

MERCHANTS' BANK OF CANADA.

REPORT OF THE DIRECTORS, 2ND JULY, 1877.

The important events of the last twelve months in the history of the Bank, with which the shareholders are familiar, have imposed upon the directors special duties of corresponding importance, the results of which have now to be given. The circumstances that led to the informal meeting of shareholders in February last were followed by the resignation of the General Manager; and shortly after by the retirement of the President, and the election of the present occupant of the Chair. It happened that Mr. George Hague had just then retired from the position of Cashier of the bank of Toronto after a period of successful management. The Directors applied to him, and were fortunate enough to obtain his assent to consider the situation. He proceeded at once to make a general survey of the affairs of the Bank, and having satisfied himself that there existed so much soundness and such a well established business connection as to give good prospects of success and credit in the undertaking, made an engagement with the Bank for a term of years.

The report of the General Manager made it apparent to the Directors that there were borne upon the books of the Bank very considerable amounts as assets that required to be considered, with a view to excision, and in order to prepare themselves to report with intelligence and responsibility on this condition of things, they determined to examine by a Committee of their number, along with the General Manager, the accounts of all the branches, including Montreal, investigating in detail the nature and condition of all such as appeared to bear elements of weakness or uncertainty. It may be frankly stated that, in the opinion of the Directors, the machinery of administration of the Bank, with its 41 offices (when at its highest number) has proved to have been entirely inadequate. The very rapid growth of the Bank from its small beginning 13 years ago, till it became the second in importance in the Dominion, and held a prominent place among Banks of this continent, made its requirements in this respect difficult to be supplied—and the requirement was much increased by its acquisition of the property of the Commercial Bank, comprising the residuum of many years business, in varied forms of real estate and other securities. It is fair to add that the trying time in which this state of things has now to be estimated makes the deficiency appear the more serious. In the month of February last, upon a report from the General Manager and Inspector, there was written off from the general accounts (including "Street-Douglass," Detroit and Milwaukee R. R. Bonds) a sum of \$640,951.53. This sum is accounted for as follows:

| | |
|--|--------------|
| Detroit and Milwaukee bonds of the Street-Douglass class and coupons entirely written off..... | \$305,196.74 |
| Written off for losses at branches.. | 222,611.14 |
| Written off for losses in Montreal.. | 113,143.65 |
| | \$640,951.53 |

| | |
|---|--------------|
| As the result of the examination by the present General Manager and the Committee of Directors, there has been added a further sum, written off as entirely irrecoverable of..... | \$633,000.00 |
| And for loss on accounts or securities known to be of a doubtful character..... | \$553,000.00 |
| To these amounts have been added losses in the New York branch..... | \$198,704.00 |
| And expenses attending the operation of the Quebec Government Loan to the present date... | \$223,991.00 |
| The Directors assume that the remaining interest in it will be realized at par. | |

With respect to another important item, the Detroit and Milwaukee Railway securities, it became apparent to the directors that it was not desirable to retain as an asset the amount estimated a year ago as the value of the Street-Douglass bonds; and in February it was decided to write off that amount as before stated.

The directors are still hopeful that such arrangements may be matured for the reorganization of the road as may ultimately secure par value for the amount of the mortgage and coupon bonds; but for the purpose of such an estimate as they are now called upon to make, they felt compelled to place them, as nearly as they can judge, on the basis of market value, appropriating \$300,000 for the purpose. The large item at the debit of "Bank Premises" ought to be reduced, and they have appropriated ten per cent. in reduction of that account—\$67,231.18. The amount locked up in real estate and other securities that must take time for realization, and a part of which will not yield any rate of interest, forms a large aggregate amount that will not for the present be available as capital for banking profits, and may be fairly estimated as subject to numerous contingencies. After a careful estimate of these, in view of the large amount outstanding in every form, and considering the depression still existing in nearly every branch of industry, and the uncertainty prevailing as to the future both of property and business, the Directors have concluded to recommend that a fund of \$750,000 be set aside to meet undeveloped contingencies. Finally, to come to the last item of depreciation, the Bank has not only suffered in common with others from the general failure of the trade of the country, but circumstances which are patent to the shareholders have impaired its power to meet the requirements of ordinary business; and it will not surprise the shareholders to learn that the profits on the business of the year, as will be seen in the accounts herewith submitted, have been very small in comparison with those formerly earned by the Bank. The whole of the operation thus brought under the notice of the shareholders may be summarized as follows, viz.:

| | |
|--|-------------|
| Amount at credit of rest last year..... | \$1,000,000 |
| Amount at credit of contingent Fund..... | 109,339 |

