

STATEMENT OF THE LIABILITIES AND ASSETS OF
THE BANK ON 31st MAY, 1890.*Liabilities.*

1. To the public—	
Notes in circulation.....	\$2,563,897 00
Deposits not bearing interest	\$2,469,184 47
Deposits bearing interest	6,212,098 08
Interest due thereon to date.....	64,558 81
	8,745,841 36
Balances due Canadian banks keeping deposit accounts with the Merchants' Bank of Canada	563,883 98
Balances due Canadian banks in daily exchanges.....	13,330 53
Balances due to agents in Great Britain	391,777 21
Dividend No. 43	202,972 00
Dividends unclaimed	3,271 71
	\$12,484,973 79
2. To the stockholders—	
Capital paid up.....	\$5,799,200 00
Reserve	2,335,000 00
Contingent Account.....	92,660 00
Balance of Profit and Loss Account carried to next year	5,908 91
	\$20,717,737 70
<i>Assets.</i>	
Gold and silver coin on hand..	\$ 238,438 43
Dominion notes	731,750 00
Notes and cheques of other Canadian banks	468,654 50
Balances due by other Canadian banks in daily exchanges	88,840 97
Balances due by banks and agents in the United States..	780,825 86
Dominion Government bonds ..	668,967 33
Railway and municipal debentures	104,650 00
Call and short loans on bonds and stocks.....	424,581 31
	\$3,506,708 40
Time loans on bonds & stocks..	\$ 90,730 85
Other loans and discounts	16,114,369 34
Loans and discounts overdue and not specially secured (loss provided for)	119,223 51
Loans and discounts overdue, secured	24,676 07
	\$16,348,999 77
Mortgages, bonds, and other securities, the property of the bank	150,469 28
Real estate	203,532 82
Bank premises and furniture..	480,273 28
Other assets	27,754 15
	\$20,717,737 70

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 amongst the stockholders."

Before putting the motion to the meeting, the president called upon the general manager, Mr. George Hague, to make a few remarks upon the annual report.

The General Manager observed:

As the wisdom of these annual addresses is sometimes called in question, I observe at the outset that it seems reasonable that the stockholders of banks having interests in all parts of the Dominion, should be informed of these conditions of trade and finance that bear upon those interests.

Those who have the general direction of such banks have the best opportunities of forming an accurate acquaintance with these matters. The pressure to do this, and to take means for doing it well, is upon such bankers every day in the year. There is not an interest in the country that is not your interest. In speaking at these annual meetings of every trade and industry in the Dominion, from Nova Scotia on the Atlantic to British Colum-

bia on the Pacific, we are not travelling one iota beyond matters that affect the business and profits of the bank. The fact is, the various provinces of the Dominion are bound together by a much stronger bond of interest than some persons suppose.

There is one item in our balance sheet that is the final test of the whole position of the bank, namely, loans and bills discounted.

If you examined the lists that make up the total of over sixteen millions, you would find bills of persons in every line of trade, not only in the provinces where the bulk of our branches are situated, but in British Columbia, the Northwest Territories, the Maritime Provinces and Newfoundland. And no bank with many branches can be successfully conducted unless the men at the head of it keep themselves in touch with all that is going on throughout the whole extent of the country.

The interests of this bank indeed are most diversified. The Merchants' bank is not the largest in Canada, as you know, but it is owned by nearly 1,700 stockholders. It is our business to earn dividends for them, and such as can be fairly relied on. We have a vast army of depositors living in all parts of Canada, who are customers and friends of the bank. They number over 13,000. The bank has served them faithfully in the past, and we mean to serve them faithfully in the future. We have another army of customers who require loans and discounts to carry on their business. They number between three and four thousand. It is a heavy responsibility to conduct this part of the bank's business, with due regard to the interest of the borrower as well as of the bank.

We desire to avoid unduly cramping those who are carrying on legitimate business, and at the same time to avoid encouraging injudicious trading by a too free supply of borrowed money. For experience shows that for one man who is injured by not having power to borrow enough, ten are injured and many of them ruined by borrowing too much.

Competition between banks can be depended on to prevent the former, but it is to be regretted that the abuse of competition has often brought disaster both to the customer and the bank in the opposite direction. Nearly every loss made by the banks of Canada can be traced to this cause, and the practice of borrowing from more than one bank greatly facilitates it.

Our own experience is that when a customer has failed, it is almost invariably the case that he has had discounts from more than one bank. It is our aim to treat our customers well, and especially to support those who entirely rely upon us. The task of keeping the trading community supplied with adequate funds, bears heavily and continuously upon the judgment and fortitude of bankers.

