activities below are in addition to those previously mentioned.

OSFI and CDIC coordinate on requested remedial measures to deal with concerns and on establishment of time frame within which situation should be remedied.

OSFI's post-examination report to CDIC identifies issues requiring remedial measures, including any material breaches of standards of sound business and financial practices, regardless of whether such issues are treated as formal qualifications to OSFI's report. The status of such issues is reviewed at monthly inter-agency meetings.

CDIC notifies OSFI of contemplated intervention measures, discusses results of special examinations with OSFI, and coordinates communications with the institution about its status and placement on "watch list."

CDIC Activities/Intervention

CDIC risk assessment and interventions listed here are in addition to those mentioned previously.

Depending on CDIC's assessment of situation,

- CDIC may request additional information from OSFI if available, or from the institution if necessary
- CDIC may communicate its concerns to institution and may place it on its preliminary "watch list" and inform institution of that fact
- If circumstances warrant, CDIC may conduct or commission a special examination to obtain more information on the member institution and to be in a position to assess the extent of the institution's problem and CDIC's exposure
- Institution may pay higher CDIC premiums, related to increased risk.

CDIC may levy a premium surcharge if the institution does not remedy any of the following:

- failure to follow CDIC's Standards of Sound Business and Financial Practices
- failure to comply with its governing statute
- failure to fulfil the terms of an undertaking provided to CDIC
- failure to maintain records and information pursuant to provisions of the policies of deposit insurance.

CDIC may request an undertaking from institution or from entity that controls the institution to rectify areas of concern.

Stage 2 — Risk to financial viability or solvency — Situation or problems that, although not serious enough to present an immediate threat to financial viability or solvency could deteriorate into serious problems if not addressed promptly, as evidenced by:

- concerns over the institution's ability to meet capital and surplus, or vesting requirements on an ongoing basis
- deterioration in the quality or value of assets, or the profitability of the business undertaken by the financial institution
- undue exposure to off-balance sheet risk
- poor earnings or operating losses or questionable reporting of earnings or expenses
- low level of accessible liquidity or poor liquidity management in context of the institution's situation
- less than satisfactory management quality or deficiency in management procedures or controls (including material breaches of standards of sound business and financial practices)
- other concerns arising from:
  - a financially weak or troubled owner
  - rapid growth
  - credit rating downgrades
  - non compliance with regulatory requirements
  - systemic issues.

OSFI Activities/Intervention

Senior OSFI officers meet with management and board of directors of financial institution and with external auditor of institution to outline concerns and discuss remedial actions. Management and board of directors are formally notified of the fact that institution is being placed on the regulatory "watch list."

External auditor of institution may be required to perform a particular examination relating to the adequacy of the institution's procedures for the safety of its depositors, other creditors or shareholders, or any other examination that may be required in the public interest, and report thereon to OSFI. OSFI may assign cost of external auditor's work to institution.

Scope of on-site examination and/or frequency of on-site examinations may be enlarged or increased.

Monitoring of financial institution is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted.

Statutory and Inter-Agency Activities/Responsibilities

Activities below are in addition to those previously mentioned.

CDIC and OSFI coordinate communications with the institution.

OSFI immediately notifies CDIC of situation when uncovered, with a formal report to follow.

Institution is placed on "watch list."

OSFI sends a "watch list" progress report at least monthly to CDIC and Minister; report is discussed in regular meeting with Minister.

Progress on remedial measures discussed at monthly OSFI/CDIC inter-agency meeting.

Institution may be discussed at Financial Institutions Supervisory Committee.

Contingency planning commences.

CDIC Activities/Intervention

CDIC risk assessment and intervention listed here is in addition to those previously mentioned.

CDIC informs management and board of directors of member institution of situation and of the fact that institution is being placed on CDIC's "watch list" leading to more vigorous monitoring.

If institution is in breach of CDIC's Standards of Sound Business and Financial Practices, policy of deposit insurance, by-laws, CDIC may send the CEO or the Chairman of the institution a formal report pursuant to section 30 of the CDIC Act.

CDIC may advise institution that if CDIC is not satisfied with progress made in rectifying the situation referred to in the aforementioned formal report, CDIC may seek (federal institutions) Minister's permission to terminate the institution's policy of deposit insurance.

Stage 2 — Risk to financial viability or solvency (continued)

OSFI Activities/Intervention	*Statutory and Inter-Agency Activities/Responsibilities*	*CDIC Activities/Intervention*
Institution must produce a business plan acceptable to both OSFI and CDIC that reflects appropriate remedial measures that will rectify problems within a specified time frame. Business restrictions appropriate to circumstances may be imposed on institution via undertakings provided by the institution, restrictions on the institution's order to carry on business or via direction of compliance covering such matters as: ▪ payments of dividends or management fees ▪ lending or investment powers ▪ level of deposits and other indebtedness		

Stage 3 — Future financial viability in serious doubt — Situations or problems described at Stage 2 are at a level where, in the absence of mitigating factors such as unfettered access to financial support from a financially strong financial institution parent, unless effective corrective measures are applied promptly, they pose a material threat to future financial viability or solvency.

OSFI Activities/Intervention

Management, board of directors and external auditor of institution are informed of problems.

A special audit may be required from an auditor other than the institution's own external auditor if OSFI is of the opinion that it is required. OSFI may assign cost of external auditor's work to institution.

If financial institution is a deposit-taking institution, examination and monitoring responsibility is transferred to an internal special work-out group within OSFI.

Enhanced examinations may be carried out, focussing on particular areas of concern such as asset or loan security valuations. Such examinations may involve any of the following:

- substantial increase in sampling of credit files
- more in-depth review of files
- engagement of specialists or professionals to assess certain areas such as quality of loan security, asset values, sufficiency of reserves, etc.

Depending on situation, OSFI examination staff may be posted at financial institution to monitor situation on an ongoing basis.

Business plan must reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (See Stage 4).

Statutory and Inter-Agency Activities/Responsibilities

Activities below are in addition to those previously mentioned.

OSFI immediately notifies CDIC of any material new findings or developments, with a formal report to follow.

Results and data from enhanced examinations, expanded audits, etc. and from enhanced monitoring are discussed with CDIC.

If financial institution is a deposit-taking institution and it is deemed to be, or is about to become, non viable, OSFI sends a formal report to CDIC to that effect.

CDIC Activities/Intervention

CDIC risk assessment and interventions listed here are in addition to those mentioned previously.

CDIC may seek Minister's permission to terminate the institution's policy of deposit insurance.

In order to minimize risk to Deposit Insurance Fund, CDIC may provide institution with temporary financial assistance or provide support for a restructuring transaction by such measures as:

- acquiring assets from the institution
- making or guaranteeing loans or advances with or without security, to the institution
- taking or guaranteeing a deposit with the institution.

Following receipt of formal OSFI report to the effect that institution has ceased, or is about to cease, to be viable, CDIC may initiate a restructuring by asking the Minister of Finance to recommend that the Governor in Council issue a "FIRP" order, under the financial institutions restructuring provisions of the CDIC Act.

Stage 3 — Future financial viability in serious doubt (continued)

OSFI Activities/Intervention

OSFI may order institution to increase its capital.

Monitoring of institution may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.

Follow-up examinations may be carried out as required.

Depending on circumstances, business restrictions may be enhanced or additional ones imposed on institution.

Depending on circumstances, pressures may be exerted on management and board of directors to restructure institution or to seek out an appropriate prospective purchaser.

OSFI develops contingency plan in order to be able to take rapid control of the assets of the financial institution if changes in circumstances so warrant.

Statutory and Inter-Agency Activities/Responsibilities

CDIC Activities/Intervention

Stage 4 — Non-viability/ Insolvency imminent — Severe financial difficulties resulting in

- failure or imminent failure to meet regulatory capital and surplus requirements in conjunction with inability to rectify the situation within a short period of time

OR

- statutory conditions for taking control being met

OR

- failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time.

OSFI Activities/Intervention

New business restrictions may be imposed on institution or existing restrictions may be expanded.

Pressure to rectify situation is exerted on management and board of directors of financial institution through frequent meetings with senior OSFI officers.

OSFI notifies management and board of directors of institution of intended regulatory intervention measures that will be taken unless situation is rectified imminently.

If statutory conditions for taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of depositors and other creditors, OSFI may take control of the assets of the institution for a short period.

If statutory conditions exist, such as failure to comply with order to increase capital, and subject to representation to the Superintendent, OSFI may maintain control of assets or take control of the institution.

Statutory and Inter-Agency Activities/Responsibilities

Other relevant regulatory agencies (provincial or foreign) are notified of proposed regulatory intervention measures to be applied to institution.

If the institution meets any of the conditions that would make it eligible to be wound up pursuant to the *Winding up Act*, the institution itself may voluntarily seek a winding-up order. Alternatively, either OSFI or CDIC, working in collaboration with the other agency, may seek a winding-up order. Minister may overrule this decision on grounds of public interest only.

All intervention measures applied to deposit-taking institutions at this stage, whether initiated by OSFI or CDIC, are the subject of close coordination between the two agencies.

CDIC Activities/Intervention

If CDIC is of the opinion that the institution is or is about to become insolvent, CDIC may seek Minister's approval to cancel the institution's policy of deposit insurance.

MAJOR MEMBER INTERVENTIONS

In 1994/95, two federally regulated members failed: Confederation Trust Company and Income Trust Company. Both required CDIC to undertake a payout of the respective members' insured deposits. During the past year, CDIC also monitored the sale process of North American Trust Company given its economic interest in this member.

CONFEDERATION TRUST COMPANY

Confederation Trust Company (CTC), a federally incorporated trust company and a member institution of CDIC with assets of some $790 million, had shown financial deterioration in the early 1990s as a result of its significant level of non-performing assets and continuing operating losses.

CTC had been a concern of CDIC's Board of Directors even before becoming a federal trust company in April 1991. The company was included on CDIC's watch list because of continuing concerns about its high level of loan arrears and continuing losses.

In early 1994, the problems of the parent company, Confederation Life Insurance Company (CLIC), were made known to the public as it began to seek a partner for a strategic alliance. Discussions with a major life insurance company did not achieve satisfactory agreement, nor did a subsequent attempt by a consortium of life insurance companies.

On August 11, 1994, in the absence of other viable options for CLIC and ultimately for CTC, the Secretary of State (International Financial Institutions) directed the Acting Superintendent of Financial Institutions to take control of the assets of both companies. Applications were made on August 15, 1994, to the Ontario Court of Justice to wind up the operations of both CLIC and CTC, and such applications were granted. Under a separate order, the court appointed Price Waterhouse and OSFI provisional liquidators for CTC and CLIC respectively. CTC's deposit liabilities totalled approximately $692.8 million, of which approximately $13.8 million (representing the deposits of some 732 clients) was not covered by deposit insurance. CDIC negotiated with the National Bank of Canada for the transfer of the insured deposits on October 3, 1994.

INCOME TRUST COMPANY

Income Trust Company (ITC) was a federally incorporated trust company with assets of approximately $220 million. The risk profile of ITC increased significantly through 1993 as a result of increases in the level of non-performing loans and continued poor operating results.

Due to concerns about continued losses and the erosion of the company's capital base, CDIC undertook a special examination of ITC's assets in 1994. The results of the examination indicated that additional provisions for loan losses were required, causing the company materially to exceed its required borrowing multiple. Throughout 1994 and in early 1995, the company attempted, without success, to attract outside investment. When it became clear that the company was unable to rectify its capital deficiency, CDIC, pursuant to section 30 of the CDIC Act, advised ITC that it was not following the Standards of Sound Business and Financial Practices and that it had breached a condition of its policy of deposit insurance. The company was instructed to rectify the breach of its policy and achieve compliance with the Standards by March 1, 1995, failing which its policy of deposit insurance would be terminated.

On March 1, 1995, ITC's policy of deposit insurance was terminated pursuant to section 31 of the Act. On the same date, OSFI took control of the company. On March 6, 1995, a winding-up order was issued by the Ontario Court of Justice.

ITC had approximately 11,200 customers holding total deposit liabilities of $195.1 million, of which 170 customers held uninsured balances of $1.1 million. As a result of a competitive bidding process, CDIC transferred the insured deposit base to Hongkong Bank of Canada on March 27, 1995.

North American Trust Company

In 1992, CDIC facilitated the sale of North American Trust (NAT), formerly First City Trust, to the North American Life Assurance Company (NAL). In this transaction, CDIC provided a loan of $175 million to NAT's parent, the newly formed NAL Trustco Inc., and made available certain capital and income deficiency guarantees and other related guarantees. For its part, NAL injected $51 million in NAT.

During the past year, NAL announced that it was selling its trust subsidiary (NAT) and that it would no longer be providing it with any capital support. Because of its economic interest in NAT, CDIC is closely following the sale process.

