

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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Président du conseil d'administration

June 14, 1996

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, 1996.

Yours sincerely,

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17e étage

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A n n u a

Eliminate deficit and CRF borrowing

Strengthen capacity for risk assessment and maximize net recoveries

Reduce risk of losses

Develop by-laws

Improve productivity and cost effectiveness

Maintain fair and effective human resource and salary policies

Improve accounting, information and reporting systems

Propose and assess public policies

Maintain close liaison with government, regulators, and industry



Substantial changes have occurred in Canada's financial system during the past decade. Some of these have been driven by market forces, including technology, others by changes in legislation and regulatory policy, and many by the combined influence of both market forces and policy changes.

In recent years, the Canada Deposit Insurance Corporation (CDIC) has substantially modified its policies and operations to reflect emerging developments in the financial system as well as its evolving experience in dealing with the failure of financial institutions.

CDIC's Annual Report last year focused on three issues in considerable detail: the cost of deposit insurance, questions of accountability, and questions about the ongoing relationship between the Office of the Superintendent of Financial Institutions (OSFI) and CDIC. These three questions remain in the forefront of CDIC's concerns. This year the focus is on how these questions are being addressed as seen through the prism of adapting to ongoing changes in the financial system and increasing experience with the failure of deposit-taking institutions. In particular the focus is on:

- · CDIC's priorities and a mid-term report on its progress in pursuing these priorities.
- · Legislative changes affecting CDIC's mandate and operations.

## CDIC's Priorities and Progress

In 1993, CDIC's Board of Directors approved a set of priorities as part of its five-year corporate plan process. What are these priorities and what progress has been made in pursuing them?

The priorities set out in 1993, and extended since then to the year 2001 with only minor amendments, are based upon CDIC's statutory responsibilities and the Chairman's, Board of Directors' and management's views of the current economic and financial environment in which CDIC members function. The urgency to pursue these priorities has been reinforced by the changes in the financial system and by the high cost of deposit insurance in recent years. The priorities represent a practical statement of business direction that allows management to develop functional operating plans to support the policies established by the Board.

How far and how fast CDIC has been able to pursue its priorities have depended upon several factors — many beyond CDIC's control. One such factor has been the economic and financial environment in Canada. Another has been developments in real estate and other asset markets particularly important for member institutions. A third has been the number of failures of member institutions and the level of funding required to deal with such situations. And a fourth, of course, has been the need for CDIC to pursue its priorities within the present legislative and policy framework.

A second introductory point to be noted is that CDIC has not ranked its priorities in order of importance with the exception of the first three listed below. These first three priorities are closely interconnected and in combination have been seen as the most important.

Within the objects, powers and resources provided, what have CDIC's priorities been since 1993 and how much progress has been made in pursuing these priorities?

Major reductions
in CDIC's deficit
and borrowing
occurred despite
the failures of
member
institutions
during the period
1992-1996.

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## 1. To eliminate CDIC's accumulated deficit and eliminate its borrowing by 1999.

This priority responds to today's economic reality in both the public and the private sectors and to the need of the financial services industry for a cost-effective deposit insurance system.

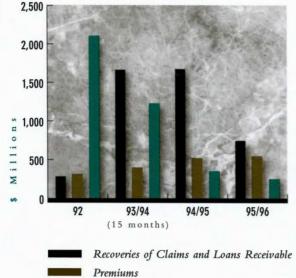
At the end of March, 1996, CDIC had an accumulated deficit of \$1.3 billion. This represents a reduction of \$446 million from the peak reached a year earlier and a decrease to a level below that at the end of 1992, even after allowing for a significant change in accounting policies. This change was the introduction of a general provision for loss that increased the deficit by \$200 million in 1993/94. Since then, the general provision for loss has been adjusted on a yearly basis.

CDIC's borrowing from the Consolidated Revenue Fund on March 31, 1996, totalled \$1.6 billion — a reduction of \$600 million from a year earlier and \$2.1 billion from the peak of \$3.7 billion reached at the end of 1992.

These reductions in CDIC's deficit and borrowing occurred despite the failures of member institutions during this period. During 1995/96 there was one failure: North American Trust. Since the end of 1992 there have been six failures requiring CDIC support.

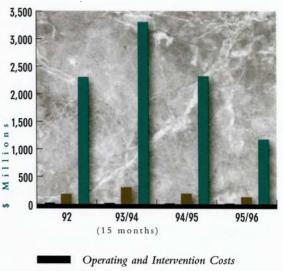
Figures 1 and 2 indicate CDIC's major sources and uses of funds since 1992. The factors affecting these flows of funds were discussed in some detail in last year's *Report*. Figure 3 shows CDIC's actual deficit and borrowing from 1992 to the end of the fiscal year 1995/96 and projections to the end of the fiscal year 1998/99.

Figure 1
Sources of Funds



Borrowings

Figure 2
Uses of Funds

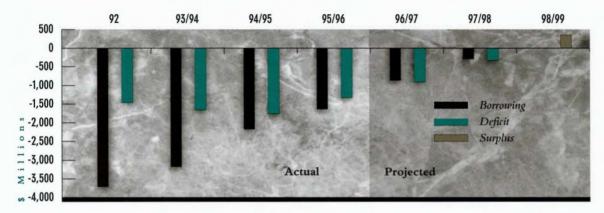


Financing Insurance Claims

Interest

Figure 3

Deficit/Surplus and Borrowing Profile\*



\* Assumes no change in the current level of premiums.

As implied by these projections, CDIC has plans in hand to eliminate its deficit and borrowing by 1999. These plans assume, of course, no substantial changes in the terms on which insurance is provided, in CDIC's responsibilities and in the circumstances of its members. They also assume continuing progress in advancing CDIC's priorities, especially priorities 2 and 3 discussed below.

As indicated last year, until CDIC's deficit and borrowing are eliminated, CDIC's insurance premium rates can be expected to remain unchanged at one-sixth of one percent. Thereafter, major reductions may be possible.

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

### Risk Assessment

Progress in CDIC's capacity to assess risk has been made mainly in three areas: the implementation of its Standards of Sound Business and Financial Practices; improvements in the availability of data on member institutions and the capacity to analyze these data; and the development of a more comprehensive and fully-articulated system of risk assessment and risk-rating for CDIC members.

In 1993, CDIC's Standards of Sound Business and Financial Practices were made into law. And in 1994 CDIC developed the Standards Assessment and Reporting Program (SARP) in consultation with regulators, members and their associations, and professional groups. In July 1995, members were required, for the first time, to report on their compliance with CDIC's Standards under SARP — a self-assessment system. The results of the 1995 SARP are discussed in the Insurance and Risk Assessment section of this *Report*. As part of the filing requirement under SARP, the senior management and board of directors of each member institution are required to confirm that the member is following CDIC's Standards by signing a representation letter and passing a board of directors resolution. These requirements provide CDIC with some assurance that the management and the board of directors understand their responsibilities and that the member institution is managing its risk. Compliance with CDIC's Standards through the SARP process is considered a central risk assessment tool to assist in the early identification of potential problems.

## Standards

 Capital Management 0 bservatio

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- Credit Risk Management
- Foreign
   Exchange Risk
   Management
- Interest Rate Risk Management
- Internal Control
- Liquidity Management
- Real Estate Appraisals
- Securities
   Portfolio
   Management

Compliance
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Standards
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Report

Since the initial SARP reports were submitted, the process has been reviewed by an industry committee, chaired by Mr. Gordon Baker, Senior Vice-President, Chief Inspector, of The Toronto-Dominion Bank, working in consultation with OSFI and CDIC officials. As a result, the process has been further refined, as discussed in the Insurance and Risk Assessment section of this *Report*, and compliance costs to most members are expected to be considerably reduced without impairing the effectiveness of the system.

The design, construction and refinement of information systems and other procedures continue in order to increase CDIC's operational capacity to identify and assess the risk of loss on a timely basis. Phase I of the Member Institution Data Analysis System (MIDAS) was completed in July 1995 and currently provides CDIC users with detailed financial data reported by CDIC members over a seven-year period. MIDAS is discussed in greater detail in the Insurance and Risk Assessment section of this *Report*.

An asset valuation model was developed two years ago, largely as a tool to assist in carrying out special examinations of member institutions in some difficulty. This model continues to evolve and its use has been extended beyond special examinations to perform detailed financial assessments of members considered to be in the relatively high-risk category.

A third major development now under way is the design of a comprehensive and well-defined system for assessing the risk associated with each member institution and assigning each member a ranking within a range of risk categories. The impetus to establish this system has had three sources: increased emphasis given to identifying risk exposures as early as possible; the intervention guide developed jointly with OSFI last year; and the possibility of levying differential premiums to be provided by Parliament when Bill C-15 (formerly referred to as Bill C-100 in the last session of Parliament) comes into effect.

At this early stage in its work, CDIC is focussing on the following eight factors to assess risk. As the work progresses, this list may be altered.

- corporate structure
- · the quality and diversification of assets
- · the quality of capital and access to additional capital if and when required
- financial strength as reflected by a member's capital/asset ratio (taking into account the quality of both capital and assets), and liquidity
- current and prospective financial performance and profitability
- · quality of management
- compliance with legal and regulatory requirements and CDIC's Standards
- · general market information

In order to implement such a system, it is necessary to define each element to be taken into account operationally and to map a system for ranking each member on each element. The final overall rating assigned to each member will necessarily be based upon judgement. The work now under way will not replace judgement with a formula of some kind. Its purpose is to ensure that in rating institutions the judgements made by both the management and the Board of CDIC are fully supported by reliable information and sound analysis.

Although CDIC and OSFI make their own assessments of risks, reflecting each agency's judgements about risk factors and their relative importance, they share their assessments and fully discuss any differences in their views. The same is true of provincial regulators and CDIC.

Any sound system of risk assessment relies upon a wide range of information. In order to reduce duplication and cost, most of the information CDIC requires is obtained from the Bank of Canada, OSFI, provincial regulators and published sources. CDIC only requests information if, after determining that it is not available from these sources, the information is deemed important enough to warrant a special request directly to member institutions. And any such specially requested information is shared with OSFI and provincial regulators.

## Claims and Recoveries

When a member institution fails, CDIC has a number of options for dealing with the situation. In many cases, CDIC pays the claims of insured depositors and then works with liquidators to maximize net recoveries from the sale of assets and minimize losses to the Corporation. Another option is to sell the company to another deposit-taking institution and support the sale to the extent necessary with financial support of some sort. Various other options can be considered as well. Whatever option is used, CDIC almost inevitably ends up with claims to be collected or financial obligations to be monitored.

How effective CDIC is in recovering its claims necessarily has an important impact on the cost of deposit insurance. And given the size of CDIC's outstanding claims in recent years, improving its recoveries performance has been considered essential.

Today, in every case where recovery of a claim is required, an appropriate asset management and disposition (AMD) plan is worked out. In doing so, CDIC has one consistent objective: to maximize the net present value of its recoveries from the estate. As described below in more detail, the recovery on CDIC's claim is affected generally by the AMD strategy used and, specifically, by the priority of the claim or the admission or denial of other claims against the estate.

During 1995/96, recoveries of claims and loans receivable totalled \$748 million, which brings the total recoveries since the end of 1992 to \$4.1 billion. The size of these recoveries reflected largely CDIC's recent approach of accelerating the disposition of assets where possible within the first year of liquidation. Experience in recoveries indicates that this strategy has contributed to CDIC's goal of optimizing its recoveries, since earlier disposition often results in lower net costs and eliminates the exposure to future risks.

In the past few years, substantial improvements have also been made in the process of paying out insured depositors. These improvements have significantly reduced the time required to make insurance payments and the cost of payouts. In addition, there have been major increases in the transfer fees paid to CDIC by the member institutions that have acquired the insured deposit base of a failed member institution. These improvements are also discussed in greater detail in the Claims and Recoveries section of this *Report*.

Another factor in improving CDIC's recoveries of claims and loans receivable has been its policy of initiating lawsuits as appropriate against directors, officers, auditors and other relevant parties of failed institutions. CDIC reviews the cause of each failure. In circumstances where (i) the Corporation has suffered damages, and (ii) there is information that raises a reasonable case of negligent or wilful misconduct or wrongdoing by directors, officers or auditors, or by other relevant parties, the Corporation is committed to taking appropriate legal action — either directly or through liquidators, or both.

Substantial
improvements
have also been
made in the
process of paying
out insured
depositors.

Earlier
recognition of
problems
considerably
increases the
chances that the
situation can be
dealt with at no
cost, or at less
cost, to CDIC.

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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 9.

The steps already summarized under priority 2 contribute not only to the more effective assessment of risk but also to the more effective management of risk. In addition, work is ongoing to document more fully CDIC's policies and procedures, to improve, expand and document the range of risk management options available and to improve CDIC's capacity to quantify the cost of options available to CDIC to resolve the problems arising from institutions in financial difficulty.

This latter issue is of particular importance and has received special attention. In each and every case, CDIC evaluates at least two optional ways of dealing with an institution in difficulty. Frequently this policy leads to comparing the cost of liquidating the firm with the costs of supporting the sale of the firm, in whole or in parts, in a competitive bidding process. Usually this latter option requires CDIC financial support in one form or another. This approach means that as far as possible CDIC deals with failed institutions through a process based on market tests designed to minimize the cost of failures to CDIC. Moreover, the Real Estate Advisory Panel, made up of ten real estate professionals, monitors the application of this approach.

Considerable effort also continues to be given to refining the scale and timing of CDIC's intervention based on the *Guide to Intervention* developed last year in collaboration with OSFI. As described in greater detail in last year's *Annual Report*, this *Guide* provides a more clearly defined, reliable and prespecified structure for earlier intervention and resolution of problems faced by member institutions. It promotes awareness of and transparency for the system of intervention. Earlier recognition of problems and earlier response by troubled institutions themselves, by regulators and by CDIC considerably increase the chances that the situation can be dealt with at no cost, or at less cost, to CDIC. Since the *Guide* was published last year, OSFI and CDIC have continued to develop an action matrix that shows in detail the process under way to deal with the problems arising for each of the members identified as being on the intervention ladder. The *Guide* is one of the risk management initiatives discussed in the next section of this *Report*.

Enactment of CDIC's Standards has also contributed to CDIC's ability to manage its risks better. Since 1995, CDIC has twice invoked its powers under section 30 of the CDIC Act, notifying the companies in question that they were in breach of the Standard respecting capital management and that failure to meet the Standard would result in the withdrawal of CDIC deposit insurance.

At present, CDIC is closely monitoring half as many member institutions as in 1993. The insured deposits of these higher-risk members totalled about 1.7 percent of the total insured deposits in 1995. Almost all of the current list of problem institutions are at the first two stages of the *Guide to Intervention* — stages where the situation is not serious enough to present an immediate threat to the financial viability or solvency of the institution but where the situation could lead to more serious problems.

Close co-operation between CDIC, OSFI and provincial regulators is essential for the cost-effective management of the risks to which CDIC is exposed by member institutions. As indicated later, much progress has been made in developing co-operation and collaboration between CDIC and these agencies during the past three years, with very positive results.

