

BANK OF CANADA

**ANNUAL REPORT TO
MINISTER OF FINANCE
AND
STATEMENT OF ACCOUNTS**

FEBRUARY 9TH, 1942



BANK OF CANADA

INCORPORATED UNDER THE BANK OF CANADA ACT, 1934

HEAD OFFICE—OTTAWA

BOARD OF DIRECTORS

G. F. TOWERS
Governor

D. GORDON
Deputy Governor

E. G. BAKER

TORONTO, ONT.

W. D. BLACK
Member of the Executive Committee

HAMILTON, ONT.

G. G. COOTE

NANTON, ALTA.

J. L. HOLMAN

SUMMERSIDE, P.E.I.

F. MAGEE

PORT ELGIN, N.B.

W. K. MCKEAN

HALIFAX, N.S.

A. STEWART McNICHOLS

MONTREAL, QUE.

A. C. PICARD

QUEBEC, QUE.

E. J. TARR

WINNIPEG, MAN.

A. C. TAYLOR

VANCOUVER, B. C.

R. A. WRIGHT

DRINKWATER, SASK.

Ex Officio Member of the Board

W. C. CLARK
Deputy Minister of Finance

OTTAWA, ONT.

OFFICERS

G. F. TOWERS
Governor

L. P. SAINT-AMOUR
Assistant Deputy Governor

D. GORDON
Deputy Governor

K. A. HENDERSON
Securities Advisor

SECRETARY'S DEPARTMENT

D. G. MARBLE
Secretary

FOREIGN EXCHANGE DIVISION

S. TURK
Chief

W. A. CAMERON
Deputy Chief

L. P. J. ROY
Deputy Secretary

CURRENCY DIVISION

C. E. CAMPBELL
Chief

J. P. MELVIN
Deputy Chief

RESEARCH DEPARTMENT

D. A. SKELTON
Chief

J. R. BEATTIE
Deputy Chief

CHIEF ACCOUNTANT'S DEPARTMENT

H. R. EXTENCE
Chief Accountant

PUBLIC DEBT DIVISION

M. G. ANDERSON
Chief

F. M. PETERS
Deputy Chief

SECURITIES DEPARTMENT

W. B. WATSON
Chief

W. H. BUDDEN
Deputy Chief

J. W. GRANT
Toronto Representative

C. DE V. WELSFORD
Montreal Representative

AUDIT DEPARTMENT

E. FRICKER
Auditor

AGENCIES

CALGARY, ALTA.

J. PARRY

AGENT

CHARLOTTETOWN,
P.E.I.

D. A. MACKINNON

"

HALIFAX, N.S.

P. B. WOOSTER

"

MONTREAL, QUE.

J. H. C. DESMARAIS

"

OTTAWA, ONT.

S. J. PERKINS

"

REGINA, SASK.

G. A. IVEY

"

SAINT JOHN, N.B.

E. H. CAMERON

"

TORONTO, ONT.

K. FREDERICKSON

"

VANCOUVER, B.C.

S. A. STADEN

"

WINNIPEG, MAN.

W. MORTON

"

BANK OF CANADA

Ottawa, February 9th, 1942

The Hon. J. L. Ilsley,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act Amendment Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1941, signed by the Governor and the Chief Accountant, and certified by the Auditors in the form prescribed by the by-laws of the Bank.

Before dealing with certain features of our annual statement, I wish to refer to the death of two of our Directors during the course of 1941. Prof. Robert McQueen was killed in an aeroplane accident when returning to Winnipeg after a meeting of the Board, and Lt.-Col. Claude Brown died in the United Kingdom where he was engaged in war service on behalf of the Knights of Columbus. During the years Prof. McQueen and Col. Brown served as Directors, their colleagues on the Board gained much from their advice and counsel. Their untimely deaths represent a serious loss for the Bank and for those of us—both members of the Board and of the staff—who had the privilege of being associated with Prof. McQueen and Col. Brown.

The major changes which took place in our various asset and liability accounts during the course of the year are indicated in the following table, which shows the effect of these changes on the cash reserves of the chartered banks.

