

It would answer no purpose now, for, I am thankful to say, the record of them is reduced to a very small sum. They are largely things of the past. The stockholders are to be congratulated on that. But this—the General Manager will say—that even if the task of the executive had been that of liquidation simply, it would have been a very heavy one. But when, in the midst of difficulties created by the constant failures of customers, and the accumulation of overdue bills and properties, there was a pressing necessity for the carrying on of a large current business and earning profits for the purpose of paying dividends—the credit of the Bank having to be maintained meanwhile in a time of increasing distrust and fear—when new customers had to be sought to replace those whose business was lost through failure, and this at a time when no man's standing was certain, it may be imagined that the work of administering the Bank during the last five years has been such as to task the energies of the executive to the utmost. The business of the Bank in Montreal, New York, Toronto, Hamilton, London, Quebec and Winnipeg as it exists at present is largely new. In all of these places entirely new connections have been formed and a new circle of customers secured. The extent to which this work of building up has been extended can be inferred when I inform you that the trade loans and discounts of the Bank, which were only \$10,200,000 in 1879, are now \$15,300,000, a considerable part of the increase arising out of new accounts. It has been a particular care with the General Manager for many years back to search into the causes of the losses which the Canadian Banks generally have sustained, and how they can be reduced to the lowest minimum in the future. When in Great Britain last October he had devoted particular attention to the subject, and on his return, in a memorandum laid before the Board, he observed, amongst other things, as follows:—

"Our banks, as is well known, were modelled on those of Scotland, but are sadly deficient in many of the elements of safety by which banking in Scotland is surrounded. I may add to this the North of England; for banking in Yorkshire and Lancashire, so far as loaning and discounting are concerned, is conducted on similar principles. Nothing impressed me more—and I took pains to draw out the information—than the small amount of losses of the banks of Great Britain. Apart from such exceptional cases as the City of Glasgow Bank, it is noteworthy that the losses of most of these banks have been of the most trifling character.

The Managing Director of one of the Sheffield banks, in which all my early years were spent, on whom I called in passing through Yorkshire, informed me that their losses had not averaged £500 a year! Yet the bank for thirty years back has done the leading business of that great manufacturing centre.

The Clydesdale Bank's business in London has been singularly free from casualties. The losses during the four years of its establishment have been the merest trifle, while a very large business has been done.

There are, in my judgment, three causes for this.

In the first place there is in Great Britain a clear and distinct line drawn in banking operations between the lending of money (including the granting of standing loans), and the discounting of trade bills. The former are invariably under the cognizance and control of the Board, to whom all applications are submitted, with securities offered. The manager's discretion is confined to the discounting of trade bills.

In the second place trade bills themselves are invariably *bona fide*, representing goods sold, delivered, and to be paid for at the time the bill is due.

Any attempt to pass off upon a banker bills not representing actual sales would be considered equivalent to forgery, and brand the person attempting it with such dishonor that no bank would deal with him again.

In the third place, competition between bankers is kept within such reasonable and pro-

per limits, that the playing off of one bank against another so as to obtain unreasonable and dangerous extension of credit is almost entirely unknown. There is an admirable system of co-operation between the different banks of Scotland, by which a common understanding is kept up and strictly observed with regard to rates of discount and commission charged for various classes of business, and with regard to interest allowed on deposits.

Competition there is, of course, and will be, but it is strictly competition on equal terms. It would be extremely desirable were efforts made to bring about a similar common understanding amongst the banks of Canada.

The absence of it, I am convinced, has led to untold losses."

