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MADRAS RECORD OFFICE.

Government of Madras.

Financial DEPARTMENT.

G.O. No.	Press / Mis.
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Dated 25-7-1873.	

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Proceedings of the Madras Government, Financial Department,
25th July 1873.

Read the following papers :—

No. 189. MINUTE by the Right Hon. the PRESIDENT, dated 16th July 1873.

Balance Sheet of the Bank of Madras for 30th June 1873.

I think that the present position of the Bank of Madras is extremely unsatisfactory, and such as to require careful and exceptional attention on the part of the Government.

It appears that in the two years beginning with 30th June 1871 and ending with 30th June 1873 the Bank has written off for bad bills, or reserved for doubtful bills, in all Rupees 5,57,501, of which the amount reserved for doubtful bills is Rupees 2,63,552. In order to enable it to do this, and yet to pay the small and decreasing dividend of the past two years, it has been obliged to diminish its Reserve Fund from Rupees 6,37,500 to Rupees 4,00,000 ;—that is to say, it has met more than half the amount of its liabilities on account of bad or doubtful bills at the expense of its Reserve Fund. I do not think that this ought to have been done. The whole amount of such liabilities, or by far the greater part of them, should have been met by deduction from dividend.

In this state of things, with further payments on account of bad bills appearing in each successive balance sheet, with a Reserve Fund diminished by more than one-third, and with rumours afloat as to still heavier losses incurred by the Bank, there can be no doubt that the Government is bound to institute a thorough and complete investigation.

The information which it is most important to obtain is as to the value, taking the *lowest* estimate, of the assets under the 2nd, 3rd, 4th, 5th, and 6th heads of asset in the balance sheet, and more especially of the securities held at the branches for loans of whatever kind. I hardly see how we can be satisfactorily furnished with this information, unless some well-qualified person is deputed, as Government Inspector for the time being, for this special duty. I do not know whether Mr. Taylor would be available for this purpose; but if so, there could be no more fitting selection.

HOBART.

No. 189A. MINUTE by the Honourable J. D. SIM, C.S.I., dated 7th July 1873.

The Madras papers contain the statement of the position of the Madras Bank on the 30th ultimo.

In the half year ending 31st December last, the Bank declared a dividend of 2 per cent., and if I recollect rightly made a large inroad into its reserved fund, and set aside a considerable sum out of its earnings to cover bad debts, &c., at several of its branches.

In the half year ending 30th June last, it again declares a dividend of 2 per cent., making in all 4 per cent. per annum, which I believe is the lowest rate it has declared for many years, and is much below what other Banks have made in the year, although it has a large capital at its disposal on which it has no interest to pay.

Its shares are now quoted at 8½ to 9 per cent. premium, whereas quite recently they were above 50 per cent.

The cause of this unsatisfactory state of affairs is losses at some of the branches. The Bank has, in the half year, lost Rupees 1,73,217, and has been obliged to keep in hand, to cover expected losses, Rupees 2,76,786, the aggregate of these sums being Rupees 4,50,000. It is not, however, to be supposed that this reserve of Rupees 2,76,786 will meet all losses. If public rumour be correct, the prospective losses at the branches are heavy.

As this is the second year in which mal-administration has reduced the profits of the Bank so greatly, and depreciated the value of its shares in the market so seriously, I think the Government are bound, as large shareholders and depositors, and as adding to the prestige and strength of the Bank by their connexion with it, to call on the Directors for an explanation of the circumstances which have led to these heavy losses, for a statement of the branches where they have occurred, of the probable amount of impending losses, of the degree in which they have enforced the responsibility of their Agents and Inspectors, and of any changes which they may contemplate in their administrative staff in consequence of recent occurrences. The Bank is no doubt safe enough, probably safer than it has been for some time, in consequence of its losses having been probed and led to a safer mode of business. Still I think Government should make such inquiries as I have suggested, *confidentially* of course. If the Directors decline to afford explanation, the Government Directors should be instructed to move for it at the next general meeting.

J. D. SIM.

No. 190. To the Secretary and Treasurer of the Bank of Madras, dated Ootacamund, 25th July 1873, No. 1062.

