

21-1924/1-31-8

Copy 1.

# ROYAL COMMISSION

TO ENQUIRE INTO AND REPORT UPON AFFAIRS OF THE

# HOME BANK OF CANADA

And in the matter of the Petition of the Depositors  
in the said Home Bank of Canada

---

COMMISSIONER:

The Honourable Chief Justice McKeown

---

OTTAWA, MONDAY, MAY 5, 1924

---

No. 8

## CANADA.

IN THE MATTER OF A COMMISSION appointing the HONOURABLE HARRISON ANDREW McKEOWN, a Commissioner to enquire into and report upon affairs of the HOME BANK OF CANADA.

AND IN THE MATTER OF THE PETITION of the Depositors in the said HOME BANK OF CANADA.

Before the Honourable Chief Justice McKeown, the above named Royal Commissioner, at Ottawa, on Monday, the 5th day of May, 1924.

*Counsel:*

EUGENE LAFLEUR, K.C., AND H. J. SYMINGTON, K.C.,  
*for the Government of the Dominion of Canada.*

R. J. McLAUGHLIN, K.C.; A. G. BROWNING, K.C., AND W. T. J. LEE,  
*for the Depositors.*

McGREGOR YOUNG, K.C., *for the Attorney-General of Ontario.*  
R. A. REID, *for certain shareholders; (Opposing the double liability.)*

Mr. LAFLEUR: Mr. Commissioner, the Hon. Mr. Crerar has expressed a desire to testify in this inquiry; he wrote me to that effect, and he is present this morning. With your permission, may he be heard now?

His LORDSHIP: Yes.

Mr. REID: Mr. Commissioner, before the witness is sworn, may I say that I appear for a number of shareholders who have been active in opposing the double liability. I ask permission to be heard, if necessary, at some time before the Commission. I have been asked to come here by one or two of the larger shareholders.

His LORDSHIP: You might give me the names.

Mr. REID: I appear, amongst others, for Senator McCoil; the estate of Sir Rodolphe Forget, Mr. Rainville of Montreal, and a number of others, who have been active in opposing the double liability and in defending themselves along important lines, and any information that we think it is necessary to get from some of the witnesses who may be called, we would ask permission to get that information, if it is necessary to do so, without in any way interfering with the course of the proceedings.

His LORDSHIP: Very well. Mr. Crerar may be called now.

THOMAS A. CRERAR, sworn. Examined by *Mr. Lafleur.*

Q. You may keep your seat, Mr. Crerar, because this may be a little long. For some time you were a Director of the Home Bank of Canada?—A. Yes sir.

Q. Will you tell me the date of your first connection with the bank and how you came to be connected with it.—A. I was appointed a Director in April or May, 1910, I cannot recall which month. I was approached by Mr. Machaffie, the Manager in Winnipeg, who stated that he had had a communication from the General Manager and President of the Bank, who was then General Mason, asking me if I would become a Director and associate myself with the other two Directors in Winnipeg, as a Western Committee, to consider Western business.

Q. And what did you do in consequence?—A. I accepted the offer and was appointed a Director of the Bank.

Q. Were any other gentlemen appointed from the West at the same time?—  
A. Two had been appointed prior to my appointment. They had already been appointed.

Q. And their names were?—A. John Kennedy and John Persse.

Q. The Mr. Machaffie you have mentioned is the gentleman who was examined here the other day, the former Manager in Winnipeg?—A. Yes sir.

Q. Will you explain what these Western Directors were expected to do in regard to the management?—A. We were expected to supervise and report upon business in the Prairie Provinces.

Q. Were you limiting your energies to the Western business?—A. We were. I might say that we did not attend Directors' meetings in Toronto.

Q. You did have meetings among yourselves, I suppose, in the West?—A. Yes, usually every week.

Q. You exercised an active supervision over the business of the West?—  
A. All the applications for credit from the branches in the Prairie Provinces came before our Committee, were passed upon, approved or otherwise, and minutes of our meetings sent to the head office in Toronto.

Q. What was the character of that Western business?—A. It was mainly small commercial business and farmers' business.

Q. Was it of a satisfactory character?—A. Yes. I might say that in the first years' experience of the bank in Winnipeg, I think during the first nine months, a man named Forrest had been local manager and he had got some bad accounts or doubtful accounts on the bank's books. That was before either Mr. Machaffie or any of the other Western Directors were associated with the bank. After that the business was the ordinary business that comes before a bank; applications from merchants in local towns, from farmers, and from business firms in Winnipeg.

Q. And the Winnipeg Manager was in the habit of consulting with you gentlemen, the three Directors?—A. He was present at our Committee meetings, always.

Q. Did you succeed in placing the Western business that you were supervising, in a satisfactory condition?—A. We thought so.

Q. Did you acquire, either for yourselves, or for some company with which you were associated, any of the shares of the bank at the time?—A. Yes, the Grain Growers Grain Company—of which I was then President, and am still—it is an amalgamated company since 1917—acquired shares.

Q. Do you remember how many shares?—A. We acquired altogether a thousand shares. It might be a few more or less. Of those shares, the first of them were acquired if my memory is right, in May 1908.

Q. That is before you were appointed a Director?—A. Yes, before I was a Director. And throughout the following year, I cannot recall the details, but the purchases were brought up to about a thousand shares.

Q. Do you remember at what price these shares were purchased?—A. We paid \$133 a share for them.

Q. 33 premium?—A. Yes.

Q. You went on acting in that capacity right up to the time when certain representations were made to the Minister of Finance. Will you tell me what the events were that led up to these representations to the Minister?—A. My only recollection of attending a meeting in Toronto was at the annual meeting in 1911. The next meeting that I attended in Toronto was in November 1914, when Mr. Machaffie, the Manager in Winnipeg, told Mr. Persse, Mr. Kennedy and myself, some time in the autumn of 1914,—my recollection is that it was in the month of October, but it is almost ten years away, and it is difficult just to precisely fix it.

Q. Perhaps you will be able to do that after refreshing your memory from the correspondence, if there is any of that date. Is there any as far back as

that?—A. No, I had no correspondence at that date, but I recall that Mr. Machaffie told us some time in the autumn, and I think it was in the month of October, that he had heard rather disturbing rumours as to some accounts in the Toronto office. Mr. Persse and Mr. Kennedy and myself considered the matter, and in view of the fact that the country was at war and conditions in Canada were rather disturbed, we concluded that it was our duty to go to Toronto and satisfy ourselves in respect of the rumours we had heard. We accordingly went to Toronto in November, 1914, and we met the General Manager of the bank the day after our arrival.

Q. Who was the General Manager then?—A. General James Mason. We told him our errand; and by the way I forgot to state that one of the considerations that led us to go to Toronto was the fact that the money available for loaning in Western Canada was restricted somewhat, while we could see from the ordinary bank statements that the general loans of the bank were going up, and we mentioned this fact to General Mason and told him we wished to become more familiar with the business of the bank than we were; that we realized we were Directors, with Directors' responsibilities, that we were located a long distance from the head office, in Winnipeg, and that we wished to get information on the condition of affairs in the Toronto office.