INITIATIVES TO IMPROVE RISK ASSESSMENT AND RISK MANAGEMENT

In order to minimize CDIC's exposure to loss, three of CDIC's major responsibilities within the terms of its mandate are the assessment of the risks of insuring the deposits of CDIC's members, the management of these risks and the promotion of CDIC's Standards of Sound Business and Financial Practices for member institutions. These functions are carried out by CDIC's Insurance and Risk Assessment Division. The Division requires access to sufficient information to identify the institutions that exhibit a high-risk profile, determine the extent to which they pose a risk to the Deposit Insurance Fund and, in conjunction with regulatory bodies, develop action plans to mitigate CDIC's exposure to loss.

As noted in the General Observations section of this report, CDIC has been an active participant in the steps being taken by the Superintendent of Financial Institutions and provincial regulators to improve the regulatory system. A considerable effort is currently being made by the Insurance and Risk Assessment Division to strengthen CDIC's capacity to make judgements about the timing of interventions. Work is also continuing in the development of procedures for the proper implementation and management of the CDIC/OSFI strategic alliance agreement. This agreement provides a framework to co-ordinate activities and improve the effectiveness and efficiency of both organizations as well as avoid unproductive overlap and duplication.

In addition, the Division is involved in developing a more comprehensive and more fully articulated system of risk assessment and rating for its members. Valuable assistance is being provided by the Advisory Committee on Risk Assessment and Intervention Policies, chaired by Mr. Peter C. Maurice, Deputy Chairman, The Canada Trust Company. CDIC is also working closely with the Office of the Superintendent of Financial Institutions on a more credible, transparent and pre-specified structure for early intervention and resolution of problem institutions.

As part of CDIC's ongoing initiatives to improve its information management capabilities and operational capacity to assess the risk of losses, the Corporation has continued the detailed design, construction and implementation of several computer systems, including simulation and valuation models. These systems will enhance the operational capability of CDIC to detect and manage the risk to which it is exposed. Such systems are important tools in risk assessment activities, but a large degree of judgement will still be required in the detection and intervention process.

I) MIDAS

The Member Institution Data Analysis System (MIDAS) is the foundation on which CDIC's information management system is being built. The MIDAS database will contain comprehensive financial and non-financial information about CDIC's membership and matters affecting deposit insurance and risk assessment. MIDAS is an important tool that will lead to improved efficiency and effectiveness in managing information, increased understanding of the dynamics of the financial services industry, and earlier detection of problem institutions.

The first phase of MIDAS, the regulatory and financial component, is scheduled for completion in mid-1995. The remaining phases will be completed during the next three years.

II) PRISM

The Portfolio Risk and Institution Simulation Model (PRISM) is a forecasting tool designed to assist CDIC in performing risk analyses on member institutions. The basic premise underlying the model is that the forecast of future performance is uncertain. Rather than producing a single outcome as in traditional forecasting, PRISM produces a range of forecast outcomes with associated probabilities of occurrence, which should provide valuable insight into the volatility, or risk, an institution may be subject to in the future. This information will assist CDIC in the early identification of potential problem institutions as well as in the relative ranking of member institutions in terms of risk. PRISM is still in its development and testing phases and should be operational in 1996.

III) Valuation Model

The valuation model is an information tool that CDIC uses when it performs a detailed financial analysis of a member institution. The primary objective of the model is to provide CDIC with a risk assessment tool for managing its exposure from insuring the deposits of high-risk member institutions. The model is essentially a decision support system. It evaluates the possible financial outcome of alternative decisions under various assumptions. Different scenario analyses are performed and are compared to provide a basis for recommending the course of action most likely to minimize CDIC's exposure to loss.

The model has been in use for about two years. In the past it has been used exclusively as an information tool to assist in the performance of special examinations; more recently it is being used to perform detailed assessments of higher-risk member institutions. The valuation model is designed to use asset and liability data obtained directly from a member institution to forecast financial performance. Therefore, the base upon which a forecast is made is much more reliable, but at the same time it is more obtrusive to the individual member and more expensive for CDIC in terms of resource requirements. As a result, although it has been used in each special examination, it has been used more sparingly to date as a routine analytical tool.

CDIC'S STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES — ASSESSMENT AND REPORTING PROGRAM

As set out in last year's Annual Report, CDIC has been working with regulators and industry to develop a process for assessing members' compliance with CDIC's Standards of Sound Business and Financial Practices.

CDIC's Standards of Sound Business and Financial Practices were developed and made into law in 1993 to reinforce the safety and soundness of deposit-taking institutions, individually and collectively, thereby reducing unsound practices and the number and cost of failures of deposit-taking institutions significantly in the future.

The Standards Assessment and Reporting Program (SARP) was subsequently developed through consultation with regulators, members and their associations, and other interested parties. SARP was approved by CDIC's Board of Directors and distributed to regulators and CDIC member institutions in late 1994.

Under the provisions of SARP, CDIC members are required to report on their compliance with CDIC's Standards as at April 30 of each year (with the first self-assessments beginning in 1995) and to file their reports with CDIC and their primary regulator by July 31. Federal and provincial examiners will review the self-assessments as part of their regular examination process and will report to CDIC on member compliance as required under section 29 of the CDIC Act.

In forming opinions about members' adherence to the Standards and determining what, if any, action should be taken, CDIC will carefully evaluate each situation. It will consult with the member's primary regulator and any other examiner designated under the provisions of the CDIC Act. And where appropriate, the matter will be discussed with the member in question. Both the process followed and any action taken will be custom-tailored to deal with the special circumstances of each situation.

CDIC recognizes that communication will be critical during this initial year when SARP is being implemented. In this context, CDIC has met with individual members and with groups of members under the sponsorship of the Canadian Bankers Association and the Trust Companies Association to discuss implementation issues. Regulators participated in some of these meetings. CDIC will continue to meet with regulators and members individually and in groups to clarify and deal with issues arising from the SARP process.

CDIC/OSFI STRATEGIC ALLIANCE AGREEMENT

The intervention aspects of OSFI and CDIC, insofar as federally incorporated deposit-taking institutions are concerned, are closely intertwined. In order to clarify the relationship between OSFI and CDIC and provide a framework to better co-ordinate activities, a strategic alliance agreement has been put in place. The agreement is intended to improve the effectiveness and efficiency of both organizations, avoid unproductive duplication and overlap, and promote and enhance the supervision of federally incorporated CDIC member institutions.

The agreement addresses matters related to incorporation, licensing and applications for deposit insurance; risk assessment and management processes; regulatory and insurance intervention processes; the development and implementation of regulatory and deposit insurance policies and other initiatives; and human resource training and development.

Although substantial progress has been accomplished to date, further refinements were made by OSFI and CDIC during 1994/95 to develop and improve procedures for the proper implementation and management of the agreement. Procedures were documented or developed in each of the areas covered by the agreement. The procedures included the following:

- identifying common information requirements and a process for co-ordinating the receipt of the information;
- creating forums to exchange information on examination methodology and discuss upcoming federal examination schedules;
- developing a program for the assessment of compliance with CDIC's Standards of Sound Business and Financial Practices;
- reaching an agreement on an amendment to OSFI's verification of the Return of Insured Deposits for Schedule II members;
- co-ordinating the intervention process as set out in the "Guide to Intervention for Federal Financial Institutions";
- reaching an agreement on the recovery of costs incurred by OSFI on CDIC's behalf; and
- developing a protocol for the selection of liquidators.

CDIC officials continue to work closely with representatives from OSFI to address other relevant issues.

ADVISORY COMMITTEE ON RISK ASSESSMENT AND INTERVENTION POLICIES

In late 1993, CDIC established the Advisory Committee on Risk Assessment and Intervention Policies to advise CDIC of ways to enhance CDIC's early warning system and to reduce the risks and costs of failures. The Advisory Committee members are listed on page 88 of this report. The Committee's mandate was to review and advise CDIC on the following questions:

- the methodology and procedures for assessing risks among member institutions and the nature of the information available to CDIC to assess these risks;
- the criteria and timing for undertaking special reviews of members and the methodology followed in such reviews;
- the criteria for placing members on CDIC's watch list and for classifying those on the list into different risk categories;
- the methodology and procedures followed for assessing the options for dealing with failing institutions;

- the criteria for determining the most appropriate time and methods for CDIC to intervene in a member's affairs so as to minimize losses; and
- other pertinent matters considered important by the Committee.

The Committee has completed much of its work in meeting its mandate. A report of the Committee was presented by the Committee Chairman to the CDIC Board of Directors at its March 1995 meeting. The principal theme of the report was an endorsement of the need for earlier detection and intervention of problem member institutions based on judgement rather than a numbers-based formula.

OTHER INITIATIVES

I) RISK-BASED PREMIUMS

In February 1995, the Department of Finance issued its white paper entitled *Enhancing the Safety and Soundness of the Canadian Financial System* concerning proposed changes to the supervisory system for federally regulated financial institutions, the federal deposit insurance system, the arrangements in place for protecting policyholders of life and health insurance companies, and federal oversight of clearing and settlement systems.

In this paper, the Canadian government has proposed a number of legislative amendments to the CDIC Act — one of which is the introduction of risk-based premiums. CDIC is in the process of studying potential risk-based premium approaches with the view of recommending an appropriate risk-based premium model and implementation framework for Canada. This research is under way, and thereafter consultations will be held with regulators, member institutions and their associations, and other interested parties.

II) POLICIES AND PROCEDURES

The Insurance and Risk Assessment Division has undertaken a project to document its current policies and procedures. Among other things, the project is designed to document policies and procedures followed with respect to a) applications for deposit insurance; b) ongoing risk assessment, compliance monitoring and processing of returns of insured deposits; and c) the termination or cancellation of a member's Policy of Deposit Insurance.

At present, documentation with respect to applications for deposit insurance has been completed. The remainder of the project is expected to be completed within the 1996 fiscal year.

Claims and Recoveries

One 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.

At present, CDIC does not own, manage, or liquidate the assets under administration in an estate. CDIC is a creditor and pursues its claims against an estate. CDIC recoveries and losses arise mainly from the liquidation of the assets under administration and from the costs of managing payouts and providing financial assistance.

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.

The claims and recoveries function at CDIC is handled by the Field Operations Division, which is responsible for

- making payments to insured depositors;
- managing CDIC's claims against member institutions in liquidation; and
- managing financial support packages such as loans or guarantees provided by CDIC.

As mentioned in the General Observations section of the Annual Report, in order to reduce CDIC's borrowing requirements, the Corporation has adopted an aggressive policy of liquidating assets and pursuing claims. It is CDIC's objective to maximize realizations from every estate. Alternative resolution methods and liquidation models are investigated, and markets in which to sell assets of all types are explored. CDIC recognizes the value of early receipt of recovered claims, risk minimization and effective estate stewardship. These principles are essential to the minimization of CDIC's exposure to loss in that they provide meaningful benchmarks and controls.

Clearer recognition of the time value of money and the need to base asset disposition on a net present value (NPV) basis are important considerations for CDIC in reducing its losses. For instance, CDIC uses NPV analysis for decision support and encourages its use among liquidators for planning and making value-enhancing decisions in respect of asset disposition strategies. NPV captures the total cost of CDIC's claim based on the size of the loss and the time necessary for the receipt of recoveries. More than \$1.6 billion of loans and claims was collected in fiscal 1994/95, and claims recovery rates have recently been experienced at 75 percent within one year of the start of the liquidation. The value of the recoveries enabled CDIC to reduce the level of public-sector borrowing by \$1 billion in 1994/95 despite the additional obligation to pay \$873 million to insured depositors.

CLAIMS

Initiation of Claims

CDIC considers various failure resolution methods when dealing with weak financial institutions. Historically, CDIC has used formal liquidations, agency agreements, loan agreements, and purchase and assumption support to deal with troubled members. The early identification of problems, the extent of CDIC's exposure to loss, and the existence of a purchaser ultimately affects the form of the resolution. The failure resolution method chosen characterizes the nature of CDIC's claim.

In total, CDIC has $1.276 billion in claims outstanding, loans of $271 million and has estimated its remaining exposure in deficiency guarantees to be $407 million. Field Operations is responsible for maximizing the recovery of the loans and claims and minimizing the payments in respect of the deficiency coverage agreements.

Formal Liquidation

The most common method of dealing with an insolvent member institution involves petitioning for its winding-up through a court process. Where a petition is made and accepted by a court, CDIC is obligated to make payment in respect of any insured deposits held by that member institution. In so doing, CDIC is subrogated to the rights and interests of the insured depositors to the extent of the payment, providing the basis for its claim. Typically, CDIC becomes the overwhelming creditor, in the range of 90 to 99 percent of the total claims filed within the estate. Nevertheless, CDIC ranks equally with uninsured depositors in the scheme of distribution. CDIC currently has outstanding claims against estates in liquidation amounting to $1.276 billion before allowances for loss.

The relationship between CDIC and the court-appointed liquidator is facilitated by a letter agreement known as the "nomination letter," so called since the agreement is entered into prior to the liquidation and is conditional on CDIC recommending a specific firm as a potential liquidator, reflecting CDIC's interests as a major creditor. The nomination letter establishes reporting requirements, parameters for approving dispositions of assets and incurring costs, and guidelines for access to records. The agreement emphasizes CDIC's requirement for prompt and efficient liquidations. The nomination letter provides CDIC with the opportunity to act in a monitoring capacity and to establish the framework for what CDIC views as a successful liquidation model.