In addition to the above, every bank has a number of holders of its notes. These creditors are protected by law, and very properly, for they do not enter into a contract with the bank as do the others.

All these classes have a close connection with one another. They are bound in a community of interest which is finally focused round the board table and in the room where we stand to-day.

I name these things not as being new, but simply to show that we appreciate the responsibilities attaching to the working of this great corporation. Whether with that appreciation there is also judicious management, the results of every year's business must bear testimony. For whatever theories we may advance, the management of a bank must be judged by results.

RESULTS OF THE WORKING OF THE BANK.

The results of the working of the bank since its capital was re-adjusted twelve years ago, have been placed before you every year. It may be worth while to-day to look back on this period and note what has been accomplished.

For the first three years, viz., 1878, 1879, and 1880, a condition of depression prevailed in Canada, and the large sum which was reserved as a contingent fund on the re-organization of the bank, was gradually depleted until it was reduced to a mere nothing. During this time the bank only earned sufficient to pay 6 per cent. dividend.

The depression which had prevailed for seven years passed away at the beginning of 1881. From that time the course of the bank has been steadily upward. Dividends have been increased from 6 to 7 per cent. and have been so maintained. The "Rest" has been

increased from \$475,000, which is all we had ten years ago, to \$2,335,000.

During the first few years so many of the bank's customers failed that the amount of indebtedness of such insolvent customers to the bank exceeded seven millions of dollars. The net loss sustained is now a matter of history. It was dealt with long ago. But the failure of such a number of persons left the bank with a largely reduced clientele. It was extremely difficult during these years to make even the moderate dividend we then paid.

This bank had as able a body of directors as ever sat round a board table. Some of these have passed away. Others still remain to lend the weight of their great influence and knowledge of business to the management of the bank.

Under the administration of the board during the last ten years, a business has been built up that is largely a new creation. This business has on the whole been very satisfactory. While none can claim to be infallible, the stockholders may rest assured that no mistakes involving serious and heavy losses have been made for many years back.

For your information I will give you the position of the bank as it was ten years ago and now:—

Its capital was	\$ 5,520,000
It is now.....	5,799,000
But our deposits were then.....	7,296,000
They are now.....	9,309,000
Our loans and discounts were	10,822,000
They are now.....	16,348,000
Our circulation was then.....	2,127,000
It is now	2,563,000

The main difference, however, is in the "Rest." This stands as a sort of breakwater to defend the capital and to preserve your property. It serves also to guarantee your dividends, and to prevent a repetition of the unfortunate events of twelve years ago. The "Rest" now amounts to 40 per cent. of the capital. Canadian banks have generally settled to the conclusion that a "Rest" of 50 per cent. should be accumulated. I need not say this has my hearty concurrence, as I was among the first in Canada to emphasize it. And experience confirms its wisdom.

Some may think that such a reserve fund would be too large. But in looking over the masses of loans and discounts of the bank, and considering the risks involved in them, I have often thought the bank can never have too large a Rest. For, after all, the true method of considering a Rest is to look at its proportion to the risks carried on our books in the shape of loans and discounts. Viewed in this light, a Rest of 50 per cent. on the capital would be by no means a large one.

REVIEW OF THE YEAR'S BUSINESS.

This year has been a difficult one. The results are not bad, seeing that we have paid you the usual dividend and added \$200,000 to the Rest. But both profits and losses have been affected by unforeseen circumstances. The crop of cereals in many parts of Canada was considerably below the average. A short supply ought to bring about better prices. But it is not the crop of Canada that determines the price of cereals. It is the crops of the world. Our farmers, then, for a diminished crop, got a range of low prices. This simply means a diminution to the extent of millions of dollars of deposits, circulation, and earning power to the banks as a whole.

It is to be noted, however, that the crops growing on the ground are not of the relative importance to Canada, as a whole, that they used to be when Canada simply consisted of the provinces of Ontario and Quebec. Our great dairy and cattle interests, and even such apparently trifling matters as eggs, have all become prominent of late years as sources of profit. Dairy products and animals of various kinds have been estimated as contributing fully one-half to what is sold from our farms. In respect to these, our farmers, on the whole, have had a fair year.

Our forests still afford a supply of timber that would be practically inexhaustible if properly conserved. European governments have long had to give attention to this matter. It may soon become a pressing question in Canada.

The lumber business requires for its prosecution an enormous amount of capital in proportion to its annual volume. Much of it is owned by individuals in the trade, but a very large sum in the aggregate is contributed by the banks. This capital has had a