Q. Did you attend a full meeting of the Directors on that occasion in November 1914?—A. Yes. I might say that in our interview with General Mason he stated—if my recollection is right, and I think it is,—that he would be very glad to give us all the information we wanted, and suggested doing it there. We told him that we wished the information given at a Directors' meeting, which would be held in the ordinary course on the following day. To this, General Mason demurred a little bit, but we pressed the point, and he said: "Very well, gentlemen, I shall have the information for you."

Q. And so you met your co-Directors?—A. We met the Eastern Directors on the following day. We went over the ordinary routine business of Directors' meetings, and my recollection is that General Mason then submitted a statement of accounts in the Toronto branch, of \$25,000 and upwards; that there were several of these accounts, running up to probably \$200,000. My memory on that is not very clear at the moment. After he concluded with those, he stated that there were three accounts particularly that he wished to mention to the Board, and he dealt then with the Frost account, which, if my memory is right, he stated was about a million and a half dollars. He mentioned the loan to the Prudential Trust Company, of \$500,000, and told the Board that the bank held as security to that a deposit that was made of trust funds, I think for the Province of New Brunswick. He then told us of the account of Sir Henry Pellatt. On that occasion I have a very clear recollection that he stated this account was a million one hundred thousand dollars. Our information was that it was higher than that, or rather according to the rumour we had heard.

Q. By the way, let me ask you at this stage, whether when you had this conversation with Mr. Machaffie, about accounts in the Toronto office, he had specifically mentioned any accounts? Had he mentioned the Frost or the Prudential or the Pellatt accounts by name? Were you prepared for this beforehand?—A. We were in this respect, that Mr. Machaffie, as I recall it, referred to it as a timber account in British Columbia.

Q. That was the Frost account?—A. And there was a loan to a trust company.

Q. That would be the Prudential?—A. Yes. And a loan to some New Orleans railway. The information was just about in that way that we got, Mr. Lafleur, according to my memory.

Q. It was in vague general terms?—A. Yes.

Q. Then did any further discussion go on between you and the Eastern Directors?—A. Yes, we pressed for further information in respect to these

accounts, and we satisfied ourselves from all the information we could get from General Mason at the time, that the trust funds of the New Brunswick Government were not security to the Prudential Trust loan. The meeting went on, as I recall it, all the afternoon, and we adjourned with the understanding that we would meet the following day.

We met on the following day, and learned that the Pellatt loan was considerably in excess of the amount that General Mason had stated the day before. I have forgotten the amount that that finally assumed, but my memory is that it was around a million and three quarters, or a little in excess of that. Of that I cannot be very certain, Mr. Lafleur. The astonishing thing to us at the time was that our colleagues, the Eastern Directors, apparently were not aware of the condition of these loans or the extent of them.

The situation was very unsatisfactory. We did not, as I recall it, at the Board meetings at that time, press for any change in the general management, although we did privately, Mr. Persse and myself, to some of the Eastern Directors. They professed themselves very much surprised and dissatisfied with the condition of affairs. In the meantime the understanding was that more information would be sought as to the state of these accounts. The whole thing was rather confused. We wanted to be clear as to the nature of the security on all the accounts, and we were unable to satisfy ourselves fully at that time upon that, I think largely, I may say quite frankly, Mr. Lafleur, because we felt we could not altogether rely on the General Manager's statements.

Q. You thought you were not getting all the information that you were asking for?—A. Well, there was that question, and there was the question of the reliability of the information we were getting.

Q. You mentioned your dissatisfaction to some of the Eastern Directors, and you found that they shared it? Can you remember who these Eastern Directors were that you conferred with? I do not ask you for the whole of them, but those you remember having spoken to.—A. Mr. McDonell, the late Senator McDonell; and Mr. McNaught, particularly. There was also Mr. Gooderham and a Mr. Flynn. I think these were the Eastern Directors. There may have been another that I do not recall.

Q. At any rate, those were the people that you talked to?—A. Mr. McDonell and Mr. McNaught particularly.

Q. Was that substantially all that was discussed at that meeting?—A. Yes.

Q. And then did you prolong your stay in Toronto?—A. No, we had to return to Winnipeg because we had businesses of our own to look after.

Q. Was any understanding arrived at as to what should be the outcome of this conference?—A. I do not recall that. I do recall that we pressed for an inspection of the Toronto branch particularly. I might say that we discovered that the Toronto branch had never been inspected.

Q. I was going to ask you that. It was then revealed to you that the branch was uninspected?—A. That it was uninspected.

Q. And did you come to any decision as to that for the future?—A. Either at that meeting or the meeting following, which I think was in December, it was decided that the Toronto office should be inspected, and the Montreal office as well. I might say that the reason given by General Mason, when we asked him why the Toronto office had not been inspected, was that the business of the Toronto office came regularly before the Board of Directors every week and it was not thought necessary to have it inspected.

Q. That is the business of the branch was as it were, merged in the head office business?—A. Yes.

Q. Then did you leave for the West the same day that you had that meeting, or that evening?—A. Yes, that evening or the following day, I cannot recall that.

Q. Did you have any further interviews after the meeting with any of the Directors or with the Manager?—A. I do not recall any interviews with the Manager. I recall transactions we had with Mr. McDonell and Mr. McNaught. I do not know whether that was after the meeting was over or during the progress of the meeting.

Q. What assurances, if any, were given you as to the future conduct of affairs?—A. The Eastern Directors assured us that they would give their close attention to the business.

Q. And then you think that at that meeting, or possibly it was at the next meeting, a regular inspection of the Toronto and Montreal branches was decided upon, but you cannot charge your memory as to whether that was arranged at that meeting or not?—A. That was arranged either at that meeting or at the following meeting, according to my recollection.

Q. Then you three Directors went home, and what happened next?—A. The next occasion was a meeting in December, if my memory is right.

Q. December of the same year?—A. Yes, of the same year.

Q. Do you remember the exact date of that?—A. I think it was towards the end of December.

Q. And that meeting was in Toronto?—A. Yes.

Q. Between the November meeting and the December meeting did anything notable occur? Did you hear any more rumours or complaints?—A. No.

Q. Were you asked to come down to this December meeting?—A. No.

Q. Or was that of your own motion?—A. In fact I might say that I think on practically all the occasions that we came to Toronto, we came of our own volition, or as the result of an understanding with the Eastern Directors.

Q. Will you tell us what happened when you came down in December?—A. These accounts were all considered again, and additional information with respect to their position, and the securities, particularly on the Pellatt account, was placed before the Board.

Q. That is in the December meeting?—A. Yes.

Q. Between the November and the December meeting, were any statements or explanations sent to you by the Manager in Toronto, or by any of the Eastern Directors? Was anything forwarded to you?—A. No not that I recollect.