Payout

As mentioned previously, when a court order is issued to liquidate a member institution, CDIC is obliged to pay depositors the amount of their deposit covered by insurance. The payment to insured depositors requires considerable efforts to ensure accuracy and deal with all circumstances.

CDIC independently calculates the insured deposit liabilities of a failed member institution. Adjustments to deposit balances arise as a result of clearing and settlement issues and suspense account matters. An audit opinion on the accuracy of the process is obtained. CDIC legislation provides for depositors to receive advance insurance payments when there is a critical need. This program has been used extensively in recent failures. To respond to the concerns of depositors, CDIC operates a toll-free depositor information line for both inquiries and claims. This function is managed by CDIC employees but is staffed by temporary employees trained for this purpose.

As an example of the magnitude of the undertaking, CDIC managed the payment to insured depositors of Confederation Trust Company (CTC) subsequent to its failure in August 1994. CTC held 55,000 accounts for 41,000 customers. By value, 97 percent was insured. There were more than 21,000 telephone inquiries, and 777 advance payments with a value of $7.4 million were made. CDIC negotiated with the National Bank of Canada for the transfer of the insured deposits on October 3, 1994. Depositors were thus provided access to the insured portion of their deposits in 52 days from the date of the winding-up order being approved by the court.

The payout cost on CTC was approximately $40 per account, which compares favourably with the target level of $50 per account set out in CDIC's 1995/96-1999/2000 Corporate Plan. CDIC was reimbursed for a portion of the payout costs by the National Bank of Canada, reducing the net cost per account to $21.

Purchase Agreements

CDIC may support the purchase of a failed member institution by another member through the use of loans and/or capital and income recovery guarantees. These purchase agreements effectively transfer ownership of the assets to commercial entities, leave asset management with qualified professionals and avoid the costs of managing the assets over time. There are currently two agreements outstanding, and assets subject to existing deficiency guarantees amounted to $2.66 billion at year end.

RECOVERIES ON LOANS AND CLAIMS

Irrespective of the form that the winding-up of a member institution may take, the mandate of the liquidators, agents, managers or purchasers of assets subject to deficiency coverage agreements should be to maximize realizations from the assets under their control. In so doing, they assist CDIC in minimizing losses. Maximizing recoveries and minimizing losses are achieved by adhering to the following principles:

- Achieving the highest realizations on the assets of the failed member institution. The quality and liquidity of the assets vary dramatically from one institution to another, and prior security and litigation are often complicating features in the liquidation. Nevertheless, persons entrusted with the assets have an ever-expanding array of options for dealing with them expeditiously;

- Liquidating the assets as quickly as manageable, thus incurring the lowest net interest costs possible and minimizing the exposure to future risks. CDIC considers itself highly exposed to real estate-based assets and their natural volatility, and interest rate fluctuations;

- Arranging the liquidation of the failed member institution so as to incur the lowest administrative costs.

Liquidation Planning and Management

CDIC has a unique position to assess the relative merits of alternative liquidation approaches. CDIC can influence liquidation planning and management as a result of three major factors: CDIC typically recommends to the court appropriate firms to act as liquidators, CDIC is usually the largest creditor, and CDIC has extensive experience in a number of different failure resolution methods.

Liquidators are court-appointed and independent of any individual creditor. However, CDIC provides the perspective and influence of a significant creditor to the design and implementation of the most effective liquidation strategy. CDIC and the liquidator ensure that the interests of other creditors are not prejudiced or compromised. The business plan outlines the strategy of the liquidator (or other work-out entity) to effect the liquidation. CDIC requires that business plans demonstrate the intention to maximize the return to all creditors, including CDIC, and that the plans recognize that money has a time value and that creditors are averse to risk and speculation.

The key elements of the plan are (1) the identification of market conditions and the sale of the assets that can be sold as soon as possible; (2) the determination of the current market value and a realistic estimate of future value to facilitate an assessment of risk; (3) performance measures to enable CDIC to assess the quality and success of the liquidation and evidence the accountability of the liquidator; (4) the dedication and procurement of the right resources, most notably an appropriate mix of professional and contract staff; and (5) dividend and cash flow projections that allow CDIC to estimate its financing requirements.

Loss Minimization

CDIC, along with other creditors, suffers losses when a member institution fails. CDIC provides for this loss in its financial statements by calculating the relative priority of claims and estimating future receipts and expenses. CDIC's interest costs attributed to the funding of claims are not represented as a direct loss on the estate but are reflected in the Statement of Operations and Deposit Insurance Fund under the caption "Interest on loans from the Consolidated Revenue Fund (CRF)."

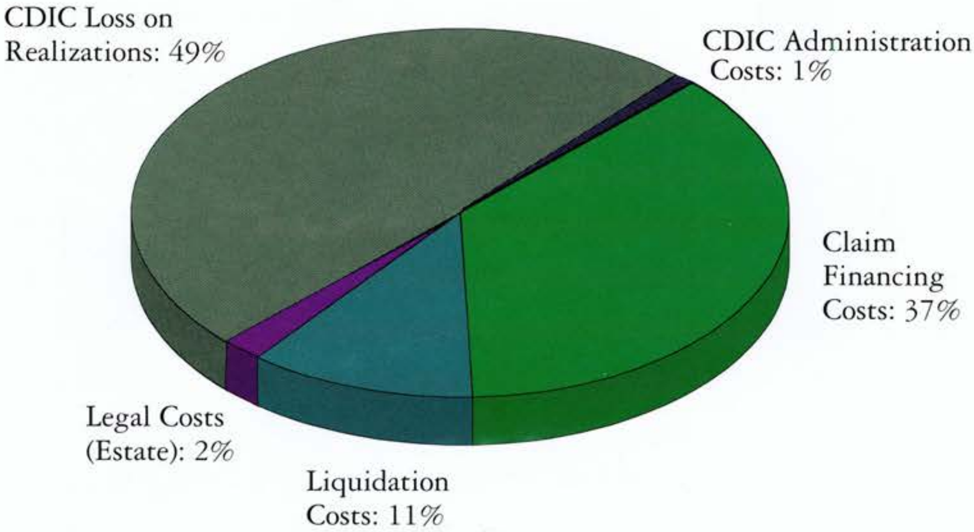
Taking both the loss on claims and the funding costs into account, CDIC losses are approximately 24 percent on a weighted-average basis, although recent experience is more in the range of 5 to 10 percent. However, once the time value of money is factored in and CRF interest is allocated, losses average 40 percent.

To better understand and manage the impact of the failure of a financial institution, CDIC identified its pro rata share of costs attributable to some 27 estates over the duration of the liquidations. It is estimated that the estates will eventually incur losses arising from the disposition of approximately $11.5 billion in assets costing CDIC approximately $1.305 billion, and it is expected that CDIC will absorb costs for legal services of $66 million and other liquidation expenses totalling $291 million. CDIC estimates it will have cumulative administrative costs of approximately $20 million during the period these estates are being liquidated. CDIC also finances the insured deposit payouts until dividends are distributed. This is expected to result in interest charges of $989 million. The estimated total of these cost categories to CDIC for the estates reviewed is $2.671 billion.

Figure 4 combines the costs related to the loss calculation by the liquidator (loss on realization, legal and liquidation costs) with costs that are relevant to the claim recovery process but not specifically allocated (financing costs and relevant CDIC expenses). In all cases, the costs are CDIC's pro rata share of the expenses. The figure is a visual representation of the costs and losses itemized above. This is to facilitate analysis of which cost classification represents the greatest priority and opportunity for savings.

The figure is compiled from the results of analyzing 27 estates in liquidation and is limited by information availability on some older estates. A description of the conclusions with respect to each cost classification follows under each caption.

FIGURE 4
CDIC LOSS ALLOCATION



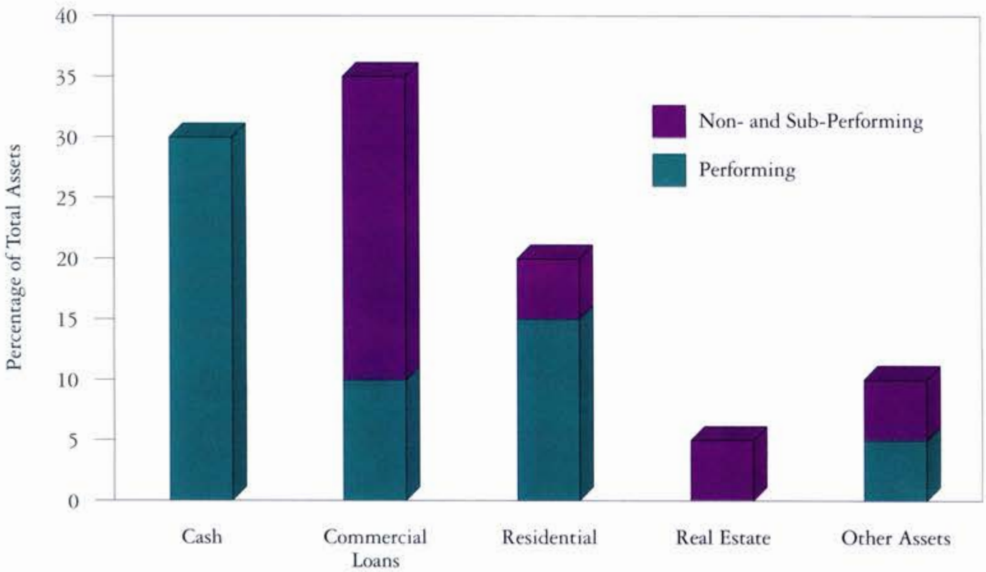
LOSS ON REALIZATIONS (49 PERCENT)

The principal cost of a failure is the difference between CDIC's share of the net realizations from the assets and the insured deposits CDIC was obligated to pay out at the time of failure. The loss is measured at the date of failure. This component of the loss is substantially uncontrollable since it is related to the value of the assets at the time of closure and is subsequently affected primarily by market value changes.

Figure 5 summarizes the composition of the assets under the administration of the estates in liquidation. The large cash component of the assets under administration is as a result of disputes in the nature of priority claims and the validity of outstanding claims. The figure represents all the assets under liquidation. CDIC expects to realize its share of the recoveries from these estates.

Forty percent of the assets are classified as non-performing or sub-performing. Although there is always the opportunity for the market for such assets to improve, the volatility of the market for these assets is high, presenting an unwarranted risk to CDIC and making forecasting extremely difficult. Any strategy for holding these assets should give consideration to the high degree of risk, the inability to accurately forecast future values for the assets, and the potential for income generation over the holding period.

FIGURE 5
ASSETS UNDER ADMINISTRATION



RECOVERABLE CLAIM FINANCING COSTS (37 PERCENT)

CDIC is obliged to pay interest on its loans from the Consolidated Revenue Fund (CRF) pending repayment of its claim. Financing costs are calculated as the difference between the value of the recovered portion of CDIC's claim at the date of liquidation and the value of the recovered amount after capturing the interest cost at CDIC's borrowing rate. As referred to previously, financing costs are disclosed for reporting purposes not in the loss provision but as an interest expense to CDIC.

At the present time, CDIC is able to borrow funds from the CRF at rates available to Crown corporations. Because CDIC has made payments to insured depositors and is faced with a delay in recovering its claim, CDIC's borrowing costs are considerable and represent 37 percent of all CDIC losses.

Liquidators involved in recent liquidations — those from 1991 to 1995 — have been encouraged to consider the time value of money. Coincident with the recent creation of a market for distressed assets, a process has been developed to ensure the early disposition of assets. For example, the liquidator of Prenor Trust sold 67 percent of the assets to the Laurentian Bank of Canada only one month after closure. In the case of Dominion Trust, the liquidator took advantage of the presence of companies interested in purchasing bulk assets to dispose of 81 percent of its portfolio within eight months of the liquidation date.

In the above cases, CDIC and other creditors received a distribution of $0.75 on their claims within one year of the failure date. Not surprisingly, CDIC's losses on an NPV basis in these two cases are well below the average percentage of losses. It appears that the recent experience of the early disposition of assets results in minimizing losses on an NPV basis when a market exists and the liquidator is sufficiently knowledgeable about the assets prior to the formal liquidation that they may be appropriately marketed on a timely basis.

Legal Costs and Liquidation Costs (2 percent and 11 percent)

CDIC has adopted a more strategic approach to liquidation and has encouraged all liquidation professionals to take a similar approach. Liquidators are obliged to prepare comprehensive business plans supported by detailed valuations of assets, resource budgets and marketing plans. The implementation in 1995 of a new rate structure for liquidation professionals encourages the attention of the most qualified individuals. The objective is to obtain the best professional assistance in order to achieve the highest realizations from the estates.