BANK OF CANADA

Calendar Year 1941	Changes produc-	Changes produc-
	ing a decrease in chartered banks' cash	ing an increase in chartered banks' cash
	(Millions of Dollars)	
Increase in Sterling and U.S.A. dollars		162.4
Increase in Dominion and Provincial Government Securities		32.7
Increase in Other Assets		21.1
Increase in Rest Fund	1.9	
Increase in Active Note Circulation	118.0	
Increase in Dominion Government Deposits	64.1	
Decrease in Other Deposits		3.5
Increase in All Other Liabilities	3.5	
	187.5	219.7
Deduct		187.5
Increase in Chartered Banks' Cash Reserves		32.2

NOTES IN CIRCULATION

The Bank of Canada note issue as at December 31st last was \$495,956,232, up \$136,007,111 from the preceding year. Of the total amount of our notes outstanding, \$116.3 millions were in the tills of the chartered banks, and \$379.7 millions in the hands of the public. Including chartered bank notes in public hands, total active note circulation on December 31st, 1941, was \$450.3 millions. The increase on the year was approximately \$109 millions, somewhat larger than the \$95 millions rise in active circulation during 1940.

In a country such as Canada, where the great majority of payments are made by cheques drawn on bank accounts, the volume of notes in active circulation is a matter of secondary interest from a monetary point of view. When additional notes are required by the public, they are obtained by withdrawals from the public's accounts with the chartered banks. Thus the volume of active circulation at any given time is determined by the requirements of the people, rather than by any action on the part of the banking authorities.

It is, of course, true that an increase in the active circulation of Bank of Canada notes would have the effect of decreasing the chartered banks' cash reserves if off-setting action were not taken by the Bank of Canada. It has been the policy of the Bank to take such action.

RESERVES

It will be observed that the account in our statement entitled "Sterling and U.S.A. Dollars" stood at \$200,861,156 on December 31st last. These exchange holdings were made up almost entirely of sterling which had been purchased from the Foreign Exchange Control Board, and which the Board had contracted to repurchase for future delivery. By selling sterling to the Bank of Canada on a temporary basis, the Board obtained Canadian dollars to assist it in financing its operations. Transactions of this character took place on a substantial scale in the early part of 1941, reaching a peak of \$295 millions on June 25th. Subsequent to the receipt of the proceeds of the First Victory Loan, the Government made advances to the Foreign Exchange Control Board which enabled the Board to repurchase all sterling previously sold to the Bank of Canada. In August, the Board again found it necessary to sell sterling

to the Bank, and continued to do so through the remaining months of the year.

When the Bank buys foreign exchange from the Foreign Exchange Control Board, the transactions have the effect of increasing the cash reserves of the chartered banks. This effect was largely offset during 1941 through our sales of securities in the market and by an increase in Dominion Government balances carried with the Bank of Canada. Between January 1st and June 25th, when our foreign exchange holdings increased by \$256 millions, our security holdings were reduced by \$35 millions, and deposits by the Dominion Government increased \$218 millions. A similar movement occurred in the latter months of the year, when an increase in foreign exchange holdings of \$200 millions between August 13th and December 31st was offset, in part, by a reduction in our security holdings amounting to \$41 millions, and by an increase of \$54 millions in the Government deposit.

The reverse operation takes place when the Bank sells foreign exchange. Thus, a reduction in our sterling—U.S.A. dollar holdings of \$294 millions between June 25th and June 30th was accompanied by an increase of \$103 millions in our portfolio of Dominion and Provincial Government securities, while at the same time the Dominion Government's balance with us declined by \$177 millions.

INVESTMENTS

Our holdings of Dominion and Provincial Government securities on December 31st last were \$608,471,866, representing an increase of \$32,708,704 for the year. The substantial increase shown in our investments of a maturity longer than two years, and the decrease in our short term category, was due in the main to conversion of the Bank's

holdings of a Dominion Government issue, which matured on October 16th, into a new issue of 3-year 1½ per cent Notes.

On the basis of the Wednesday figures published in our weekly statement, our total investments averaged \$158 millions more in 1941 than in 1940.

ALL OTHER ASSETS AND LIABILITIES

The substantial amounts shown opposite our balance sheet headings entitled "All Other Assets" and "All Other Liabilities" have no particular significance, inasmuch as the principal items outstanding in these accounts are cheques in course of clearance, and Bank of Canada drafts issued but not presented for payment. Since the commencement of the war, the volume of such transactions outstanding has tended to increase because of the growth in the receipts and payments of the Dominion Government.