Q. No communications?—A. No communications that I can recollect.

Q. Please go on then with what happened at the December meeting?—A. We were still pressing or urging on the Eastern Directors that there should be a change in management. I think it was on that occasion that some of the Eastern Directors suggested to us that Mr. Cooper Mason who was Assistant General Manager, should be promoted to the position of General Manager. I recall very distinctly that we opposed that. At this meeting in December, a decision was reached to appoint a Committee composed of the local manager of the head office branch, Mr. Dodds, and Mr. Adair, who had the title of Supervisor of Ontario branches, and the Assistant General Manager, Mr. Cooper Mason. This Committee was to give particular attention to getting additional securities on the accounts and getting them into the best shape possible.

Q. Mr. Crerar, perhaps it may assist your memory to refer to a letter addressed to Mr. McDonell who was then one of the Directors, dated the 17th of February, 1915. (Ex. No. 10, Page 24). It is signed by John Persse, T. A. Crerar and John Kennedy. In which you relate in a general way what happened at these two meetings. Would you like to have that before you?—A. Yes.

Q. In that letter of 17th February, 1915, you refer to the discussion that took place at meetings of the Board of the bank held in November and December at which Western members were present. It may refresh your memory

and enable you to fix dates if you read that letter. That confirms generally what you have been relating and perhaps enables you to give me some more particulars about the December meeting which you were referring to.—A. Yes. The Committee that we wished to appoint at the December meeting was really to supersede the General Manager in the conduct of the bank's affairs. My recollection on that is not clear, but it is clearly stated in that letter.

Q. And you recall what was said in the memo in that respect?—A. Quite.

Q. Now, what next do you say as to the meeting in December?—A. The General Manager was absent from that meeting; he was in the South on account of ill-health, and the Toronto Directors did not wish to pass the resolution that I have just referred to, that is, having a Committee supersede the General Manager, in his absence. I might say here that one of the difficulties we had at that time was the unwillingness of the Toronto Directors to do anything that might reflect on the Masons, either father or son. We recalled that the understanding was that when General Mason returned this step would be taken, and we were surprised when we learned a week or so later that instead of the Committee assuming the powers that we had desired it should have of practically looking after the business of the bank it was restricted to looking after certain accounts, and with a view to getting improvement of security, and that the General Management of the institution was still in the hands of General Mason.

Q. When did you learn that your recommendations in that respect had not been given effect to?—A. In a letter, I think. I cannot just recall that.

Q. A letter written by Mr. Persse. You are referring to this letter of the 17th of February, 1915, that I have just shown you?—A. No. We must have had some communication from Toronto giving a copy of the resolution that had been passed.

Q. Yes. Well, perhaps the letter of the 23rd of April, 1915, addressed by Mr. Persse to Mr. Macdonell, is that the one?—A. What is the date of that letter I just read?

Mr. SYMINGTON: The 17th of February, 1915.

Mr. LAFLEUR: It is in the letter of the 17th of February, 1915, where you refer to the resolution that was passed, in the following terms:

“It was moved, seconded and resolved that the further duties prescribed for the Assistant General Manager, and his associates Messrs. Adair and Dodds, in compliance with the decision of a meeting held on December 30th ult., will be as follows:

- (A) Place assets in a more liquid shape.
- (B) Report on possible economies.
- (C) Get in Past Due Bills.
- (D) Obtain further securities on accounts, where considered necessary or desirable.

I am assuming that this resolution was adopted as one *intended* to carry out the purposes and intent of the resolution I had submitted on 30th December. As a matter of fact, however, it has not by any means that effect, the resolution submitted by me looking to the affairs of the bank being carried on for the present by the Committee named in it, so that in the meantime the General Manager would be relieved from doing so. It was quite apparent too, and admitted by all present, that such action was advisable because of the conditions then disclosed. The resolution that was afterwards adopted, you can quite see, had no such effect.”

I am reading from pages 25 and 26 of the printed record. Is that the communication you referred to?—A. Yes.

Q. Well, then, what happened after that, Mr. Crerar, as far as you remember? I see from an extract of letter dated 14th June, 1915, from the General Manager to you, that you were apprised of Mr. Gooderham's resignation?—A. What was the date of that?

Q. This is an extract of letter of 14th June, 1915, from the General Manager to you, Exhibit 13, page 29.—A. Well, there was another meeting in Toronto before that time.

Q. I will just show you that letter if you want to refresh your memory on it. You think there was a meeting before that in Toronto, that is, since December and before the 14th June, 1915?—A. Yes, we attended a meeting in May. I am trying to recall whether there was not one in March, but I recall very distinctly a meeting in May.

Q. Do you remember what occurred at that meeting?—A. There was a discussion of those accounts, and the position we were in, and the reports from this Committee, as to what success it was meeting with in getting additional security, particularly on the Pellatt accounts, were presented to the Board and discussed, and Mr. Adair and Mr. Dodds, according to my recollection, attended practically all of these sessions. I might say this, that, from the first, the Toronto Directors were very insistent that these accounts were well secured, not only in respect to the three larger accounts but in respect to all the accounts in the Toronto office.

We were handicapped—speaking of the Western Directors—from the fact that we did not know the people who were doing business with the bank in the Toronto office, and I had personally, and I think Mr. Persse had, a pretty high regard for Mr. Macdonell's judgment and Mr. McNaught's judgment.

I recall at this meeting in May that the accounts were gone over and a discussion took place as to the advisability of writing down the reserve of the bank which then stood at \$666,000. My recollection is that we decided to write down the reserve to care for some accounts in the Toronto branch, and I think possibly there may have been one or two in Winnipeg.

At that meeting also it was decided that the dividends should be reduced to five per cent. Hitherto the bank had been paying seven per cent.

Q. Paying seven per cent?—A. Yes. There was the usual discussion, of course, about the management of the bank.

Q. You were still insisting that there should be new management?—A. Oh, absolutely. There was not a meeting of the Directors from November, 1914, or certainly from December, 1914, on that we did not urge that upon the Eastern Directors.

Q. Yes, and they were reluctant to carry out your wishes?—A. Yes, they were reluctant. They finally came to the conclusion that General Mason should be superseded as General Manager, but their view was that Cooper Mason had given very faithful service to the bank, and I think occasionally in Director's meetings,—I cannot recall that but I can recall clearly outside of Directors' meeting that that view was pressed upon the Western Directors and we would not agree to it.

Q. What else happened at the May meeting that you recollect?—A. It was decided that the question of the General Managership would be considered after the Annual Meeting which took place at the end of June. When we came to a discussion of the change in management something always arose to put it off, but the understanding was that that would be considered after the Annual Meeting which took place at the end of June.

Q. Did you attend that Annual General Meeting in June?—A. Yes, sir.

Q. With your two colleagues from the West?—A. I think they were present. I am not sure that Mr. Kennedy was, but my recollection is that they were present.