- 4. To put in place the by-laws provided for in the Act and the new policy on CDIC borrowing:
- · Standards of Sound Business and Financial Practices
- · Application for Deposit Insurance By-law and Policy of Deposit Insurance By-law
- Premium Surcharge By-law
- Consumer Information By-law
- Trust and Joint Account Disclosure By-law

Such by-laws set out rules to be followed by member institutions. With one exception, all of these by-laws have been put in place during the past three years. The exception is the by-law dealing with consumer information, which is discussed in greater detail in the Insurance and Risk Assessment section of this *Report*. The by-law is expected to be enacted in 1996.

Observatio

Under Bill C-15, a by-law is required to establish risk-based premiums. Before this can be done, it will be necessary to complete, in consultation with all interested parties, the development of the risk-assessment system discussed earlier.

As well, the Government has taken steps, including an amendment in the CDIC Act, to encourage CDIC to borrow directly from capital markets while retaining its Crown agency status. As explained below, appropriate actions are under way to accommodate this change in policy. CDIC's ability to borrow directly from the Consolidated Revenue Fund remains.

5. 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.

Total CDIC spending on operations during the year ending in March, 1996, was \$14 million — \$1.3 million below budget and \$2.6 million or 16 percent below the level of spending in 1992. The budget for 1996/97 has been set at about the same level as the actual expenditures in 1995/96.

The costs of intervention related to particular institutions are budgeted separately from CDIC's general operating budget, the budget for each intervention being separately approved by the Board. Year-to-year variations in intervention costs mainly reflect the number and size of failures. During the fiscal year 1995/96, total intervention costs were \$3.6 million — compared with \$5 million a year earlier and \$12 million in 1992. In addition to reflecting the failure of smaller institutions and fewer failures, this reduction in intervention costs also reflects several steps taken to reduce the cost of intervention and to increase the recovery of certain costs from member institutions.

The number of full-time CDIC permanent employees on strength in March 1996 totalled 86, which is 1 less than a year earlier and 8 less than at the end of 1992, the year before CDIC adopted the priorities under discussion.

The review of processes and procedures at CDIC in order to make the most of available resources is ongoing. As indicated in last year's *Annual Report*, virtually every area of CDIC has been reviewed by outside experts since 1993 to determine how the organization might improve its efficiency and effectiveness. During the past year, the emphasis has been on sifting, developing and implementing the findings of these reviews, as discussed later in this *Report*.

In redeploying its resources, CDIC's emphasis has been on strengthening its capacity to discharge its two primary functions: risk assessment and management, and claims and recoveries. This has meant economizing in other areas through improved efficiency, discontinuing or scaling down certain activities and closer cost control. In order to do this effectively, a better and tighter system of budgeting and cost control that allows for activity-based costing has been implemented.

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.

6. 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.

In 1993, an outside consultant reviewed the Corporation's human resource policies and management. The Auditor General's special examination also looked into certain aspects. In addition, this area has been reviewed by internal groups.

CDIC has dealt with, or is well along in dealing with, all the recommendations that have emerged from this review process.

Some of the changes resulting from this process may be summarized as follows:

- An employee recognition program was developed and implemented. The program was designed to
  allow managers the opportunity to acknowledge employees' exceptional efforts in relation to their
  duties either with a cash or non-monetary award. Since its inception, a number of awards have
  been given to individuals within the Corporation.
- An orientation program for new employees was established to advise them of policies, procedures
  and the organizational culture of the Corporation. The orientation program has been incorporated
  as part of the revised employee handbook.
- A management assessment program for management has been completed. The results of the management skills assessment will be incorporated into the development plans of managers.
- A succession planning process for management is being developed.

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During 1995, CDIC continued to follow the federal government's wage restraint program. In March 1996, the government announced that the *Public Sector Compensation Restraint Act* of 1991 would not be extended and that the suspension of annual increments and performance pay was being lifted.

During the year, the Employee Relations Committee recommended, and the Board approved, a compensation policy developed by the Human Resources Department covering salary administration guidelines. This will assist CDIC in establishing salaries when hiring and promoting, as well as a pay-for-performance provision linked to the performance management process.

As a Crown corporation, CDIC is required to meet statutory requirements with respect to employment equity, official languages, multiculturalism, and health and safety, and report on its compliance with these requirements to the respective overseeing bodies. The Human Resources Department has ensured that CDIC's policies and procedures are in full compliance with these statutory requirements.

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

In 1994, the methodology for estimating a general provision for loss was developed and is now being used in CDIC's financial statements with the concurrence of the Auditor General.

A new accounting system, the Integrated Financial Information System (IFIS), was also developed in 1994. Phase I of IFIS was introduced in the spring of 1995 to coincide with the beginning of the fiscal year. The development of phase II began in August 1995, and, as a result, IFIS was used to support the development of the operating plans for the 1996/97 to 2000/01 Corporate Plan. With the introduction of IFIS, users are able to track directly their expenditures on an activity-by-activity basis. The system also offers an enhanced reporting capability as well as a cost control system.

As a result of the changes made in providing for potential future losses and in implementing IFIS, this priority has now been deleted for the 1996/97 planning year.

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

Over the last year, CDIC has provided research support and acted in an advisory capacity in respect of a number of important initiatives aimed at improving Canada's financial system. Areas being addressed include CDIC's new Consumer Information By-law, payment and settlement issues, risk-based premiums, risk-rating methodology and other topics related to financial legislation and legislative amendments. In addition, CDIC officers have participated in a number of conferences, in Canada and abroad, focusing on developments in the financial system.

9. To develop and maintain close liaison and co-operation with member institutions, their associations, OSFI and provincial regulators, the Bank of Canada, the Department of Finance and other pertinent government departments, members of the Financial Institutions Supervisory Committee (FISC) and the Senior Advisory Committee (SAC), parliamentary committees, the Minister of Finance and the Secretary of State (International Financial Institutions).

This priority transects all other priorities. It is basic to everything CDIC does for two reasons. The first is to avoid unwarranted duplication and costs. The second is to be as effective as possible in dealing with matters included in CDIC's mandate.

In areas where duplication arises, two key tests determine whether or not such overlap is productive. Are the benefits of such duplication greater than the costs? And secondly, with better co-ordination could the same benefits be achieved at a lower cost? These are central issues that CDIC addresses on an ongoing basis vis-à-vis the other groups with which it co-ordinates its activities and especially in relation to OSFI.

Included in

Bill C-15 is an

amendment that

allows CDIC

to borrow

money from the

private sector.

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In last year's *Annual Report*, the issue of CDIC's relationship with other agencies and particularly with OSFI was discussed in considerable detail. During the past year, further progress along the lines outlined a year ago has been made. Particularly noteworthy has been the collaborative efforts begun to economize on data collection and systems development. To this end, a joint Information Systems Steering Committee has been established between CDIC and OSFI to review and co-ordinate all systems development issues at the two agencies in order to improve the cost effectiveness of both agencies in running and developing better information systems. This new committee is being assisted in its work by Mr. George Hopkins, Executive Vice-President, Bank of Montreal. Consideration is also being given to additional collaborative activities in a number of administrative, training and human resource areas.

At another level, the OSFI/CDIC Liaison Committee has been meeting regularly and has dealt effectively with a wide range of matters. The committee is jointly chaired by the Chairman of CDIC and the Superintendent of Financial Institutions, and includes three senior officers from each agency. During the past year, the committee dealt with a number of issues, including:

- implementing enhancements to the CDIC Standards Assessment and Reporting Program, including
  enhancing the Section 29 reports pertaining to the examiner's opinion in respect of a member's
  adherence to the Standards;
- co-ordinating proposed supervisory actions with respect to high-risk member institutions within the framework of the Guide to Intervention for Federal Financial Institutions;
- discussing issues respecting the development and implementation of a CDIC risk-rating and revised premium system;
- · identifying and acting on systems-related synergies between OSFI and CDIC, including:
  - establishing a joint CDIC/OSFI committee to identify potential shared systems development opportunities, including such systems as CDIC's MIDAS and OSFI's FIRS (Financial Institutions Reporting System), among others, and
  - initiating a review by an outside consultant of the processes at federal supervisory agencies for
    collecting, verifying, storing and distributing financial information regularly reported by federal
    deposit-taking institutions. The objective of the review is to recommend whether and how
    such processes may be improved to reduce costs while maintaining or improving accuracy,
    timeliness, security, user control, and responsiveness;
- · reviewing the changes in legislation under Bill C-15.

The OSFI/CDIC Liaison Committee met eight times in 1995/96 and will continue to meet on a regular basis to advance its mandate of ensuring the effective co-ordination of activities between OSFI and CDIC.

## Legislative Changes

From the standpoint of CDIC, Bill C-15 has three major aspects, which may be summarized as follows: substantial amendments to the CDIC Act; other changes in legislation of considerable importance to CDIC; and "housekeeping" changes.

## Substantial Amendments to the CDIC Act

#### a) Mandate

The objective to promote and otherwise contribute "to the competitiveness" of Canada's financial system is being removed from CDIC's mandate.

## b) Risk-Rated Premiums

Bill C-15 amends the CDIC Act to allow CDIC to develop a system to vary premiums of member institutions based on a risk-rating of the institution. The amendment authorizes the CDIC Board to make a by-law that will: i) establish a system of classifying members into different risk categories, ii) set out the criteria for determining into which category a member is classified, and iii) set out a method for calculating the annual premium applicable to each category.

Each member institution will pay the lesser amount of: i) the annual premium determined under the by-law, and ii) the maximum annual premium. The maximum annual premium is the greater of: i) \$5,000, and ii) up to one-third of one percent of insured deposits (changed from one-sixth of one percent).

CDIC retains the ability to levy a premium surcharge in situations where a member is engaging in practices set out in CDIC's Premium Surcharge By-law. Any surcharge, which can be any amount up to one-sixth of one percent of insurable deposits, will be in addition to the risk-rated premium levied on a member.

As indicated elsewhere in this *Report*, work is in progress to develop a by-law in conformity with this change in legislation.

## c) FIRP (Financial Institutions Restructuring Program)

Prior to Bill C-15, if a FIRP order was made, the ownership of the shares and subordinated debt of the federal member were transferred to CDIC. CDIC could exercise the voting rights carried by the shares and, if the restructuring required, could also dispose of the shares and subordinated debt.

The amendment will provide CDIC with more flexibility. CDIC, while retaining the ability to engage in a restructuring transaction at the share level, will also be able to engage in transactions at the asset level. The amendment will allow CDIC to act as receiver of an unhealthy member institution's assets and to sell those assets to a healthy institution. It will also be permissible for the healthy institution to assume deposit liabilities of the unhealthy member.

## d) Market Borrowings

At the same time that the White Paper was released in February, 1995, the Department of Finance issued a press release stating its intention to encourage CDIC to borrow directly from capital markets. Included in Bill C-15 is an amendment that allows CDIC to borrow money by various means, including the issuance and sale of bonds, debentures or notes. The amendment also includes a subsection allowing the Minister to fix a fee payable to the Receiver General for Canada on all *new* borrowing by CDIC, whether private or public.

Bill C-15

amends the

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It is expected that this early intervention regime will reduce losses to depositors, policyholders and creditors.

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In keeping with the underlying rationale for deposit insurance, as discussed in last year's *Annual Report*, CDIC retains the ability to borrow from the Consolidated Revenue Fund, subject to ministerial approval. The combined total of CDIC borrowings (private and public) is not to exceed \$6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

CDIC has upgraded its treasury function to accommodate this change and is actively engaged in developing its capacity to borrow in the private sector. At the same time, an appropriate set of regulations is being worked out with the Department of Finance on the terms and conditions governing CDIC's public borrowing activities as well as its borrowing from the Consolidated Revenue Fund.

## Changes in Other Legislation Affecting CDIC

### a) Bank Act/Trust and Loan Companies Act

## i. Early Closure

A new regime is proposed wherein the Superintendent of Financial Institutions is given the authority to take control of, and close, a troubled institution earlier than legislation permitted in the past, before its capital is depleted. It is expected that this early intervention regime will reduce losses to depositors (and hence CDIC), policyholders and creditors.

#### ii. Disclosure

The financial institutions legislation is also being amended to allow the Superintendent to disclose certain information for the purpose of the analysis of the financial condition of a financial institution. A further related amendment provides that a financial institution shall make available to the public information concerning its business and affairs. The details concerning what information the financial institutions shall release will be contained in regulations and guidelines, and discussions on this matter are continuing with the industry.

It is expected that, with the increased availability of information for financial analysts, deterioration in a financial institution's safety and soundness will become apparent sooner than is now the case. As a result of greater public awareness, it is reasonable to expect greater market discipline, thereby reducing the need for CDIC interventions and the cost of deposit insurance. Ultimately, consumers will have access to comparable and consistent information on all financial institutions. This should enhance consumers' ability to make decisions.

## b) Winding-up and Restructuring Act (formerly the Winding-up Act)

To accommodate the new early intervention and closure regime, the Winding-up and Restructuring Act is being amended to provide additional grounds for obtaining a winding-up order for a financial institution. If a company is wound up before there is negative capital, then, in principle, it follows that the only loss, if any, to CDIC will be the time value of money used to pay out the insured deposits plus the cost of winding up the company.

## Housekeeping Changes

A variety of technical changes have been included in the bill. These are mainly "housekeeping" changes designed to clarify and simplify existing legislation and update a number of provisions.



The effectiveness and efficiency of CDIC depends very heavily upon the performance of its management and staff. In a resolution passed on March 6, 1996, the Board expressed its appreciation to the management and staff for their excellent and conscientious work during the year. In addition, the Board greatly appreciates the important contributions that its various committees, listed at the end of this *Report*, continue to make to CDIC's activities.

On the recommendation of the Chairman and the Board of Directors, Mr. J. P. Sabourin was re-appointed as President and Chief Executive Officer by the Governor-in-Council for a further term of five years ending in 2001.

During the fiscal year, the Board of Directors met nine times. One meeting was held in Montreal, one was held in Toronto and the rest were held in Ottawa or were specially convened meetings conducted by telephone. In addition to its normal business agenda, the Board met with provincial regulators from Quebec and Ontario and with the Auditor General of Canada. The Board also met with the Minister of Finance, the Secretary of State (International Financial Institutions), the newly designated Secretary General of the Organization for Economic Co-operation and Development, the Chairman of the Real Estate Advisory Panel, 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



Canadian deposit-taking institutions continue to address the challenges of an ever-changing marketplace. Economic trends and competitive issues are the driving forces behind the changing nature of the industry. These changes create opportunities for institutions that are able to exploit emerging market niches, but also create an increasingly harsh climate for institutions that are unable to adapt to the evolving business environment. Recently, CDIC has witnessed the exit of a number of member institutions that were unable to exploit sufficiently profitable business niches and has seen further consolidation in the industry as members attempt to bring together sufficient focus, scale or resources to compete effectively.

#### Failure Resolution Initiatives

CDIC actively participated in failure resolution initiatives during 1995/1996 with respect to North American Trust Company and NAL Mortgage Company (collectively NAT). At December 31, 1994, NAT had 30 branches in Canada and total assets of approximately \$3 billion.

In 1992, CDIC facilitated the sale of NAT, formerly First City Trust Company, to the North American Life Assurance Company (NAL). In this transaction (referred to as the NAT transaction), CDIC and the Quebec Deposit Insurance Board (QDIB) provided a secured loan of \$175 million to NAT's parent, the newly formed NAL Trustco Inc. This loan was guaranteed in part by the Province of Alberta, NAT's primary regulator. Furthermore, CDIC and QDIB made available certain capital and income deficiency guarantees on specific loans and investments that NAT had booked or committed to prior to January 1, 1992. For its part, NAL injected \$51 million into NAT.