The serious attention of the Governor in Council has necessarily been attracted to the position of the Bank by the recent publication of the results of its working in the past six months, on which a dividend at the rate of 4 per cent. per annum has been declared, being, as the Government believe, the lowest rate for very many years past; and on referring back to the published statements since 1870, the Government observe that from 1st July 1871 to 30th June 1873, the Bank has written off for bad bills, or reserved for doubtful bills in all Rupees 5,70,735, of which the amount reserved for doubtful bills is Rupees 2,76,786.

2. In order to enable the Board to do this, and yet to pay the small and decreasing dividend of the past two years, it has been obliged to reduce its reserve fund from Rupees 6,37,500 to Rupees 4,00,000; in other words, it has met half the amount of its liabilities on account of bad or doubtful bills at the expense of its reserve fund.

3. The Government note that in the same interval of time the asset of "Mercantile bills discounted" has been reduced from Rupees 60,54,212 to Rs. 42,52,544; and they do not doubt that the position of the Bank now is more secure, when the precarious nature of this class of business has been recognized, than it was in 1871. But at the same time, having regard to the very large amount of the Government deposits which are usually in the hands of the Bank, the Government can scarcely be expected to retain it there with confidence, unless they are thoroughly informed as to the position of the Bank in its apparently somewhat critical state.

4. The Government, therefore, propose to appoint some person to be selected either by the Government, or by the Government conjointly with the Directors, to test and report confidentially on the position of the Bank and its branches generally, and especially as to the value of the securities at the branches.

5. I am directed to request that you will ascertain and report the views of the Directors on this proposal.

(Signed) W. HUDLESTON,
Chief Secretary.

Financial Department
No 1062 a *

Confidential
Memo

3 *

Balance Sheet of Bank of Madras
for 30th June 1873.

I think that the present position of the Bank of Madras is extremely unsatisfactory and such as to require careful and exceptional attention on the part of the Govt.

It appears that in the two years beginning with June 30/71 and ending with June 30/73 the Bank has written off for bad bills, & reserved for doubtful bills, in all Rs 557,501, of which the amount

: lished Statements since
1870, the Government of
: serve that from 1st July
1871.

received for doubtful Bills is Rs 263,537.
In order to walk it to do this, and yet
to pay the small and decreasing dividend
of the past two years, it has been obliged
to diminish its Reserve Fund from
Rs 637,500 to Rs 400,000:- that is to say,
it has not even three half the amount
of its liabilities on account of bad or
doubtful Bills at the expense of its
Reserve Fund. I do not think that they
ought to have been done. The whole amount
of such liabilities, or by bar to
three, should have been kept by deduction

11 *

from dividend.

In this state of things - with further papers
on account of bad bills appearing in each
successive balance sheet, - with a Reserve
Fund diminished by more than one-third, -
and with rumours afloat as to the ill
manner in which operations were conducted by the Bank, - there
can be no doubt that the Govt. is bound
to institute a thorough & complete investigation.

The information which it is most
important to obtain is as to the value, taking
the lowest estimate, of the assets under the
2nd, 3rd, 4th, 5th & 6th heads of asset in the

: liabilities statements since
1870, the Government ob-
: serve that from 1st July
1871.

7106

balance sheet, – & more especially of the securities held at the Branches for loans of whatever kind. I hardly see how we can be satisfactorily furnished with this information, unless some well qualified person is deputed, on Govt. business for the time being, for this special duty. I do not know whether Mr Taylor would be available for this purpose: but if so, there could be no more fitting selection.

Hobart

July 16/70

I have given the letter to Mr Wilson. I think it is because I think it is especially desirable that our Printed Papers should show that there has been no want of attention to matters

89

(What are the Rules (if any) by which the Bank is bound as to its Reserve Fund?

See 31. Act 16. of 1866. Hunt.

Financial Department

No 1062

9 *

Confidential

5 *

The Madras Mail contains the statement of the business of the Madras Bank on the 30th ult.

In the half year ending 31st Dec. last the Bank declared a Dividend of 2 per cent. and if I recollect rightly made a large increase to its Reserve Fund, and set aside a consider. sum out of its Earnings to cover bad debts in its General & its Branches.