Q. Well, then, what happened there, anything special?—A. No.

Q. Anything special that bears on this matter?—A. When we reached Toronto—I think it was Mr. Perse and myself, but of that I am not clear, but at any rate I recall this: The statements had not been sent in to the Department of Finance. Our understanding was that the reserve would be cut down to \$300,000. We found that it had been cut to \$400,000. The Annual Meeting took place. The reports were submitted, and that is the first occasion upon which I met Mr. Haney. He was a shareholder, and he was present at the meeting, and I recall that he spoke, after the statements had been submitted, and commended the Board for writing down their reserve, and commented on the fact that we were passing through troublous times, that the war had disturbed business conditions very greatly, and generally commended the action of the Board. Then after that meeting was over there was a Directors' meeting, and the proposal was, I recall, very well discussed in the Directors' meeting of a change in the General Manager-ship. General Mason opposed it very strongly, and stated that his living depended on the bank, he had been associated with it for a great many years, and felt that it would be adversely commented upon by the public. I told him very frankly, in the presence of the other Directors, that, as far as I was concerned, there had to be a change in the General Manager-ship. I was quite agreeable that General Mason should retain the Presidency of the bank but that a General Manager should be appointed, and I told the other Directors, and I told Cooper Mason also at that time that I would never consent to Cooper Mason being made General Manager.

Q. Was General Mason a trained banker?—A. I cannot say what his early experience was, Mr. Lafleur, but I very quickly formed the impression that he was not.

Q. You were desiring the appointment of a man who had had some practical experience in banking, were you not?—A. Yes. I may say in passing, when you ask me the question of General Mason being a trained banker, that our experience in the Winnipeg office led us, as Directors in the first few years that I mentioned when we were scrutinizing these Western accounts and before we came to Toronto, to believe, or rather we formed the impression that General Mason was a conservative man by his treatment of our recommendations, and his attitude to the business in the West generally.

I recall on one occasion that some rumours had got around in Winnipeg as to the condition of the account of the Grain Growers Company, which was with the Home Bank. Our Grain Manager had unwisely entered into a little grain speculation which caused some comment that reached the head office of the bank, and on that occasion General Mason sent a man direct to our head office to go through the books of our Company and satisfy himself that the account was safe.

These facts, as I say, gave Mr. Perse, Mr. Kennedy, and myself, the impression that General Mason was conservative.

At this Directors' meeting immediately following the Annual Meeting of 1915, this question of the General Managership was discussed, as I have said, and I told General Mason that, as far as I was concerned, a change had to be made, and he rather ironically asked who his successor was to be.

We had in mind then Mr. Bird, who was Manager of the Montreal office, as General Manager.

As a result of the decision reached by the Board, Mr. Adair, in the spring of 1915, made an inspection of the Toronto and Montreal branches, and when we came to Toronto in June, 1916, I asked Adair how he found things in Montreal, and he said he found them in very good shape. He told me then that he had told Mr. Bird, who was the Manager of the chief Montreal branch,

the whole position of the bank's affairs, and my recollection is that he had inquired of Bird if he would be willing to take the General Managership and Bird said he would be willing to consider it, and this suggestion was made by the Western Directors at this Directors' meeting following the Annual Meeting in June.

We could not get the Eastern Directors at that time to agree with us. They thought things were going to work out all right. The Committee was doing good work, and I remember one or two of them—I cannot recall which ones exactly—stated that General Mason had been responsible for getting these accounts on the books and he should be made to accept his share of responsibility in cleaning them up.

After that meeting I recall that I had to go to New York. I came back by Montreal, and I met Mr. Bird. I had never met him personally before. I found that Mr. Adair had given him all the information that we had, practically, in respect to these particular accounts. I discussed with him whether or not he would accept the General Managership. He stated that he did not care to take an engagement that would mean his living in Toronto, that his family and social connections were in Montreal, but that he would be willing to take the position of General Manager spending several days a week in Toronto; or, he suggested, he might go on the Board of Directors with the position of Managing Director.

I may say, too, that I asked Mr. Bird at that time what he thought of the general position of the bank. Mr. Persse and myself were somewhat concerned about it. Mr. Bird told me that he saw no reason why the bank should not be made a good, comfortable little institution. He mentioned the fact that other banks had had heavy losses and had recovered, but he said General Mason was an incompetent General Manager. He spoke about the extravagance with which the bank's business was conducted, there was no due regard to economy.

I may also say that before the Directors' meeting at that time disbanded we were to have another meeting later in the season when this question of the General Managership would again be considered, and that, as I recall, terminated the matters that were considered at that meeting.

Q. Well, then, there was no meeting, I believe, between that time and the meeting you had in the fall of 1915?—A. The next meeting was in September, as I recall.

Q. And you came to that also of your own accord?—A. Yes. My recollection is that after the Directors' meeting at the end of June, 1915, immediately after the Annual Meeting, Mr. McNaught was going away for a holiday, either Mr. McNaught or some of the Eastern Directors were, and the understanding was that another full Board would be called as soon as they returned.

Q. And did you and your colleagues from the West attend that meeting together?—A. I think we were all present at that meeting.

Q. Now, will you tell me what happened at that meeting?—A. Well, the chief matter that was discussed at that meeting was this question of the General Managership. We put forward the suggestion that Mr. Bird should be made General Manager, or approached to see if he would take the General Managership of the bank. I may say we met just the same difficulty that we had experienced before. It was quite clear to see that a few of the Eastern Directors wanted Cooper Mason for General Manager in succession to his father, and as far as we are concerned from the West we would not for a moment support it, and I recall giving my reasons to the Eastern Directors. I recall stating this—

Q. Stating it at that meeting?—A. Yes, stating it at that meeting to the Directors that the position of a General Manager and Assistant General Manager in a bank, or any other institution, should never be held by father and son, and that I did not think that Cooper Mason had the qualifications for this position.

Well, the Western Directors went home from that meeting very dissatisfied. There were, of course, discussions as to these various accounts, particularly the New Orleans account.

Q. Did you get any further light on that account?—A. We were getting further statements from time to time as to the improvement in the security in the Pellatt account. At all these meetings these accounts were discussed, I think, perhaps, in my recollection the New Orleans giving us a little more concern than the others. The Pellatt account, in the judgment of the Eastern Directors, was safe, I mean in the sense that there would not be a loss in it. We were told what a great man Sir Henry Pellatt was, a great force in Toronto, and there certainly was a great list of securities, the value of which, we naturally thought, the Eastern Directors would be more familiar with than we were.

Q. I see you three Western Directors wrote on the 5th November, 1915, Exhibit No. 14, to Colonel Mason, referring to Mr. Lacey's report on the value of the Frost securities, and you express the hope in that letter that it might reach his hands before the date of the next meeting, so that evidently there had been some discussion of the British Columbia account?—A. Yes.

Q. And an undertaking to get a report as to the value of the security?—A. That brings back to my memory the fact that the original cruiser's reports on the Frost timber were in the possession of the bank. I think made by the cruiser that Frost had bought the timber from. We desired to have that cruise checked up, and that matter was discussed at one of the Directors' meeting earlier in the year, and after inquiry, if my memory serves me right, from banks in Chicago we determined to employ the firm of Lacey & Company to make a cruise of these limits and give a report on them in order that we might have a check on the information already in our possession.

