

The directors' report having been read, its adoption was moved by the chairman, and carried unanimously.

Mr. George Hague, the General Manager of the Bank, then addressed the shareholders. He said: "I intend on the present occasion to make a few explanations with regard to the business of the bank itself, and then to add a word or two with respect to the position of matters in the country generally. You have had the report in your hands for some days, and no doubt have read it carefully. Perhaps you have compared it with the report of last year. I have compared it myself, as you may be sure. So have members of the board, and the comparison is not gratifying. The outcome of this year's business is disappointing. No member of the board expected to realize such profits this year as we did in 1883. That was an extraordinary year, as you know. When we could add to our Rest as much as the whole dividend amounted to and make 14 per cent. after providing fully for bad and doubtful debts, we had good reason for congratulation. But such a prosperous year as that could scarcely be expected to recur immediately. On the other hand, I must freely confess we did not expect to suffer the large amount of losses which has overtaken us this year. Still, putting the two together, last year and this, I do not think there can be much reason to complain. We added \$400,000 to the Rest last year; this year we add \$100,000. We average \$250,000 per annum for the two years, or going back a year further the average is \$240,000 of yearly addition. The Rest was only \$475,000 in 1880. It is now \$1,250,000, considerably more than double that amount, after paying dividends of six and seven per cent. In banking, as in other business, it is the result of an average of years that must be looked at. The year has been one of

DIMINISHED CIRCULATION,

in common with other banks, and a consequent decrease of earning power. Our spare funds employed in New York too have yielded throughout the year a very small return. Still we have earned a little over 13 per cent. But the bank could have borne a considerable shrinkage in profits, and still have carried a large sum to its Rest, had not the percentage of losses risen to a point much beyond our usual average. Respecting these losses, it is reasonable that some statement should be made. The year through which we have passed has witnessed great changes and reverses in the commercial world. There has scarcely a year been known in which so many old-established houses and firms of large reputed wealth have become insolvent.

THE TIMBER TRADE,

after enjoying two or three years of prosperity, fell again into a condition of great depression. We had a bad harvest in Western Ontario. But the principal centre of disturbance has been in the Northwest. Now, as stockholders are aware, the bank has always done a large business in the Northwest. And we have made considerable profit there. Since the setting in of the tide of inflation, which raised values of real estate to such fabulous figures, we have seen the necessity of exercising extreme care in that region. Rigid instructions were issued to avoid all transactions connected with real estate either directly or indirectly. To a large extent these instructions were carried out, and, in my judgment, whatever losses we have suffered in that region, these losses are moderate compared with what might have been the case had not the policy referred to been firmly insisted on. A year ago at this time the books of the bank were almost clear of such accounts as then appeared undesirable, and for doubtful risks we had securities that looked more than sufficient. But events proved that persons engaged in mercantile business had become so entangled in real estate matters that practically their position entirely depended thereon. With all our watchfulness it has transpired that a few of our own customers have fallen into this position. A considerable part of the ultimate loss can finally be traced to the calamity which befel the province in the shape of the frost that injured a considerable part of the wheat crop. Many millions of value were lost thereby to the Northwest, and this bank amongst others has had to bear a share of the loss. I may say, in passing, that this is a calamity which can be guarded against in future, and is being guarded against this very year. The report of the directors states that remote, as well as direct consequences followed from the deepening of the depression in Manitoba. None but those who have acquaintance with the subject, could have an idea how far-reaching the

SPECULATION IN THE NORTH-WEST

was. It extended to every province in the Dominion, and drew within its influence numbers of persons engaged in mercantile business, who appeared unlikely to be affected by it. Of the losses suffered by this bank in provinces other than Manitoba, fully two-thirds can be traced to the influence of the speculative era in that province. Monies were taken from active business to the detriment thereof, and time and thought were diverted therefrom to the injury and ultimate insolvency of the party. Habits of extravagance contracted during the prevalence of the excitement in Manitoba remained to the injury of business when parties had returned to other parts of Canada. In addition to this, it needs to be said, that such a period of excitement often brings in its train, not only extravagance, but a breaking down of that tone of honour and probity which is the foundation of all proper relations between a banker and his customer. It has been said before, both to yourselves and to the stockholders of other banks, that an absolute freedom from losses need not be looked for. Men of infallible judgment are not to be found. But you may reasonably claim that in ordinary years, when business is fairly prosperous, that losses shall not rise above a certain moderate average. This condition has been fulfilled since the favourable turn in business in 1880. In the three years ending with June, 1883, the losses of the bank on current business had been small. But this year, as you all know, has been a difficult one. You could not expect anything but a higher average of losses under the circumstances. At any rate, I know this, and say it freely, that losses might have been much larger had we not been unusually careful. I can recall no less than ten large accounts in which, during the last year or two, we saw elements of trouble, and either compelled them to be closed or rejected them when they were offered. The firms have all failed since then, but the loss, whatever it is, has not fallen upon us. I do not, however, seek to belittle what has transpired. I feel these losses just as much as if the capital of the bank belonged to myself. Losses are no light things, either to the directors or myself. They occasion much reflection and lead to the consideration as to what can be done to avoid them in future. That is the practical question at present. I may say, to begin with, that five-sixths of the losses of this year were suffered in the first half of the year. These losses led to pretty sharp measures being taken to prevent a recurrence of them in future. If you want to know what these are, I may say, without going into too much detail, that we have taken