PROFIT AND LOSS

The net profit from our operations in 1941, after providing for contingencies and reserves, was \$5,813,385.80. Payment of a dividend of \$225,000 on capital stock held by the Minister of Finance left \$5,588,385.80, as compared with \$3,819,460.09 in 1940. The increase was mainly attributable to the higher average level of our security holdings, to which reference has already been made. Of the profits available for distribution, one-third, or \$1,862,795.27 was added to our Rest Fund, and the remaining two-thirds, or \$3,725,590.53, was paid to the Dominion Government.

The addition to our Rest Fund brings this Fund to an amount in excess of the paid-up capital. In these circumstances, the distribution of profits in 1942 will be governed

by the terms of section 31(b) of the Bank of Canada Act, which provides that one-tenth of the surplus available from operations of the Bank shall be allocated to the Rest Fund, and the residue shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

BANK RATE

Bank Rate has remained unchanged throughout the year at 2½ per cent. Some credit facilities were required by banks subsequent to the issuance of the First Victory Loan, but the total amounts involved were relatively small, and advances were liquidated by the middle of November.

SECURITY MARKETS

The event of the year in security markets was the sale of the First Victory Loan. This Loan—the first war-time financing of major importance—was marketed by a country-wide organization, under the direction of the Victory Loan Committee. The degree to which the Loan received public support can be measured by the total of cash subscriptions, namely, \$730 millions, and—even more significantly—by the participation of no less than 968,000 subscribers.

Our estimate of net new bond issues during 1941 is shown in the appended table. As a result of war requirements, the Dominion Government's net borrowing from the Canadian public reached an unprecedented level. On the other hand, provincial governments, as a whole, effected a net reduction in their bonded debt, and the net retirement of municipal and corporate obligations which has been taking place in recent years continued on a somewhat expanded scale.

In spite of the large increase in the over-all volume of new money raised in the Canadian market, high-grade bond

prices rose perceptibly during the year. The average price of two typical long term Dominion Government issues increased from about 99 $\frac{3}{8}$ in January, 1941, to about 100 $\frac{3}{8}$ in January, 1942, representing a decline in yield of about one-tenth of one per cent. In the United States and the United Kingdom, over this period, government securities of similar maturity showed little net change.

WAR SAVINGS SECTION

In my report last year, I referred to the creation of a War Savings Section of our Public Debt Division, to deal with the issue and redemption of War Savings Certificates. During 1941, a very large increase has taken place in the work of this section. The daily average number of War Savings Certificates being issued is now about 45,000 as compared with 15,000 a year ago. A total of 11,600,000 Certificates, representing \$84 millions in cash subscriptions, was issued during 1941.

The conduct of operations on this scale has involved certain increases in the staff, and will also necessitate an addition to premises, which I am referring to below.

PREMISES

The operations of the War Savings Section have been conducted in rented premises adjacent to the Bank. The space which we were able to obtain will not be sufficient to house the War Savings Section for more than a few months longer, in view of the continued growth in the volume of work, and consequent additions to the staff. To meet this situation, we have purchased a property in Ottawa and are proceeding to construct a building which will be ready for occupancy on or about July 1st next.

The fact that the Section under discussion maintains the sole record of issuance of War Savings Certificates makes it essential that their operations should be conducted in a fireproof building. Our architects have designed a building which will provide the necessary safeguards in this respect, but which will, at the same time, be as simple and economical as possible.

If, after the war, some space is released by the War Savings Section, we expect to be able to make use of it for safekeeping certain of the Bank's records, and to relieve congestion in our main building.

STAFF

On November 20th last, the Deputy Governor, Mr. Donald Gordon, assumed the onerous duties of Chairman of the Wartime Prices and Trade Board. The Bank felt in duty bound to make it possible for Mr. Gordon to respond to the Government's request for his services in this new capacity. For our organization, the move represents a loss which, though temporary in character, is none the less severe.

