

MERCHANTS BANK OF CANADA.

The annual general meeting of the Shareholders of the Merchants Bank of Canada was held in the board room of that institution in Montreal, on Wednesday, 15th June, when there were present: Messrs. Andrew Allan, president; Robert Anderson, vice-president; Hector Mackenzie, Jonathan Hodgson, James P. Dawes, F. S. Lyman, John Crawford, W. Burke, J. H. R. Molson, W. B. Francis, A. H. Lunn, J. Y. Gilmour, Robert Benny, J. S. Morel, L. H. Montgomerie (St. John's), James Croil, John Morrison, David Lewis, John Cassels, Timothy H. Dunn (Quebec), Sir Joseph Hickson, J. T. Molson, E. F. King, John McConnell, James Williamson, C. S. Garland, J. P. Cleghorn, Richard White, A. Leclaire, James B. Allan, and others.

The proceedings were opened by the president, Mr. Andrew Allan, taking the chair, and requesting Mr. John Gault to act as secretary. After the secretary had read the advertisement calling the meeting, the president submitted the following annual report of the directors:—

REPORT.

The directors of the Merchants Bank of Canada beg to report to the stockholders the results of the business of the past year:—
The net profits of the year, after payment of interest and charges, and deducting appropriations for bad and doubtful debts, have amounted to \$530,247 17
Balance from last year 4,430 11

This has been disposed of as follows:—
Dividends Nos. 46 and 47, 7 per cent. \$405,944 00
Added to the "Rest" 125,000 00
Carried forward to Profit and Loss account of next year 3,733 28
\$534,677 28

The business of the bank has made steady progress in all its leading departments during the past year.

The actual earnings of the bank were not quite equal to those of last year, although a larger business has been done, a state of things which the directors believe to have been common.

During the year the failures amongst the circle of the bank's customers have not been numerous, nor, with one exception, important, and in several cases the securities held were sufficient to liquidate the whole debt. The exception was in New York, where the head of a large firm obtained an advance on forged bills of lading.

The person who committed this fraud was of high character and reputation, whose firm had done an extensive business, with an honourable record for more than twelve years back. The firm have gone into insolvency, and the claim of the bank against them is undisputed. Some recovery is expected to be made, but the greater part of the debt has been written off out of the present year's profits.

But for this untoward event the net result would have been better than the average of the last few years.

Certain doubtful debts of former years, provided for in the contingent fund, have now been charged against that fund, leaving a balance therein of \$75,800 to meet the estimated contingency in the remaining doubtful debts of the bank.

The board have had reason to deplore the death of a much esteemed colleague, Mr. John Duncan, whose large experience was always used to the advantage of the bank.

The vacancy has been filled by the election of Sir Joseph Hickson, a gentleman so well known in Canada that it is not necessary to speak of his qualifications for the post.

As requested by the shareholders last year, the board have considered the question of either increasing the capital to six millions, or decreasing it to five millions. They were much inclined to take the latter alternative, as there would be many advantages in that course. But the difficulty of dealing with a capital of such a broken sum as \$5,779,200 was so great, that although no more capital is needed, the directors concluded for convenience sake to increase the stock to the round sum of six millions, by allotment according to Sec. 27 of the Banking Act, at a premium of 45 per cent. The matter will be explained in all its bearings by the general manager.

The officers of the bank have discharged their duties during the year with zeal and efficiency, and to the satisfaction of the directors.
The whole respectfully submitted.

(Signed) ANDREW ALLAN, President.

Montreal, June 10, 1892.

STATEMENT OF ASSETS AND LIABILITIES AT 31ST MAY, 1892.

