

Corp.

INDUSTRIAL DEVELOPMENT BANK

ANNUAL REPORT TO
MINISTER OF FINANCE
AND
STATEMENT OF ACCOUNTS

SEPTEMBER 30TH, 1945

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INDUSTRIAL DEVELOPMENT BANK

INCORPORATED UNDER THE INDUSTRIAL DEVELOPMENT BANK ACT, 1944

HEAD OFFICE—OTTAWA, ONT.

GENERAL MANAGER'S OFFICE—MONTREAL, QUE.

BOARD OF DIRECTORS

G. F. TOWERS, C.M.G.
President

OTTAWA, ONT.

E. G. BAKER

TORONTO, ONT.

W. D. BLACK
Member of the Executive Committee

HAMILTON, ONT.

W. C. CLARK, C.M.G.
Member of the Executive Committee

OTTAWA, ONT.

G. G. COOTE

NANTON, ALTA.

D. GORDON, C.M.G.
Member of the Executive Committee

OTTAWA, ONT.

J. L. HOLMAN

SUMMERSIDE, P.E.I.

F. MAGEE

PORT ELGIN, N.B.

W. K. McKEAN

HALIFAX, N.S.

A. STEWART McNICHOLS

MONTREAL, QUE.

R. H. MILLIKEN, K.C.

REGINA, SASK.

A. C. PICARD

QUEBEC, QUE.

L.-P. SAINT-AMOUR

OTTAWA, ONT.

E. J. TARR, K.C.

WINNIPEG, MAN.

A. C. TAYLOR

VANCOUVER, B.C.

OFFICERS

G. F. TOWERS, C.M.G.
President

S. R. NOBLE, O.B.E.
General Manager

D. G. MARBLE
Secretary

H. R. EXTENCE
Chief Accountant

General Manager's Office

201 NOTRE DAME STREET WEST, MONTREAL, QUE.

S. R. NOBLE, O.B.E.
General Manager

A. N. H. JAMES
Executive Assistant

E. G. ADAMS
Chief, Investigation Department

Branches

TORONTO, ONTARIO, 304 BAY STREET: J. C. INGRAM
Supervisor

VANCOUVER, B.C., 732 GRANVILLE STREET: N. C. TOMPKINS
Supervisor

INDUSTRIAL DEVELOPMENT BANK

Ottawa, December 5th, 1945.

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

Dear Sir,

In accordance with the provisions of the Industrial Development Bank Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year ending September 30th, 1945, signed by the President and Chief Accountant and certified by the Auditors.

The statute provides that this statement should be accompanied by such summary or report by the President as he may deem desirable or as may be required by the Minister of Finance. In the report which follows I propose to give a general description of the Bank's operations during the year and to include the classification of its loans and investments which the statute provides shall be published at least once in each fiscal year.

INTRODUCTION

The Industrial Development Bank was established under the authority of the Industrial Development Bank Act approved August 15th, 1944. Section 34 of the statute provided for its coming into force by proclamation and with the exception of Section 15 the Act was proclaimed in force as of September 30th, 1944. Due to the fact that Section 15 of the Act empowering the Bank to make loans and investments was proclaimed in force on November 1st, 1944, this first report on the Bank's activities covers an operating period of eleven months.

Section 12(2) of the Act required the Bank of Canada to subscribe for the authorized capital of \$25,000,000, of which \$10,000,000 was paid up in accordance with the provisions of the Act when it came into force. It was deemed appropriate that capital funds not currently required for business purposes be invested in securities of the Government of Canada as authorized under Section 24(a) of the Act. As at September 30th our holdings of Dominion Government securities amounted to \$8,947,750.35, as shown on the balance sheet.

LOANS AND INVESTMENTS

During the year the Bank received 485 applications for credit from applicants who qualified as "industrial enterprises" within the meaning of the Act. Of these, 228 were withdrawn while the applications were in process of examination, presumably because credit had been obtained from other sources or because the applicants had decided not to go ahead with their programmes. Of the remaining eligible applications, 160 were refused by the Bank because they did not fulfil the requirements of the Act that a sufficient amount of capital must be invested by persons other than the Bank to afford the Bank reasonable protection or because the projects in question were not reasonably likely to prove successful. In all, 97 applications for credit were authorized by the Bank, representing a total authorized amount of \$4,150,050, of which \$952,000 was subsequently withdrawn at the request of the applicants. As at September 30th therefore, there were 80 authorized credits on the books of the Bank totalling \$3,198,050, of which \$871,752 was outstanding as shown by the balance sheet.

