would be held to a knowledge of its illegality arising from its not being within the ordinary agency conferred by the corporate principal upon its official agents. For directors, though they are the government of the corporation, are yet, no less than any subordinate officers, its agents with a definite scope to their agency, and can only act legally within this scope (1). If their act is such that it is the duty of the party dealing with them to know that it falls without the ordinary limits of directorial power, he will be affected by its invalidity. If the facts are known to him which show that as a matter of law the directors are undertaking an act of this description, he deals with them at his own peril if he neglects to satisfy himself that they have received a special and extraordinary authority in the particular case. If they have not, any loss he may incur is only the natural result of his own laches.

**58.** Thus it is a principle of law that the directors can only use funds of the Bank for legitimate banking purposes. If they borrow money intending to use it for other purposes, and the lender is aware of this intent, then their use of it accordingly will relieve the bank from indebtedness upon the loan (2).

**59.** As a rule they cannot voluntarily release a debt owing to the corporation (3); but where the emergencies of business require it, they may make a normal or merely apparent sacrifice of bank property, if it seems reasonably likely to redound to the substantial benefit of the institution. In the *bonâ fide* pursuit of this end, their power is not limited by technical restrictions which, under other circumstances, would forbid their cancelling debts owing to the bank.

**60.** Cases shew that they may commute a debt if it seems to them practically more advantageous to do so than it would probably be to push it at law, or to retain the naked legal claim for the full amount. In like manner if any officer of the bank is in arrear or default, it is perfectly in their power to compound and settle with him in any manner and upon any terms which seem to them likely to secure the most complete reimbursement to the bank. Their contract of this nature can be subsequently avoided by the

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(1) Salem Bank v. Gloucester Bank, 17 Mass. 1.; Ridley v. Plymouth Grinding and Baking Co., 2 Exch. 711.

(2) Bank of Australasia v. Breillat, 6 Moore, Privy Council, 197.

(3) Stanhope's case, 3 De G. & Sm. 178