LIABILITIES.	
1.—To the public.	
Notes in circulation.....	\$2,731,797 00
Deposits not bearing interest.....	\$2,522,246 80
Deposits bearing interest.....	7,319,756 15
Interest due thereon to date.....	82,216 15
Balances due to Canadian banks keeping deposit accounts with this bank.....	9,924,219 10
Balances due to Canadian banks in daily exchanges.....	720,057 19
Balances due to agents in Great Britain.....	27,035 68
Dividend No. 47.....	334,798 87
Dividends unclaimed.....	202,972 00
Dividends unclaimed.....	1,648 50
	\$13,943,188 34
2.—To the stockholders:	
Capital paid up.....	5,779,200 00
Rest.....	2,435,000 00
Contingent account.....	75,800 00
Balance of Profit and Loss account carried to next year.....	3,733 28
	\$22,450,921 62
ASSETS.	
Gold and silver coin on hand.....	\$ 305,558 00
Dominion notes on hand.....	553,481 00
Notes and cheques of other Canadian banks.....	601,261 34
Balances due by other Canadian banks in account and daily exchanges.....	76,246 58
Balances due by banks and agents in the United States.....	631,704 49
Dominion Government bonds.....	769,981 06
Railway and municipal debentures.....	127,300 00
Call and short loans on bonds and stocks.....	1,698,636 61
Total available assets.....	\$4,764,169 17
Time loans on bonds and stocks.....	\$ 121,181 23
Other loans and discounts.....	16,518,175 43
Loans and discounts overdue (loss provided for).....	127,238 71
	16,766,595 37
Deposits with Dominion Government for security of note circulation.....	70,000 00
Mortgages, bonds and other securities, the property of the bank.....	122,746 11
Real estate.....	203,977 74
Bank premises and furniture.....	508,173 28
Other assets.....	21,259 95
	\$22,450,921 62
(Signed) G. HAGUE, General Manager.	

The president then moved, seconded by the vice-president, Mr. Robert Anderson:—
"That the report of the directors, as submitted, be and the same is hereby adopted and ordered to be printed for distribution among the stockholders."

But before putting the motion to the meeting, Mr. Andrew Allan called upon the general manager, Mr. George Hague, for a few remarks upon the financial outlook.

GENERAL MANAGER'S ADDRESS.

I desire to say a few words in the first place respecting our own business and various matters appertaining to it, and then to take a brief outlook over the business of the country generally. The latter, you will understand, is just as pertinent to the bank's annual meeting as the former, as has been pointed out more than once in this room.

The figures of our balance sheet will show that there has been a steady advance in all the leading departments of the bank's business during the year.

Our circulation is more by \$140,000, our deposits are more by \$590,000, and our discounts and investments are more by \$985,000, all which is satisfactory, as showing that the directors and officers of the bank in these times of keen competition have been reasonably enterprising. Not that we have adopted a pushing and driving policy, for that is never prudent in banking. Nor have we resorted to illegitimate methods.

We have endeavoured to conduct our business on the solid and honourable line of banking tradition as understood in the great centres of banking in the world. Experience has proved these to be the most advantageous in the long run. The bank has endeavoured so to deal with its customers that they will remain with us and recommend us to others for business-like treatment. I think the following figures will justify the policy:—

Our deposits in 1880 were.....	\$7,296,000
" " 1885 ".....	8,574,000
" " 1890 ".....	9,310,000
" " 1892 ".....	10,644,000
Our circulation in 1880 was.....	2,127,000
" " 1890 ".....	2,553,000
" " 1892 ".....	2,731,000
Our discounts and advances in 1880.....	10,822,000
" " 1890 ".....	16,343,000
" " 1892 ".....	16,766,000
Our total earning power in 1880 was.....	12,861,000
" " 1890 ".....	18,478,000
" " 1892 ".....	20,117,000

In view of this statement, you may naturally ask why have our net earnings not increased as steadily as the earning power, and especially why do we show such small earnings this year. To the first (reply, that in banking as in other lines of business, along with an increasing volume of business, there has been a decreasing ratio of net profit on the business done.

With regard to the present year, the meagre showing, so much below the average, is wholly due to the misfortune which happened us in New York. Respecting this I can only say that there are some events that can neither be foreseen nor guarded against. When a member of one of the best families of the United States, the head of a firm who has maintained an unblemished reputation during a long business career, every engagement being honourably met—when the head of such a firm descends to the crime of forgery, the event can only be compared to "thunder out of a clear sky." Almost every bank, however, has had an experience of this kind, the Bank of England itself not having escaped. But for this we should have had to present a better statement than the average. For though the year has been marked by many vicissitudes, there have been few failures in our circle of customers, and the ordinary run of losses has been smaller than usual. The bank for years back has admittedly pursued a cautious policy in selecting customers and granting credits. One feature of this policy was, while affording every reasonable support to our customers, to prudently restrain any appearance of overtrading, or illegitimate crediting, on their part. As a natural consequence of this the large majority of our customers have conducted their business so as to meet their engagements. And if some persons during the course of years have fretted under these reasonable restraints and removed their accounts, we have rarely had reason to regret our action in the long run.