To the end of 1994, approximately \$110 million of financial support had been provided by CDIC under the terms of the NAT transaction to meet losses on guaranteed assets. However, in

early 1995, given NAT's requirement for further capital, the continued poor performance of its asset portfolio, and its uncertain future, NAL announced that it was selling NAT and that it would no longer be providing NAT with any capital support. Given its economic interest in NAT, CDIC actively followed the sale process.

NAL's attempt to sell the company attracted a number of expressions of interest. Several organizations performed a detailed review of the company. At the same time, in order to assess its exposure, CDIC conducted a special examination and another examination to prepare for the possible liquidation of the company.

After the completion of its special examination, a thorough analysis of the offers received, and an assessment of the various alternatives available to it, including liquidation, CDIC facilitated the sale of NAT within the parameters of an offer provided by the Laurentian Bank of Canada (Laurentian) and a related proposal from Brazos Fund LP (Brazos), a U.S.-based investment fund specializing in distressed real estate-related assets. The sale of NAT's substandard and non-performing assets to Brazos closed on September 29, 1995, and was followed on October 1, 1995, by the sale of NAT's shares to Laurentian. The transaction required financial support from CDIC - estimated at \$150 million — beyond that contemplated in the NAT transaction. The purchase price premium of \$70 million provided by Laurentian was used to offset CDIC's exposure in the transaction.

CDIC's estimated cost of facilitating the Brazos/Laurentian transactions, over and above the funds committed under the NAT transaction, is fully reflected in CDIC's financial statements. However, since part of Laurentian's purchase premium was in the form of a three-year \$45 million note, abatable in consideration of specified losses experienced on the purchased portfolio and other items, the exact cost of the transaction will not be known until the expiry of the note in 1998.

## Risk Management Initiatives

## GUIDE TO INTERVENTION FOR FEDERAL FINANCIAL INSTITUTIONS

Although a significant amount of resources were allocated to failure resolution efforts in 1995/96, the year was also marked by several milestones with respect to enhancing CDIC's risk management process. Such milestones included the introduction of the *Guide to Intervention for Federal Financial Institutions*, which was developed in conjunction with the Office of the Superintendent of Financial Institutions, and the refining of CDIC's existing risk management processes.

The guide, which outlines the intervention process, was released as part of the Department of Finance's 1995 white paper entitled "Enhancing the Safety and Soundness of the Canadian Financial System," one of whose objectives was to promote awareness and enhance transparency of the system of intervention for federal financial institutions. The guide sets forth a system whereby institutions are categorized from 0 (institutions having no problems) to 4 (institutions considered to be non-viable). The guide summarizes the timing of certain intervention measures and describes the co-ordination mechanisms in place between CDIC and OSFI. It also acts as a catalyst for effective supervisory action as it describes the responsibilities of the respective agencies at each stage of intervention.

In 1995, as part of its risk assessment and management process, CDIC adjusted its watch list classification by adopting the scale described in the guide and by classifying each of its member institutions based upon the institution's respective stage of intervention. OSFI used the guide to classify federally regulated institutions, and CDIC expanded the process to classify its provincially regulated institutions in a similar manner. This information is updated as required and is regularly reported to CDIC's Board of Directors.

#### SPECIAL EXAMINATIONS

During 1995, as part of its policy of taking a proactive role in reducing its exposure, CDIC conducted five special examinations of member institutions. The examinations consisted of an asset quality review focussing on the appropriateness of the valuation of assets and loss provisions. Each examination also included a performance analysis using the CDIC valuation model. The analysis assessed the impact of any additional loss provisions on the member's regulatory capital and its capacity to generate future earnings. Special examinations provide CDIC with useful insight into members' situations, allow for a more detailed assessment of its exposure, and enable CDIC to focus its intervention process on the pertinent issues.

#### RISK MANAGEMENT TOOLS

CDIC's valuation model, mentioned earlier in the General Observations section, is a key risk management tool. It consists of a database module and a forecasting module and is used to analyse CDIC's exposure in high-risk situations. The database module is used to download member-specific data during special examinations. The examination results are then integrated into the forecasting module to conduct performance simulation and scenario analyses.

With respect to the resolution of failing member institutions, CDIC's objects require, among other things, that it pursue the lowest-cost alternative. In this regard, the valuation model provides a framework for analysing the costs associated with CDIC's two-track approach, which compares liquidation with going-concern solutions applicable to each intervention. The model is used to estimate CDIC's exposure under various liquidation scenarios and is also used to assess the viability of any going-concern solution that might be available. The valuation model has been used successfully as a decision support tool to quantify CDIC exposure and project the outcome of alternative decisions under situations of uncertainty.

The year was
also marked by
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enhancing
CDIC's risk
management
process.

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#### MIDAS

The Member Institution Data Analysis

System (MIDAS) was successfully implemented in mid-1995. The first phase of this project saw the development of a comprehensive member database and specialized components for managing member-related data received from different sources. Currently, the MIDAS database contains federal and provincial regulatory financial data and other non-financial information concerning CDIC's membership.

The MIDAS system enables CDIC to conduct insurance and risk assessment activities more efficiently. Various components of MIDAS are used to extract and manipulate data that are used for a more thorough analysis of CDIC's membership. The production of the membership profile contained in this *Annual Report* was derived using the flexibility of the report-generating tools in MIDAS.

The second phase of MIDAS, scheduled to begin in mid-1996, involves streamlining the current system to coincide more directly with CDIC's risk assessment and rating processes.

# STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES AND THE STANDARDS ASSESSMENT AND REPORTING PROGRAM (SARP)

As mentioned in the General Observations section of this *Report*, this year marked the first time that member institutions had to submit a SARP report on their compliance to CDIC Standards. Under the SARP, CDIC member institutions are required to report on whether they are following CDIC's Standards as at April 30 of each year. The deadline for providing the report to CDIC (with a copy to the applicable regulator) is July 31 of each year.

SARP is designed to determine if each member has a well-defined program of policies and procedures in place with respect to each of the Standards, if the program is sound and prudent, and if it is being adhered to. Full responsibility for adherence to CDIC's Standards rests with each member institution.

## i) SARP Results and Compliance Process

Although a significant number of deficiencies were reported, their significance varied greatly, and most were remedied by the end of 1995. The deficiencies most frequently identified included failure by the member's board of directors to review and approve policies; infrequent or nonexistent reporting to the board of directors, particularly with respect to interest rate risk, foreign exchange risk and liquidity management; internal inspection/audit deficiencies; failure to segregate duties; failure to establish or document policies and procedures; and failure to set concentration limits (notably with respect to the member's credit portfolio, securities portfolio, or liquidity funding sources).

As noted above, the SARP reporting process entails a review of the member's self-assessment report by its primary regulator or examiner. This process is undertaken in conjunction with the annual examination now under way. In the course of their review of the SARP reports, examiners discuss with each member any concerns with respect to its self-assessment process. Any deficiencies identified by the examiner beyond those reported by the member are reported to CDIC as part of the examiner's report, as are any shortcomings in the member's self-assessment process.

Upon receipt of the examiner's report, CDIC confirms the SARP evaluation results with the member. Members for whom no deficiencies were identified are so advised. All others are required to correct outstanding deficiencies. Institutions reporting deficiencies have been offered the opportunity to meet with CDIC and the examiner should they care to discuss the matter further.

CDIC's

valuation model

is a key risk

management tool.

CDIC and regulators of deposit-taking institutions have a mutual interest in the well-being of CDIC member institutions.

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If further action is deemed necessary, CDIC may invoke sanctions available to it under the CDIC Act, including applying a premium surcharge or terminating the member's policy of deposit insurance.

ii) Simplification of the SARP Process for 1996

In early 1995, CDIC proposed the formation of a task force to review the SARP to determine:

- a) what information and assurances are required through the self-assessment process to make it feasible for a member's board of directors and senior management to conscientiously fulfil their responsibilities as required by the Standards and by SARP; and
- b) whether the process can be simplified in the future.

The task force consisted of chairman Mr. Gordon Baker (The Toronto-Dominion Bank) and members Mr. Ram Ramani (Canadian Imperial Bank of Commerce), Ms. Marnie Kinsley (Bank of Montreal), Mr. John Merriam (Royal Bank), Ms. Peggy Mulligan (The Bank of Nova Scotia), and Mr. Pierre Malo (National Bank).

The task force suggested that the process be simplified by members having effective "change management" systems in place to ensure that changes to policies and procedures are documented and made known to those who need to know, including the inspection/audit function.

The assumption is that an effective first-year self-assessment will have mapped the SARP criteria to the institution's existing inspection/audit procedures. Once that mapping is done, the inspection/audit function will be able to verify the member's adherence to the Standards in the course of verifying its institution's policies and procedures through its normal inspection/audit programs.

The "change management" system is simply a method of ensuring that any changes to policies and procedures will be accompanied by the appropriate changes to the inspection/audit program and by updating the mapping of the inspection/audit program to the SARP criteria.

Members that developed and conducted an effective self-assessment process in 1995 should find the workload associated with the 1996 self-assessments to be reduced because it consists largely of updating their reports and the supporting documentation.

#### CO-ORDINATION WITH REGULATORS

CDIC and regulators of deposit-taking institutions have a mutual interest in the well-being of CDIC member institutions. As well, CDIC relies upon information provided by federal and provincial examiners to enable it to judge and manage the risk to the Deposit Insurance Fund. Accordingly, CDIC maintains close relations with regulators and examiners to ensure that all appropriate information regarding its members is available on a timely basis and that intervention actions are closely co-ordinated.

With respect to provincial regulators, CDIC meets on a regular basis with those from Ontario and Quebec, the two jurisdictions responsible for the majority of non-federal CDIC members. CDIC meets with other provincial regulators as needed and at least annually.

With respect to the Office of the Superintendent of Financial Institutions, CDIC and OSFI have put in place a number of mechanisms to ensure the effective supervision of federally incorporated member institutions. Two of the more important are the Strategic Alliance Agreement and the OSFI/CDIC Liaison Committee.

## RISK ASSESSMENT SYSTEM AND RISK-BASED PREMIUMS BY-LAW

The Strategic Alliance Agreement was signed in December 1992 and provides a framework for better co-ordination of activities between the two agencies. As reported in last year's *Annual Report*, procedures have been implemented in all areas covered by the agreement.

Although the Strategic Alliance Agreement provides a framework for relations between CDIC and OSFI, the OSFI/CDIC Liaison Committee, which is discussed in the General Observations section of this *Report*, deals with the ongoing administrative issues between the two agencies.

## Advisory Committee on Risk Assessment and Intervention Policies

As reported in last year's Annual Report, CDIC established the Advisory Committee on Risk Assessment and Intervention Policies. The committee's mandate was to advise CDIC on enhancing its early warning system with the intention of reducing risks in the system and the costs of failures. The committee members are listed at the end of this Report.

The committee completed its work in early 1995 and presented its report to CDIC's Board of Directors. The principal theme of the committee's report was an endorsement of the need for judgment rather than a numbers-based formula for earlier detection and intervention with respect to problem member institutions.

Subsequent to the completion of the committee's initial mandate, CDIC's Board of Directors requested that the committee continue to serve in an advisory capacity on issues related to CDIC's policy development and implementation. The committee kindly agreed to continue in this advisory capacity. It has been focussing its attention on reviewing proposed changes to the CDIC Standards Assessment and Reporting Program for 1996 and on the development of a CDIC risk-rating methodology. This work is ongoing.

As mentioned earlier in this *Report*, CDIC is now developing a risk assessment system. It is also reviewing potential alternatives for a differential premium regime — including the approach used by the Federal Deposit Insurance Corporation (FDIC) in the United States, among others.

A s s e s s m e

Insurance and

The impetus to establish an enhanced rating system has a number of sources. In addition to forming a possible basis for assigning different premiums to member institutions, the classification of member institutions into different categories will assist in identifying risk to CDIC as early as possible and, where necessary, in taking actions to minimize its exposure to loss.

The factors and criteria that may be reflected in the system are described in the General Observations section of this *Report*.

CDIC is presently working to define specific classification measures in support of its risk assessment rating. Once this is completed, CDIC will be consulting with regulators, member institutions and their associations, and other interested parties.

#### CONSUMER INFORMATION BY-LAW

In order to address the needs of consumers for more timely and accurate information on deposit insurance, CDIC is developing a new Consumer Information By-law. The by-law is intended to improve the existing disclosure rules, which currently restrict the ability of CDIC member institutions to provide information on deposit insurance to consumers. The by-law is being designed to establish a more open regime that will assist consumers in making more informed decisions based upon clear and accurate information.

The Consumer Information By-law is being developed with the expert assistance of the Advisory Committee on Consumer Information. The following key principles have been identified by the committee for incorporation into the by-law:

R e p o r t

- An informed public serves the interests of consumers and the financial system as a whole.
- Consumers bear responsibility to become reasonably informed about deposit insurance and to make their own decisions.
- Effectiveness of delivery and affordability of information on deposit insurance are primary considerations.
- Pertinent information on eligibility/non-eligibility of deposits should be made available at the relevant distribution point.
- Practices and procedures for providing information should be straightforward and open to review.

A discussion paper outlining proposals for the new by-law was distributed in August 1995 to member institutions, relevant regulators, government agencies and industry associations. A strong consensus emerged for proposals relating to stamping deposit instruments that are not covered by deposit insurance, establishing desk registers, educating member institutions, and having a self-assessment compliance framework.

CDIC is presently drafting the by-law and is working closely with member institutions to develop appropriate administrative procedures. The by-law is expected to be completed and implemented in 1996.



## CLAIMS AND RECOVERIES

The central objective of CDIC is to provide deposit insurance. This requires making payments to insured depositors upon the liquidation of a member institution. To the extent a deposit is insured, the depositor exchanges his or her claim against the failed member institution for an insurance payment. CDIC acquires the depositor's claim and assumes the depositor's share of the loss implicit in the failure.

Historically, a large percentage of the claims paid by CDIC have been recovered through distributions from estates. These distributions are made to the creditors, including CDIC, as the assets are sold. At March 31, 1996, CDIC had an outstanding claim or loan in 23 estates with assets totalling \$1 billion, down from \$2 billion at the same time last year.

During the year, CDIC recovered \$748 million from claims and loans. This performance brings the total recoveries of the last three years (since January 1993) to approximately \$4.1 billion — see Figure 4 — and reduces the balance of claims and loans receivable — shown in Figure 5 — to approximately \$1 billion.