Another example of the implementation of cost and realization strategies is in the use of contracted specialists to assist in the liquidations. The use of independent contractors results in lower infrastructure costs and the application of more appropriate skills to the various tasks in the liquidation, further resulting in greater optimization of the timing and magnitude of realizations from the estate.

Essential to the successful liquidation and the assessment of performance is the early identification of the differing business units in a liquidation. Financial institution assets can be divided into three broad categories:

- a "good component" with high quality assets operating in well developed markets. These assets require minimal selling effort and the proceeds to the purchaser reflect the whole value of the principal with a discount or premium capturing the "marked-to-market" yield;

- a "bad component" consisting of below grade assets with varying marketability, requiring considerable effort and expertise to value and sell; and

- a "questionable component" consisting of contingent and very poor quality assets and claims, and outstanding litigation. The cost of resolving these issues and liquidating the assets is very high as a proportion of the final realizations.

In recognition of the wide range of asset types in most estates, the singular expertise of professional liquidators is not effective for all assets. CDIC encourages the application of the appropriate skills and strategies to match the type of assets being liquidated.

Another factor in improving CDIC's claims and recoveries has been the pursuit of its policy of initiating lawsuits against directors, officers, auditors and other relevant parties of failed institutions where (i) CDIC has suffered a financial loss and (ii) there is a reasonable legal case supporting a charge of negligence, willful misconduct or wrongdoing. The primary purpose of this policy is to provide a strong incentive for those responsible for the running of a member institution to be prudent and competent.

CDIC Administration Costs (1 percent)

CDIC's administrative costs represent a very small portion of the overall losses attributable to the failure of a member institution. The costs are a small proportion of the value of the activity in a fiscal period.

CDIC's role in liquidations is typically *ex officio*. Liquidators usually request the concurrence of CDIC in proposed actions and strategies, including proposed legal action. Throughout the fiscal year, Field Operations staff reviewed transactions and proposed others resulting in the disposition of assets and the generation of more than $1 billion in proceeds to the estates in aggregate. CDIC was also instrumental in the issuance of ACC's distress preferred shares, resulting in substantially lower financing costs for CDIC on debt of $500 million.

As a result of these and other initiatives, recoveries on loans and claims through fiscal 1995 averaged $140 million per month, compared with $111 million per month in 1993/94 (a 15-month period), $23 million in 1992 and $68 million in 1991.

CDIC LOSSES ANALYZED BY NET PRESENT VALUE (NPV)

The effect of discounting, or the time value of money, is reflected in the comparison of CDIC's nominal dollar recoveries to its recoveries on a net present value basis in Table 4. For the estate in liquidation as presented in the table, the percentage of recoveries on a nominal basis averages 77 percent compared with recoveries of 63 percent on an NPV basis. Recoveries on an NPV basis vary widely from one estate to another (low of 10 percent to a high of 98 percent) as a result of differences in asset quality, but also because of the presence or absence of prior claims and litigation and the duration of the liquidation.

Table 4
CDIC's Projected Recoveries on Estates in Liquidation*
($ millions)

Name	Year	Claim Amount	Recoveries as % of Claim**	NPV of Recoveries as % of Claim
AMIC Mortgage Investment Corp.	1983	$28	54%	34%
Crown Trust Company	1983	930	100%	98%
Fidelity Trust Company	1983	792	55%	49%
Greymac Mortgage Corp.	1983	174	53%	38%
Greymac Trust Company	1983	240	48%	36%
Seaway Trust/Mortgage	1983	420	86%	53%
Canadian Commercial Bank	1985	352	23%	10%
CCB Mortgage Investment	1985	123	90%	72%
Northland Bank	1985	318	68%	33%
Pioneer Trust Company	1985	201	88%	69%
Principal Trust	1987	116	119%	80%
Settlers Savings & Mortgage Corp.	1990	43	52%	45%
Bank of Credit and Commerce Canada	1991	22	81%	67%
Saskatchewan Trust	1991	64	87%	80%
Standard Loan Company	1991	157	98%	83%
Standard Trust Company	1991	1,164	78%	63%
CGMC (ACC)/CGT/TD	1992	1,684	90%	85%
First City Trust (NAT)	1992	175	24%	23%
Shoppers Trust Company	1992	492	96%	86%
Dominion Trust Company	1993	431	84%	80%
Prenor Trust Company	1993	821	92%	90%
Confederation Trust Company	1994	679	100%	95%
Monarch Trust Company	1994	65	99%	89%
Income Trust Company	1995	194	73%	64%
TOTAL		$9,685		

* *actual and expected recoveries*
***total receipts to date plus receipts expected before closure of estate*

As mentioned previously, loss calculation on an NPV basis is usually a better indicator of CDIC's total exposure than the nominal dollar estimate, since it takes into account CDIC's financing costs. The comparative analysis of losses on an NPV basis has indicated the following:

- The traditional view of holding assets for a 10-year period has generally not been in the best interest of CDIC. It appears that the recent experience of the early disposition of assets has minimized CDIC losses on an NPV basis. However, market, legal and economic conditions are not always favourable to an early disposition of assets;

- The "Good/Bad/Questionable" component model appears to be more effective in minimizing CDIC losses on an NPV basis, suggesting that different qualities of assets are ultimately better managed by different entities with different expertise and interests. This type of arrangement could be used in a liquidation by either contracting out or setting up a form of partnership to manage a group of assets while the liquidator mainly concentrates on forensic work, co-ordinates and settles creditors' claims, and manages the residual assets.

Given the wide range of results obtained and the large impact of external elements on the results, it appears impossible to define a specific rate to be used as a benchmark for assessing the performance of liquidators. CDIC's attempt to compare the relative performance of estates in liquidation would be facilitated by the use of a common concept of value of assets, which would not be a nominal book value or an NPV based on CDIC's cost of funds, but rather a value closer to the true market value of the assets.

It is CDIC's desire to further investigate an appropriate method of estate performance to replace the present nominal-dollar measurement. Any new method must include a more explicit evaluation of the value of the estate at the time of the liquidation. Once in place, an effective performance scheme will compel liquidators to work toward early liquidation of the estate in light of the "hold risks" and the time value of money.

Real Estate Advisory Panel (REAP)

The Real Estate Advisory Panel (REAP) is called upon to review and 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 was succeeded by REAP. REAP's strength, and therefore much of its value to CDIC, is its broad geographic range and extensive market expertise. Unique and significant real estate issues and financial transactions where real estate represents the underlying value are brought to the panel members when it is felt that their expertise would enhance the action plan of the liquidator in dealing with these matters, thereby increasing the value of realizations.

Adelaide Capital Corporation (ACC)

In its role as a work-out company, ACC was set up to maximize net recoveries. ACC's business plan forecasts that 85 percent of the total recoveries will be received by December 31, 1998. In its first two years of operation to December 31, 1994, ACC repaid $800 million, or more than half of its projected cash flow to CDIC. ACC was able to repay a further $500 million to CDIC and reduce its cost of funds as a result of issuing distress preferred shares, the repayment of which was guaranteed by CDIC.

Corporate Management

Mission and Values

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

The mission statement, adopted in 1992, 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.

CDIC has also adopted corporate values that define the organizational behaviour that is expected in the conduct of CDIC's business to complement the mission statement. These values are professionalism and excellence, integrity and trustworthiness, communication and teamwork, and respect and fairness. The management of CDIC is committed to ensuring that these values are an integral part of CDIC's corporate culture. The values are explicitly documented in CDIC's performance appraisal and employee evaluation form in an effort to integrate them more formally into corporate management practices.

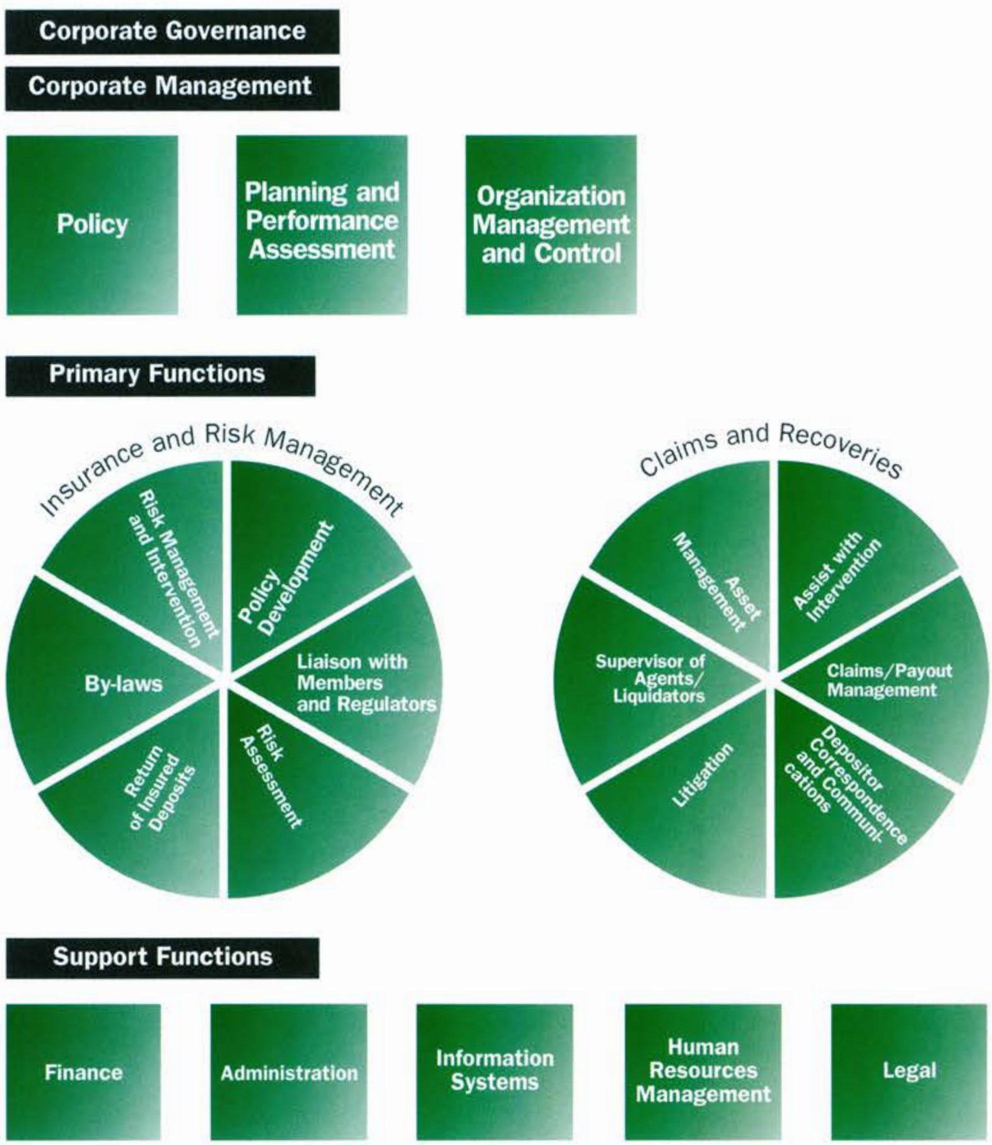
Planning and Accountability

The Corporation submits its five-year Corporate Plan to the Minister of Finance annually as required by the *Financial Administration Act.* The Plan defines CDIC's priorities, the operating plans to achieve them, and the resources required to carry them out. The Plan also compares actual performance with previous-year plans. The Corporate Plan Summary is tabled in Parliament each year and is available to the public by contacting CDIC directly. Together with the Annual Report, these documents are an important vehicle by which CDIC is held accountable to Parliament.

The direction of CDIC is determined by the Board of Directors in consultation with the President and Chief Executive Officer and senior management. The direction is reviewed annually or as required by changes in the planning environment. The process helps management develop business objectives that are directly related to CDIC's statutory objects, its mission and the direction that the Board of Directors has outlined in the form of business priorities.

In order to implement the priorities, detailed departmental operating plans consisting of specific goals, action plans with time frames, and resource requirements are developed by CDIC's departmental heads. These plans are reviewed and consolidated into a comprehensive business plan that meets the priorities and reflects the environment of financial constraint. This process is integrated with the employee performance management process so that individual objectives support the corporate business plan. Figure 6 presents the CDIC business model. It is a cross-departmental illustration of CDIC's business functions and not a reflection of CDIC's organizational structure.

FIGURE 6
CDIC BUSINESS MODEL



Accountability is an essential element of the corporate management process. Departmental plans are integrated with the employee performance management system, thereby providing for individual accountability. Departmental performance is regularly reviewed by management, and a comprehensive report of corporate performance — both from an operational and a financial perspective — is presented quarterly to the Board of Directors. During the year, forecasts are prepared to reflect the most recent information and to make any readjustments that are required to meet the corporate priorities.

In the past year and a half, CDIC has been developing a cost allocation model that determines the operating cost of each priority in its business plan. This cost allocation model is in the formative stages. The objective of this initiative is to reinforce planning, management and decision support. The model captures CDIC's operating costs for all goals, programs and projects, culminating in a consolidation of costs by priority.