THE CAPITAL STOCK.

As you have heard from the report, the directors have followed the resolution of last year with regard to the capital stock of the bank, and acted upon the alternative of increasing the same to the round figure of six millions. Not that we needed more capital, for we do not. In fact, if the alternative course had been more simple and feasible they might have adopted it, and recommended a re-adjustment of the stock on a basis of five million dollars. But with the capital standing at such a broken sum as \$5,779,200, it would have been a very complicated operation to adjust the stock on this reduced basis. There would, however, be many advantages both to the bank as a corporation, and to the stockholders individually, in having a capital of five millions instead of six, and transferring the balance to rest and surplus profits. In this contention I beg to quote from a report made to the board on the subject as follows:—

"With regard to the reduction of the stock to five million dollars, there would be many advantages in such a course, but it might be difficult to attain them. If the stock were reduced to that sum, the surplus being credited to the Rest account (or part of it to surplus profits), the bank would immediately be in the position of having a "Rest" equal to one-half of its capital, with a surplus fund in addition of several hundred thousand dollars. As the earning power of the bank would not be diminished, dividends of ten per cent. could at once be declared. These dividends would give the stockholders a larger income from their stock than they obtain at present, or than they would obtain if the dividend were increased to eight per cent. And the large surplus over and above ample Rest would assure that this rate of dividend could be maintained: all which would not fail to enhance the price of the stock and give it a selling value of over \$200. The quotation would almost certainly range nearly equal to the stock of the Bank of Montreal or the Bank of Toronto."

"Thus not only would the income of the shareholders be larger than it is now, or likely to be for some time to come, but the stock itself, or any portion thereof, would be worth considerably more than it is at present."

Further consideration only confirms me in the wisdom of the above recommendations. The truth is, the banks in Canada, having a capital of more than four millions, are at a disadvantage as compared with those of other countries, in the small amount of business we do on our capital, and the consequent small percentage we can divide amongst our stockholders. Compare, for example, the position of the following banks of Great Britain and Australia with our own and other large Canadian banks:—

	Capital.	Deposits.	Dividend.
Bank of Commerce.....	\$6,000,000	\$17,000,000	p.c.
Merchants Bank of Canada.....	5,779,000	10,644,000	7
Bank of British North America.....	4,867,000	9,094,000	7 1/2
Some banks of Scotland:			
Clydesdale.....	5,000,000	44,290,000	10
National.....	5,000,000	68,500,000	13
Union.....	5,000,000	56,185,000	11
Some banks of London compared with the Bank of Montreal:			
Bank of Montreal.....	12,000,000	26,900,000	10
London and Westminster.....	14,000,000	130,315,000	13
National Provincial.....	12,082,000	198,000,000	20
Joint Stock.....	9,000,000	57,175,000	12 1/2
Union.....	8,525,000	67,500,000	12 1/2
Some banks of Australia:			
Commercial Bank, Sydney.....	3,000,000	53,000,000	25
Commercial of Australia.....	6,000,000	52,000,000	17 1/2
Bank of New South Wales.....	6,250,000	93,190,000	17 1/2

*Dividend and bonus.

In all the above cases the amount of deposits is a fair index to the general volume of business. I am convinced that for the business this bank is likely to command, either now or in the future, \$5,000,000 is an amply sufficient capital; while one can hardly overestimate the importance of guarding the capital against all future contingencies by a "Rest" of large amount, with a fund of accumulated profits beyond it, to secure equalization of dividends.

Meantime, in our own case, the change of the capital from the broken figure of \$5,779,200 to \$6,000,000 will facilitate a readjustment should it be deemed advisable at some future day.

BANKERS' ASSOCIATION.

The past year has been signalized by the putting into operation of the Bankers' Association of Canada. The importance of such an association was impressed upon leading bankers when conferring together, in 1890, respecting a renewal of the bank charters, and, after considerable difficulty, owing to the extent of the Dominion and the diverse interests represented by various localities, a constitution was finally arranged and officers elected. The objects of the association, as stated in this constitution, are as follows:—

"To carefully watch proposed legislation and decisions of the courts in matters relating to banking, and to take action thereon; also, to take such action as may be deemed advisable in protecting the interests of the contributors to the bank circulation redemption fund, and all matters affecting the interests of the chartered banks."