Q. Was that a firm in good standing?—A. They were recommended, as I recall it, I think, by the National City Bank of Chicago, but I remember inquiries were made as to their standing, and we were told that Lacey's reports were accepted by banks and by bonding concerns in the United States where timber concerns might wish to bond standing timber.

Q. I gather from what you have said that you left that September meeting not altogether satisfied?—A. We were very dissatisfied. We discussed what action we should take, and after our return to Winnipeg further discussions took place. I may say that we kept Mr. Machaffie fully advised in Winnipeg of what was taking place at these various Directors' meetings, for the reason that Mr. Machaffie had had a long experience as a banker, and we wanted all the assistance we could get in reaching conclusions or decisions, or in shaping our line of action.

Q. You wanted to know how to prosecute your inquiries, what to ask for?—A. Precisely.

Q. Very well, what next took place after the September meeting, what was the next event?—A. We consulted Mr. James Fisher in Winnipeg some time in the autumn of 1915. We were seriously concerned about the position of affairs, and I recall that even as far back as the summer of 1915—I am speaking of the Western Directors—we had considered the matter of bringing the bank's position to the notice of the Minister of Finance, especially because of our inability to get the changes made in the management, and we consulted Mr. Fisher, as I say, in the autumn of 1915. As a matter of fact, as I recall it, Mr. Machaffie advised us to do this, and thereafter we acted throughout pretty much in accord with Mr. Fisher's advice.

Q. Had anything occurred in regard to the appointment of Directors that you also disapproved of?—A. Yes. We were notified by the General Manager early in 1916—

Q. That is subsequent to the period we have been referring to. I was asking if, in 1915, anything else occurred that you recall?—A. No, I recall nothing. I do not think there was any meeting after September, 1915.

Q. Perhaps I had better not interrupt what you were saying. I would like you to identify a letter, Exhibit 14. I quoted from it a moment ago, but I would like you to look at that letter and identify it as a letter addressed by the three Western Directors. It is on page 30. You were there addressing the President:

“The Western members of the Board have since the September Meeting which we attended, been giving earnest consideration to the condition of the Bank’s affairs, which were then the subject of discussion. We are now most anxious that another meeting be held not later than the 15th December next and would be glad to learn that such a meeting has accordingly been called.”

Now, was there another meeting held in December, as far as you remember?—A. No, my recollection is that there was not.

Q. What was done in consequence or following upon the consultation you had with Mr. James Fisher, what steps, if any, did you take?—A. There were letters exchanged. I think we were asking for additional information. I am not clear at the moment as to the dates of the letters.

Q. There is one on page 33, addressed by the General Manager to you, informing you of Mr. McNaught’s resignation. Will you look that up, please?—A. What is the date of that?

Q. That is the 31st December, 1915.—A. Yes, I recall that.

Q. You have no letters that have not already been filed?—A. No, I think not.

Q. I was just asking that with a view to ascertaining whether you had any further correspondence to produce. You recognize that letter?—A. Yes.

Q. Then on the 6th of January, page 34 of the printed record, you addressed a letter to General Mason acknowledging receipt of the letter of 31st December, Exhibit 16; that is Exhibit 17?—A. Yes.

Q. And you say that you have shown the letter to your Western colleagues and that you cannot understand the action that has been taken but that you will take it up later. This action is the appointing of these Directors?—A. Of Mr. Haney.

Q. Yes, and that was done without your knowledge?—A. Quite.

Q. What was done then in consequence of your consultation with Mr. Fisher? What step did you take? You say you had previously contemplated laying the matter before the Minister of Finance, when was that done?—A. I do not get the meaning of your question, Mr. Lafleur.

Q. I want to know when you laid the matter before the Minister of Finance. You did it through Mr. Fisher, did you not?—A. Yes, sir.

Q. And, we have Mr. Fishér’s letter addressed to the Minister accompanied by a file?—A. Before we come to that, Mr. Lafleur, we were advised a little subsequent to this letter of January 6th of Mr. Haney’s election as a Director, I think a week or two subsequent to that, at any rate before we made our representation through Mr. Fisher to Sir Thomas White, that Mr. Barnard had been elected a Director of the bank.

Q. Also without your knowledge?—A. Absolutely.

Q. And you complained of that, I see?—A. We complained of that, yes. I mean we complained to the Eastern Directors, and to the President of the Bank, that these changes were made on the Board without any reference or consultation with us whatever.

Q. Yes. Have you any other event that you want to relate before you come to the representations that were made through Mr. Fisher to the Minister?—A. Nothing further than this, that we placed all the knowledge we had in connec-

tion with these accounts of the bank's position before Mr. Fisher, and we consulted with him as to what course we should take. We had been unable to get the facts from the management that we wished. We had seen the action of the Eastern Directors in electing Mr. Haney and Mr. Barnard to the Board without consultation with us, and while we recognized that the step was a very serious step we did that after most careful consideration, reaching the decision that the Minister of Finance should be acquainted with the bank's position, and Mr. Fisher prepared the memorandum and the information that was later handed to Sir Thomas White, I think, by Mr. Fisher, personally in Toronto.

We recognized that we were passing through a rather strenuous time. The war had been in progress for almost a year and a half, and that was a factor also, I think, in our reaching the decision to place it before the Minister of Finance. We were quite aware of the fact that if any large number of depositors should approach the bank and withdraw their deposits the position of the bank would be serious. We could not get the change in the management that we wished, and having in mind the fact that the Eastern Directors were not co-operating with us as we thought they should, and taking into consideration the general war conditions, it led us to taking the serious step of submitting it to Sir Thomas White.

Q. Will you look at the memorandum which was handed to Sir Thomas by Mr. Fisher (on page 12, Exhibit No. 2). There is more than one memorandum but this seems to be the earliest in date, it is dated January 22nd, 1916.—A. I have two here.

Q. You see also Exhibit No. 3, another confidential memorandum of the same date, and then a further one of the same date again (page 17, Exhibit No. 5) you see those three?—A. Yes.

Q. You identify those as the memoranda which were submitted to the Minister by Mr. Fisher on your behalf and by your instructions?—A. Yes, I think they are the memoranda.

Q. They are substantially the complaints or representations that you intended to lay before the Minister?—A. Yes, sir.

Q. I need not take you through the whole of that, we are pretty familiar with the nature of those complaints, these memoranda have been read; but in substance they contain your observations as to the conduct of the affairs of the bank.

Q. Now did you yourself attend before the Minister with Mr. Fisher?—A. No, sir.

Q. Not at that time. This whole file which is annexed to these memoranda are the documents which you gave to Mr. Fisher to submit to the Minister?—A. Yes, sir.