During the year, CDIC worked on the following initiatives to strengthen its capacity to maximize recoveries and ensure that effective and efficient processes and practices were in place, both internally and in every estate. Many of these initiatives stem from recommendations made in a 1993 review of CDIC's claims and recoveries activities by a team of senior bankers and accounting firms:

- Establishing a supplier selection committee;
- Standardizing the process of selling assets;
- Revising the rates of liquidators and legal counsel, considering the following: the market rate for professional time, appropriate discounts for experience and volume, and monetary acknowledgments of performance levels. This revised rate scale improves the cost-effectiveness of liquidations while ensuring that engaged personnel have the appropriate mix of abilities, experience and expertise;

Figure 4

Total Recoveries

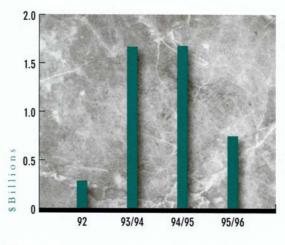
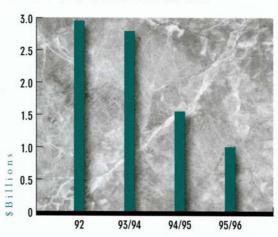


Figure 5

Claims and Loans Receivable



- Developing a closure manual to assist the liquidator in the first few days after the closure of a member institution;
- Revising policies and procedures to reflect the current payment process;
- Undertaking, whenever possible, preparatory work prior to the failure of the member institution, which significantly improves the speed and lowers the cost of making deposit insurance payments;

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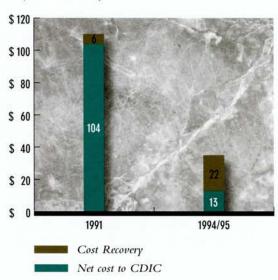
When a member institution fails, depositors look to CDIC for support and information to ease their concerns regarding the safety of their money.

- Developing a manual that describes the deposit base transfer process to member institutions;
- Developing a personal computer system for processing and calculating insured deposit balances;
- Assembling a manual of legal opinions with respect to issues arising from the payout of insured deposits; and
- Developing a deposit insurance manual to help CDIC members determine if a product is insurable, to provide a basis for revising the deposit insurance premium calculation and to guide CDIC when an insurance action is necessary.

## Deposit Payout

When a member institution fails, depositors look to CDIC for support and information to ease their concerns regarding the safety of their money. To ensure that CDIC fulfills this role, a number of customer service standards have been developed. These include the type and level of service that insured depositors should expect from CDIC during a payout, commitments regarding advance payments for depositors in need of emergency funds, and the availability of a toll-free information service.

Figure 6
Payout Cost per Account



These initiatives build upon those undertaken in the past four years which have decreased the average time of making a deposit insurance payment by 60 percent and the gross total cost per account by 68 percent (\$110 in 1991 compared with \$35 in 1994/95). Should CDIC make its deposit insurance payment through another member institution, CDIC recovers some of these costs through a fee paid by that member. The deposit insurance payments then become direct deposit liabilities of that institution. This cost recovery on a per account basis has increased by 267 percent from 1991 to 1994/95, as shown in Figure 6, thus reducing the net cost to CDIC of making deposit insurance payments from \$104 per account in 1991 to just \$13 in 1994/95, which represents a reduction of 88 percent.

#### Claims

CDIC recovers its insurance payments through a claim against the failed institution. The assets of the failed institution (the "estate") are normally liquidated according to the provisions of the *Winding-Up and Restructuring Act*, under the jurisdiction of a court-appointed liquidator. In some cases, CDIC provides loans to facilitate transactions that are part of failure resolution decisions.

The book value of the claims receivable from estates in liquidation (before allowance) at March 31, 1996, was \$479 million, down considerably from \$1,277 million a year ago. This decrease is mainly due to the collection of \$644 million from various estates in liquidation and write-offs of \$158 million.

#### Loans

In addition to claims, CDIC had \$567 million of loans outstanding at March 31, 1996. The most significant loan is \$489 million to Adelaide Capital Corporation (ACC).

As part of a transaction, ACC, financed by a CDIC secured loan of \$1.5 billion, acquired the residual assets of Central Guaranty Trust (CGT) not purchased by The Toronto-Dominion Bank in December 1992. ACC has adopted a strategy to resolve the problems of these assets over the medium term. ACC is staffed by experienced and qualified workout, or resolution, experts and has appropriate information systems for the task. Each file has been reviewed, and a strategy has been developed to maximize recoveries. To date, ACC has met its targets for operating cash flow. As at March 31, 1996, CDIC had received \$896 million from operations and an additional \$500 million from refinancing of ACC's debt structure.

#### Provision for Guarantee

An alternative available to CDIC when assessing the lowest-cost solution for the failure of a member institution is an arrangement to facilitate a going-concern solution, the deficiency coverage agreement (DCA). DCAs were used in the North American Trust (NAT) and CGT transactions.

As mentioned previously in this *Report*, during 1995, the DCA with NAT was terminated when the company was sold to the Laurentian Bank of Canada. Following the transaction, CDIC reviewed the DCA. The review identified key factors when considering a going-concern solution over a liquidation: the prospective economic environment, the resources and resolve of the acquirer, public policy, and cost. The advantages of a going-concern solution include the contribution of new capital by the acquirer, the assumption of asset administration costs, limits on CDIC exposure, the reduction of financing, and the elimination of operational costs of a payout of the insured deposits.

With a DCA, CDIC funding occurs as losses are incurred as opposed to when insured deposits are paid. In the case of NAT, most of the losses were not funded until late 1995, almost four years after the failure of First City Trust. With respect to the CGT deficiency coverage agreement, CDIC has paid The Toronto-Dominion Bank \$53 million, including \$27 million in 1995/96.

CDIC continues to consider alternative failure resolution methods to meet its objects.

#### Recoveries

In most estates, total expected recoveries do not cover the original claim amount, resulting in a loss for CDIC. Table 1 shows the large variance in recovery rates and confirms CDIC's experience of losses on its claims.

The net cost to

CDIC of

making deposit

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Table 1
CDIC's Actual and Expected Recoveries on Estates in Liquidation

Non-Cash Assets Liquidated as at March 31, 1996, as a Percentage of Total Net Asset <sup>1</sup> Recoveries	Year of Failure	Original Claim and Loan Amount (\$ millions)	Recoveries as % of Claims and Loans	NPV <sup>2</sup> of Recoveries as % of Claims and Loans	Non-Asset Related Claims and/or Litigation Issues (Y=yes, N=no)
More than 99% completed					
AMIC Mortgage Investment Corp.	1983	28	55%	35%	Y
Canadian Commercial Bank	1985	352	25%	12%	Y
CCB Mortgage Investment Corporation	1985	123	89%	74%	Y
Crown Trust Company	1983	930	100%	98%	Y
Dominion Trust Company	1993	431	83%	79%	N
Fidelity Trust Company	1983	792	55%	49%	Y
Greymac Mortgage Corporation	1983	174	53%	38%	Y
Greymac Trust Company	1983	240	48%	37%	Y
Northland Bank	1985	321	68%	33%	Y
Pioneer Trust Company	1985	201	88%	69%	Y
Principal Savings & Mortgage Corp.	1987	116	125%	81%	Y
Seaway Trust/Mortgage	1983	420	86%	53%	Y
Between 95%-99% completed					
Bank of Credit and Commerce Canada	1991	22	88%	73%	Y
Saskatchewan Trust Company	1991	64	89%	80%	Y
Standard Loan Company	1991	157	99%	83%	Y
Standard Trust Company	1991	1,164	78%	63%	Y
Between 90%-95% completed					
Prenor Trust Company of Canada	1993	820	95%	93%	N
Settlers Savings & Mortgage Corp.	1990	84	77%	77%	N
Shoppers Trust Company	1992	492	96%	84%	N
Between 80%-90% completed					
Confederation Trust Company	1994	680	104%	102%	N
Less than 80% completed					
Adelaide Capital (CGT/TD)	1992	1,684	84%	78%	N
Income Trust Company	1995	193	83%	73%	N
Monarch Trust Company	1994	65	92%	85%	N

Notes:

<sup>&</sup>lt;sup>1</sup> Non-cash and cash

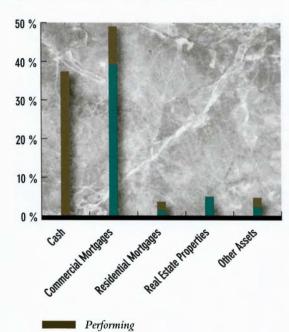
 $<sup>^2</sup>$  All cash flows, actual and expected, are discounted on an annual basis using CDIC's costs of funds.

CDIC's loss is typically the result of two broad categories of issues: claims-related issues and asset-related issues.

#### CLAIM-RELATED ISSUES

CDIC's recoveries and associated losses are closely tied to the relative ranking of its claims to the claims of other creditors. In some estates, secured creditors' claims have priority over CDIC's unsecured claims, resulting in more severe losses for CDIC. In addition, disputed claims for reasons of validity or priority and lawsuits against the entity or against specific assets affect the estate's ability to dispose of the assets and manage costs, and, consequently, directly affect the recoveries of all creditors — including CDIC. The liquidator or manager of the estate cannot make a final dividend payment to creditors and close the estate until all claims and other legal issues are resolved. Consequently, a large component of cash is tied up in estates with litigation issues.

Figure 7
Assets Under Administration



Non- and Sub-Performing

Figure 7 summarizes the composition of the assets under administration of the estates in liquidation at December 31, 1995. The large cash component of the assets under administration is due to disputes in the nature of priority claims and the validity of outstanding claims. As much as three-quarters of the other assets are classified as non-performing or sub-performing, which are typically sold at a significant discount.

#### ASSET-RELATED ISSUES

CDIC has virtually no control over most claim-related issues but can influence most asset-related issues, mainly the asset management and disposition (AMD) strategy of the estates. The ongoing influence of CDIC is outlined in a nomination letter agreement in the case of court-appointed liquidators, in a guarantee agreement in the case of a deficiency coverage agreement, and in a loan and/or management agreement in the case of a loan/support package. These agreements enable CDIC to establish the framework for what CDIC views as a successful liquidation model. CDIC's involvement is desirable and justifiable because it is both a major creditor and an experienced one.

CDIC has established a supplier selection committee, which recommends the nomination of a liquidator. Typically, CDIC deals with professional accounting firms that have experience in winding up companies. Other selection criteria include the size of the firm and its insolvency group, its geographic range, previous experience in liquidating financial institutions, and a willingness to work under CDIC's rate scale and according to the terms outlined in the nomination letter. The nomination letter recognizes the liquidator's appointment by the court and the limitations imposed on the liquidator by the court and by statute.

CDIC can
influence most
asset-related
issues.

R e c o v e r i

CDIC's nomination letter requires that the liquidator report to CDIC within six months of its appointment on plans and strategies for the liquidation of the assets and the winding-up of the institution. CDIC reviews the liquidator's first business plan in detail and presents it to CDIC's Real Estate Advisory Panel. REAP, whose members possess extensive real estate experience, advises CDIC on major real estate liquidation strategies and reviews the disposition strategies presented by liquidators.

Typically, the liquidator's business plan reviews the history leading up to the failure. It also outlines the litigation faced by the estate, the quality of the assets, the information systems in place, and any other important features of the liquidation. The liquidator must ensure that the amounts and legal rights of the claims asserted by the various creditors are reviewed and validated.

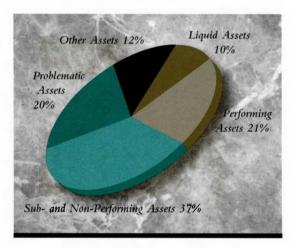
CDIC brings several important elements to a liquidation or AMD operation:

- 1. CDIC is risk-averse. Therefore, speculating on general future economic factors is not consistent with CDIC's role. However, CDIC does support asset realization strategies that increase specific asset or portfolio value. Such strategies may include delaying the sale of an asset or portfolio if a market cannot be identified or if the market value can be enhanced, taking future risks into consideration.
- CDIC values its claim on a net present value basis and recognizes the implicit borrowing cost to hold a claim.
- 3. CDIC promotes methods for enhancing receipts and reducing costs wherever possible, such as by requiring liquidators to subcontract the handling of particular categories of assets where such subcontracting will bring greater expertise to bear or lower costs, or hopefully both.

Neither CDIC nor the liquidators have control over the mix of assets they are presented with at the outset. However, they can influence costs and asset disposition strategies. Typically, the liquidation of a member institution features three broad categories of assets, and it is this mix of assets that governs the resolution.

- (a) "performing" assets of high quality that are operating in well-developed markets and which therefore require minimal efforts to sell;
- (b) "sub- and non-performing" assets consisting of below-grade loans and the like, with varying marketability and requiring considerable effort to sell or collect; and
- (c) "problematic" assets comprising contingent and very poor quality properties, or those facing cross-claims or other litigation, where the cost of resolving associated issues and liquidating the assets is usually very high as a proportion of the final returns.

Figure 8 Asset Profile (all estates)



Typically, "sub- and non-performing" assets are clearly the single largest component of the estate, as shown in Figure 8. For pre-1991 liquidations, the "sub- and non-performing" assets represented on average 47 percent of the total book value of the assets, with the "performing" assets and the "problematic" assets representing 12 percent and 14 percent respectively. The remaining percentage is accounted for by other assets, such as investments in subsidiaries and cash and cash-like assets. Liquidations since 1991 have typically had a relatively smaller "sub- and non-performing" asset component (performing: 31 percent, sub- and non-performing: 28 percent, problematic: 25 percent). This overall improvement in the profile of the assets could be a reflection of the benefits of earlier intervention by regulators and CDIC.

During the year, CDIC spent some time trying to better understand the controllable elements of both the claim-related issues and the asset-related issues. The Corporation reviewed all its active estates, its AMD performance, and its policy on litigation management.

## Estate Performance Review

The AMD activity of liquidations is typically the most visible and the most expensive liquidation activity, and usually has the greatest effect on CDIC's recoveries. CDIC expects a "good performance" from its liquidators, one which contributes positively to CDIC's own objectives and therefore aims to maximize recoveries on a net present value basis, minimize risk and minimize costs.

#### MAXIMIZING RECOVERIES

The review revealed a number of interesting facts regarding the effectiveness of various AMD operations. However, the comparison of performance was clearly dominated by the effect of real estate market cycles on overall recovery rates and recovery rates by asset.

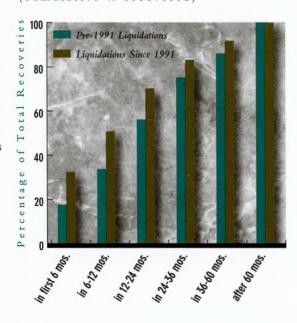
Another determining factor of performance has been the emergence in the early nineties of a demand for performing and non-performing real estate-related assets sold in bulk. This shift to a quicker disposition strategy has contributed to the upward trend in recovery rates. Recoveries for liquidations since 1991 are relatively higher, on a net present value basis, than recoveries for pre-1991 liquidations (85 percent of book value of assets compared with 70 percent).

#### RISK MINIMIZATION

For most assets, the current strategy is to sell rapidly, as shown by Figure 9. On average, 60 percent of all dispositions occur in the first two years of the liquidation. This percentage rises to 70 percent for liquidations since 1991 and compares with 55 percent for the pre-1991 liquidations.

Figure 9

Average Timing of Disposition (cumulative % recovered)



CDIC

promotes

methods for

enhancing

receipts and

reducing costs.

Typically, the performing residential mortgage loan portfolio is now sold in a bulk sale early in the liquidation — usually in the first six months — for a premium. The bidders are generally other CDIC members and mortgage loan servicers, which are companies that administer mortgages on behalf of others. Sub-performing and non-performing loans are also offered in bulk sales. Bidders have been mainly large US investors, and these portfolios have been generally purchased at a discount. The size of the discount depends on the quality of the assets and the real estate markets.