"It shall also be competent for the association to promote the efficiency of bank officers by arranging courses of lectures on commercial law and banking, by discussions on banking questions, by competitive papers and examinations. Prizes may be offered for proficiency, under the direction and control of the Executive Council."

It must be evident that these objects are highly desirable, and that, if properly carried out, the best interests of stockholders will be subserved by them. It is hoped that by means of the association a higher standard of banking comity may be developed amongst bankers, that injudicious measures may be repressed, mistaken ideas corrected, and sound principles diffused, to the great advantage of bank customers and of the people at large.

The association has already done serviceable work in preventing dangerous legislation, and I may take occasion to say that there is scarcely a session of our various Parliaments in which some legislation is not introduced that has an important bearing upon your interests. Decisions in the courts are also constantly transpiring in which new questions are decided, or new interpretations given to the law on the great variety of subjects in which bankers are interested. Some of these decisions, though given in local courts, have a bearing upon banking interests in every part of the Dominion. The important subject of a new

INSOLVENCY LAW

was recently referred to at one of the meetings of the association, and during the interval of the session of the Dominion Parliament this subject will receive from the bankers of the Dominion the attention it deserves. For my own part, looking back upon the experience both of Canada, England and the United States, I believe that any bill which contains a power to an insolvent to obtain a discharge against the will of any of his creditors, cannot fail to be abused. Great abuses, as we know, prevail at present, but of two evils it is always well to choose the least. A bill, if such can be had, for the equitable distribution of an insolvent's estate and the suppression of preferences, would be highly beneficial, leaving the question of discharge to be settled between the insolvent and his creditors individually.

COMPETITION.

The axiom that "competition is the life of trade" must be taken to refer to such as is legitimate. There is a style of competition both in general business and banking, which does not serve the public, but injures it. When there are too many traders in a given town or locality, their competition in cheapening goods generally leads to extravagance on the part of purchasers, or, if it leads to giving longer credit, to their customers getting deeper and deeper into debt. Many a private individual has been impoverished for years by this style of competition, and many a farmer has become overladen with debt and lost his farm. Too many bankers in a given district produce greater mischief still. The result is a cheapening of the rate of money, which leads to extravagance in the use of it, undermines economy, introduces loose habits of business, and is responsible in many instances for bankruptcy.

When, under the influence of bank competition, extended credit is given to persons of small capital, they are generally induced to attempt more than they can profitably manage, to erect too expensive buildings, or to launch out into a speculative style of business, to the detriment of their prudent neighbours who trade within their means. There are localities in Canada which are almost ruined for a series of years by the lavish style in which money was spread abroad by bank managers, who were bent on extending business at all risks. The losses of the banks from this style of competition have amounted to millions, and left traces of devastation behind them which have taken years of industry and economy to efface.

The experience of Scotland in this matter is worthy of consideration. Many years ago the evils of reckless bank competition were such that the banks were compelled to devise means to protect themselves and the community from it. After thorough discussion a plan was matured by which, under mutual agreement, a number of branches were closed in places where they were redundant, and measures taken to prevent the establishment of unnecessary branches in future. A committee was formed under whose regulations all the banks in Scotland have worked their business, from time to time, with uniform rates for deposits, discounts, and exchange according to the circumstances of the money market. This arrangement has been in force for years, and has given satisfaction. Its operations have been beneficial to the community. No man desires to go back to the days of unlimited competition, and it cannot be denied that the producing, manufacturing, and trading classes of Scotland are as prosperous as any community of similar size in the world. There is competition, but it is the competition, not who shall scatter the most money, or take the poorest securities, but as to who shall be the most attentive, courteous, and vigilant in carrying on his business. This competition benefits all parties concerned. But of the other kind Canada has had far more than enough, and has lost millions of money by it.

BUSINESS GENERALLY.