Q. Then what was the next thing you heard of in connection with the subject after the submission of these representations to the Minister?—A. A meeting of the Directors in Toronto towards the end of January, I recall that it was immediately or very shortly after the memoranda had been submitted to the Minister.

Q. Was the subject discussed then?—A. Yes, sir. The General Manager presented a letter from the Minister of Finance stating that certain aspects of the bank's business had been drawn to his notice and asking for information.

Q. What action was taken at that meeting of the Directors?—A. On the first day, after the reading of this letter, the meeting adjourned; that was on a Wednesday, it adjourned until Friday. I may say there was a good deal of criticism of the Western Directors by their Eastern colleagues over the action they had taken. In fact it was rather an acrimonious meeting, I recall that very distinctly. There was also some consideration of the New Orleans account at that meeting, I recall. There was a question of the securities held from the New Orleans concerns, as I recall it there was some prior security, a man named

Carroll I think had some prior claim on what the Bank considered was its security on the New Orleans line, and the question was considered of how that matter should be treated. I do not recall anything else.

Q. Do you remember whether at that meeting there was any discussion as to this loan of \$500,000 which you had originally thought was made to the Prudential Company not having been made to that company but to the New Orleans Company? Was any opinion expressed as to the liability of the Prudential Trust Company? Because I see in Mr. Fisher's memorandum Exhibit No. 2 that matter is mentioned to the Minister. This memorandum says that the documents indicate that the loan of \$500,000 was not made at all to the Prudential Company but to the New Orleans Railway people?—A. There had been discussions at that meeting and at previous meetings on that subject.

Q. I understood you to say before that you had discussed the value or validity of the security which purported to have been taken from the New Brunswick Government Trust funds?—A. Yes.

Q. But you had also discussed then the Prudential, whether that company was liable at all as a principal debtor?—A. That had been discussed and I recall now that Mr. Anglin, of the firm of Blake, Lash, Anglin & Cassels who had been consulted on this question advised us that the security the Bank held from the New Orleans concerns would have to be realized on before the Prudential Trust could be approached, something to that effect.

Q. In other words they were not principal debtors but guarantors?—A. Quite.

Q. And you had originally thought that the loan was to the Prudential, secured by the New Orleans assets?—A. We were so told.

Q. Now you might go on and say if anything else occurred at the Directors' meeting that you have just mentioned, that is the meeting held after you had submitted the matter to the Minister. I think you told us what happened the first day, then you adjourned until Friday?—A. We met on Friday and I think we had a meeting on Saturday. The Eastern Directors and General Mason were very much disturbed at what we had done, and as I recall it there was a good deal of acrimonious discussion. The Western Directors quite frankly and forcibly stated their opinion of the way they had been treated. That was the first occasion on which we met Mr. Haney, I had met him as I stated earlier in my evidence at the Annual Meeting in 1914—

Q. When you met him for the first time?—A. I met him then for the first time, that was only a casual meeting.

Q. That must be 1915 I think, according to your evidence?—A. Yes, 1915. Then I met him again at this meeting at the end of January, 1916, where he was present as a Director.

Q. Was anything decided in consequence of that meeting in January?—A. The understanding was reached that Mr. Haney would give a good deal of time to the Bank's affairs, he had then only the position of a Director. As I say this New Orleans matter was discussed and if I recall correctly Mr. Haney made some report to the Directors of a visit he had made to this property earlier in the month. At that meeting also it was decided that Mr. Haney and myself should go to British Columbia and make some enquiry as to the value of the timber securities.

Q. Did you accompany Mr. Haney there?—A. We did in March, 1916. These are the points that come back to my mind in respect to this January meeting. Mr. Haney and myself went to Vancouver, I believe we left at the end of February.

Q. What did you ascertain during that visit?—A. The purpose of our visit was not to inspect the timber limits personally, and we did not inspect these limits, I mean we did not go out and see the timber. We had the original cruisers' reports in the Bank, and at this time we had Lacey's reports which

had come in. Our visit to the Coast was to get a general idea of the timber situation there.

Q. That involved in the first place getting an estimate of the value of that timber from cruisers and from Lacey or any other expert, and then it required next that enquiry be made into conditions as to the saleability of that timber and so forth?—A. It was the saleability and the value that Mr. Haney and I enquired into particularly.

Q. As to value, what amount did you reach from the reports you got?—A. We reached the conclusion that there was a good margin of security on the loan as it stood then. According to the cruisers' reports we had there was about a billion and a half feet of this timber, spread over a variety of limits; half of that as I recall, or at any rate a very considerable portion was Crown granted timber where no licenses were paid, the ordinary dues being collected when the logs were cut and the lumber manufactured. The balance was held under Government licenses for which there was an annual rental. The timber consisted of fir, spruce and cedar. The cruisers' reports gave information as to the quantity of the timber, its location and logging conditions. Our enquiry was into the possibility of sale and the general value of timber at the coast.

Q. What conclusion did you arrive at in regard to the possibilities of sale or realizing on the security?—A. We came to the conclusion that there should be a reasonable prospect of disposing of the timber within a few years.

Let me make clear the conditions under which we reached our judgment. We consulted sawmill people, I think one or two bankers, and pulp people, and the general impression on the coast was that timber was going up in value. I recall that it was brought to our attention, people engaged in the timber industry on the coast were of the opinion that there would be a big demand for timber in Europe after the war; the Panama Canal had been opened a few years previous and they were looking forward to big export business to Europe as well as to Australia and other countries which was even then developed. The impression we formed at that time was, whether right or wrong, that there was a good margin of security in this timber. Personally I thought the timber was worth about \$2,500,000, which would be roughly \$1.50 per M on the stump.

Q. And you thought that the market conditions were promising?—A. Everything we could get in Vancouver indicated that.

Q. Were you aware at that time that interest had remained unpaid on that account and had been accumulating?—A. Yes, we had been advised.

Q. Did you take those arrears of interest into account when you were estimating that this asset contained a margin to cover the Bank's advances?—A. Yes, sir, as I recall it the total loan at that time was about \$1,700,000 and if you took a value of \$1.50 per M. which was considered was the fair value of the timber, a billion and a half feet gave around \$2,250,000. That was roughly the basis upon which we reached our decision.

Q. If there is nothing else you want to relate in regard to this visit to British Columbia will you say what you did on your return with Mr. Haney; did you report to the Directors?—A. Yes, there was a meeting of the Directors held in March. I omitted to say that at the January meeting the firm of Blake, Lash, Anglin & Cassels were retained as solicitors for the Bank. Mr. Lash had been consulted some time prior to that, and Mr. Anglin had also done work in connection with the New Orleans loan, but at the January meeting, as I recall, this firm were appointed solicitors for the Bank.

At the March meeting Mr. Flynn resigned as Vice-President and Mr. Haney was elected in his place. These accounts were considered, and if I remember aright it was reported that the information which had been asked for by the Finance Minister as to the standing of these accounts had been sent to him.