In the half year ending 30 June last the published Statement shows 1870, the Government of India have that from 1st July 1871

lost it on one declines
a Dividend of 2/- making
in all 4 per cent for one: which
I believe is the lowest rate it
has declared for many years
and is much below what
other Banks have made in the
year - although it has a large
capital at its disposal. In
which it has its interest & buy
Its shares are now quoted
at 8/p & 9 per cent premium.
Shares are quite recently they have

were 587.
The cause of this unsatisfactory state of affairs is
losses at some of the Branches.
The Bank has, in the half
year, lost Rs 173.217- and has
been obliged to keep in hand
to cover expected losses Rs 276786
the appropriation of these sums being
Rs 450.000. It is not known
to be published what these losses
of Rs 276786 will exactly be
losses - if Public rumour be
correct a the most probable losses at the

The Bank of Bengal

570 735 Calcutta

: Liabilities Statement dis
1870, the Government of
: serve that from 1st Jan
1871

the branches are heavy.

As this is the second year in which Head-administration has reduced the profits of the Bank so greatly - and depreciated the value of its shares in the market to serious extent I think the Pt. are bound to a large shareholders and depositors - and as guardians of the prestige & strength of the Bank of Hon. Commissioners in Ct. to call on the Directors for an explanation of the circumstances

2/ which have led to these heavy losses - for a statement of the Branches where they have occurred - of the amount for which provision for impending losses - of the degree in which they have enforced the Instructions of their Agents & Inspectors and of any changes which they may contemplate in their administration to relieve

Statt

: liabl Statement since 1870, the Government of : serve that from 1st July 1871.

Confidential Financial Department

No 1062

9*

F. S.

6*

declined to attend the Manchester
the Dir. Directors should be in
Manchester to move for it to be
the next General Meeting.

J. D.

7 July 73

Statt is in consequence
of Locust occurrences.
The Bank is now built safe
enough - probably safer than
it was before the fire
in consequences of its being
now detached & clear
of a safer mode of building
Still I think the Dir. should
make such enquiries as I
have suggested - confidentially
of course - If the Directors

Statement since
1870, the Government obt.
leave that from 1st July
1871

Confidential

Financial Department

No. 1062

9 *

To,

The Secretary & Treasurer
of the Bank of
Madras

Sir,

I am directed to state that the attention of the Governor in Council has recently been attracted to the position of the Bank by the recent publication of the results of its working in the past 6 months on which a dividend, at the rate of 4% per annum has been declared, being, as the Government believe, the lowest rate for very many years past; and on referring back to the published Statement since 1870, the Government observe that from 1st July 1871.

1894

1871 to 30 June 1873 the Bank has written off for bad bills, or reserved for doubtful bills in all Rs 5,70,735, of which the amount reserved for doubtful bills is Rs 2,76,786.

2. In order to enable the Board to do this, and yet to pay the small and decreasing dividend of the past two years, it has been obliged to re: duce its Reserve fund from Rs 6,87,500 to Rs 4,00,000, in other words it has sacrificed half the amount of its liabilities on account of bad or doubtful bills at the expense of its Re: serve fund.

3. The Government note that in the same in: terval of time the asset of "over due Bills dis: : counted" has been re: duced from Rs 6,05,212 to Rs 42,52,544, and they do not doubt that the position of the Bank now is more secure, when the precarious nature of this class of business has been recognized, than it was in 1871. But at the same time having regard to the very large amount of the Government deposits which are usually in the hands of the Bank, the Government can scarcely be expected to retain them with confidence, unless they are thoroughly informed as to the position of the Bank in its appa: : rently somewhat critical state.

4. The Government therefore propose ~~to~~ (~~with the concurrence of the Directors~~) to appoint (~~a Director jointly~~ with

10

with them or alone a Special Officer to test and report confidentially on the position of the Bank and its branches generally, and especially as to the value of the Securities at the branches.

5. I am directed to request that you will ascertain and report the views of the Directors on this proposal.

I have &c.

Ostramund
25 July 1873.

one person to be selected, either by the Govt., or by the Govt. conjointly with the Directors,

Letter 1062 of 252 7-73

190