The credits which this Bank has authorized have been for an average term of five years, and, as is indicated by the following classification made pursuant to Section 29(2) of

INDUSTRIAL DEVELOPMENT BANK

the Act, have been widely distributed among the various types of industrial enterprises and by provinces.

CLASSIFICATION OF LOANS AND INVESTMENTS

30TH SEPTEMBER 1945

A. BY INDUSTRIAL ENTERPRISES

	<u>Authorized</u>	<u>Outstanding</u>
1. Foods and Beverages.....	\$ 342,500	\$ 75,989
2. Textiles and Apparel.....	793,250	279,210
3. Lumber and Wood Products	325,300	146,922
4. Iron, Steel and Metal Products	316,000	62,804
5. Machinery and Equipment.....	539,000	106,106
6. Stone, Clay and Glass Products	341,000	80,992
7. Refrigeration	316,000	50,000
8. Other	225,000	69,729
	<u>\$3,198,050</u>	<u>\$871,752</u>

B. BY PROVINCES

Prince Edward Island.....	—	—
Nova Scotia	\$ 115,000	—
New Brunswick	200,000	\$ 66,064
Quebec	1,052,500	459,912
Ontario	1,192,550	212,189
Manitoba	335,000	105,000
Saskatchewan	30,000	17,100
Alberta	135,500	—
British Columbia and Territories	137,500	11,487
	<u>\$3,198,050</u>	<u>\$871,752</u>

As will be apparent from the above statistics the average size of the authorized credits on the books of the Bank as at September 30th was \$39,976. The number and amount of authorized credits, classified by size, were as follows at September 30th:

INDUSTRIAL DEVELOPMENT BANK

	Number Authorized	Amount Authorized
\$ 5,000 and under.....	9	\$ 37,800
\$ 5,001 to \$ 25,000.....	34	550,500
\$ 25,001 to \$ 50,000.....	17	667,750
\$ 50,001 to \$100,000.....	14	1,052,000
\$100,001 to \$200,000.....	6	890,000
over \$200,000.....	—	—
	<u>80</u>	<u>\$3,198,050</u>

RATES OF INTEREST

All credits authorized by the Bank during the year bore a rate of interest of five per cent per annum.

PROFIT AND LOSS

During its first fiscal year when for various reasons to which I shall refer later, the amount of loans and investments outstanding was relatively small, the major portion of the Bank's assets was invested in Dominion Government securities and much the larger part of our earnings came from this source. The attached Statement of Profit and Loss shows that the Bank's total earnings were \$308,509.05, of which \$297,952.81 was on Government securities and \$10,556.24 on loans and investments. Total operating expenses during the year of which the details are shown in the attached statement, amounted to \$110,666.26, leaving net operating earnings, therefore, of \$197,842.79.

No write-offs or specific appropriations for losses were deemed by the Bank and its Auditors to be required against its loans and investments as of September 30th. But in view of the limited period during which the Bank has been operating, the type of lending in which it is engaged and the probable increase in its operations in the following year, it was deemed proper to set aside \$100,000 of this year's net

INDUSTRIAL DEVELOPMENT BANK

earnings to Contingency Reserve by way of a general provision for losses. The remaining \$97,842.79 of net earnings has been transferred to Reserve Fund in accordance with Section 26(2) (i) of the Act. On the attached balance sheet, Contingency Reserve has been applied to reduce the book value of the item "Loans and Investments".

STAFF

At the first meeting of the Board of Directors, Mr. S. R. Noble, O.B.E., was appointed General Manager and given the responsibility of organizing and operating the Bank. As Assistant General Manager of The Royal Bank of Canada for a number of years prior to taking up his present post, Mr. Noble had wide experience in the extension of credit in Canada and other countries. During most of the war years, his services were made available to the Government as Vice-President of Commodity Prices Stabilization Corporation and Special Adviser to the Wartime Prices and Trade Board. I believe that we can be counted most fortunate in having secured the services of a banker with such long and varied executive experience.

While conditions which prevailed at the time the Bank came into existence did not permit the rapid recruitment of staff, by September 30th the personnel numbered 26, of whom 13 were men and 13 women. It is with pleasure that I record my appreciation of the extra effort put forth by the staff during the strenuous period of organization.

OFFICES

During the course of the year the General Manager's Office was established in Montreal and branches located in Toronto and Vancouver. Credit applications from British Columbia and Alberta are handled through the Vancouver office, applications from Ontario, west of Ottawa and

Kingston, are handled through Toronto and applications from other areas through the General Manager's Office in Montreal.

