The actual loan loss experience for the Canadian chartered banks has increased quite substantially over the last seven years, from $267 million in 1975 to $852 million in 1981, as noted in Table 3.4 roughly in line with the substantial growth in bank assets. This sharpest increase occurred in a period of three years from $364 million in 1978 to $852 million in 1981. Although this rise has been quite sudden, it should be put into perspective by relating the actual loan loss experience as a percentage of the banks' average assets outstanding each year. Table 3.4 indicates that loan loss experience as a percentage of average assets has not changed significantly from 0.27 per cent in 1975 to 0.28 per cent in 1981. The experience has fluctuated however, from year to year. In 1979, actual loan loss as a percentage of average assets declined to its lowest rate in seven years at 0.20 per cent, and then it rose very sharply again in 1980, when loan losses increased by 85 per cent to 0.31 per cent of average assets.

TABLE 3.4

Canadian Chartered Banks [1]

Actual Loan Loss Experience

($ millions)

Years Ended October 31

	1975	1976	1977	1978	1979	1980	1981	1982 E
5-Year Average Loan Loss Provision	$178	$230	$294	$364	$450	$592	$820	$1,000 E
% change	—	29%	28%	24%	24%	32%	39%	22% E
Actual Loan Loss Experience	$267	$263	$317	$364	$406	$749	$852	$1,500 E
% Annual Change	—	1%	20%	15%	12%	85%	14%	
Difference over (under) provided	(89)	(33)	(23)	—	44	(157)	(32)	(500) E
Actual Loan Losses as % of Average Assets	0.27%	0.23%	0.24%	0.23%	0.20%	0.31%	0.28%	0.55% E
Average Common Shareholders Equity	7.58%	6.39%	6.64%	6.45%	6.05%	9.60%	9.37%	13.0% E

[1] Total for the chartered banks excludes Northland Bank, Continental Bank and Canadian Commercial Bank.
E—Estimated.
Source: Canadian Chartered Bank Financial Statements.

It is important to note that the Canadian banks do not try to cover the entire loan loss experience in any one year with their income in that year. The Bank Act requires a chartered bank to average its actual loss experience over a period of five years by using a formula that calculates the average five-year loan loss experience and relates it to the total risk assets outstanding at the end of that period. By applying this average ratio to the bank's actual risk assets outstanding at the end of their current fiscal year, the bank determines what is called a five-year average loan loss provision, to be deducted from its current year's earnings.

Of course, in any one year, a bank's actual loan loss experience could be higher or lower than the five-year average. Consequently, the bank could understate or overstate its earnings, depending on one year's actual loan loss. There is, however, a mechanism available whereby part of this loss can be recovered as a reduction against taxable income; therefore, the difference between the actual and five-year average may not be entirely lost. As noted in Table 3.4, the banks did not charge enough expense for their actual loan loss experience