Typically, successful bulk sales do not generate the level of nominal realizations experienced in an orderly liquidation over five to ten years. However, on a net present value basis, bulk sales have on average generated larger returns. In addition to the cost associated with the time value of money, the option of working out the assets over time implies facing additional uncertainty over the future value of real estate. Finally, CDIC has found evidence in its recent assessment of estate performance to support the notion that the longer the assets are held, the poorer the recovery rate.

CDIC will continue to support the liquidators' initiatives in terms of bulk sales, and, as such, has initiated a process of standardization.

Recently, CDIC brought all liquidators together into a committee, whose mandate is to agree on principles that are key to an efficient bulk sale process:

- Having the right people dedicated to the task of preparing the bulk sale;
- Having a full knowledge of the assets;
- Developing a detailed marketing program;
- · Adhering to a schedule of deadlines;
- Disclosing all information to prospective purchasers;
- Limiting representations and warranties.

Through this initiative, CDIC hopes to attract a larger number of bidders, reducing costs to both the estate and to buyers, and consequently optimizing the price.

For the remaining assets, particularly those not readily marketable because of defects, time is required to improve their value. The risk of holding an asset through the workout period may be mitigated by sharing the risks, which occurs when an incentive scheme is used.

Estates may be liquidated according to an incentive plan that pays the workout professionals based on their performance. It follows that if CDIC shares the results of a better-than-expected realization performance with the asset steward and penalizes the steward for failure to meet certain targets, better results for all can be achieved. This is a departure from the current time-based fee structure prevalent in liquidations.

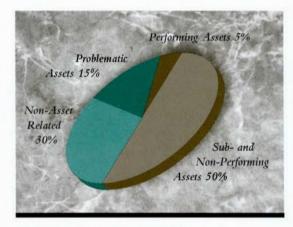
A plan should align the interests of the creditors, notably CDIC, with those of the asset steward or liquidator. An incentive remuneration scheme requires a great degree of planning, a review of the potential markets for the assets and groups of assets, and a clear understanding of the litigation faced by the estate. Pre-set benchmarks for performance need to be developed out of this review of assets and issues, and all assets and issues must be included in the incentive plan.

#### MINIMIZATION OF COSTS

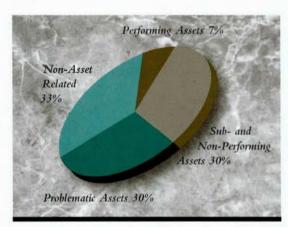
The costs of managing estates have risen over time, mainly as a result of a more expensive mix of assets. Total costs (including asset-related costs and non-asset related costs associated with the management of claims, lawsuits and other activities) as a percentage of recoveries increased from 8 percent for pre-1991 liquidations to 10 percent for liquidations since 1991.

Figure 10 - Cost Profile

Pre-1991 Liquidations



Liquidations Since 1991



This trend is likely related to the increased importance of the higher-cost "problematic" assets and of the non-asset related component of the costs, which results largely from litigation and a requirement to monitor the assets closely.

## Litigation Management

For the purposes of assessing the performance of liquidators from a legal perspective, legal issues affecting the estate are classified into three categories: (i) asset management disposition matters, (ii) claims-related matters, and (iii) forensic matters. Asset management and disposition matters include realizing on estate assets such as mortgage collection proceedings. Claims-related matters include claims by would-be creditors that have been disallowed and priority disputes with respect to claims. Forensic matters include investigations and possible claims by liquidators, and in some cases by CDIC, against parties who may have, because of negligence or otherwise, caused a loss to the estate.

CDIC, as well as the liquidator and all stake-holders, wishes to see maximum recovery on all estate assets. A claim for damages for negligence can be an asset of the estate just as a claim for a mortgage due to the estate can be an asset. In addition, CDIC is interested in broader issues, such as system discipline, credibility, fairness, consistency, and stability, over the medium and long term, given its unique industry-wide exposure and its statutory objects. Thus, CDIC may have an additional interest in pursuing a particular claims-related or forensic matter and is more involved in such matters.

CDIC is
interested in
broader issues,
such as system
discipline,
credibility,
fairness,
consistency,
and stability.

CDIC tries to ensure that costs are controlled, proper planning and assessments of net potential benefits are undertaken, and activities are modified or curtailed at appropriate times. Experience shows that estate-based legal work can be time-consuming and costly, and therefore should be weighed carefully against the degree of control available (i.e., is the estate initiating or defending legal proceedings) and the likelihood of achieving a benefit. Liquidators are professionals and officers of the court and, as such, have their own duties. Nevertheless, it is appropriate for CDIC, as a major creditor, to bring its concerns and experiences to bear across a broad spectrum of legal (and other) issues that arise during the liquidation.

The Forensic Review Committee was established in 1994 to provide internal liaison, co-ordination and advice in respect of investigations, litigation and general estate-based legal issues to CDIC personnel who work with liquidators. The mandate of the committee is to provide input and advice internally on business issues that have significant legal implications and to develop and apply systematic criteria for forensic investigations and litigation management.



## Planning and Accountability

## Planning

The first building block of CDIC's planning framework, which is shown in Figure 11, is its statutory objects. They are legislated by the Government of Canada. From these objects, the Corporation's mission statement was developed. Together, the statutory objects and the mission statement act as a base for determining the Corporation's priorities and business strategies.

# Figure 11

### Accountability

Accountability is an essential element of the corporate management process. As a Crown corporation, CDIC is held accountable to Canada's Parliament through the Minister of Finance. Accountability for meeting the objects, mission and priorities is communicated by three major corporate documents: The *Annual Report*, the *Corporate Plan*, and the corporate Performance Assessment Report. The latter summarizes CDIC's financial performance as well as the impact of departmental activities on the achievement of the corporate priorities.

## CDIC PLANNING AND ACCOUNTABILITY FRAMEWORK

## Planning Accountability **Annual Report** Statutory Objects Corporate Plan Mission, Vision and Values Quarterly Corporate Performance Assessment Report Performance Corporate Priorities Measures Quarterly Management Performance Assessment Report Functional Operating Plans Quarterly Variance Report **Employee Performance** Employee Performance Plans Evaluation

Performance measures are a tool used to measure success against the overall business strategy. Over the past few years, CDIC has developed and refined a number of measures that attempt to reflect CDIC's key business areas. Measures in place for three of the priorities include payout cost per account, payout time per account, percentage of operating costs to premium revenue, turnover rate of employees and absenteeism rate of employees.

#### Business Model

Figure 12 presents CDIC's Business Model. This model is not an organizational chart but a cross-departmental illustration of CDIC's business processes undertaken to achieve the priorities. The corporate management, primary and secondary functions represent the activities undertaken in all divisions.

#### Finance

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

Corporate Planning co-ordinates the development of CDIC's strategic and operational plans, which are encapsulated annually in the five-year *Corporate Plan*, and manages the annual operating and capital budgeting process. Corporate Planning also manages performance assessment activity at both the divisional/departmental and corporate levels through the production of quarterly performance assessment reports submitted to senior management and to the Board of Directors.

## Treasury

Subsequent to the proclamation of Bill C-15, CDIC may now fulfil its future borrowing requirements in the capital markets or from other private-sector sources. The change in the borrowing ability of CDIC will require significant enhancements to its treasury function. CDIC's annual borrowing plan will continue to be approved by the Government through the approval of the *Corporate Plan*.

To manage interest rate and repricing risk, CDIC's debt management policy requires that the Corporation's debenture maturities profile be matched at least 80 percent with its anticipated cash flows. At March 31, 1996, CDIC's debt maturities were matched 96 percent with its anticipated cash flows. At the moment, CDIC does not engage in off-balance sheet activities.

During the year, the Royal Bank of Canada (RBC) completed its review of CDIC's cash and debt management practices and submitted its findings to the Board of Directors. RBC found that the existing practices at CDIC were satisfactory. RBC also provided a number of recommendations designed to assist CDIC in developing an internally managed program for borrowing from the capital markets, as allowed under Bill C-15. CDIC is in the process of implementing RBC's recommendations and developing an administrative framework to manage the process effectively.

### Legal Division and Corporate Secretariat

The Legal Division provides legal advice and support throughout CDIC directly and through retained counsel. In doing so, a major focus has necessarily been on supporting the primary functions of insurance and risk management, and claims and recoveries while continuing to do work for the Finance and Operations divisions, to deal with matters of a primarily legal nature, and to address issues respecting the Corporation as a whole.

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

Over the past year, the Legal Division coordinated the making of the Joint and Trust Accounts Disclosure By-law and, with the Insurance and Risk Assessment Division, provided assistance in the development of the Consumer Information By-law. The division also continued its work, in conjunction with the Field Operations Division, respecting forensic matters and litigation and was involved in the formulation of amendments to the CDIC Act.

Furthermore, the division provided counsel in respect of one failed member institution, provided legal input regarding liquidations and recoveries from estates, and supported the monitoring and administration of deficiency coverage agreements.

During the 1995/96 fiscal year, fees in the order of \$2.0 million were paid to law firms for their work for CDIC. The majority of costs related to rehabilitations and going-concern solutions, payouts, recoveries from estates, litigation, legislative amendments, and by-law development. This compares with total expenditures of \$1.9 million for the 1994/95 fiscal year. As a comparison, in 1995/96, fees in the order of \$13.4 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 supported by two separate departments: Systems
Development and Support, and Technical Services.
The Systems Development and Support
Department successfully completed two major
projects in the past year: phase 1 of MIDAS and
IFIS. Work has begun with the Human Resources
Department to identify its needs regarding a
human resources information system. Furthermore,
Systems Development and Support and the Field
Operations Division have initiated a project to
develop a PC-based payout system, which will
reduce or may eliminate CDIC's reliance on external suppliers for the data-processing activities
required during payout and preparatory work.

A CDIC/OSFI steering committee has been established to identify opportunities for joint or shared development efforts pertaining to CDIC's MIDAS application and OSFI's FIRS application in order to realize savings. The committee reports on a quarterly basis to the OSFI/CDIC Liaison Committee.

A joint CDIC, OSFI and Bank of Canada project sponsored by the Financial Institutions Supervisory Committee has begun to study the processes at CDIC, OSFI and the Bank of Canada for collecting, verifying, retaining and distributing financial information. The results of the study will enable FISC to determine how these processes may be re-engineered or otherwise improved to reduce costs while maintaining accuracy, timeliness, security, control and responsiveness.

The Technical Services Department, in addition to being involved in the initiatives outlined above, continues to support database and physical management issues. It also supports all office automation tools used at CDIC and deals with systems security and hardware and software problems.

### Communications and Public Affairs

CDIC's principal method of communicating with depositors and its other key stakeholder groups during the past year continued to be its toll-free 1-800 information line, which responded to some 17,500 inquiries from across the country.

CDIC continued to make copies of its Information and Membership brochures available upon request from the public and through branches of member institutions. In total, some 3.1 million copies were distributed in 1995.

Through a random sampling, CDIC continued to monitor the effectiveness of the service it provides to depositors. Feedback remained positive, with 70 percent of respondents indicating the service was excellent.

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The Consumer Information By-law, discussed in greater detail in the Insurance and Risk Assessment section of this report, is scheduled to be enacted in 1996. Once in place, the by-law will enable the employees of CDIC member institutions to provide their customers with information on deposit insurance at the point of contact with the member institution.

#### 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

- assets are safeguarded and controlled;
- transactions are in accordance with specified authorities;
- resources are managed economically and efficiently; and
- · 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 *Annual Report* development process, the finance function, the official languages program, the database administration function, and information systems security. The department was also actively involved in monitoring and reporting on systems development projects, managing an audit of claims made under a deficiency coverage agreement, and assisting in the attest audit performed by the Office of the Auditor General.

Figure 12

#### CDIC BUSINESS MODEL

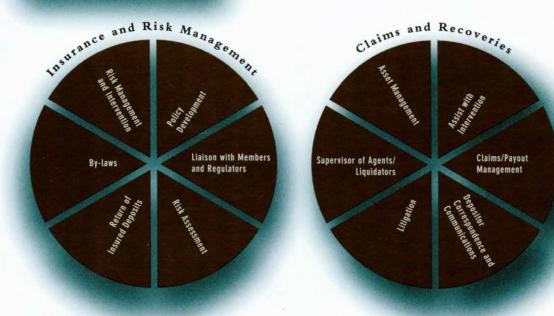
### Corporate Governance

### Corporate Management

Policy

Planning and Performance Assessment Organization Management, Control and Audit

### **Primary Functions**



### Support Functions

Finance

Administration

Information Systems Human Resources Management

Legal

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The following profile provides comparative information on CDIC's membership for the last five years. 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 the members themselves through the Bank of Canada, the Office of the Superintendent of Financial Institutions and the Ontario Ministry of Finance and from data received directly by CDIC from provincial members. Every effort has been made to ensure the correctness of the compilation; however, because the data come from varied sources CDIC does not guarantee their accuracy.

In providing such information, CDIC is limited by the availability of the data in a readily accessible format and by confidentiality requirements. It should be noted that the data presented are aggregates and averages, and, as such, within the aggregates and averages the data for individual members can vary significantly. In addition, off-balance sheet activities, including estate, trust and agency business, are not included in the data.

The membership data have been classified into six major peer groups: domestic banks and their subsidiaries, foreign bank subsidiaries, large trust and loan companies and their affiliates (total assets of more than \$1 billion), small trust and loan companies (total assets of less than \$1 billion), the deposit-taking subsidiaries of life insurance companies, and affiliates of caisses populaires and credit unions. These peer groups reflect different characteristics established by incorporating and governing legislation, regulatory frameworks and size. When viewing these peer groups, readers should note that some members could be classified in more than one group.

The information and data compiled are presented as follows:

- 1) Members and their regional location
- Summary financial information: total CDIC membership
- Asset size and quality measures: member peer groups
- 4) Deposit liabilities
- 5) Capitalization measures
- 6) Income and profitability measures
- CDIC premiums

#### Note:

The following tables (with the exception of Tables 5.2 and 7.0) exclude the financial data of institutions that were no longer members as at March 31, 1996.

### 1.0 Members and Their Regional Location

### 1.1 CDIC Members as at March 31, 19961

#### DOMESTIC BANKS AND SUBSIDIARIES

Bank of Montreal

Bank of Montreal Mortgage Corporation

Trust Company of Bank of Montreal (The)

Bank of Nova Scotia (The)

Bank of Nova Scotia Trust Company (The)

Scotia Mortgage Corporation

Montreal Trust Company

Montreal Trust Company of Canada

Canadian Imperial Bank of Commerce

CIBC Mortgage Corporation

CIBC Trust Corporation

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FirstLine Trust Company

Canadian Western Bank

National Bank of Canada

General Trust of Canada Natcan Trust Company

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: 24

#### FOREIGN BANK SUBSIDIARIES

ABN AMRO Bank Canada

Amex Bank of Canada

Banca Commerciale Italiana of Canada

Banco Central Hispano-Canada

Bank of America 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

First Chicago NBD Bank, Canada

Fuji Bank Canada

Hanil Bank Canada

Hongkong Bank of Canada

HongkongBank Mortgage Corporation

Hongkong Bank Trust Company

Industrial Bank of Japan (Canada) (The)

International Commercial Bank of Cathay

(Canada)

Israel Discount Bank of Canada

J. P. Morgan Canada

Korea Exchange Bank of Canada

Mellon Bank Canada

Mitsubishi Bank of Canada

National Bank of Greece (Canada)

National Westminster Bank of Canada

Paribas Bank of Canada

Republic National Bank of New York (Canada)

Sakura Bank (Canada)

Sanwa Bank Canada

Société Générale (Canada)

Sottomayor Bank Canada

State Bank of India (Canada)

Sumitomo Bank of Canada

Swiss Bank Corporation (Canada)

Tokai Bank of Canada

Union Bank of Switzerland (Canada)

United Overseas Bank (Canada)

Total: 48

<sup>&</sup>lt;sup>1</sup>Banks and trust and loan companies with common affiliation have been grouped together.