The current financial information system does not adequately support project costing in this manner. It is being upgraded in 1995/96 to be able to accommodate the new cost allocation model.

The responsibility framework for CDIC's ongoing operations consists of five functional divisions and a separate internal audit function. This provides an operational framework for accountability and control of day-to-day operations. However, in dealing with intervention projects, a cross-functional matrix organization structure is in place. This structure results in reporting relationships that enable the project manager to draw on expert services of a number of departments in an efficient and timely manner. It results in a "team" approach to intervention projects. The project manager is accountable for the project results.

These structures parallel the manner in which CDIC plans and captures its costs. A distinction is made between operating and intervention expenses to facilitate resource planning and management of controllable and relatively stable infrastructure costs as opposed to more variable, project-specific and volatile intervention costs. The process and the cost drivers for the two cost categories are dissimilar in nature. Intervention costs are incremental costs identifiable with a specific institution that are directly incurred pursuant to a decision to intervene in a member institution. They are approved, monitored and controlled on a case-by-case basis.

Human Resources

In keeping with the Corporation's commitment 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, various human resource initiatives were undertaken during the 1994/95 fiscal year.

In 1994, the Human Resources Department organized an all-staff workshop to develop action plans for addressing employees' concerns, such as working conditions, communication tools and compensation issues, arising from an employee attitude survey. A number of action plans were developed and are being implemented. Another employee survey is planned to assess the effectiveness of the action plans and to identify areas for future development.

The Corporation held its first annual employee meeting to coincide with the release of the Annual Report in July 1994. The meeting provided employees with an opportunity to discuss corporate accomplishments as well as CDIC's plans for the future.

During the past year, the executive management of CDIC completed a management skills assessment program. Other management levels are currently being assessed, and development plans will be drafted for areas requiring attention.

A new performance assessment process was implemented for CDIC in January 1995. It was developed through consultations with employees and senior management. The process emphasizes the link between an individual's goals and the corporate goals and priorities.

A five-year language training program was developed to increase the percentage of CDIC employees who meet the language requirements of their positions.

The Corporation continues to follow the federal government's wage restraint policy for 1995/96 and 1996/97. In anticipation of the lifting of the wage freeze at some point in the future, the Human Resources Department is currently developing a compensation policy. The policy, which will include a pay-for-performance provision linked to CDIC's performance assessment process, will be implemented whenever the freeze is lifted.

In line with federal and corporate cost reduction initiatives, the Corporation maintained its human resource levels at 93 full-time permanent positions during 1994/95, although only 87 positions were filled at year end. CDIC's human resources requirements for the planning period 1995/96-1999/2000 are forecast to remain approximately unchanged from the 1994/95 fiscal year.

To assist the Corporation in maintaining maximum flexibility in human resource allocation, a practice of hiring employees on a contractual basis for fixed periods has been initiated for certain positions and for specific projects. This strategy balances the requirement for a core of qualified permanent staff and an available base of contracted outside experts to ensure that priorities and goals are met.

For the current year, CDIC's employee turnover rate was 5 percent, down from 11 percent in 1993/94, and absenteeism was 6.9 days per employee, up from 5.3 days in 1993/94.

FINANCE

The Finance Division is responsible for the accounting, planning and treasury activities of the Corporation.

The Accounting Department records and reports financial information on a timely basis and ensures the integrity of CDIC's financial systems and practices. This department is responsible for the preparation of the annual financial statements included in this report and all financial management reports for internal and external purposes, such as monthly financial statements with variance analyses, financial reports to the Board of Directors, cash flow projections and statutory government reports.

The Corporate Planning Department is responsible for the ongoing strategic planning efforts within CDIC as well as the preparation of the five-year Corporate Plan and the annual operating and capital budgets that are submitted to the Secretary of State (International Financial Institutions) and to the President of the Treasury Board for approval by the Governor in Council. This department also prepares a quarterly and annual performance assessment report for management and the Board of Directors, reporting on the Corporation's success in reaching its goals and on its financial performance against budget.

The treasury function is currently handled by the Vice-President, Finance, with the assistance of the Comptroller. The Vice-President chairs the Asset/Liability Management Committee (ALCO), which meets at least on a quarterly basis to assess interest rate risk, review market conditions and recommend appropriate financing strategies. The ALCO reports to the Board of Directors on a quarterly basis. As discussed earlier, because of the importance of minimizing costs, the cash and debt management processes of CDIC are currently under review by a small task force from the Royal Bank of Canada, headed by Mr. Paul Taylor, Executive Vice-President, which will advise CDIC on any improvements that might be made. In light of the proposed changes to CDIC's borrowing arrangements, such as legislative changes to permit borrowing in capital markets, the treasury function is also being reviewed in its entirety.

The Finance Division, in conjunction with the Systems Development and Support Department, is in the process of developing and implementing the Integrated Financial Information System (IFIS). As already mentioned, in addition to enhancing CDIC's ability to manage its costs in relation to its priorities, this system will improve the efficiency of the accounting system.

Legal

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 litigation, for certain compliance matters, and for ensuring that CDIC's obligations under the Access to Information and Privacy Acts are met.

During 1994/95, the Legal Division provided counsel for the winding-up and payouts of two failed members, played a central role in the investigation and action respecting lawsuits and potential lawsuits, provided legal input regarding recoveries from estates, and directed resources to matters concerning the monitoring and administration of deficiency coverage agreements. As part of its work in developing a permanent corporate infrastructure, the Legal Division produced an annotated CDIC Act containing legislative history, opinions, and interpretations.

The Legal Division devoted considerable resources to legislative matters, including chairing an internal committee on possible CDIC Act amendments; drafting proposals for presentation to the Board of Directors and subsequently to the Department of Finance; and participating in discussions regarding the CDIC Act and financial institutions' legislation with the Department of Finance, the Office of the Superintendent of Financial Institutions and the Bank of Canada.

Work also continued on the development of by-laws. The Legal Division participated in the internal working group supporting the advisory committee assisting CDIC in the development of the Consumer Information By-law. As well, the Trust and Joint Accounts By-law has been progressing with an industry consultation process.

During the 1994/95 fiscal year, a 12-month period, fees in the order of $1.9 million were paid to law firms for their work for the Corporation. The majority of costs related to rehabilitations and going-concern solutions, payouts, recoveries from estates, legislative amendments and litigation. This compares with total expenditures of $2.6 million for the 12-month period ended December 31, 1992, and $2.9 million for the 15-month period ended March 31, 1994. As a comparison, during the same period, fees in the order of $11.9 million were paid by liquidators to law firms (and associated correspondent or agent firms) for work in connection with estates where CDIC is a creditor.

Information Systems

CDIC's information systems function is divided into two separate departments: Systems Development and Support, and Technical Services. The Systems Development and Support Department is currently working on the two major projects identified as priorities in the Corporation's strategic information system architecture plan: the Member Institution Data Analysis System (MIDAS) and the Integrated Financial Information System (IFIS).

Database and physical management issues related to MIDAS and IFIS are supported by the Technical Services Department. Technical Services also deals with hardware and software problems as they arise and supports all office automation tools used at CDIC.

Administration

The Administration function within CDIC comprises Linguistic and Publishing Services, Office Services, and Corporate Communications. Administration is committed to providing a high level of customer service and is continuing its customer focus projects to ensure that all customers are satisfied with the services they receive.

Recognizing the value of maintaining effective communication with its various stakeholders and the public, CDIC undertook a number of information-sharing activities during the fiscal year.

CDIC's public awareness activities continued in 1994/95 with the production of a video on the basics of deposit insurance. The video, which was sent to local cable community channels for them to broadcast, at their discretion, following a member institution failure, answers the most commonly asked questions about deposit insurance.

As usual, CDIC continued to distribute press releases to news media across the country on major events affecting CDIC's key stakeholder groups and to make information and membership brochures available to the public at its offices and at the branches of its member institutions. CDIC's efforts to promote the awareness of deposit insurance protection have also included speeches, interviews, and appearances by members of the Executive Management Committee in Canada and abroad.

To ensure that its customers are satisfied with the services they receive, CDIC introduced a customer service survey card in 1994 which was sent to all insured depositors of failed member institutions to determine depositor satisfaction with the service provided by CDIC. The responses received in 1994/95 provide a clear indication that CDIC is meeting depositors' expectations.

The Corporation is continuing its efforts to improve communications with member institutions, relevant industry associations, regulators and government agencies through both formal and informal ongoing contact. CDIC is currently involved in the development of an improved system for informing consumers, which will be incorporated into the new Consumer Information By-law.

Internal Audit

The Internal Audit Department is responsible for assessing, on an ongoing basis, CDIC's 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 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.

In order to fulfil its responsibilities, 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.

During the past year, in addition to the annual audits of the accounting systems and tests for compliance with authorities, Internal Audit performed reviews of the security and management of CDIC's computer network and the Corporation's procurement and contracting function. The Department was also actively involved in monitoring systems development projects, managing payout audits, and assisting in the attest audit performed by the Office of the Auditor General.

1995/96 TO 1999/2000 BUSINESS PLAN

The priorities for 1995/96 to 1999/2000 were developed as part of the five-year corporate plan process. They are based upon CDIC's statutory objects and the Board of Directors' and management's views of the current economic and financial environment in which CDIC members operate. The urgency to pursue these priorities has been reinforced by the historically large number of impaired member institutions in recent years and the high cost of deposit insurance. The priorities are presented as "a practical statement of business direction" that allows management to develop functional operating plans in support of the corporate strategy.

Within the objects, powers, and resources provided in the CDIC Act, the business priorities of CDIC for 1995/96 to 1999/2000 are as follows:

1. To eliminate CDIC's accumulated Deposit Insurance Fund deficit and eliminate its borrowing from the Consolidated Revenue Fund by the fiscal year 1998/99.

2. 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 respect to insurance claims arising from failed institutions.

3. 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.

4. To improve productivity and cost effectiveness by (i) redeploying resources to higher priority activities, (ii) tightening budgets and (iii) 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 the functional accounting of costs.

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

8. To develop and maintain close liaison and co-operation with member institutions, their trade associations, 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).

Some major initiatives to achieve these priorities have been completed, and implementation of appropriate operating plans is well under way. How far and how fast CDIC is able to pursue these priorities depends upon several factors — many beyond CDIC's control. One such factor is the economic and financial environment in Canada, including the rate of economic growth, the level of 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 funding required to deal with such situations.

MEMBERSHIP PROFILE

This is the second annual profile of CDIC's membership for the latest five years for which data are available. The central purpose of the profile 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 intended, in any way, 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, as the data itself comes from other sources, 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 aggregates or averages, the data for individual members differ considerably.

The member 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 deposit-taking 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 $1 billion or more. Small trust and loan companies and their affiliates have been classified as those whose assets total less than $1 billion. Members with common ownership have been grouped according to the largest member. Obviously, some members could be placed in more than one category. None of the data include the estate, trust and agency business of CDIC members.

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

1. A list of members, classified by selected categories, membership changes, and regional location

2. Aggregated summary balance sheet and income statement for CDIC's membership

3. Assets: size and quality ratios

4. Deposit liabilities

5. Capitalization ratios

6. Profitability ratios: size, spreads, non-interest expenses, ROAA, ROAE and productivity

7. CDIC premiums

In considering the profile, it is important to recognize that CDIC's membership changed from January 1, 1990, to March 31, 1995, as shown in Section 1. This report takes a historical look at the membership of CDIC. Unless otherwise stated, the data tables are based on members' fiscal year ends. **Only the institutions that were members as at March 31, 1995, are included in the tables that follow**. 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.

1.0 MEMBERS AND THEIR REGIONAL LOCATION

1.1 CDIC MEMBERS AS AT MARCH 31, 1995

DOMESTIC BANKS AND SUBSIDIARIES

Bank of Montreal
Bank of Montreal Mortgage Corporation
Trust Company of Bank of Montreal (The)
Bank of Nova Scotia (The)
Scotia Mortgage Corporation
Bank of Nova Scotia Trust Company (The)
Montreal Trust Company
Montreal Trust Company of Canada
Canadian Imperial Bank of Commerce
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
Royal Trust Company (The)
Royal Trust Corporation of Canada
Toronto-Dominion Bank (The)
TD Mortgage Corporation
TD Pacific Mortgage Corporation
TD Trust Company
Total: 23

FOREIGN BANK SUBSIDIARIES

ABN AMRO Bank Canada
Amex Bank of Canada
Banca Commerciale Italiana of Canada
Banca Nazionale del Lavoro of Canada
Banco Central Hispano-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
BT 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 of Canada
Deutsche Bank Canada
Dresdner Bank Canada
Fuji 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
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 (Canada)
Tokai Bank of Canada
U.S. Bank (Canada)
Union Bank of Switzerland (Canada)
United Overseas Bank (Canada)
Total: 51

TRUST AND LOAN — ASSETS GREATER THAN $1 BILLION

Canada Trust Company (The)
Canada Trustco Mortgage Company

Household Trust Company
Investors Group Trust Company Limited
Municipal Savings & Loan Corporation (The)
Municipal Trust Company (The)
National Trust Company
Victoria & Grey Mortgage Corporation
Total: 8

Trust and Loan — Assets Less than $1 Billion

AGF Trust Company
Bayshore Trust Company
Effort Trust Company (The)
Equitable Trust Company
Evangeline Trust Company
Fortis Trust Corporation
Granville Savings and Mortgage Corporation
Home Savings & Loan Corporation
London Trust & Savings Corporation
M.R.S. Trust Company
Merchant Private Trust Company (The)
Northern Trust Company, Canada (The)
Pacific & Western Trust Corporation
Peace Hills Trust Company
Peoples Trust Company
Savings and Investment Trust
Security Home Mortgage Corporation
Settlers Savings and Mortgage Corporation
Total: 18

Life Insurance Affiliates

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

Credit Union Affiliates

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

TOTAL: 121 members

1.2 Membership Changes: January 1, 1990 - March 31, 1995

New Members

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 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)
September 14, 1994: General Trust of Canada

Other Membership Changes

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: Guardcor 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: **The Toronto-Dominion Bank** 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 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.

