

the Board retains their confidence. 2. That much of the business of the Bank must be directed by a President and Vice-President, possessing the confidence of the Board. And that all officers and employes of the Bank must be subject to the direction and control of the Board, acting through the President and Vice-President, in such manner or measure as they may deem proper. 3. That when the President and Vice-President cease to be in accord with the majority of the Board, it is for the advantage of the Board either that they should cease to hold those positions, or that harmony in the Bank be restored in some other mode. The shareholders may differ from our views and their opinions will be manifested by the result of this meeting. We are not anxious to serve. We are not contending for power. The duty is onerous, and if the shareholders are pleased to relieve us we think we have earned our discharge; but if, on the other hand, they desire us to continue in office, we can only do so with our authority and responsibility defined, and as members of a Board, whose confidence we possess, that can be relied on to work together for one object—the interest of the Bank. I therefore move,

“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.”

THE GENERAL MANAGER'S STATEMENT.

Mr. HAGUE next said:—It may be proper, in addition to the remarks that have fallen from the President, that a few observations shall be made by the General Manager on the condition and prospects of the Bank, and of the business of the country generally. The system of management which was inaugurated when he took charge has now been in operation five years. The results have probably been satisfactory, so far as they have gone. But the Bank though progressing steadily towards it year by year, has not yet attained the position in which he hopes to see it at a future day. When the Rest amounts to fifty per cent. of the capital, fortified by a respectable contingent fund, and when its net profits admit of a steady dividend at a higher rate than now prevails, earned from a well-established connection amongst a safe class of customers, when, in short, the Bank attains the position enjoyed by the leading banks of England and Scotland, then the General Manager will feel that the object for which he has striven through many years of toil has been accomplished. The system of administration he adopted, and which was entered on with the full concurrence and support of the Board, may be summed up in three main features. First, the maintenance of a strong and vigilant central authority; Second, the conduct of discounts and loans at all points on the same system, in the light of experience, and on sound banking principles; Third, the keeping up of such statements of loans and discounts from the managers of branches as experience had shown to be best adapted for the purpose of enabling the Directors and General Manager to understand what was being done by them as perfectly (and this is essential to safety) as if it were being done within this building. The General Manager asks the careful attention of the stockholders to the foregoing.

Though the shareholders occasionally hear of branches, it is probable that, on the part of some at least, it is not generally understood that by far the larger proportion of the business of the bank is done out of Montreal. Including New York, Chicago and three branches in the North-west, there are twenty-nine other places in which the bank is carrying on business. Above all, it is to be borne in mind that there are twenty-nine places besides Montreal in which the bank is lending money and discounting bills. A serious care indeed it is to keep the business of all these places in good order, not only by the selection of competent officers (and the Bank has many such) for the management of them, but in the vigilant oversight at headquarters of what is done in them all. The work is beset with difficulties, and experience of our own or other banks, either here or in Great Britain, is constantly suggesting improvements. It is useless to look to the United States for experience in this matter, for no bank there has any branches. It requires not only an elaborately-contrived machinery, but an amount of firmness, persistency and steadiness in the enforcement of rules and orders, that few have any idea of but those who have had experience of management—or sat on the boards of banks like this. Three-fourths of the profits of the Bank are at present made at the branches, a proposition which the General Manager would like to see somewhat altered, for he is convinced that the true policy of a bank like this, is to build up as large a business as possible at its central office. The stockholders can do something to bring this about. A loss in any one of these 29 places is a loss of the Bank. And when you learn that the average turn over of money across the counters of this Bank at all points is not less than \$5,000,000 per day, and that nearly a million and a half of money is lent every week, in one shape or another, you will appreciate the difficulty of keeping losses within moderate limits, and the care that presses so heavily on the Executive and the Board. It is sometimes said that the inspections and examinations might be more frequent, and the example of banks in the United States is cited—in entire forgetfulness of the fact that in the United States the whole business of every bank is done in one office. To examine thoroughly our 30 offices is a labor occupying nearly twelve months of continuous application. The examination of the cash, bills, securities and accounts carried on within the walls of this building alone cannot be effectively done in less than 25 to 30 days. But the difficulties of the last five years were far more than ordinary in every banking institution owing to the unexampled number of insolvencies that distracted the country during the first three of them, viz., 1877, 1878 and 1879. The weight of these calamities fell with force on all the banks of the country, but those which had their centre

in Montreal were the heaviest sufferers. Of the 85 millions of insolvency in those years, that is from 1877 to 1880, we had to deal with our full proportion. I will not tell you how many millions of the liabilities of insolvent estates we have had to deal with. 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 the many 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 judgement, 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 *bonafide* 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 proper 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 endeavored 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 em-

ployed 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 merchandise; 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 in 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 our 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