# LARGE TRUST AND LOAN COMPANIES — ASSETS GREATER THAN \$1 BILLION

Canada Trust Company (The)
Investors Group Trust Co. Limited
Municipal Trust Company (The)
Municipal Savings & Loan Corporation (The)
National Trust Company
Victoria & Grey Mortgage Corporation

Total: 7

# SMALL TRUST AND LOAN COMPANIES — ASSETS LESS THAN \$1 BILLION

AGF Trust Company Bayshore Trust Company Effort Trust Company (The) Equitable Trust Company (The) Evangeline Trust Company Fortis Trust Corporation Granville Savings and Mortgage Corporation Home Savings & Loan Corporation Household Trust Company London Trust & Savings Corporation M.R.S. Trust Company MTC Mortgage Investment Corporation 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 State Street Trust Company Canada

Total: 20

#### LIFE INSURANCE SUBSIDIARIES

Aetna Trust Company
Bonaventure Trust Inc.
Manulife Bank of Canada
Family Trust Corporation
Mutual Trust Company (The)
Sun Life Trust Company
Sun Life Savings and Mortgage Corporation
Trust Company of London Life (The)

Total: 8

# CAISSES POPULAIRES AND CREDIT UNION AFFILIATES

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

Total: 11

TOTAL: 118 MEMBERS

### 1.2 Membership Changes: April 1, 1991-March 31, 1996

#### NEW MEMBERS

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September 6, 1991: Amex Bank of 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)

January 27, 1993: Bank of China (Canada)

March 3, 1993: RBC Trust Company

August 11, 1993: U.S. Bank (Canada)

January 26, 1994: Northern Trust Company, Canada (The)

September 14, 1994: General Trust of Canada

May 2, 1995: State Street Trust Company Canada

December 13, 1995: Trust Company of London Life (The)

#### OTHER MEMBERSHIP CHANGES

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.
- 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.

embership Profile—1991-19

- 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 assumed the 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 Canada amalgamated with Hongkong Bank of Canada continuing as Hongkong Bank of Canada.
- June 30, 1993: FirstLine Trust Company was continued as a federal trust company.
- September 24, 1993: Seel Mortgage Investment Corporation ceased to accept deposits policy cancelled.
- November 1, 1993: Landmark Savings and Loan Association ceased to accept deposits policy cancelled.
- November 10, 1993: The Dominion Trust Company was placed in liquidation policy cancelled.
- December 3, 1993: Prenor Trust Company of Canada was placed in liquidation policy cancelled.
- December 6, 1993: Bank Leumi Le-Israel (Canada) amalgamated with Republic National Bank of New York (Canada) continuing as Republic National Bank of New York (Canada).
- December 31, 1993: Morguard Mortgage Investment Company of Canada amalgamated with Metropolitan Trust Company of Canada continuing as Metropolitan Trust Company of Canada.

- January 20, 1994: First Interstate Bank of Canada ceased to accept deposits 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.

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- 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's policy was terminated. A winding-up order was 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.

April 6, 1995: U.S. Bank (Canada) ceased to accept deposits — policy cancelled.

July 24, 1995: Bank of Boston Canada ceased to accept deposits — policy cancelled.

October 25, 1995: Banca Nazionale del Lavoro of Canada amalgamated with First Canadian Loan Corporation and continued as First Canadian Loan Corporation. The assets of the continuing company were transferred to, and its liabilities were assumed by Bank of Montreal.

November 1, 1995: Standard Chartered Bank of Canada amalgamated with TD Loan Corporation who in turn amalgamated with The Toronto-Dominion Bank — continuing as The Toronto-Dominion Bank.

February 13, 1996: Settlers Savings and Mortgage Corporation ceased to accept deposits — policy cancelled.

Note: Name changes excluded.

### 1.3 Regional Location of CDIC Members\*

MARCH 31, 1996	WESTERN	ONTARIO	QUEBEC	EASTERN	TOTAL
Domestic banks and subs.	1	16	7	0	24
Foreign bank subsidiaries	4	39	5	0	48
Large T&L and affiliates	1	6	0	0	7
Small T&L	4	13	1	2	20
Life insurance subsidiaries	1	6	1	0	8
Caisses populaires and					
credit union affiliates	2	2	6	1	11
Total	13	82	20	3	118

<sup>\*</sup> Based upon the location of the Chief Executive Officer

# 2.0 Summary Financial Information — Total CDIC Membership

### 2.1 BALANCE SHEET\*

(\$ billions and percentage)	199	5	199	4	199	3	199	2	199	1
		%		%		%		%		%
Assets										
Cash	\$ 89.0	9	\$ 68.4	8	\$ 51.9	6	\$ 52.8	7	\$ 50.6	7
Securities	183.3	19	159.1	18	141.6	17	116.0	15	93.5	13
Loans	633.2	65	598.2	67	557.8	69	537.8	71	506.7	71
Other assets	73.8	7	64.7	7	64.1	8	56.2	7	63.1	9
Total assets	\$ 979.3	100	\$ 890.4	100	\$ 815.4	100	\$ 762.8	100	\$ 713.9	100
LIABILITIES										
Deposits	\$ 750.2	77	\$ 695.3	78	\$ 649.1	80	\$ 627.7	82	\$ 577.5	81
Other liabilities	180.0	18	149.4	17	123.1	15	94.7	13	97.2	14
Total liabilities	930.2	95	844.7	95	772.2	95	722.4	95	674.7	95
Shareholders' equity	49.1	5	45.7	5	43.2	5	40.4	5	39.2	5
Total liabilities and shareholders'										
equity	\$ 979.3	100	\$ 890.4	100	\$ 815.4	100	\$ 762.8	100	\$ 713.9	100

<sup>\*</sup> As at each member's fiscal year end

# 2.2 INCOME STATEMENT\*

(\$ millions)	1995	1994	1993	1992	1991
Interest income	67,265	\$ 53,684	\$ 52,000	\$ 57,162	\$ 66,855
Interest expense	44,953	32,096	31,804	37,652	48,178
Net interest income	22,312	21,588	20,196	19,510	18,677
Provision for impairment	3,067	4,283	5,951	7,889	3,600
Net interest income					
after provision for					
impairment	19,245	17,305	14,245	11,621	15,077
Other income	11,937	11,660	10,040	9,390	8,598
Net interest income					
and other income	31,182	28,965	24,285	21,011	23,675
Non-interest expenses	22,128	21,471	19,761	18,751	17,329
Net income before					
provision for					
income taxes	9,054	7,494	4,524	2,260	6,346
Provision for income taxes	3,312	2,927	1,639	625	2,257
Net income before					
non-controlling					
interest	5,742	4,567	2,885	1,635	4,089
Non-controlling interest					
in net income of					
subsidiaries	78	115	75	60	61
Net income before					
extraordinary losses	s 5,664	4,452	2,810	1,575	4,028
Extraordinary losses	288	2	5	3	107
Net income	\$ 5,376	\$ 4,450	\$ 2,805	\$ 1,572	\$ 3,921

 $<sup>\</sup>star$  For the fiscal year

### 3.0 Asset Size and Quality Measures — Member Peer Groups

### 3.1 TOTAL ASSETS (\$ BILLIONS AND PERCENTAGE)

	199	5	199	4	1993	3	1992	2	199	1
		%		%		%		%		%
Domestic banks and subs.	\$ 821.0	83.9	\$741.1	83.2	\$ 669.9	82.2	\$ 622.5	81.6	\$ 579.5	81.2
Foreign bank subsidiaries	70.4	7.2	64.5	7.2	62.4	7.7	59.4	7.8	56.7	7.9
Large T&L and affiliates	60.0	6.1	57.6	6.5	55.3	6.8	55.3	7.3	54.2	7.6
Small T&L	4.1	0.4	5.1	0.6	5.0	0.6	4.7	0.6	4.6	0.6
Life insurance subsidiaries	4.4	0.4	4.5	0.5	5.9	0.6	5.5	0.7	4.9	0.7
Caisses populaires and										
credit union affiliates	19.4	2.0	17.6	2.0	16.9	2.1	15.4	2.0	14.0	2.0
Total	\$ 979.3	100.0	\$ 890.4	100.0	\$ 815.4	100.0	\$ 762.8	100.0	\$ 713.9	100.0

### 3.2 Non-Performing Loans (NPLs) to Total Assets (percentage)

	1995	1994	1993	1992	1991
Domestic banks and subs.	1.6	2.2	3.7	4.1	2.9
Foreign bank subsidiaries	3.1	4.6	5.3	5.4	2.5
Large T&L and affiliates	0.9	1.1	1.3	1.7	1.1
Small T&L	2.1	1.8	3.1	3.7	4.3
Life insurance subsidiaries	2.7	4.1	5.1	3.7	5.5
Caisses populaires and					
credit union affiliates	1.3	3.4	4.0	3.5	2.4

Non-performing loans (gross) / total assets (gross)

### 3.3 NPLs to Total Loans (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	2.6	3.3	5.4	5.7	4.1
Foreign bank subsidiaries	4.8	7.4	8.9	8.8	4.3
Large T&L and affiliates	1.2	1.4	1.7	2.2	1.4
Small T&L	2.7	2.1	3.9	4.4	5.4
Life insurance subsidiaries	3.4	4.9	6.3	4.6	6.6
Caisses populaires and					
credit union affiliates	1.8	4.3	5.2	4.5	2.9

Non-performing loans (gross) / total loans (gross)

### 3.4 NPLs Unprovided For (percentage)

	1995	1994	1993	1992	1991
Domestic banks and subs.	44.6	48.5	49.3	54.0	54.8
Foreign bank subsidiaries	42.4	51.8	54.6	58.0	55.7
Large T&L and affiliates	38.8	40.5	50.1	64.0	76.7
Small T&L	47.4	58.7	66.9	72.7	80.5
Life insurance subsidiaries	15.0	51.1	51.8	57.6	82.3
Caisses populaires and					
credit union affiliates	53.9	65.0	76.5	67.3	47.7

<sup>1 - (</sup>Allowance for loan impairment / non-performing loans (gross))

### 3.5 NPLs to Total Shareholders' Equity (percentage)

	1995	1994	1993	1992	1991
Domestic banks and subs.	15.4	22.0	36.9	43.1	31.4
Foreign bank subsidiaries	23.5	42.2	52.6	53.3	22.5
Large T&L and affiliates	7.6	9.5	13.6	23.2	17.7
Small T&L	11.5	14.8	31.4	42.7	58.7
Life insurance subsidiaries	4.8	22.1	35.3	34.7	108.8
Caisses populaires and					
credit union affiliates	14.8	47.6	65.4	61.7	28.8

Non-performing loans (net) / average shareholders' equity

### 4.0 Deposit Liabilities

### 4.1 TOTAL DEPOSITS (\$ BILLIONS AND PERCENTAGE)

	1995	5	199	4	1993	3	1992	2	199	1
		%		%		%		%		%
Domestic banks and subs.	\$555.5	81.2	\$520.6	80.9	\$491.9	80.3	\$453.2	80.3	\$427.5	80.0
Foreign bank subsidiaries	52.4	7.7	49.8	7.7	46.6	7.6	43.2	7.7	40.8	7.6
Large T&L and affiliates	53.6	7.8	50.9	7.9	51.4	8.4	50.6	9.0	49.6	9.3
Small T&L	4.3	0.6	3.9	0.6	3.9	0.6	3.6	0.6	3.6	0.7
Life insurance subsidiaries	3.9	0.6	4.9	0.8	5.7	0.9	4.6	0.8	4.5	0.8
Caisses populaires and										
credit union affiliates	14.1	2.1	13.8	2.1	13.2	2.2	9.1	1.6	8.4	1.6
Total	\$683.8	100.0	\$643.9	100.0	\$612.7	100.0	\$564.3	100.0	\$534.4	100.0

As at April 30 of each year

### 4.2 INSURED DEPOSITS TO TOTAL DEPOSITS (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	45.1	45.0	46.5	47.0	47.4
Foreign bank subsidiaries	14.9	14.4	15.1	14.7	15.0
Large T&L and affiliates	84.3	83.9	82.4	81.9	80.2
Small T&L	95.0	93.0	95.8	95.6	94.8
Life insurance subsidiaries	93.2	93.6	94.2	94.6	94.2
Caisses populaires and					
credit union affiliates	85.1	85.3	88.8	83.4	78.7

As at April 30 of each year

CDIC Annual

### 5.0 Capitalization Measures

### 5.1 Capitalization (percentage)

	1995	1994	1993	1992	1991
Domestic banks and subs.	5.0	5.2	5.3	5.4	5.3
Foreign bank subsidiaries	5.8	5.9	5.8	6.1	6.4
Large T&L and affiliates	4.7	4.8	4.7	4.8	4.7
Small T&L	7.7	7.2	6.8	6.4	6.2
Life insurance subsidiaries	8.6	8.4	7.9	6.6	5.5
Caisses populaires and					
credit union affiliates	4.9	4.8	5.0	4.1	4.0

Average shareholders' equity / average assets

# 5.2 BIS CAPITAL (RISK-BASED CAPITAL) FOR CHARTERED BANKS (PERCENTAGE)\*

	1995	1994	1993	1992	1991
Domestic banks	9.8	9.8	9.8	9.0	8.9
Foreign banks	10.2	10.5	10.3	9.9	8.1

<sup>\*</sup> BIS (Bank for International Settlements): The minimum targets were 7.25% for 1991 and 8.00% for 1992 and beyond. Federal trust and loan companies were required to meet the 8.00% target since 1993. Data are not available for provincial trust and loan companies.