March 18, 1994: The Royal Trust Company was continued as a federal trust company.

April 1, 1994: Victoria and Grey Mortgage Corporation amalgamated with The Premier Trust Company — continuing as **Victoria and Grey Mortgage Corporation.**

May 31, 1994: RBC Trust Company amalgamated with The Royal Trust Company — continuing as **The Royal Trust Company**.

August 15, 1994: Confederation Trust Company was placed in liquidation — policy cancelled.

August 17, 1994: Montreal Trust Company was continued as a federal trust company.

September 14, 1994: Trustcan Trust Company (formerly General Trust of Canada) ceased to accept deposits — policy cancelled.

October 17, 1994: The International Trust Company ceased operations — policy cancelled.

October 25, 1994: Inland Trust and Savings Corporation Limited ceased to accept deposits — policy cancelled.

December 8, 1994: Overseas Union Bank of Singapore (Canada) ceased to accept deposits — policy cancelled.

December 31, 1994: Canadian Western Bank amalgamated with North West Trust Company — continuing as **Canadian Western Bank.**

January 1, 1995: Republic National Bank of New York (Canada) amalgamated with Bank Hapoalim (Canada) — continuing as **Republic National Bank of New York (Canada).**

March 1, 1995: Income Trust Company — policy terminated. Winding-up order issued by the Ontario Court of Justice (General Division) on March 6, 1995.

March 31, 1995: Evangeline Trust Company amalgamated with Evangeline Savings and Mortgage Company — continuing as **Evangeline Trust Company.**

Note: Name changes excluded.

1.3 Regional Location of CDIC Members, Based upon the Location of the Chief Executive Officer

March 31, 1995	Western	Ontario	Quebec	Eastern	Total
Domestic Banks and Subs.	1	19	3	0	23
Foreign Bank Subsidiaries	4	41	6	0	51
Life Insurance Affiliates	1	10	1	0	12
Large T&L and Affiliates	1	7	0	0	8
Small T&L and Affiliates	5	10	1	2	18
Credit Union Affiliates	2	2	4	1	9
Total	14	89	15	3	121

2.0 AGGREGATE SUMMARY BALANCE SHEET AND INCOME STATEMENT – TOTAL CDIC MEMBERSHIP

2.1 Balance Sheet – $ Billions and Percentage

	1994		1993		1992		1991		1990	
	$	%	$	%	$	%	$	%	$	%
Assets										
Cash Resources	68.9	8	52.2	6	53.1	7	51.1	7	46.9	7
Securities	158.6	18	141.4	17	116.5	15	93.9	13	73.2	11
Non-Mortgage Loans	363.1	41	335.8	41	331.0	43	315.9	44	308.9	45
Mortgage Loans	236.2	26	224.2	28	211.4	28	194.6	27	179.9	26
Other Assets	64.8	7	63.5	8	55.9	7	63.3	9	74.6	11
Total Assets	$891.6	100	$817.0	100	$768.0	100	$718.8	100	$683.5	100
Liabilities										
Deposits	696.1	78	650.2	80	632.0	82	581.9	81	549.5	80
Other Liabilities	150.2	17	123.9	15	95.6	13	97.7	14	99.0	15
Total Liabilities	$846.3	95	$774.1	95	$727.6	95	$679.6	95	$648.5	95
Shareholders' Equity	45.3	5	42.9	5	40.4	5	39.2	5	35.0	5
Total Liabilities and Shareholders' Equity	$891.6	100	$817.0	100	$768.0	100	$718.8	100	$683.5	100

2.2 Income Statement – $ Millions

	1994	1993	1992	1991	1990
Interest income	54,056	52,286	57,792	67,586	70,976
Interest expense	32,196	31,882	37,983	48,535	53,760
Net Interest Income	$21,860	$20,403	$19,809	$19,051	$17,216
Provision for credit losses	3,920	5,396	7,042	3,206	1,954
Net interest income after provision for credit losses	17,940	15,007	12,767	15,844	15,262
Other income	11,039	9,599	8,581	8,095	7,400
Net Interest Income and Other Income	$28,979	$24,605	$21,348	$23,940	$22,662
Non-interest expenses	21,608	20,100	19,255	17,791	16,226
Net income before provision for income taxes	7,371	4,505	2,092	6,149	6,436
Provision for income taxes	2,929	1,641	597	2,233	2,288
Net income before non-controlling interest	4,442	2,864	1,495	3,915	4,148
Non-controlling interest in net income of subsidiaries	115	75	60	61	–7
Net income before extraordinary items	4,327	2,789	1,435	3,854	4,155
Extraordinary items	11	1	0	–31	8
Net Income	$4,338	$2,790	$1,435	$3,823	$4,163

3.0 ASSETS: SIZE AND QUALITY RATIOS

3.1 Total Assets – $ Billions and Percentage

	1994		1993		1992		1991		1990	
	$	%	$	%	$	%	$	%	$	%
Domestic Banks and Subs.	740.5	83.0	669.5	81.9	625.3	81.4	582.0	81.0	553.8	81.0
Foreign Bank Subsidiaries	65.0	7.3	62.8	7.7	59.4	7.7	56.5	7.9	55.1	8.1
Life Insurance Affiliates	8.9	1.0	10.7	1.3	10.8	1.4	10.5	1.5	8.2	1.2
Large T&L and Affiliates	59.3	6.7	56.9	7.0	56.7	7.4	55.6	7.7	53.3	7.8
Small T&L and Affiliates	3.4	0.4	3.3	0.4	3.2	0.4	3.2	0.4	3.2	0.5
Credit Union Affiliates	14.6	1.6	13.8	1.7	12.5	1.6	11.0	1.5	9.9	1.4
Total	891.6	100.0	817.0	100.0	768.0	100.0	718.8	100.0	683.5	100.0

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

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	5.08	3.81	4.08	2.94	2.74
Foreign Bank Subsidiaries	9.46	5.54	5.40	2.52	2.12
Life Insurance Affiliates	6.37	6.27	5.19	3.73	2.38
Large T&L and Affiliates	1.03	1.38	1.52	1.25	0.94
Small T&L and Affiliates	1.83	3.20	3.79	4.89	4.94
Credit Union Affiliates	3.64	2.55	2.86	1.29	1.45

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

3.3 NPLs to Total Loans – Percentage

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	7.59	5.52	5.70	4.10	3.78
Foreign Bank Subsidiaries	15.44	9.24	8.75	4.27	3.61
Life Insurance Affiliates	7.87	7.93	6.48	4.81	3.21
Large T&L and Affiliates	1.31	1.76	1.93	1.61	1.23
Small T&L and Affiliates	2.23	4.03	4.64	6.14	6.04
Credit Union Affiliates	4.56	3.24	3.53	1.57	1.83

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

3.4 NPLs Unprovided For – Percentage

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	45.87	49.38	53.05	54.26	43.79
Foreign Bank Subsidiaries	51.64	54.72	56.95	53.93	58.54
Life Insurance Affiliates	65.14	71.38	70.90	46.63	72.10
Large T&L and Affiliates	36.93	53.25	61.45	76.23	89.89
Small T&L and Affiliates	56.24	62.71	67.67	75.32	84.93
Credit Union Affiliates	66.02	69.24	60.72	82.38	86.84

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

3.5 NPLs to Total Shareholders' Equity – Percentage

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	32.01	36.93	41.61	30.87	24.85
Foreign Bank Subsidiaries	83.73	52.75	51.06	21.31	21.60
Life Insurance Affiliates	49.46	62.20	74.40	45.58	34.01
Large T&L and Affiliates	9.69	18.16	22.62	23.32	21.75
Small T&L and Affiliates	16.61	33.34	41.16	60.94	69.97
Credit Union Affiliates	52.84	36.27	35.13	22.20	49.05

Non-Performing Loans (net) / Average Equity

4.0 DEPOSIT LIABILITIES

4.1 Total Deposits – $ Billions and Percentage

	1994		1993		1992		1991		1990	
	$	%	$	%	$	%	$	%	$	%
Domestic Banks and Subs.	519.9	80.6	491.2	80.1	452.7	80.1	427.0	79.8	423.3	81.5
Foreign Bank Subsidiaries	50.2	7.8	46.5	7.6	43.0	7.6	40.5	7.6	35.1	6.7
Life Insurance Affiliates	9.0	1.4	10.0	1.6	9.1	1.6	9.2	1.7	6.5	1.3
Large T&L and Affiliates	52.4	8.1	52.9	8.6	51.9	9.2	50.9	9.5	48.0	9.2
Small T&L and Affiliates	2.4	0.4	2.4	0.4	2.3	0.4	2.4	0.4	2.2	0.4
Credit Union Affiliates	11.0	1.7	10.4	1.7	6.1	1.1	5.1	1.0	4.6	0.9
Total	645.0	100.0	613.6	100.0	565.1	100.0	535.0	100.0	519.6	100.0

As at April 30 of each year.

4.2 Insured Deposits to Total Deposits – Percentage

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	45.06	46.44	46.91	47.29	44.20
Foreign Bank Subsidiaries	13.38	13.34	12.78	12.76	10.47
Life Insurance Affiliates	94.07	94.25	94.32	92.72	89.92
Large T&L and Affiliates	84.06	82.87	82.28	80.61	80.17
Small T&L and Affiliates	95.17	94.52	95.10	95.18	94.26
Credit Union Affiliates	83.05	87.60	78.59	71.33	73.57

As at April 30 of each year.

5.0 CAPITALIZATION RATIOS

5.1 Capitalization – Percentage

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	7.65	5.27	5.38	5.30	5.05
Foreign Bank Subsidiaries	5.94	5.90	6.17	6.46	6.25
Life Insurance Affiliates	7.62	7.14	5.02	4.28	5.41
Large T&L and Affiliates	4.00	4.06	4.18	4.17	4.03
Small T&L and Affiliates	6.24	6.14	6.21	6.08	6.52
Credit Union Affiliates	4.67	5.11	5.26	5.03	5.10

Average Shareholders' Equity / Average Total Assets

5.2 BIS Capital (Risk-Based Capital)* – Percentage

	1994	1993	1992	1991	1990
Domestic Banks	9.83	9.82	8.99	8.94	7.81
Foreign Banks	10.47	10.28	9.88	8.09	8.07

** 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 have been required to meet the 8.00% target since 1993. Data have not been presented here since this information is not available for certain provincial trust and loan companies.*

6.0 PROFITABILITY RATIOS: SIZE, SPREADS, NON-INTEREST EXPENSES, ROAA, ROAE AND PRODUCTIVITY

6.1 Net Income – $ Millions

	1994	1993	1992	1991	1990
Domestic Banks and Subs.	4,272	2,879	1,676	3,808	3,673
Foreign Bank Subsidiaries	49	–132	–322	39	190
Life Insurance Affiliates	–94	–105	–89	–300	–39
Large T&L and Affiliates	137	132	147	252	299
Small T&L and Affiliates	4	–2	–5	–11	–11
Credit Union Affiliates	–30	18	29	34	50
Total	4,338	2,790	1,435	3,823	4,163

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

	1994					
	Interest Spread	Fees and Other	Non-Interest Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.66	1.42	3.47	0.61	7.92	63.34
Foreign Bank Subsidiaries	1.61	1.46	2.99	0.08	1.29	66.74
Life Insurance Affiliates	1.61	0.16	2.73	–0.96	–12.55	55.71
Large T&L and Affiliates	2.13	0.46	2.35	0.24	5.92	67.05
Small T&L and Affiliates	1.88	0.88	2.57	0.11	1.78	63.84
Credit Union Affiliates	2.42	0.80	3.43	–0.21	–4.57	78.53

	1993					
	Interest Spread	Fees and Other	Non-Interest Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.72	1.31	3.59	0.44	8.44	63.45
Foreign Bank Subsidiaries	1.43	1.44	3.08	–0.22	–3.67	71.74
Life Insurance Affiliates	1.44	0.89	3.30	–0.97	–13.59	52.50
Large T&L and Affiliates	2.05	0.36	2.18	0.23	5.70	65.77
Small T&L and Affiliates	1.75	0.70	2.43	–0.05	–0.79	60.82
Credit Union Affiliates	2.49	0.77	3.12	0.14	2.65	79.34

