C$383 million, or 15.7 per cent of its loans to the basket of 32 countries specified by the Inspector General; this represents an increase of C$97 million from the previous year. The Canadian Imperial Bank of Commerce reported having reserves of C$451 million in October 1986 against loans to financially troubled countries, representing 13.6 per cent, with C$130 million set aside during the year. The Toronto-Dominion Bank had accumulated, by the 1986 year-end, a general reserve of C$302 million, representing 10.1 per cent of outstanding loans to the 32 problem countries, an increase of C$52 million. The Bank of Nova Scotia gave no specific figures. The Bank of Montreal indicated only that its provisions amounted to 12.8 per cent of its loans to the Inspector General's basket of countries. The Royal Bank reported provisions of C$628 million or 11 per cent of its loans, an increase of C$265 million over the previous year.

Paralleling their problems with Third World loans, Canadian banks as well as those in the United States have been adversely affected by economic difficulties experienced domestically since 1980. Heavy losses in the energy, real estate, agriculture and shipping sectors have exacerbated the problems of North American banks. The sharp fall in the price of oil has both reduced the value of assets held by banks as collateral for loans to oil companies as well as reducing the earnings of the oil companies and therefore their capacity to service their debts. As a result, in 1986 the banks felt it necessary to take substantial write-downs on loans to the energy sector in Canada and the United States. The drastic decline in the price of internationally traded grains is causing a depression in parts of the farm economy, reducing the price of land and affecting the ability of farmers to make payments on their loans. In the parts of the two countries most affected by the decline in the energy and agricultural markets, the real estate market has also fallen sharply and shipping interests in the United States have suffered from the decline in international trade. In parts of the United States, smaller, regional banks heavily involved in both energy and agricultural sector declines have been hit particularly hard. Indeed, write-downs or specific provisioning by Canadian banks in these sectors in 1986 have exceeded general provisions taken on their sovereign risk loans. Taken together, the combined cost of provisions and write-downs absorbed by Canadian banks in 1986 amounted to C$3.4 billion.

According to Canadian bankers, the effort of the banks to build up the necessary funds to establish their provisions has reduced bank profits and resulted in lower dividends and lower bank stock prices for shareholders. It can also be assumed that there must have been a considerable cost to the Canadian economy and to Canadian consumers in the form of increased charges to bank customers through wider spreads in interest rates and higher service charges.

While the Committee has been able to find some gross figures on the Third World debt exposure of Canadian banks, it has been impossible to learn details of the amounts owed by all but the largest debtor countries to particular banks. As already indicated, the banks do not set aside specific provisions in respect to each country's debt. Instead, general provisions are consolidated and form a kind of self-insurance fund. Moreover, it is understandable that commercial banks do not wish to allocate provisions to specific loans, since this would compromise their bargaining position in rescheduling negotiations. So although the facts confirm that in aggregate terms the problem is very serious, the only details given relate to the largest debtor countries.