With regard to business generally, I may remind you that in a country of such vast extent and such a variety of interests as ours, it is needful to be careful of impressions derived from partial information. Business may be good in one locality or one branch, and depressed in another. It is always well to bear in mind that persons are much more ready to talk and magnify the troubles of their business than its successes. This applies more or less to all descriptions, but it applies particularly to certain well-known pursuits. We bankers are not exempt from this frailty ourselves. It is also a pity that trade questions in this country are so often made the battle-ground for political contests. The effect is exaggeration on both sides, and men of business always need to be cautious in acting on reports of statements that may be coloured by political prejudice. Taking as impartial a view as is in my power and looking at matters purely from a business standpoint, I begin with the great productive industries of

TIMBER AND LUMBER.

Last year and the year before were years of heavy losses in the timber trade—no new thing, by the way. Important failures took place both in Canada and England. (In one of these we were interested but our securities brought us out with only a small loss.) The reason of these failures was the common one of parties, on the strength of a good year's trade, plunging into enormous operations far beyond their means to carry through. Production has now been curtailed, and most of the goods we are shipping this year will be sold to advantage.

SAWN LUMBER.

has had an average year, and with the exception of the Toronto building trade, the general demand is good. This line of business requires not only a heavy capital to carry it on successfully, but also an extraordinary degree of vigilance. Multitudes of operations are carried on over widely extended tracts of country, and anything like an easy-going style of conducting business will infallibly lead to ruin. Bankers know this to their cost. Painful as it is to think of labour and money thrown away, it is only too true that it would have been better for the banks and many of their customers if millions of trees that have been cut down and sawn up had been left standing in the woods. There is no reason to believe that any reckless operations are going on at present, and the bitter lessons of experience are likely to bear fruit in a more cautious and profitable style of business.

GRAIN AND PROVISIONS.

In the various branches of business connected with the export of farm produce, there has been no great disaster to chronicle and no reckless speculation displayed. The exporters of grain have, probably, held their own, and little more can be said. I am speaking, of course, of legitimate trade. Gambling in grain is not one whit more honourable than playing for high stakes in a gambling house. The course of prices has been disappointing for the last few months, but the trade is generally in the hands of men who understand it and have capital to conduct it. The export of cheese has been generally profitable. This is one of the most satisfactory of our productions, and is making the name of Canada well and favourably known in England. Canadian cheese is becoming as much a staple as Canadian timber. But to carry on the export of cheese successfully, not only great local knowledge in buying is required, but first rate connections for selling in Great Britain. The export of cattle was on a large scale, but it left little profit except to the ships that carried them. Of all commodities shipped across the ocean, live animals are the most difficult to deal with. We have not had a large share of this business of late, but what we have has turned out satisfactorily. The McKinley tariff is working an expected change in the direction of the destination of some other farm products. They are going to England instead of the United States. Certain initial difficulties common to all lines of business are being overcome by the intelligence and energy of our traders. It was undoubtedly for the advantage of the United States to buy our products. They bought them because they wanted them. If they chose to cut off the supply of useful articles for political reasons the mischief will work out in time. Meanwhile, so long as we have good things to sell, we need not fear that we shall find buyers.

IMPORTING TRADES.

The conditions attending these are diametrically opposite to the foregoing. All our leading exports are in articles of prime necessity, and the expense of handling is small. The risks of the business are in the fluctuations of the market. In giving credit there is really loss. The masses of bills that we handle in connection with the export trade are almost invariably good. In the importing trade the fluctuations in the value of goods are slow, but the expense of selling them, as compared with the export trade, is probably 20 to 1, and is increasing. Then there is the never ceasing liability to loss by giving credit. It is certain that the bulk of our wholesale merchants in the leading lines of imports, but especially in dry goods, have made slender profits in the past few years. It is increasingly true that no man can hope to succeed in the importing trade without adequate capital, thorough knowledge of business, close buying in the best markets, together with incessant industry, sharp economy in details, and, above all, rigid supervision of credits. Every failure that has taken place of late years had its origin in neglect of one or more of these matters. The attempts made to curtail unreasonable credit are worthy of the support of all bankers. But until we have such a continued scarcity of money as to compel heavy curtailment of discounts, we can scarcely hope that anything we can do will have much effect. Such a scarcity would probably bring about a lasting reform, and put the dry goods trade on as good a footing as it is in the United States. It does seem anomalous that what can be done in New York, Detroit and St. Paul cannot be done in Montreal and Toronto. When no paper is taken that has longer than three months to run, and every bill is expected to be paid when due, renewals being looked upon as the first symptoms of danger, the trade will be on a satisfactory basis.