These observations have a pertinent bearing on our position. Since returning, the General Manager has endeavoured to bring about in our own administration as close an assimilation as possible to the methods of Scotch and English banks, and has good hopes that the adoption of this course will have the best results in the future. Before closing these remarks, the General Manager may be permitted to refer to the remarkable expansion which has taken place in the discounts and loans of the Banks generally during the last year, and to the position of business generally. He has ascertained by an examination of the books of the Merchants Bank, in what direction our own expansion has occurred, and has compared the range of expansion with the progress of trade and commerce. For it is tolerably clear that if the bank discounts have grown with the volume of legitimate trade, and if the reserves of the Banks have been well kept up, the expansion is a natural and healthy one. If otherwise it is the reverse. The money of the Merchants Bank is employed in loans and discounts to persons engaged in the following lines of business. 1. In the movement of agricultural produce of all kinds, and manufactures connected therewith; 2. In the timber and sawed lumber business; 3. In importing and wholesale merchandising; 4. In manufacturing of all kinds; 5. In miscellaneous occupations connected with agriculture or commerce. In addition to this the Bank lends to Municipal Corporations and employs large sums in short loans on stocks of various descriptions. It is only the first five of these that can be called business loans and discounts. Now, looking at the total line of discount as it was a year ago and as it is now I have noticed the following changes:—In produce and provision accounts, a slight diminution. In saw mills and timber, a very considerable increase (nearly 50 per cent); in manufacturing accounts an increase of about 12 per cent; in importers and merchants' accounts a large increase, nearly 40 per cent; in miscellaneous loans a very considerable increase, about 30 per cent. The largest increase has thus been in accounts connected with our leading exports, viz., the productions of our forests. The next large increase has been in our whole line of importing. As to the soundness and healthiness of this or otherwise, there can be no doubt that the value of our wood products in foreign countries (our great market) has very largely increased, and that, not only has production been stimulated, giving rise to the employment of more money, but the amount of money required to carry on the same amount of operations has largely increased, too. As to the increased imports, these are, as a rule, only healthy and sound when arising out of larger production. There has been a large increase of money value in our productions, as you have seen, and hence some foundation for increased imports. Duties have increased the selling value of goods, so that there has been an increase both in quantity and value. But our large railway expenditure should also be taken into account. This kind of expenditure always stimulates the consumption during the time it is going on. But when it ceases consumption decreases in the same proportion. Then the demand for imported goods and manufactured articles falls off, and unwary merchants, both wholesale and retail, who

have failed to note that their large sales were due to temporary causes, are caught with great stocks, which they find it hard to sell. Then comes difficulty in meeting payments, numerous failures, and all the phenomena with which the country was so familiar in 1857 and following years, when the completion of the Grand Trunk and Great Western Railways brought about such a disastrous collapse. This, it appears to me, is that for which we must keep a careful lookout from this time and onward. Merchants, in addition, will do well to take a careful note of the production of our farms and the condition of the lumber trade, and not only of the quantity produced but the prices obtained. For it must ever be borne in mind that for the prices obtained for our great staples we are entirely dependent on the condition of trade in Great Britain and the United States. Neither of these can suffer without our being affected. Canada is altogether too small a country for any market to be controlled by her operations. But the banks have evidently been furnishing, by loans on stocks, a considerable amount of the capital required for new manufacturing enterprises, or the extension of old ones, and for various other forms of enterprise now carried on in the shape of joint stock companies. Time will show whether these will be successful or not. After all, so far as the amount of discounts is concerned, it is really a question whether the banks generally are holding sufficient reserves of available funds. Taken as a whole, the banks undoubtedly are. But in some directions, a heavier holding, and of an independent character would undoubtedly be desirable. There is always a pressure to lend as much as possible, where heavy interest is paid on deposits. There has been improvement in this matter of late years. But there is again arising a tendency to increase rates, but it is to be hoped that it may be checked. Generally, the banks are, no doubt, in a good position, and if they discriminate against long credits, by discounting short paper at a cheaper rate, declining long renewals, if they also check unreasonable expansion as well as speculation, by refusing to lend to impecunious traders, they may keep the business of the country in a sound condition for years to come. (Applause.)

Sir Hugh Allan,—Mr. Chairman and gentlemen: From the terms of the address read by the President it would naturally be supposed that the majority of the Board had been acting in a manner injurious to the interests of the Bank. The majority of the Board interfered in no way until we found that the action of the President and Vice-President was such as, in their opinion, would injure the Bank. They were going to so alter the relations of the General Manager and Assistant General Manager that it was inevitable that the one or the other should give way. The Board considered the question very carefully, and satisfied themselves that the correct and right course was to sustain the General Manager. (Hear, hear and applause.) This was brought about more particularly when the General Manager made a statement to the Board that under no circumstances would it be possible for them [the General Manager and Assistant General Manager] to carry on the work of the Bank together. The arrangement proposed by the President and Vice-President was one which would have been subversive to the management and discipline of the Bank, namely, that they should try and do the work of the Bank jointly. (Hear, hear.) The majority of the Directors considered it their duty to sustain the General Manager (hear, hear) in his views in the matter. It was his policy that had been successful from the beginning. He has conducted the Bank through many disastrous periods, and they considered that the General Manager should be supported. The Directors, therefore, had no hesitation in taking the course they did. They did not interfere in any way with the management of the Bank, except to say simply that in their opinion the General Manager should be sustained. (Applause.) It would be impossible for the President and Vice-President to declare that their views alone should prevail in the manage-