### 6.0 Income and Profitability Measures

### 6.1 NET INCOME (\$ MILLIONS)

	1995	1994	1993	1992	1991
Domestic banks and subs.	\$5,189	\$4,274	\$2,865	\$1,709	\$3,850
Foreign bank subsidiaries	196	45	-167	-334	30
Large T&L and affiliates	258	240	163	225	293
Small T&L	28	18	8	1	6
Life insurance subsidiaries	-13	-40	-72	-67	-25
Caisses populaires and					
credit union affiliates	-282	-87	8	38	-233
Total	\$5,376	\$4,450	\$2,805	\$1,572	\$3,921

### 6.2 INTEREST SPREAD (PERCENTAGE)

	1	,			
	1995	1994	1993	1992	1991
Domestic banks and subs.	2.5	2.7	2.7	2.8	2.9
Foreign bank subsidiaries	1.8	1.6	1.4	1.5	1.7
Large T&L and affiliates	2.2	2.2	2.2	2.2	2.2
Small T&L	2.2	1.9	1.7	1.8	2.0
Life insurance subsidiaries	1.7	1.3	1.0	0.8	1.4
Caisses populaires and					
credit union affiliates	2.0	2.3	2.4	2.5	2.0

Interest spread: (interest income - interest expense) / average assets

### 6.3 OTHER INCOME (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	1.3	1.4	1.3	1.3	1.3
Foreign bank subsidiaries	1.1	1.5	1.4	1.3	1.4
Large T&L and affiliates	0.9	0.7	0.7	0.7	0.7
Small T&L	2.1	1.1	1.3	1.0	0.9
Life insurance subsidiaries	1.2	0.7	0.7	0.6	0.5
Caisses populaires and					
credit union affiliates	0.9	1.0	0.8	0.9	0.7

Other income: other income / average assets

### 6.4 Non-Interest Expenses (Percentage)

	1995	1994	1993	1992	1991
Domestic banks and subs.	3.1	3.5	3.6	3.9	3.5
Foreign bank subsidiaries	2.6	3.0	3.1	3.4	3.0
Large T&L and affiliates	2.7	2.6	2.7	2.6	2.4
Small T&L	3.7	2.7	2.8	2.7	2.8
Life insurance subsidiaries	3.1	3.1	2.9	2.7	2.5
Caisses populaires and					
credit union affiliates	2.8	3.7	3.2	3.1	3.5

Non-interest expense: (non-interest expense + provision for income taxes + minority interest in subsidiaries + provision for impairment) / average assets

### 6.5 RETURN ON AVERAGE ASSETS (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	0.7	0.6	0.4	0.3	0.7
Foreign bank subsidiaries	0.3	0.1	-0.3	-0.6	0.1
Large T&L and affiliates	0.4	0.4	0.3	0.4	0.6
Small T&L	0.6	0.3	0.2	0.0	0.1
Life insurance subsidiaries	-0.3	-0.8	-1.3	-1.3	-0.7
Caisses populaires and					
credit union affiliates	-1.5	-0.5	0.1	0.3	-1.7

ROAA: net income / average assets

### 6.6 RETURN ON AVERAGE EQUITY (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	13.3	11.7	8.4	5.3	12.8
Foreign bank subsidiaries	5.0	1.2	-4.7	-9.5	0.8
Large T&L and affiliates	9.3	8.9	6.2	8.6	11.6
Small T&L	7.9	4.8	2.5	0.5	1.8
Life insurance subsidiaries	-3.5	-9.3	-16.1	-19.3	-12.4
Caisses populaires and					
credit union affiliates	-30.9	-10.4	1.0	6.3	-42.3

ROAE: net income / average shareholders' equity

### 6.7 PRODUCTIVITY (PERCENTAGE)

	1995	1994	1993	1992	1991
Domestic banks and subs.	63.4	63.4	63.9	63.9	62.6
Foreign bank subsidiaries	69.1	66.8	73.0	70.1	64.4
Large T&L and affiliates	74.5	76.8	75.2	72.9	70.6
Small T&L	59.4	64.5	62.5	70.7	68.2
Life insurance subsidiaries	69.5	104.7	134.7	141.3	108.2
Caisses populaires and					
credit union affiliates	83.2	79.3	78.0	76.4	97.1

Productivity: non-interest expenses / (net interest income (before provision for impairment) + other income)

### 7.0 CDIC PREMIUMS (\$ MILLIONS AND PERCENTAGE)\*

	199	5	199	4	1993	3	1992		199	1
		%		%		%		%		%
Domestic banks and subs.	\$417.6	77.5	\$391.7	76.6	\$298.1	76.4	\$218.5	73.4	\$208.3	71.7
Foreign bank subsidiaries	13.0	2.4	12.2	2.4	8.9	2.3	6.6	2.2	6.3	2.2
Large T&L and affiliates	75.4	14.0	71.1	13.9	53.7	13.7	48.0	16.1	52.0	17.9
Small T&L	6.8	1.3	7.9	1.6	7.3	1.9	8.2	2.7	9.6	3.3
Life insurance subsidiaries	6.1	1.1	8.8	1.7	7.8	2.0	6.1	2.1	5.9	2.0
Caisses populaires and										
credit union affiliates	20.0	3.7	19.7	3.8	14.6	3.7	10.4	3.5	8.3	2.9
Total	\$538.9	100.0	\$511.4	100.0	\$390.4	100.0	\$297.8	100.0	\$290.4	100.0

This table includes all CDIC members as at April 30 of each year.

<sup>\*</sup> The premiums in this table reflect amended Return of Insured Deposits filings and therefore do not necessarily agree with CDIC's premium income for accounting purposes.



### Highlights

During 1995/96, CDIC's deficit decreased \$446 million to \$1.3 billion. Loans from the Consolidated Revenue Fund (CRF) decreased \$534 million, from \$2.2 billion at March 31, 1995, to \$1.6 billion at March 31, 1996. These results compare favourably with those forecast in the CDIC 1996/97 – 2000/01 Corporate Plan. The loans from the CRF are as planned whereas the deficit is \$72 million lower than forecast.

The recoveries of claims receivable in 1995/96 totaled \$644 million while the loans receivable generated net collections of \$55 million. The premium rate was maintained at one-sixth of one percent and, combined with a growth of 5.1 percent in the insured deposit base of members, generated \$538 million in premium revenue as compared with \$513 million last year.

A five-year financial and statistical summary and a table of key comparative indicators can be found on pages 56 and 58 of this report.

### RECLASSIFICATION IN 1994/95 FINANCIAL STATEMENTS

As described more fully in note 3 to the financial statements, the loans receivable and the provision for guarantees in the 1994/95 financial statements have been restated by \$500 million. This restatement reflects a guarantee of redemption provided by CDIC to Adelaide Capital Corporation (ACC) in 1994 on an issue of distressed preferred shares. The shares must be redeemed within five years of the date of issue, and CDIC has guaranteed such redemption to the investors. Pursuant to their redemption, the shares will be put back by CDIC to ACC, at which time CDIC will reclaim its preferred creditor status for the outstanding amount of its loan to ACC.

#### LOANS AND CLAIMS RECEIVABLE

No new claims were paid in 1995/96. By comparison, in 1994/95, \$873 million was paid in claims to insured depositors of failed member institutions.

The book value of claims receivable (before the allowance for loss) at March 31, 1996, was \$479 million, down from \$1,277 million one year earlier. This decrease stems mainly from the collection of \$644 million from estates and from additional write-offs of \$158 million in the older claims, where future collection is considered extremely unlikely.

The book value of the loans receivable (before the allowance for loss) decreased from \$771 million as at March 31, 1995, to \$567 million as at March 31, 1996. As described in note 4 to the financial statements, CDIC, pursuant to the sale of North American Trust Company and its subsidiary NAL Mortgage Company (NAL transaction) to Laurentian Bank of Canada (Laurentian Bank), wrote off the remaining balance of a \$175 million loan to NAL Trustco Inc. Part of Laurentian Bank's purchase amount was in the form of a \$45 million three-year note, abatable in consideration of specified losses experienced on the purchased portfolio and other items.

#### ALLOWANCE FOR LOSS ON LOANS AND CLAIMS RECEIVABLE

The allowance for loss on loans and claims receivable reflects management's best estimate of losses that will be incurred on the disposition of the underlying assets. The allowance is based on information provided to CDIC by the liquidators and other agents managing the estates of failed member institutions and is sensitive to the assumptions and asset disposition strategies developed in the business plans. The allowance is determined on an annual basis. For the year 1995/96, the allowance decreased substantially from \$501 million to \$143.5 million, largely because of the write-offs of loans and claims receivable of \$302 million.

The current-period provision for loss was also decreased by \$55 million as indicated in note 6 to the financial statements. The major portion of the adjustment to the current-period provision for loss comes from estates where the business plans of the liquidators and agents indicate that the estimated loss to CDIC will be less than previously anticipated.

Last year's annual report stated that the various provisions for loss reported in CDIC's financial statements may, in future, be measured on a net present value basis as required by the CICA Handbook section 3025 - Impaired Loans. CDIC's provisions for loss are currently measured in nominal dollars. Accounting research in this area led management to the conclusion that CDIC's loans and claims receivable did not meet the definition of "Impaired Loans" as defined in section 3025, and therefore this section was not applied in these financial statements. Given the nature of CDIC's loans and claims receivable, this section does provide relevant guidance.

#### PROVISION FOR GUARANTEES

During the year, CDIC paid \$282 million under various guarantees. The bulk of these payments (\$231 million) related to the closing of the NAL transaction.

#### GENERAL PROVISION FOR LOSS

The general provision for loss reflects CDIC's best estimate of losses on insured deposits of member institutions. The provision is determined by assessing the aggregate risk inherent in its portfolio of member institutions based on current market and economic conditions and by applying likelihood-of-failure experience and historical loss factors. The estimated general provision for loss was decreased by \$100 million — to \$150 million in 1995/96 — because of the decreasing number of member institutions presenting potential risks to CDIC.

#### PREMIUMS

CDIC collected \$538 million in premiums this year. The premium rate remained at one-sixth of one percent of insured deposits, the maximum allowable under the CDIC Act. The increase over the amount of premiums collected last year reflects the 5.1 percent growth in the 1995/96 insured deposit base over 1994/95.

Bill C-15 provides the legislative authority for an increase in the maximum rate of premiums to one-third of one percent of insured deposits. The new legislation also requires that CDIC develop a system varying premium rates of member institutions based on a risk-rating of the institution. The increased ceiling for the premium rate will provide the flexibility required to operate this system effectively. Once the system has been developed, the appropriate sections of Bill C-15 will be brought into force. Since its inception in 1967, the Corporation has assessed and collected \$3.5 billion in premiums from member institutions.

#### INTEREST COSTS

Interest costs for the year amounted to \$122 million (1994/95 - \$182 million). The weighted average cost of funds for 1995/96 was 6.5 percent — the same as in the previous year. The substantial decrease in interest costs reflects the decreasing amount of loans outstanding from the CRF.

Bill C-15 also amends the CDIC Act in a manner that will affect the way CDIC borrows money in the future. The amendment provides CDIC with the ability to borrow money by various means, including the issuance and sale of bonds, debentures and notes. Although CDIC retains the ability to borrow from the CRF, it will be expected, after a reasonable transition period, to borrow in public markets. The amendment also includes a subsection allowing the Minister of Finance to fix a fee on all new CDIC borrowing. CDIC is currently working with the Department of Finance and industry experts to develop a market-based fee structure. These amendments could have an impact on CDIC's future cost of funds.

#### OPERATING AND INTERVENTION EXPENSES

The operating expenses for 1995/96 amounted to \$14.0 million (1994/95 - \$14.1 million). Intervention expenses for 1995/96 amounted to \$3.6 million (1994/95 - \$5.0 million). In both cases the numbers compare favourably with the approved 1995/96 operating budget (\$15.3 million for operating expenses and \$5.2 million for intervention expenses). The intervention expenses and operating expenses are now reported separately on the Statement of Operations and Deposit Insurance Fund. This distinction facilitates resource planning by keeping the management of controllable and relatively stable infrastructure costs separate from the more variable, project specific and volatile intervention costs.

Five-Year Financial and Statistical Summary

	12 Months Ended	12 Months Ended	15 Months Ended	12 Months Ended	12 Months Ended
	March 31,	March 31,	March 31,	December 31,	December 31,
	1996	1995	1994	1992	1991
		(\$ millio	ns unless otherwise	indicated)	
Insurance Program					
Accumulated deficit	(1,301)	(1,747)	(1,648)	(1,451)	(590)
Total insured deposits (\$ billions)	323	308	303	302	290
Premiums assessed	538	513	391	302	290
Assets and Liabilities	Y The second				
Claims paid	-	873	1,351	493	1,408
Claims recovered	644	1,025	1,048	263	728
Loans disbursed	49	. 2	157	1,539	39
Loans recovered	104	651	618	19	96
Additional loans (repayments)					
from the CRF	(533)	(991)	(499)	1,835	590
Payment of guarantees	282	104	65	-	7 - 1 - 1
Operations					
Operating expenses	14	14	17 (1)	17	15
Intervention expenses	4	5	9 (1)	12	13
Interest expense on CRF loans	122	182	270 (1)	177	168
Provision for loss (reversal)	(30)	430	108 <sup>(2)</sup>	960	61
Member Institutions					
Number of federal institutions-					
banks	55	59	61	61	64
Number of federal institutions-					
trust and loan companies	43	42	47	51	50
Number of provincial					
institutions	20	20	23	30	32
Total number of institutions	118	121	131	142	146
Number of insolvencies	1	2	3	. 5	4

Five-Year Financial and Statistical Summary (Continued)

	12 Months Ended March 31, 1996	12 Months Ended March 31, 1995	15 Months Ended March 31, 1994	12 Months Ended December 31, 1992	12 Months Ended December 31, 1991
Employees					
Number of permanent employees (3)	86	87	90	94	92
Other					
Average cost of funds	6.5%	6.5%	6.3%	7.2%	10.2%
Growth rate of insured deposits	5.1%	1.7%	0.2%	3.8%	7.3%
Insured deposits as a percentage					
of total deposit liabilities	47.2%	47.6%	49.1%	50.8%	50.9%

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

Key Comparative Indicators

	1996/97 Plan	1995/96 Actual (\$ millions)	1994/95 Actual
Accumulated deficit	(894)	(1,301)	(1,747)
Loans from the Consolidated			
Revenue Fund	867	1,640	2,174
Recoveries of claims receivable	100	644	1,025
Recoveries of loans receivable	67	104	651
Payment of guarantees	32	282	104
Premiums	574	538	513
Interest expense on CRF loans	86	122	182
Operating Expenses	14	14	14
Intervention Expenses	5	4	5

### Management Responsibility for Financial Statements

May 3, 1996

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements 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 Corporations 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

### **AUDITOR'S REPORT**

#### To the Minister of Finance

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 1996 and the statements of operations and insurance deposit 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, 1996 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.