Q. You had nothing to do with the exchange of letters that took place between the Home Bank or its officials and the Minister following upon the representations that Mr. Fisher had made on your behalf?—A. No, sir nothing beyond a letter that I addressed to Sir Thomas White myself a little later in the month. I might say I think there were some letters passed between Mr. Fisher and Sir Thomas White, but as far as the communications from Toronto to Sir Thomas were concerned I knew nothing of them, had nothing to do with them.

Q. At that time were you aware that dividends were being declared upon profits which included unpaid interest on relatively inactive accounts like the New Orleans account and the Frost account and the Pellatt account and others? Had that come under your notice at that time?—A. No, I do not recall that that was discussed.

Q. You know now from the correspondence that that was one of the points discussed by the Minister with the Bank's officials, or have you read that?—A. I have seen the reports in the newspapers.

Q. You see that that was one feature discussed?—A. Yes.

Q. Sir Thomas required them to discontinue the practice of carrying into profits the interest on inactive accounts. I just want to know if you had discussed that with your fellow Directors at that time?—A. I do not recall that that was discussed, I certainly have no knowledge that Sir Thomas White had made this request or condition or whatever you like to call it.

Q. You at any rate were not aware that that practice was going on?—A. No, we were advised that the interest had been added up to the time we made our complaint, for instance in 1912, 1913 and 1914.

Q. But what I want to know is whether you were aware that this unpaid interest was carried into profits so as to justify the declaration of the dividend?—A. No.

Q. You would see of course that those would be fictitious profits, if the accounts were doubtful or bad; there would be no justification for declaring dividends on such assumed profits?—A. Quite.

Q. If there was a big margin they might turn out to be all right but they were improperly reckoned as earnings at that time. You were not aware of that practice existing then?—A. No.

Q. Have you finished all you want to say about that Directors' meeting?—A. No. The Eastern Directors were very much disturbed at the suggestion or intimation from Sir Thomas White that he would have to send in some outside auditor to inspect the Bank's affairs.

Q. What was your attitude?—A. Well, that was the request that we had made to the Minister.

Q. And you adhered to that?—A. We adhered to that but the Eastern Directors, and as I recall Mr. Lash too, were very much disturbed at that possibility.

Q. What were they apprehending?—A. They feared that if outside officers from the Minister of Finance or anywhere else came in to make an examination the matter would be discussed, would get on the street and would result in a run on the Bank. I recall very clearly that that was discussed and there was very considerable alarm on the part of the Eastern Directors, and I may say also on Mr. Lash's part, as to what might happen if that were done.

Q. Was he reflecting the opinion of the Directors as far as you could judge, or was he giving his own opinion?—A. Oh, Mr. Lash held that view at that time, rightly or wrongly he believed it, that is the impression I got.

Q. I do not know if your attention has been drawn to the correspondence, in which in his first letter on the subject he suggests that it would be proper to have an outside investigation, through the Bankers' Association for example,



and then four days afterward he appears to have changed his opinion suddenly, he deprecates it as likely to cause a run on the Bank. At that meeting did Mr. Lash take any attitude in that respect that you recall?

—A. My recollection is that Mr. Lash or Mr. Anglin were present at some of those meetings,—there were several sessions, I recall that that matter was discussed with Mr. Lash.

Q. You are speaking of the March meeting?—A. Of the March meeting.

Q. That first letter of Mr. Lash's to which I referred, in which he appears to have given his personal opinion that there might and should be an outside inspection or audit was back in February, and evidently by the time you had your March meeting he had come around to the other opinion?—A. Yes.

Q. You remember that there was no one among the Eastern Directors or officials or their counsel that was in favour then of an outside audit?—A. That is quite right.

Q. And you were still pressing for one?—A. We had been pressing for it up to that time.

Q. Did you yield to them at that time and abandon the idea of an outside audit? What was your attitude and that of your colleagues from the west?—A. My recollection is very distinct that we desired to have an outside inspection up to the time we came to this meeting. But we had come to have a good deal of confidence in Mr. Haney. I might say that Mr. Lash had a very high opinion of Mr. Haney, it had been indicated to us in a telegram that Mr. Lash sent to Mr. Fisher under date of February 14th, which I would like to read.

Q. We have not got that. Will you be kind enough to put it in now?—

A. This telegram is dated Toronto, February 14th. (It would be 1916).

#### **EXHIBIT No. 147.**

**Filed by Mr. Lafleur, May 5, 1924.**

**Telegram, February 14, 1916, from Z. A. Lash to James Fisher.**

THE GREAT NORTH WESTERN TELEGRAPH COMPANY OF CANADA

TORONTO, Ont. Feb. 14th 1916.

JAMES FISHER, K.C.  
Winnipeg, Man.

I have written White explaining present position and that board is now in accord and will have new management and full investigation soon as possible. I have told him that the information he asked for is ready but that as it will be useless to him unless full investigation made I am retaining it hoping that he will allow investigation to be made under directions of board, I think he will comply if your clients request him to do so. I recommend you to see them and have them write or telegraph White. Old management has practically withdrawn and business now going on under direct supervision of the strong member of the board here. Only simple easy business being transacted. They are relying much upon my advice and are improving matters, where possible.

(Sgd.) Z. A. LASH.

We took it of course that the reference to the strong member of the Board in this telegram was to Mr. Haney, which was correct.

Q. What did you understand by the intimation that a full investigation would be made as soon as possible? Did you understand that meant such an investigation as you had been asking for, that is, an outside audit, or what?—

A. I took that to mean an internal examination.

Q. Yes, I see he says he will allow investigation to be made under directions of Board. Did that satisfy you? I draw your attention to Exhibit No. 52, a letter addressed to Sir Thomas White by Mr. Fisher. That communication followed four days after, it is dated February 18th. You say there:

“Meantime, I had a wire on the 15th inst. from Mr. Lash, in which it was intimated that he was in communication with you—”

that is the Minister. I suppose that is a mistake for the 14th, or you received it on the 15th, this wire you have just read?—A. Yes that would be received on the 15th.

Q. It is a night letter is it and that is the only telegram that you received at the time from Mr. Lash?—A. Yes.

Q. What did you do in consequence of that intimation, did that satisfy you?—A. No. We still desired the Minister of Finance to act.

Q. Did you have any further meetings with the Directors on the subject or any further communications after the March meeting you have been referring to?—A. No, there were no further communications that I recall until that meeting which I think was on the 17th or 18th of March.

Q. But after that what happened?—A. What happened at that meeting was this—

Q. Excuse me, at the March meeting you did not finally acquiesce in this idea of an internal audit, you were still pressing for something else?—A. Up to that time.

Q. Did you abandon, did you yield on that point at the March meeting?—A. Yes, for the time being, that is my recollection as indicated in my letter to Sir Thomas White. I wrote my letter to Sir Thomas White on March 20th.

Q. You identify that as your letter?—A. I have a copy of it here, I think it is.

Q. Shall I recall it by having it read?

Mr. LEE: Did I understand you to say that “We yielded on the 20th March 1916”?—A. Yielded what?