During 1941, the number of employees on the permanent staff of the Bank declined by 16 to a total of 349. Net additions to the temporary staff numbered 566, bringing the total so employed to 771 at December 31st last. Of the new temporary employees, 384 were required for the operations of the War Savings Section. Provision of staff to assist the War Savings Committee in its work, replacement of those who left us to join the Forces, and a relatively modest increase in the requirements of certain of our Head Office Divisions and our Agencies accounted for the addition of 182 individuals to the war-time personnel.

Developments of the past year caused an increase not only in the total volume of our business, but also in the work

which had to be undertaken by individual members of our organization, in view of the fact that the number of additions to the staff did not keep pace with the growth of our activities. The ability of the Bank to discharge the responsibilities entrusted to it depends to an ever-increasing extent on the willing and generous response of the staff to new calls made upon their time and energies. I wish to take this opportunity to pay the highest tribute to the character of the response received throughout the year.

I am,

Dear Sir,

Yours faithfully,

G. F. TOWERS

Governor.

ESTIMATED
NET NEW BOND ISSUES OR RETIREMENTS

(Par Values in Millions of Canadian Dollars)

Calendar Year	Dominion and C.N.R.	Provinces	Private Corporations	Total*
PAYABLE IN CANADA ONLY				
1936	125	66	183	374
1937	25	82	75	182
1938	91	60	31	182
1939	74	53	95	222
1940	434	75	12	497
1941	732	6	34	692
PAYABLE ABROAD, ONLY OR OPTIONALLY				
1936	39	27	139	205
1937	14	24	87	125
1938	21	11	45	77
1939	96	29	128	195
1940	153	15	19	187
1941	203	34	22	259

NOTE: The table includes War Savings Certificates, but takes no account of Treasury Bills, or the following short term Dominion Government issues which were sold to banks:—
\$200 millions of 2% 2-year notes sold Oct. 16, 1939, and refunded at maturity into 1½% 3-year notes.
\$250 millions of 1% 1-year notes issued to the Bank of Canada in connection with the Foreign Exchange Acquisition Order of April 30, 1940, and refunded at maturity by a similar issue.
\$250 millions of 1½% notes sold Jan. 2 and Feb. 1, 1941, and due July 2, 1943.

* Available information concerning issues and retirements by municipalities and religious institutions was not sufficiently comprehensive to justify including such classifications of bonds in the table. However, the net reduction in total municipal bonded debt less sinking funds has been (in millions of dollars) approximately 25, 30, 37, 27 and 43, respectively, in the years 1937 to 1941.

BANK CANADA
STATEMENT OF ASSETS AND LIABILITIES
as at December, 1941

LIABILITIES

CAPITAL:

Authorized, 100,000 shares par
value \$50.00 each \$ 5,000,000.00

Issued and Paid Up \$ 5,000,000.00

REST FUND 5,585,705.15

NOTES IN CIRCULATION 495,956,232.22

DEPOSITS:

Dominion Government . . . \$ 77,573,198.59

Chartered Banks 232,031,047.90

Other 5,970,053.61 315,574,300.10

DIVIDEND DECLARED:

Payable 2nd January, 1942 112,500.00

ALL OTHER LIABILITIES 20,632,828.46

AUDITORS' REPORT

We have examined the above statement of assets and liabilities of the Bank of Canada as at 31st December 1941 and have received all the information and explanations we have required. We report that, in our opinion, it is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs as at that date, according to the best of our information, the explanations given to us and as shown by the books of the Bank.

G. T. CLARKSON, F.C.A.,
of the firm of Clarkson, Gordon,
Dilworth & Nash,

MAURICE CHARTRÉ, C.A.,
of the firm of Chartré, Samson & Co.

\$842,861,565.93

Ottawa, 28th January, 1942.

ASSETS

RESERVE:

Sterling and U.S.A. dollars, at
market value \$200,861,155.64

SUBSIDIARY COIN 316,081.21

INVESTMENTS—at values not exceeding market:

Dominion, Dominion guaranteed and Provincial Government short term securities . \$391,783,438.86

Other Dominion, Dominion guaranteed and Provincial Government securities . . 216,688,426.66 608,471,865.52

BANK PREMISES:

Land, Buildings and Equipment
—at cost less amounts written off 1,732,242.04

ALL OTHER ASSETS 31,480,221.52

\$842,861,565.93

G. F. TOWERS,
Governor.

H. R. EXTENCE,
Chief Accountant.

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