	1992					
	Interest Spread	Fees and Other	Non-Interest Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.82	1.28	3.82	0.28	5.16	63.14
Foreign Bank Subsidiaries	1.51	1.35	3.41	–0.56	–9.01	69.38
Life Insurance Affiliates	1.12	0.89	2.85	–0.84	–16.66	59.67
Large T&L and Affiliates	2.14	0.18	2.06	0.26	6.24	67.76
Small T&L and Affiliates	1.82	0.42	2.31	–0.16	–2.56	65.51
Credit Union Affiliates	2.62	0.89	3.26	0.24	4.60	71.53

	1991					
	Interest Spread	Fees and Other	Non-Interest Expenses	ROAA	ROAE	Productivity
Domestic Banks and Subs.	2.85	1.28	3.46	0.67	12.64	62.16
Foreign Bank Subsidiaries	1.73	1.32	2.98	0.07	1.09	63.82
Life Insurance Affiliates	1.12	0.63	4.95	–3.20	–74.67	83.28
Large T&L and Affiliates	2.17	0.42	2.13	0.46	11.08	67.76
Small T&L and Affiliates	2.00	0.42	2.63	–0.33	–5.42	58.89
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.	2.73	1.27	3.31	0.69	13.74	64.46
Foreign Bank Subsidiaries	1.70	0.99	2.32	0.38	6.00	59.99
Life Insurance Affiliates	1.35	1.55	3.40	–0.51	–9.36	61.62
Large T&L and Affiliates	2.16	0.75	2.33	0.58	14.48	71.31
Small T&L and Affiliates	2.33	0.53	3.21	–0.37	–5.70	75.38
Credit Union Affiliates	2.45	0.80	2.71	0.54	10.58	74.87

Interest Spread: *Interest Income - Interest Expense / Average Assets*
Fees and Other: *Other Income + Extraordinary Items / Average Assets*
Non-Interest Expenses: *Total Non-Interest Expenses + 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*

7.0 CDIC PREMIUMS

7.1 CDIC PREMIUMS – $ MILLIONS AND PERCENTAGE*

	1994		1993		1992		1991		1990	
	$	%	$	%	$	%	$	%	$	%
Domestic Banks and Subs.	389.1	76.60	295.9	76.67	212.0	76.28	201.9	76.30	187.1	77.22
Foreign Bank Subsidiaries	11.1	2.18	7.7	2.00	5.5	1.98	5.2	1.97	3.7	1.54
Life Insurance Affiliates	13.8	2.73	11.9	3.07	9.6	3.44	9.5	3.58	6.6	2.73
Large T&L and Affiliates	73.4	14.45	54.8	14.21	42.7	15.36	41.0	15.51	38.5	15.87
Small T&L and Affiliates	5.5	1.09	4.2	1.10	3.3	1.20	3.3	1.26	3.0	1.24
Credit Union Affiliates	15.0	2.96	11.4	2.95	4.8	1.73	3.6	1.38	3.4	1.39
Total	507.9	100.00	386.0	100.00	278.0	100.00	264.7	100.00	242.3	100.00

As at April 30 of each year.

* *This table includes all CDIC members. The premiums in this table reflect the premiums attributable to each year and do not necessarily agree with CDIC's premium income for accounting purposes.*

FINANCIAL OVERVIEW

HIGHLIGHTS

This section provides a narrative of CDIC's financial performance highlights for the period April 1, 1994, to March 31, 1995. A five-year financial and statistical summary and a table of key comparative indicators are included on pages 73 and 75 of this report.

During the fiscal year 1994/95, CDIC's Deposit Insurance Fund deficit increased by $99 million to $1.75 billion. By contrast, total loans outstanding from the Consolidated Revenue Fund (CRF) decreased by $1 billion, from $3.2 billion at March 31, 1994, to $2.2 billion at March 31, 1995. This was accomplished by collecting $1,676 million of loans and claims receivable and by additional premium revenue generated to a large extent by increasing the premium rate on insured deposits to one-sixth of one percent from one-eighth of one percent. This helped generate $513 million in premium revenue in 1994/95 compared with $391 million in revenue collected during the previous fiscal period.

LOANS AND CLAIMS RECEIVABLE

CDIC paid $875 million in loans and claims during 1994/95 compared with $1,508 million in 1993/94. The claims paid were to reimburse the insured depositors of Confederation Trust Company and Income Trust Company — two member institutions that failed during the year.

The book value of the loans and claims receivable (before allowance) at March 31, 1995, was $1,547 million, down from $2,791 million a year ago. This decrease results from the collection of $1,676 million and write-offs of $443 million in the older loans and claims receivable — where future collection is extremely doubtful — offset by $875 million of loans and claims paid during the year.

ALLOWANCE FOR LOSS ON LOANS AND CLAIMS RECEIVABLE

The allowance for loss on loans and claims receivable is based on information provided to CDIC by the liquidators and CDIC agents of failed member institutions and is sensitive to the assumptions and asset disposition strategies developed in the business plans prepared by the liquidators and agents. The allowance increased from $446 million last year to $501 million at March 31, 1995. As explained in note 5 to the financial statements, the increase of $55 million is a result of additional provisions of $498 million offset by the write-offs of $443 million. The additional provision of $498 million recorded during the year is a result of the accelerated disposition of assets in estates of member institutions, the partial refinancing of Adelaide Capital Corporation, and new provisions for the recent insolvencies. Although disposing of the assets on an accelerated basis results in increased provisions in CDIC's balance sheet, an economic benefit should accrue to the Corporation. These provisions are in nominal dollars and therefore do not reflect the time value of money. CDIC is examining a different method for estimating losses — using net present value — that would more closely reflect the economic benefit of such transactions. The new methodology may be reflected in next year's financial results.

PROVISION FOR GUARANTEES

During the year, CDIC paid $104 million in respect of its guarantees. These payments, combined with a net reduction of $118 million in the amount estimated for future payments, reduced the provision for guarantees to $407 million (1994 - $629 million). The provision for guarantees is explained in more detail in notes 4 and 5 to the financial statements.

General Provision for Loss

Last year, a general provision for loss of $200 million was recorded. The general provision for loss reflects CDIC's best estimate of losses on insured deposits of member institutions. The provision is established by assessing the aggregate risk in the member institutions based on current market and economic conditions and applying historical loss and likelihood-of-failure experience. The estimate for the general provision for loss was increased by $50 million to $250 million in 1994/95. The increased provision was required to reflect the deteriorating financial position of certain member institutions and the resulting increased exposure to loss for CDIC.

Premiums

As mentioned earlier, CDIC collected $513 million in premiums this fiscal year. The increase over the amount of premiums collected last year is primarily the result of the increase in the premium rate to one-sixth of one percent from one-eighth of one percent. The growth in the 1994/95 insured deposit base over 1993/94 was 1.7 percent. Since its inception in 1967, the Corporation has assessed and collected $3 billion in premiums.

Interest Costs

The rate of interest paid by CDIC on its loans is determined by the market. For each maturity borrowed, CDIC pays the Government's borrowing rate plus one-eighth of one percent. Under present legislation, CDIC is precluded from borrowing in the private market and from hedging its interest rate risk. Accordingly, it has pursued a policy of matching the maturity of its borrowing from the CRF with the estimated cash flows provided by liquidators in order to reduce its exposure to interest rate risk.

Interest costs for the 1994/95 fiscal year amounted to $182 million versus $270 million during the 1993/94 fiscal period. It is important to note that the 1993/94 fiscal period covered 15 months. Interest costs for the 12-month period ending March 31, 1994, were $209 million. The weighted average cost of funds for the year 1994/95 was 6.5 percent (1993/94 - 6.3 percent).

Operating and Intervention Expenses

Operating and intervention expenses for 1994/95 amounted to $19.1 million. For operating budget purposes, CDIC tracks its intervention costs separately from its operating expenses. Intervention costs are defined as incremental costs that result from CDIC's intervention in member institutions. Of the actual expenses of $19.1 million, $5.0 million was for intervention costs and $14.1 million was for operating expenses.

To facilitate the comparison of numbers, note 10 to the financial statements shows the operating and intervention expenses that were incurred for a 12-month period ending March 31, 1994. On this basis, the actual operating and intervention expenses for 1994/95 of $19.1 million compares with $21.3 million for the same 12-month period in 1993/94 (a reduction of 10 percent). Operating expenses have remained constant at $14 million.

PERFORMANCE AGAINST PLAN

The table of key comparative indicators on page 75 of this report outlines the planned and actual results for the following key financial indicators:

Deposit Insurance Fund

The Deposit Insurance Fund deficit at March 31, 1995, is $577 million higher than estimated in the plan. The bulk of this variance is explained by the additional provisions for loss recorded in the financial statements this year. Also, there was a variance of $129 million in the opening deficit (April 1, 1994), which resulted from additional provisions for loss recorded in last year's financial statements.

Loans from the Consolidated Revenue Fund

Notwithstanding the two insolvencies CDIC dealt with this fiscal year, the loans from the Consolidated Revenue Fund were maintained at the level expected in the plan. This is because of the acceleration of collections of the loans and claims receivable and the stability in the cost of funding utilized by CDIC.

Recoveries

CDIC collected $1.1 billion more in loans and claims receivable than was expected for the year ($642 million in claims and $459 million in loans). The acceleration of the sale of assets in the estates of Dominion Trust and Confederation Trust generated $676 million more than planned. This was offset by shortfalls in other estates. On the loans side, the partial refinancing of Adelaide Capital Corporation (ACC) enabled ACC to pay down $500 million of its loan from CDIC.

Payment of Guarantees

During the year, CDIC paid $104 million in respect of its various guarantees. This compares favourably with the $172 million that was expected to be paid. As mentioned earlier, the estimate of future payments on these guarantees was reduced by $118 million over the life of the guarantees.

Premiums

The amount of premiums collected this year fell $22 million short of projections. This is because of the lower-than-estimated growth in insured deposits. In its 1994/95 to 1998/99 Corporate Plan, CDIC estimated the insured deposit base would grow by 6.5 percent. The actual growth rate was 1.7 percent.

Interest Costs

Although there was very little discrepancy between the estimated and actual cost of funds, the borrowing plan projected a slightly more aggressive repayment of CRF loans. As a result, the actual interest costs for 1994/95 were $11 million more than planned.

Operating and Intervention Expenses

The actual operating expenses of $14.1 million were $1 million lower than planned. This is a result of lower-than-planned inspection costs; a reduction in the cost of premises, which includes a one-time rebate under a lease inducement clause; lower-than-planned consulting expenses as some initiatives were delayed because of intervention activity and other priorities; and a general effort to contain discretionary expenditures wherever possible. Intervention expenses of $5 million were exactly as planned.

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

	12 Months Ended March 31, 1995	15 Months Ended March 31, 1994	12 Months Ended December 31, 1992	12 Months Ended December 31, 1991	12 Months Ended December 31, 1990
		($ millions unless otherwise indicated)			
Insurance Program					
Deposit Insurance Fund (deficit)	(1,747)	(1,648)	(1,451)	(590)	(643)
Total insured deposits ($ billions)	308	303	302	290	270
Premiums assessed	513	391	302	290	271
Assets and Liabilities					
Claims paid	873	1,351	493	1,408	—
Claims recovered	1,025	1,048	263	728	49
Loans disbursed	2	157	1,539	39	43
Loans recovered	651	618	19	96	13
Additional loans (repayments) from the CRF	(991)	(499)	1,835	590	(150)
Payment of guarantees	104	65	—	—	—
Operations					
Operating expenses	14	17(1)	17	15	12(2)
Intervention expenses	5	9(1)	12	13	N/A
Interest expense on CRF loans	182	270(1)	177	168	146
Provision for loss	430	108(3)	960	61	(79)

(1) The figures provided in the schedule are for a 15-month period.
Comparative numbers for the 12 months ending March 31, 1994, are as follows:

Operating expenses	$14
Intervention expenses	$7
Interest expense on CRF loans	$209

(2) Includes both operating and intervention expenses.

(3) In addition to this provision of $108 million, the Corporation that year took a one-time retroactive provision of $200 million in respect of the change in accounting policy for the general provision for loss.

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

	12 Months Ended March 31, 1995	15 Months Ended March 31, 1994	12 Months Ended December 31, 1992	12 Months Ended December 31, 1991	12 Months Ended December 31, 1990
		($ millions unless otherwise indicated)			
Member Institutions					
Number of federal institutions – banks	59	61	61	64	64
Number of federal institutions – trust and loan companies	42	47	51	50	52
Number of provincial institutions	20	23	30	32	35
Total number of institutions	121	131	142	146	151
Number of insolvencies	2	3	5	4	—
Employees					
Number of permanent employees(4)	87	90	94	92	65
Other					
Average cost of funds	6.5%	6.3%	7.2%	10.2%	10.9%
Growth rate of insured deposits	1.7%	0.2%	3.8%	7.3%	10.4%
Insured deposits as a percentage of total deposit liabilities	47.6%	49.1%	50.8%	50.9%	48.3%

(4) Represents the number of full-time, permanent employees at period end. Vacant approved positions have not been included.