Wm. F. Radburn, FCA Assistant Auditor General

for the Auditor General of Canada

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Ottawa, Canada May 3, 1996

Balance Sheet
as at March 31
(IN THOUSANDS OF DOLLARS)

	1996	1995
Assets		
Cash and short-term investments	\$ 292,985	\$ 55,814
Premiums and other accounts receivable	11,700	13,364
Capital assets	1,655	1,815
	306,340	70,993
Loans receivable (Notes 3 and 4)	567,091	770,570
Claims receivable (Note 4)	478,933	1,276,607
	1,046,024	2,047,177
Allowance for losses on loans and claims receivable (Note 6)	(143,500)	(501,000)
	902,524	1,546,177
	\$ 1,208,864	\$ 1,617,170
LIABILITIES		
Accounts payable	\$ 28,425	\$ 32,400
Provision for guarantees (Notes 3, 5 and 6)	691,271	907,483
General provision for loss (Note 6)	150,000	250,000
Loans from the Consolidated Revenue Fund (Note 7)	1,640,141	2,174,423
	2,509,837	3,364,306
DEPOSIT INSURANCE FUND		
Deficit, end of period	(1,300,973)	(1,747,136)
	\$ 1,208,864	\$ 1,617,170

Approved by the Board:

Uhrushen

Chairman

Director

# Statement of Operations and Deposit Insurance Fund for the year ended March 31 (IN THOUSANDS OF DOLLARS)

	1996	1995
Revenues		
Premiums	\$ 537,742	\$ 513,050
Interest on cash and short-term investments	9,134	8,797
Other revenue	5,677	3,429
	552,553	525,276
Expenses		
Interest on loans from the Consolidated Revenue Fund (Note 7)	121,917	181,959
Provision for loss (reversal) (Note 6)	(29,603)	430,101
Recovery of amounts previously written off	(3,910)	(6,419)
Operating expenses (Note 11)	13,961	14,096
Intervention expenses	3,573	5,013
Other interest	452	10
	106,390	624,760
Gain (loss) from operations	446,163	(99,484)
Deficit, beginning of period	(1,747,136)	(1,647,652)
Deficit, end of period	\$ (1,300,973)	\$ (1,747,136)

### Statement of Changes in Financial Position

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS OF DOLLARS)

	1996	1995
OPERATING ACTIVITIES		
Gain (loss) from operations	\$ 446,163	\$ (99,484)
Non-cash items included in gain (loss) from operations		
Provision for loss (reversal)	(29,603)	430,101
Other	(3,013)	(6,610)
Other non-cash items		
Increase in provision for guarantees		500,000
Increase in loans receivable		(500,000)
Purchase of capital assets - net	(420)	(455)
Payment out of the general provision for loss	(60,228)	-
Payment of guarantees	(281,712)	(104,066)
Loans disbursed	(48,638)	(2,376)
Loans recovered	103,648	651,143
Claims paid		(872,779)
Claims recovered	643,974	1,025,249
Cash provided by operating activities	770,171	1,020,723
FINANCING ACTIVITIES		
Loans from the Consolidated Revenue Fund		
Advances	250,000	350,000
Repayments	(783,000)	(1,341,000)
Cash used in financing activities	(533,000)	(991,000)
CASH AND SHORT-TERM INVESTMENTS		
Increase during the period	237,171	29,723
Balance, beginning of period	55,814	26,091
Balance, end of period	\$ 292,985	\$ 55,814



March 31, 1996

#### 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.

**Short-Term Investments.** Sufficient liquidity is maintained to meet general operating requirements as well as borrowing obligations to the Consolidated Revenue Fund. These investments, consisting of marketable securities and term deposits, are carried at cost

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, in the opinion of management, 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 other revenue on a cash basis.

In some cases, amounts recovered from the estates of liquidated member institutions exceed the amount of the Corporation's claim against the institution. In these instances, interest on claims is recorded as other revenue on a cash basis.

**Provisions for Loss.** The Corporation has three types of provisions for loss in its financial statements:

Loans and Claims Receivable - The allowance for losses on loans and claims receivable is determined on an annual basis and reflects management'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, and commitments under various agreements — and other information provided by the liquidators of the various estates and/or agents acting on behalf of the Corporation.

Loans and claims receivable are written off in full or in part when, in the opinion of management, there is a reasonable certainty that the loan or claim will not be fully realized. From time to time, the Corporation collects amounts previously written off in loans and claims receivable. In such cases, the amounts received are recorded as a reversal to the provision for loss.

Guarantees - In facilitating certain transactions affecting member institutions, the Corporation provides certain guarantees. The amount required to honour these guarantees is determined on an annual basis and 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 by applying historical loss experience.

#### 3. RECLASSIFICATION IN 1995 FINANCIAL STATEMENTS

In 1994, Adelaide Capital Corporation (ACC), a successor to a former member institution, refinanced its debt structure through an issue of distress preferred shares (DPS). At that time, the Corporation provided a guarantee of redemption to the purchasers of these shares. Under the agreement, the Corporation will purchase the DPS at face value, when they mature. The shares will then be redeemed by ACC in consideration for a loan payable to the Corporation. ACC used the \$500 million proceeds from the issue of the DPS to repay part of its loan with the Corporation. In its 1995 financial statements, the Corporation recognized the net effect of the transaction and applied the \$500 million as a recovery against the loan to ACC.

This year, management decided that it is appropriate to present this transaction on a gross basis as it expects that it will have to honour its guarantee and therefore established a provision for guarantee of \$500 million and a corresponding increase to its loan receivable from ACC. It is management's opinion that the full amount of the loan will be collected.

The financial statements for 1995 have been restated to reflect these adjustments. These changes have no effect on the operating results and the accumulated deficit.

#### 4. LOANS AND CLAIMS RECEIVABLE

Claims against insolvent member institutions arise from the subrogation of the rights and interests of depositors when the Corporation pays the depositors' insurance claims. The Corporation also asserts a claim against insolvent member institutions in liquidation, arising out of loans previously disbursed by the Corporation. The Corporation has asserted claims against all the insolvent member institutions that have been placed in liquidation.

Pursuant to subsection 10(1) of the CDIC Act, the Corporation made secured loans to member institutions and others under the provisions of loan agreements. In management's opinion there is reasonable doubt as to the collectibility of interest revenue on these loans. Consequently, no interest revenue was recognized during the year.

As part of the facilitation of the sale of North American Trust Company (NAT) and its subsidiary NAL Mortgage Company (the NAL transaction) to the Laurentian Bank of Canada (Laurentian Bank), the remaining amount of a \$175 million loan previously made to the parent of NAT, NAL Trustco Inc., was written off during the year. In addition, a portion of Laurentian Bank's purchase amount was in the form of a three-year note, the proceeds of which were assigned to the Corporation, and which is abatable in respect of specified losses experienced on the purchased portfolio during the term of the note and other items.

#### 5. PROVISION FOR GUARANTEES

The Corporation has provided various types of guarantees to member institutions or others in order to facilitate certain transactions affecting member institutions. The following table presents the guarantees outstanding at March 31, 1996 and 1995, along with the corresponding provisions.

	1996		1995	
	Guarantee	Provision	Guarantee	Provision
		(in millions of d	ollars)	
Deficiency coverage	\$2,120.0	\$107.4	\$2,661.0	\$365.0
Distress preferred shares	655.0	500.0	665.0	500.0
Other	128.0	83.9	42.5	42.5
TOTAL	\$2,903.0	\$691.3	\$3,368.5	\$907.5

#### DEFICIENCY COVERAGE AGREEMENT

In order to facilitate the sale of troubled member institutions, the Corporation guaranteed a portion of the principal and income losses that may occur on eligible assets. These guarantees, also referred to as deficiency coverage agreements or DCAs will continue to be in force on a diminishing basis until the year 2002. As described in note 4, during the year the Corporation facilitated the NAL transaction, which exhausted the coverage available under the DCA agreement signed in 1992.

#### DISTRESS PREFERRED SHARES

The Corporation provided guarantees to the investors of distress preferred shares issued by ACC in 1994. These shares must be redeemed within five years from the date of issue. The Corporation will finance the redemption of these shares and has recognized the liability.

#### OTHER

R e p o r t

n n u a l

With respect to the NAL transaction, the Corporation has certain obligations to settle with the purchasers under various sale agreements. As a result, the Corporation has recognized a liability for future settlement of these obligations.

Other guarantees are provided by the Corporation from time to time to facilitate the conduct of its business. Payments under such guarantees will occur if the conditions in the agreements are met.

#### 6. 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, 1996.

	1996			1995	
	Loans and Claims Receivable	Guarantees	General erantees Provision Total		Total
		(in	thousands of doll	ars)	
Beginning of period	\$ 501,000	\$ 907,483	\$250,000	\$1,658,483	\$1,275,448
Provision for loss (reversal)	(55,331)	65,500	(39,772)	(29,603)	430,101
Write-offs	(302,169)	-	<u> </u>	(302,169)	(443,000)
Distress preferred shares	-			77,500,000	500,000
Payments	-	(281,712)	(60,228)	(341,940)	(104,066)
End of Period	\$ 143,500	\$ 691,271	\$150,000	\$ 984,771	\$1,658,483

These estimates are determined using the best information available at the time they are prepared. However, future events and economic conditions are not predictable with certainty, and therefore the actual losses may be different from these estimates.

### 7. LOANS FROM THE CONSOLIDATED REVENUE FUND

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

As at March 31, 1996, the Corporation has \$1,640 million in outstanding loans including accrued interest of \$13 million (March 31, 1995: \$2,174 million, including accrued interest of \$14 million).

These loans bear interest at various annual rates ranging from 5.87% to 7.33% (1995 - 4.49% to 8.34%) and the principal is repayable according to the following schedule:

Period Ending March 31	Amount (in millions of dollars)		
1997	\$ 872		
1998	460		
1999	295		
Accrued interest as at March 31, 1996	13		
	\$ 1,640		

#### 8. 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 \$1,158.1 million and expire as follows:

Year	Amount (in millions of dollars)
1997	\$ 143.3
1998	141.8
1999	224.1
2000	224.6
2001	96.4
2002	202.4
2003	125.5
	\$1,158.1

#### 9. CONTINGENT LIABILITIES

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions.

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

#### 10. INSURED DEPOSITS

Deposits insured by the Corporation, on the basis of returns received from member institutions, as described in note 2, as at April 30, 1995 and 1994, were as follows:

	1995	1994
	(in billions	of dollars)
Federal Institutions	\$307	\$291
Provincial Institutions	16	17
	\$323	\$308

In accordance with paragraph 21(1)(b) of the CDIC Act, the premium rate for the premium year 1996 was set at one-sixth of one percent of insured deposits, the same rate as in 1995.

### 11. OPERATING EXPENSES

	1996	1995	
	(in thousands of dollars)		
Salaries and other personnel costs	\$ 6,362	\$ 6,143	
Inspection, legal and other fees	2,097	2,548	
General expenses	2,170	2,145	
Premises	2,448	2,322	
Data processing	884	938	
	\$13,961	\$14,096	

#### 12. COMPARATIVE FIGURES

In addition to disclosure in note 3, certain of the 1995 figures have been reclassified to conform with the presentation adopted for 1996.



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)	H. Marcel Caron (2)	Gordon G. Thiessen
Chairman of the Board	Chairman	Governor of the Bank
CDIC	Executive Committee	of Canada
(Jan. 8, 1993, 5 years)*	La Presse	(ex officio)
	Montreal	
	(June 2, 1993, 3 years)*	
David A. Dodge	H. Garfield Emerson, Q.C. (2)	John R.V. Palmer (1) (2)
Deputy Minister of Finance	President and Chief Executive	Superintendent of Financial
(ex officio)	Officer	Institutions
	Rothschild Canada Ltd.	(ex officio)
	Toronto	
	(December 20, 1994, 3 years)*	
Bernard I. Ghert (1)	Colin P. MacDonald (3)	
President	Partner	
Ghert Realty Holdings Ltd.	Howard, Mackie	
Toronto	Calgary	
(June 9, 1993, 3 years)*	(December 20, 1994, 3 years)*	

- (1) Member of the Executive Committee
- (2) Member of the Audit Committee
- (3) Member of the Employee Relations Committee
- \* Date and term of Governor-in-Council appointment.

### CDIC Officers

Grant L. Reuber

Chairman of the Board (Jan. 8, 1993, 5 years)\*

Jean Pierre Sabourin

President and Chief Executive Officer (June 1, 1996, 5 years)\* **Guy Saint-Pierre** 

Senior Vice-President Insurance and Risk

Assessment

Wayne Acton

Senior 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.

<sup>\*</sup> Date and term of Governor-in-Council appointment.



### Advisory Committee on Risk Assessment and Intervention Policies

#### Chairman

Peter C. Maurice

Deputy Chairman The Canada Trust Company

Members

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Vice-Chairman

Credit

The Toronto-Dominion Bank

Richard S. Buski

Partner and Chairman National Banking Group

Coopers & Lybrand

Michael White

President and Chief Operating

Officer

National Trust Company

**Guy Saint-Pierre** 

Senior Vice-President

Insurance and Risk Assessment

CDIC

Legal Counsel

Secretary

Donald E. Milner

Partner

Fasken Campbell Godfrey

Ken Mylrea

Director

Policy and Research

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

John Thompson

Assistant Superintendent

Operations

**OSFI** 

Jack W. Heyes

Director General

Examinations

OSFI

Kim Norris

Director

DTI Analysis Division

**OSFI** 

Jean Pierre Sabourin

President and Chief Executive

Officer

CDIC

**Guy Saint-Pierre** 

Senior Vice-President

Insurance and Risk Assessment

CDIC

Ken Mylrea

Director

Policy and Research

**CDIC** 

### Advisory Committee on Consumer Information

#### Chairman

### Jean Pierre Sabourin

President and Chief Executive Officer CDIC

#### Members

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

#### Youssef A. Nasr

Executive Vice-President Hongkong Bank of Canada

Sun Life Trust Company

### Legal Counsel

Donald E. Milner

Fasken Campbell Godfrey

### Ronald G. Gassien

Senior Vice-President and Corporate Secretary National Trust Company

### Gary Corsi

President

### Secretary

### David Walker

Economics and Research Advisor

CDIC

### Gwyn Gill

**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

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Board of Directors

Liaison

Secretary

Daniel F. Sullivan

Deputy Chairman

ScotiaMcLeod Inc.

Bernard I. Ghert

President

Ghert Realty Holdings Ltd.

Christopher J. Porter

Manager

Field Operations

**CDIC** 

#### Members

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President and Chief Executive Officer Cambridge Shopping

Centres Ltd.

R

C

Q O

H. Roger Garland

Vice-Chairman

Four Seasons Hotels and Resorts

Randy M. Grimes

Director IBI Group

Stephen E. Johnson

President

The Dorchester Corporation

E. John Latimer

President

Monarch Development

Corporation

William H. Levine

Chairman

Western Corporate Enterprises

Inc.

Alvin G. Poettcker

President

REDEKOP Properties Inc.

Marcel J. Casavant

Chairman

J. J. Barnicke Ltd.

Kenneth Rotenberg

Chairman

Rostland Corporation

#### William Poole (1)

Former Senior Vice-President Realty Advisory Group

The Toronto-Dominion Bank

(1) William Poole retired from the Real Estate Advisory Panel during the year.

### Cash and Debt Management Review Committee

#### Chairman

### Paul Taylor

Executive Vice-President Royal Bank of Canada

#### Members

Johanne R. Lanthier Bryan Osmar

Vice-President Vice-President, Money Markets

Finance Treasury Division
CDIC Royal Bank of Canada

### Joint OSFI/CDIC Information Systems Steering Committee

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Director

Systems Development

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Director

Financial Analysis Division

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Gerry Champagne

Director

Information and Business

Services OSFI

#### Adviser

### George Hopkins

Executive Vice-President Bank of Montreal



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

Annual Report 1995/199

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#### Publications

Reception: (613) 996-2081

Annual Report

Application and Policy of Deposit Insurance

Assessment and Reporting Program for CDIC's Standards of Sound Business and Financial Practices

Canada Deposit Insurance Corporation General By-law

Information and Membership brochures

Joint and Trust Account Disclosure By-law

Premium Surcharge By-law

Standards of Sound Business and Financial Practices:

Capital Management

Capital Management
Credit Risk Management
Foreign Exchange Risk Management
Interest Rate Risk Management
Internal Control
Liquidity Management
Real Estate Appraisals
Securities Portfolio Management
Summary of the Corporate Plan

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