A MORE INDEPENDENT STAND

than formerly with our customers as to security. The business of the bank some years had run down considerably. At that time unreasonable demands were submitted to sometimes rather than lose business, on a hint that another bank would be willing to make advances on these terms if we refused. Experience has shown that this fear is a fruitful source of loss. But we have now changed all that. For some time back we have insisted upon our managers taking a firm stand and not being frightened at hints of removal of accounts. We have laid down the principle that it is the lender's business and not the borrower's to judge of the quality of security, and have concluded that if we cannot have accounts on our own terms we can part with them without regret. We know by experience that our mode of doing business is as good for the borrowers as for ourselves. Many a man to-day has reason to be thankful for restraints imposed upon him at a critical time by this bank, and contrariwise, others have had reasons to regret the time when they broke away from our restraints for the sake of getting what they called "more liberal" treatment. That liberal treatment was their ruin. We are constantly aiming to improve the bank as a whole. As a general rule

WE AVOID LARGE ADVANCES

at our branches. We seek more and more to divide our risks. Our business is well distributed amongst all the leading branches of industry in the Dominion. But we have also come to the conclusion that it is better to have a large amount of the bank's resources employed in short loans, on good security, at a low rate of interest, rather than to keep our resources strained in carrying mercantile accounts. One good effect of this is, that we are always in a position to take any good accounts that are offering. We are always able, in addition, to sustain any sound customers who may need temporary assistance. I think this may be said, that no solvent custo-

mer of the bank will ever be allowed to go down. But then he must really be *our own* customer; he must trust us as we have to trust him. If he only gives us half or a third of his favours, I do not know that the bank has any particular obligation to assist him in a time of need. Before passing on to other matters let me add a word about New York. As you are aware the four Canadian banks having offices in New York, lend money on stocks, bonds and government securities. Our own business there has at times been very large. During the last year, when rates were very low, we called away a good deal of money from New York for more profitable employment in Canada. And the amount is low at present. Our loaning business there has been remarkably free from casualties. We take a considerable margin of security, and in only one single instance in the vast number of loans we have made during five years, has the security ever depreciated below the amount of the loan. That is under adjustment at present. The bank also does a considerable business in buying and selling sterling exchange. This has been on the whole very satisfactory. The losses in connection therewith have been trifling. Let me further say that in Montreal our aim has been to build up a connection with sound and responsible houses—not an easy task, owing to the number of banks doing business here, and the keen competition consequent thereon. Our losses in Montreal, though considerable this year, bear a far smaller proportion to the aggregate business done, than those we have suffered from in other places. I may inform the stockholders that we are about to make considerable alterations in the Montreal office, with a view to a more economical distribution of the staff and greater convenience for the customers.

Passing now to the important topic of the general business of the country, I need not inform you that matters are in a very different position to what they were in twelve months ago. The country, it cannot be denied, has passed through a trying experience. It has been demonstrated that the calculations made in several branches of our textile manufactures as to the consuming power of the Dominion were not well founded. Grave mistakes, it is clear, have been made. I was informed myself about two years ago by a gentleman occupying a very high official position in the country, that, according to calculations made by experts,

THE PRODUCTION OF COTTON,

which even then had considerably increased, might be still further enlarged, and yet fall far short of the requirements of the country. These views were all disseminated with great industry, and led to an enormous expenditure of capital in the building of new mills and the enlargement of old ones. Events have proved these movements to have been unfortunate. Within less than a year from the time when production reached its maximum, a severe reverse ensued through the accumulation of unsold goods. This, I may say is not an unprecedented occurrence. It has taken place in Lancashire and Yorkshire over and over again. When in England last year I found the manufacturing districts full of complaints of over-production, and I can remember a time—it was after the reverses of 1847—when nearly every mill in the north of England was in the hands of the banks. Yet with time and patience the clouds passed away, and immense wealth has since been accumulated. The same is true of the manufacturing districts of the United States. One of the most important features of the position in Canada has been the stoppage of an important channel through which numbers of manufactures obtained supplies. The consequences, so far, from a financial point of view, have not been so serious as was feared. We have had no wide-spread stoppages and suspensions. The banks have been ready to support their customers through a time of difficulty, and they are still doing so. But in spite of a large retrenchment of production, the trade is still depressed. Consumption will doubtless overtake production in time. Possibly this may come sooner than has been expected. Diversified production will assist this. But

OWNERS OF MILLS

must be content to feel that the expenditure on new building during late years has so far been to little purpose. Had the cotton and other mills of the country remained as they were three years ago, they could have produced nearly all that the country requires. The depression in fact has only been severe where there have been large additions to working capacity. Where moderate views prevailed and many persons were using their own capital, many mills, especially in the