when there were numerous loans related to the Canadianization of the oil and gas industry, as well as other takeover loans. The prudence of the banks was questioned, for lending such sizeable amounts of their equity to any one company or individual. The Inspector General of Banks, Mr. Kennett, testified that in some cases, the amount of the loans approximated 75 per cent to 100 per cent of a bank's capital. Mr. Kennett also testified that he became concerned about the size of these loans, and indicated to the banks that total loans to one borrower should not exceed 50 per cent of a bank's shareholders' equity and preferred shares. However, this was done after most loans had already been made.

Information supplied by the Office of the Inspector General of Banks revealed that there were four loans outstanding that exceeded $500 million to a single borrower. Besides, there were fifteen loans, exceeding $500 million, made to connected companies. Connected or associated companies are defined by the Inspector General of Banks as a group of companies under the same direct management or where there are closely related risks.

Table 3.5 outlines the common equity including the appropriation for losses and preferred shares and, in addition, the convertible and subordinated debentures outstanding that, combined, equal total capital for each of the six largest banks in Canada. If the guidelines established by the Inspector General of Banks were kept, where loans did not exceed 50 per cent of total common shareholders equity and preferred, the size of bank loans could range from $240 million for the National Bank to $1,300 million for the Royal Bank.

Several banks stated in testimony that they had established internal guidelines. The Canadian Imperial Bank of Commerce has a policy whereby bank loans to a single borrower are not to exceed 15 per cent of total capital. The Royal Bank also has a policy whereby total commitment to one borrower should not exceed this percentage. However, in a very few cases, the Royal Bank has extended as much as 25 per cent of its capital to one borrower. As noted in Table 3.5, 15 per cent of total capital for the Commerce Bank is $389 million, and 15 per cent of total capital for the Royal Bank is roughly $500 million. If the Royal Bank made a loan equalling 25 per cent of total capital, it could run as high as $830 million. The Bank of Nova Scotia stated that it preferred to keep loans under $500 million, about 25 per cent of total capital, but added that, at times, and in very special situations, this level might be exceeded.

It is not the Committee's intention to reduce the competiveness of the Canadian chartered banks, particularly in the international sector. However, it is recommended that the size of loans to any one borrower or associated group of borrowers should not exceed 25 per cent of a bank's total capital, as defined by the Office of the Inspector General of Banks, unless that office gives its approval.

Geographic and Sectoral Diversification of Loans

Canadian chartered banks are geographically quite diverse, particularly in their domestic operations. Canadian dollar assets, comprising approximately two-thirds of total assets, are broadly spread throughout Canada by the branch systems. As previously discussed in Chapter 2, the banks have a very diverse loan portfolio according to type of loan and sector of industry. Table 3.6, supplied by Burns, Fry Limited, gives a further estimated breakdown