| | |
|---|-----------|
| Profits of half year ending 30th Nov..... | \$330,874 |
| Less dividend of 3½ per cent..... | 285,952 |
| | 44,922 |

| | |
|---|-------------|
| Add net profits of half year ending 31st May..... | \$1,154,261 |
| | 222,855 |

| | |
|---|-----------|
| Deduct appropriations previous to February..... | \$ 35,295 |
| Deduct appropriations in February..... | 641,576 |
| | 676,872 |

| | |
|-----------------------------------|---------|
| Apparent surplus on 31st May..... | 700,244 |
|-----------------------------------|---------|

| | |
|--|------------|
| On the other hand, there has been written off and appropriated since then: | |
| Irrecoverable debts written off..... | \$ 633,000 |
| Appropriated for loss on sundry accounts of a known doubtful character..... | 553,000 |
| For losses in New York Office..... | 198,700 |
| Loss and expenses attending Quebec loan..... | 223,900 |
| Detroit and Milwaukee bonds, 1866 written off..... | 41,000 |
| Detroit and Milwaukee 1st and 2nd bonds, shrinkage on reduction to quoted value..... | 250,700 |

| | |
|---|-------------|
| | \$1,909,300 |
| Reduction of bank premises account..... | 67,200 |

| | |
|--|-------------|
| | \$1,976,500 |
| Appropriation for undeveloped contingencies..... | 750,000 |

| | |
|---------------------------------------|-------------|
| | \$2,726,500 |
| Deduct apparent surplus as above..... | 700,244 |

| | |
|---|-------------|
| | \$2,026,256 |
| We have therefore remaining the sum of \$2,026,256 at the debit of profit and loss, to be ultimately deducted from capital account. This would leave the capital account \$6,170,000 And the contingent fund..... | 750,000 |

the former being about 75 cents per dollar of the capital that has been paid in, and the latter about 12 per cent. of the capital at the reduced estimate. Under these circumstances, your directors admit, that while many of the accounts dealt with are yet open, and may turn out better than their estimate, it seems hopeless to wait for the restoration of the original capital account in the ordinary course of business, before paying a dividend to the shareholders. In their opinion, it will therefore be advisable to ask for the authority of Parliament to reduce the capital account to such an amount as may be determined, corresponding with the sum actually available for use, and that for the purpose of giving form to such applications to Parliament, a meeting of shareholders should be called about the close of the year. And the directors venture to hope that the condition and prospects may then be improved by the gathering of a good harvest, and the turn of the trying times through which we are passing. The directors are quite of opinion that the earnings of the bank from the present period should accumulate, and be held for the payment of a dividend so soon as the necessary authority may be obtained—or say by the 1st day of June next year. Before dealing with the re-adjustment of the capital account, however, it will be necessary to call in a sum of \$498,950 that remains unpaid of the subscribed capital—never having been called for. The amount thus obtained will increase the available capital account, and will add something to the value of the contingent fund. For the information of the Shareholders, it may be stated that it has been decided to close the office in London, England, at the end of the present year, and that three branches in Canada have been closed during the year; and arrangements are in progress for closing several others so soon as the circumstances are favorable. The General Manager will submit with this a statement of his views of the position and capabilities of the bank from his more professional standpoint, and the directors are quite sure that his views will have weight; and they make no doubt he will confirm the opinion they venture to express, that there exists the material for a sound and profitable career in the future, sustained by firm and prudent management and a continuation of the confidence and estimation of the shareholders and the public. Your Directors are deeply sensible of the gravity of their position in having to deal with such large interests, and with the attendant feature of such great shrinkage. If they have overestimated the value of your property it has not been for lack of their most earnest consideration; if they have underestimated values, they have at least destroyed nothing, and will be gainers with you to the measure of their own large individual interests by whatever may be restored. They may remark, too, what is obvious that by the proposed reduction of the nominal to the actual capital nothing is sacrificed, but, on the contrary, that which exists will be made available for immediate returns.

The whole respectfully submitted.

(Signed), JOHN HAMILTON,
President.

GENERAL MANAGER'S REPORT.

ON THE CONDITION AND PROSPECTS OF THE BANK, JUNE, 1877:—

The General Manager, in reporting to the stockholders on the position of the Bank, after a period of protracted investigation, begs to say that, before assuming charge he stated to the Board that he must satisfy himself that there existed in the Bank so much of undiminished capital and lucrative business as would justify the expectation that good dividends could be earned in future after measures of reconstruction had been carried into effect. The preliminary examination then made entirely satisfied him on this point, and he has no hesitation in now stating that in this respect the condition of the Bank was better than he expected to find it. The Bank had evidently a