The Bank's policy in establishing offices is determined by the number of applications for credit which it receives from the various parts of the country. There are two reasons why we do not believe that it is practical or wise to locate branches in areas from which few applications originate. For one thing, the expenses of such offices would be high in relation to the volume of business done; and while the expense ratio should not be the sole determining factor, it must be borne in mind. The second consideration is that it would not be possible to retain the services of the type of men required by the Bank at such points unless they could be kept fully occupied.

GENERAL

Since the commencement of the Bank it has operated almost entirely under wartime conditions. Scarcities of labour, materials and equipment were the general rule rather than the exception. As a result, relatively few industrial enterprises were in a position to proceed with actual reconversion and post-war expansion programmes, although the same relative shortage of certain goods presented an attraction to expand. In spite of the limited number of projects which were actually able to get under way during the past year I feel that the Bank's activities during this period have served a useful purpose and that it has gained valuable experience with which to operate on a larger scale as conditions may require.

The Bank's function is to extend financial assistance to industrial enterprises in cases where it is the opinion of the Bank that credit would not otherwise be available on reasonable terms and conditions and where the amount of capital

invested by the owners is such as to afford the Bank reasonable protection. There is no sharp, easily-apparent line of division between the field where credit is available from other lenders and that in which the Bank operates. The credits authorized by the Bank have, for the most part, been for a longer period of time than normally is regarded as appropriate for commercial banks, and for amounts not large enough to warrant the cost of a public issue of securities. To the extent that these features are not too prominent in the borrower's requirements, credit may be obtained in worthy cases from other lenders without resort to the Bank. In what may be called border-line cases, applications are often made to the Bank which, in the course of our investigation, turn out to be attractive to other lenders. The number of such cases indicates that the Bank's activities have served a useful purpose even if the results are not reflected in its own balance sheet. These factors all emphasize the point, however, that of necessity the Bank operates in a field where risks are greater than average and where operating costs tend to be high in relation to retained volume of business.

There has not yet been sufficient time to prove that a worthwhile volume of business will be maintained or that the Bank can operate on a self-supporting basis—but nothing of a discouraging character has shown itself—and I feel that the situation I have described tends to support the belief expressed before the Banking and Commerce Committee during the passage of the Bill, that there is a need for such a Bank in Canada.

I am,

Dear Sir,

Yours faithfully,

G. F. TOWERS,
President.

INDUSTRIAL DEVELOPMENT BANK

STATEMENT OF ASSETS AND LIABILITIES

as at 30th September 1945

LIABILITIES

CAPITAL:

Authorized—250,000 shares, par value \$100.00 each	\$25,000,000.00
Issued and Paid-up	10,000,000.00
RESERVE FUND	97,842.79
ALL OTHER LIABILITIES	8,588.69
	<u>\$10,106,431.48</u>

ASSETS

CASH ON HAND AND DEPOSITS WITH OTHER BANKS . . \$	204,390.80
DOMINION GOVERNMENT SECURITIES: at values not exceeding market	8,947,750.35
LOANS AND INVESTMENTS	871,752.60
ALL OTHER ASSETS	82,537.73
	<u>\$10,106,431.48</u>

G. F. TOWERS,
President

H. R. EXTENCE,
Chief Accountant

AUDITORS' REPORT

We have examined the above Statement of Assets and Liabilities of the Industrial Development Bank as at 30th September 1945 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.

E. J. HOWSON, C.A.,
of the firm Thorne, Mulholland,
Howson & McPherson.

MAURICE SAMSON, C.A.,
of the firm Chartré, Samson,
Beauvais, Gauthier & Cie.

INDUSTRIAL DEVELOPMENT BANK

PROFIT AND LOSS ACCOUNT

Fiscal year ending September 30th, 1945

EARNINGS

On Dominion Government Securities	\$297,952.81	
On Loans and Investments	10,556.24	
All Other	—	308,509.05

OPERATING EXPENSES:

Salaries (including cost of living bonus)	67,443.61	
Pension Fund and Unemployment Insurance	4,157.59	
Investigation and Supervision Expenses (including travel)	6,341.88	
Travelling Expenses (general) . . .	6,565.69	
Premises and Equipment (including depreciation)	1,179.81	
Stationery and Printing	4,040.23	
Directors' Fees	5,800.00	
Auditors' Fees and Expenses . . .	2,000.00	
All Other Operating Expenses . . .	13,137.45	110,666.26

NET OPERATING EARNINGS		<u>\$197,842.79</u>
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APPROPRIATED AS FOLLOWS:

To Contingency Reserve	\$100,000.00	
Balance to Reserve Fund	<u>97,842.79</u>	<u>\$197,842.79</u>

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