KEY COMPARATIVE INDICATORS

	1995/96 Plan (12 months)	1994/95 Actual (12 months)	1994/95 Plan (12 months)	1993/94 Actual (15 months)
		($ millions)		
Deposit Insurance Fund (deficit)	(1,096)	(1,747)	(1,170)	(1,648)
Loans from the CRF	1,517	2,174	2,188	3,177
Recoveries of claims receivable	493	1,025	383	1,048
Recoveries of loans receivable	82	651	192	618
Payment of guarantees	98	104	172	65
Premiums	526	513	535	391
Interest expense on CRF loans	93	182	171	269
Operating expenses	15	14	15	17
Intervention expenses	3	5	5	9

Management Responsibility for Financial Statements

June 2, 1995

The accompanying financial statements of the Canada Deposit Insurance Corporation and all the information in this annual report are the responsibility of management. The financial statements have been approved by the Board of Directors. They include some amounts, such as the allowance for losses on loans and claims receivable, the provision for guarantees and the general provision for loss, 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.

These financial statements have been 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, 1995 and the statements of operations and deposit insurance fund and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my 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.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
June 2, 1995

BALANCE SHEET

as at March 31, 1995
(in thousands of dollars)

	1995	1994
ASSETS		
Cash and short-term investments	$55,814	$26,091
Premiums and other accounts receivable	13,364	6,649
Deferred interest expense	—	7,464
Capital assets	1,815	1,982
	70,993	42,186
Loans receivable (Note 3)	270,570	1,049,338
Claims receivable (Note 3)	1,276,607	1,742,077
	1,547,177	2,791,415
Allowance for losses on loans and claims receivable (Note 5)	(501,000)	(446,000)
	1,046,177	2,345,415
	$1,117,170	$2,387,601
LIABILITIES		
Accounts payable	$32,400	$28,709
Provision for guarantees (Notes 4 and 5)	407,483	629,448
General provision for loss (Note 5)	250,000	200,000
Loans from the Consolidated Revenue Fund (Note 6)	2,174,423	3,177,096
	2,864,306	4,035,253
DEPOSIT INSURANCE FUND		
Deficit, end of period	(1,747,136)	(1,647,652)
	$1,117,170	$2,387,601

Approved by the Board:

Chairman

Director

STATEMENT OF OPERATIONS AND DEPOSIT INSURANCE FUND

for the year ended March 31, 1995
(in thousands of dollars)

	1995 (12 months)	1994 (15 months)
REVENUES		
Premiums	$513,050	$391,161
Interest on cash and short-term investments	8,697	7,081
Other revenue	9,948	11,054
	531,695	409,296
EXPENSES		
Provision for loss (Note 5)	430,101	108,500
Interest on loans from the Consolidated Revenue Fund (Note 6)	181,959	269,679
Operating and intervention expenses (Note 10)	19,109	26,219
Other interest	10	1,893
	631,179	406,291
Gain (loss) from operations	(99,484)	3,005
Deficit, beginning of period	(1,647,652)	(1,450,657)
Retroactive adjustment	—	(200,000)
Deficit, end of period	$(1,747,136)	$(1,647,652)

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1995
(in thousands of dollars)

	1995 (12 months)	1994 (15 months)
OPERATING ACTIVITIES		
Gain (loss) from operations	$(99,484)	$3,005
Non-cash items included in gain (loss) from operations		
Provision for loss	430,101	108,500
Other	(6,687)	100
Payment of guarantees	(104,066)	(64,552)
Loans disbursed	(2,376)	(157,459)
Loans recovered	651,143	618,159
Claims paid	(872,779)	(1,350,912)
Claims recovered	1,025,249	1,047,768
Cash provided by operating activities	1,021,101	204,609
INVESTING ACTIVITIES		
Purchase of capital assets - net	(378)	(586)
FINANCING ACTIVITIES		
Loans from the Consolidated Revenue Fund		
Advances	350,000	1,230,000
Repayments	(1,341,000)	(1,729,000)
Cash used in financing activities	(991,000)	(499,000)
CASH AND SHORT-TERM INVESTMENTS		
Increase (decrease) during the period	29,723	(294,977)
Balance, beginning of period	26,091	321,068
Balance, end of period	$55,814	$26,091

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1995

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 as will 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 acquiring 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 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.

Excess Recoveries in Claims. From time to time, the Corporation collects amounts previously written-off in claims receivable. Also, when the total amount available from an estate exceeds the Corporation's claim, the Corporation may be entitled to interest on its claims. In such cases, the excess recovery and/or the interest on the claims is recorded as income on a cash basis.

Provisions for Loss. CDIC has three types of provisions for loss in its financial statements. The factors affecting the provisions for loss may vary; accordingly actual losses may differ from the Corporation's estimates.

Loans and Claims Receivable – The allowance for losses on loans and claims receivable is determined on an annual basis and 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, among other things, business plans — which include asset disposition strategies, forecasted distributions to creditors, the requirement to refund advances received against future distributions, commitments under various agreements — 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 member institutions, CDIC may provide certain guarantees. The amount, determined on an annual basis, to cover these guarantees is based on the estimated future cash requirements to meet these obligations.

General – The general provision for loss is determined on an annual basis and reflects the Corporation's best estimate of losses on insured deposits of member institutions. The provision is established by assessing the aggregate risk in the member institutions based on current market and economic conditions and applying historical loss experience.

3. 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 year, two member institutions, Confederation Trust and Income Trust, were placed in liquidation. In respect of these two members, the Corporation paid \$873 million in claims relating to their insured deposits and has so far recovered \$474 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 year.

4. Provision for Guarantees

The Corporation has \$2.66 billion (1994 – \$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 \$497 million estimated loss recognized on these guarantees (1994 – \$615 million), \$365 million remains unpaid (1994 – \$550 million). The guarantees will continue to be in force, on a diminishing basis, until the year 2002.

The Corporation also provided an interest rate spread guarantee of \$170 million to a member institution of which \$43 million remains unpaid (1994 – \$79 million).

5. Provisions for Loss

The following table is a continuity schedule for the provisions for loss on loans and claims receivable, guarantees and the general provision as at March 31, 1995.

	1995				1994
	Loans and Claims Receivable	Guarantees	General Provision	Total	Total
	(in thousands of dollars)				
Beginning of Period	$446,000	$629,448	$200,000	$1,275,448	$1,031,500
Adjustments for Prior Years	—	—	—	—	200,000
Provision for Loss	498,000	(117,899)	50,000	430,101	108,500
Write-offs	(443,000)	N/A	N/A	(443,000)	—
Payment of Guarantees	N/A	(104,066)	N/A	(104,066)	(64,552)
End of Period	$501,000	$407,483	$250,000	$1,158,483	$1,275,448

6. 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, 1995, the Corporation has $2,174 million in outstanding loans including accrued interest of $14 million (March 31, 1994 – $3,177 million including accrued interest of $26 million).

These loans bear interest at various annual rates ranging from 4.490% to 8.342% and are repayable according to the following schedule:

Period Ending March 31	Amount *(in millions of dollars)*
1996	$ 828
1997	872
1998	460
	$2,160

7. Income Taxes

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

Such losses total $1,177 million and expire as follows:

Year	Amount *(in millions of dollars)*
1996	$ 144.4
1997	143.3
1998	141.8
1999	224.1
2000	224.6
2001	96.4
2002	202.4
	$1,177.0

8. Contingent Liabilities

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. In addition, the Corporation has entered into financing arrangements for specified periods with the liquidators or agents and third parties to enable advance distributions to be made from certain estates or to facilitate the restructuring of a troubled member institution (1995: $665 million; 1994: $165 million). Amounts received under these agreements are subject to early repayment should certain conditions or circumstances apply.

The Corporation does not believe it has any liability as a result of these actions or under these agreements and has therefore not provided for any potential claims.

9. Insured Deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1994 and 1993, were as follows:

	1994	1993
	(in billions of dollars)	
Federal Institutions	$291	$282
Provincial Institutions	17	21
	$308	$303

In accordance with paragraph 21(1)(b) of the CDIC Act, the premium rate for the premium year 1995 was set at one-sixth of one percent of insured deposits, the same rate as in 1994 (one-eighth of one percent for 1993).

10. Operating and Intervention Expenses

	March 31, 1995 (12 months)	March 31, 1994 (12 months)	March 31, 1994 (15 months)
		(in thousands of dollars)	
Salaries and other personnel costs	$ 6,346	$ 6,608	$ 8,290
Inspection, legal and other fees	5,897	8,055	9,741
General expenses	2,721	2,841	3,287
Premises	2,322	2,192	2,896
Data processing	1,823	1,592	2,005
	$19,109	$21,288	$26,219
Operating expenses	$14,096	$13,823	$17,597
Intervention expenses	5,013	7,465	8,622
	$19,109	$21,288	$26,219

11. Comparative Figures

Certain of the 1994 figures have been reclassified to conform with the presentation adopted for 1995.

Board of Directors - March 31, 1995

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) (3)
Chairman of the Board
CDIC
(January 8, 1993, 5 years)*

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

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

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

H. Garfield Emerson, Q.C. (2)
President and Chief Executive Officer
Rothschild Canada Ltd.
Toronto
(December 20, 1994, 3 years)*

Suzanne B. Labarge (2) (4)
Deputy Superintendent of Financial Institutions
(*ex officio*)

John R.V. Palmer (1)
Superintendent of Financial Institutions
(*ex officio*)

Bernard I. Ghert (1)
President
Ghert Realty Holdings Ltd.
Toronto
(June 9, 1993, 3 years)*

Colin P. MacDonald (3)
Partner
Howard, Mackie
Calgary
(December 20, 1994, 3 years)*

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Employee Relations Committee
(4) Resigned as Deputy Superintendent of Financial Institutions March 31, 1995

The Employee Relations Committee also includes former board members Ronald N. Robertson and E. Susan Evans.

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

CDIC Officers

Grant L. Reuber
Chairman of the Board
(January 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 Lederman
Corporate Secretary and
General Counsel

Bert 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 Margaret Kopke, Director, Internal Audit, and Patricia Griffin-Dobson, Director, Human Resources.

* Date and term of Governor-in-Council 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
National Banking Group
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

John R.V. Palmer
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
CDIC

Thomas Vice
Director
Monitoring
CDIC

Advisory Committee on Consumer Information

Chairman

Jean Pierre Sabourin
President and Chief Executive Officer
CDIC

Members

Pierre Desroches
Executive Vice-President
Eastern Quebec and Atlantic
National Bank of Canada

Youssef A. Nasr
Executive Vice-President
Hongkong Bank of Canada

Ronald G. Gassien
Senior Vice-President and
Corporate Secretary
National Trust Company

Donald A. Stewart
Chairman and C.E.O.
Sun Life Trust Company

Elizabeth B. Wright
Executive Vice-President
Canadian Imperial Bank of Commerce

Andrew R. White
Executive Vice-President
Marketing and Planning
Personal and Commercial Financial Services
Bank of Montreal

Legal Counsel

Donald E. Milner
Fasken Campbell Godfrey

Secretary

David Walker
Economics and Research Advisor
CDIC

Real Estate Advisory Panel

Chairman

Daniel F. Sullivan
Deputy Chairman
Scotia McLeod Inc.

Board of Director Liaison

Bernard I. Ghert
President
Ghert Realty Holdings Ltd.

Secretary

Christopher J. Porter
Manager
Field Operations
CDIC

Members

Lorne Braithwaite
President and Chief Executive Officer
Cambridge Shopping Centres Ltd.

Steve Johnson
President
The Dorchester Corporation

Alvin Poettcker
President
REDEKOP Properties Inc.

Roger Garland
Executive Vice-President
Four Seasons Hotels Ltd.

John Latimer
President
Monarch Development Corporation

William C. Poole
Former Senior Vice-President
Realty Advisory Group of
The Toronto-Dominion Bank

Randy Grimes
Director
IBI Group

William Lavine
Chairman
Western Corporate Enterprises Inc.

Kenneth Rotenberg
Chairman
Rostland Corporation

Cash and Debt Management Review Committee

Chairman

Paul Taylor
Executive Vice-President
Royal Bank of Canada

Members

Johanne R. Lanthier
Vice-President
Finance
CDIC

Bryan Osmar
Vice-President, Money Markets
Treasury Division
Royal Bank of Canada

Consumer Assistance

CDIC offers a toll-free information service that 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
Information Brochure
Membership Brochure
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
Assessment and Reporting Program for CDIC's
  Standards of Sound Business and Financial Practices

Credits

Graphic Design and Desktop Publishing
Donna Fitzsimmons
Produced by
Linguistic and Publishing Services, CDIC

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

Printed in Canada