Q. Yielded to the last suggestion.—A. Well we yielded or changed our mind in respect to it. I was just going to elaborate that.

The view held by General Mason and the management and Cooper Mason, to which I will state we paid very little attention, was that this might be very disastrous to the Bank; the Eastern Directors, including Mr. Haney, undoubtedly held that view. Mr. Lash expressed that view to us privately, I do not recall that he did in the meeting, but at any rate the view was expressed then very forcibly by these gentlemen that if there was an outside examination of the Bank's affairs they could not keep that information off the street, that you might have a run or would have a run on the Bank and it would be forced to close its doors. Of course we did not know the local situation in Ontario, what might or might not happen from any rumour getting on the street. The suggestion was made that Mr. Lash and myself come to Ottawa to discuss the matter with the Minister. We came to Ottawa on March 20th, because this letter was written in Ottawa, and I may say this letter was written by myself to Sir Thomas White upon Mr. Lash's suggestion, and I have a very clear recollection that Mr. Lash impressed upon me the danger that might come from an outside examination of the Bank's affairs.

Now this letter was as follows, (Exhibit No. 81, page 171).

Now prior to our coming to see the Minister, at this meeting I have just referred to, Mr. Haney was made Vice-President and the understanding was that he would assume the duties of the President. It was decided, to bring Mr. Machaffie from Winnipeg to Toronto to assist him. The Western members had confidence in Mr. Machaffie; he had been associated with the bank I think

since 1907; and the opinion that we formed then, Mr. Kennedy and myself,— I do not believe Mr. Persse was at that meeting, because I refer to him being away—was that we had made a distinct improvement in getting Mr. Haney and Mr. Machaffie in charge of affaire.

Mr. LAFLEUR: Q. And you were willing to give them a trial at making an inside inspection?—A. Yes. I assumed that Sir Thomas would of course want to get all the information as to the bank's affairs; but in view of the strong opinions expressed by the Eastern Directors and by Mr. Lash, we decided to have that investigation from within rather than from without.

Q. Then after that incident was closed, what was your connection with the bank until the time of your resignation? Is there anything special you want to relate?—A. Yes. We went home after that meeting, and Mr. Machaffie came immediately to Toronto. If I remember right, he was summoned by wire by Mr. Haney. I do not recall any further meetings until May, 1916. I have, however, a letter here from Mr. Haney, under date of April 3rd, 1916.

Q. Is that addressed to you?—A. Yes, addressed to myself.

Q. We have not got that yet?—A. No.

### EXHIBIT No. 143.

Filed by Mr. Lafleur, May 5, 1924.

Letter, April 3, 1916, from M. J. Haney, to T. A. Crerar, re annual dividend, etc.

#### THE HOME BANK OF CANADA

HEAD OFFICE,

TORONTO, April 3rd, 1916.

T. A. CRERAR, Esq.,  
Grain Growers' Grain Co., Ltd.,  
Winnipeg, Man.

My dear Mr. CRERAR,—I wired you on the 30th March as follows:—

“Important board meeting must be held between April 20th and April 25th. Presence western men most desirable. What day will suit you best?”

and on the 1st instant received this reply:—

“Persse expected back about twenty-third April. Could meeting be held back until first week May. Suit me better.”

My reason for stating that it was necessary to have a meeting of the Directors between the 20th and 25th April, was that reports from the branches, as to the half-yearly estimate of profits to 31st May, would be in by the 20th and the notice of the next dividend would have to appear in the Gazette not later than the 29th instant. However, I shall have a meeting of the Board and deal with the question of the dividend and we can then hold a meeting of the full Board at a later date convenient to yourself and Mr. Persse and Mr. Kennedy, at which we can discuss bank matters generally and deal with the Annual Report.

You will be glad to know that Mr. Barnard returned from New Orleans on Saturday and has taken up the Carroll notes, we having been called upon to make a payment of only \$20,000, on which we will be paid interest at the rate of 8 per cent per annum. The bank has made a very satisfactory settlement of this matter.

I am arranging for a pool to support Home Bank stock and maintain it at a price not below 80. This will require \$200,000 and we want the co-operation of our Western friends and I trust you will help me to the extent of \$50,000.

Hoping everything is O.K. with you and our Western friends,

I am,

Yours very truly,

(Sgd.) M. J. HANEY,  
Vice-President."

Q. Did you send an answer to that letter?—A. Yes, on April 8th I replied to Mr. Haney, as follows:—

**EXHIBIT No. 149.**

**Filed by Mr. Lafleur, May 5, 1924.**

**Copy letter, April 8, 1916, from T. A. Crerar to M. J. Haney, in reply to Exhibit No. 148 and re reduction of reserve, etc.**

"April 8th, 1916.

*Personal.*

M. J. HANEY, ESQ.,  
c/o Home Bank of Canada,  
Toronto, Ont.,

Dear Mr. HANEY, I have your letter of April 3rd yesterday, and judge from what you say that it will not be necessary for the Western Members of the Board to visit Toronto until some time in May. We are having a meeting of our Directors, we expect, between the 1st and 10th of May, and I would ask you if at all possible to arrange the meeting in Toronto for not earlier than the 10th or 12th of that month. We could then go over the whole situation generally and decide upon the form of the Annual Report as you suggest. If it should be necessary to have the meeting at an earlier date than I have suggested here, I would be much obliged if you could let me know by the middle of the present month, so that I can make arrangements accordingly.

I have, as you know, been under the impression that we may have to clean off entirely the present reserve of the bank in order to present a correct report to the shareholders. Of course the present examination of affairs going on under your direction with Mr. Machaffie's assistance may show that this will not be necessary, but having in view the possibility that the full reserve of the bank may have to go, and assuming even a worse construction that there may have to be a reduction in the capital, I think it is important to have under serious consideration the course that should be followed. What effect would such a possibility as I have just mentioned have upon public confidence in the bank in Toronto and other Ontario points. If it would have a serious disturbing effect in the way of destroying confidence and subsequent withdrawal of deposits, it seems to me much better to work out an amalgamation, if possible, before our statement is given to the public, since we would be in a much better position to dispose of our assets prior to the loss of confidence of the public than after that had taken place. I desire to mention this only as a thought that has been in my mind in connection with the affairs of the Institution, and I have no doubt but that you and the other Directors in the East have all these possibilities under consideration.

I note what you say in respect to a pool to support the stock. I cannot of course say at the moment what we can do. If this Company were to contribute anything towards such a pool, it could only be done on the approval of our

Directors, and this would mean disclosing fully to them the situation as it now stands. However, if this is not urgent I can discuss it with you when I see you in Toronto.

Before closing let me add that I appreciate very fully the effort you are making and the time you are giving to improve matters.

With kind regards, I am,

Your truly, "

The meeting of Directors referred to, between the 1st and 10th of May, was a meeting of our own company in Winnipeg.

I may say that no action was taken by the Western Directors or anyone in Western Canada in respect to the pool for buying bank shares that Mr. Haney referred to in this letter.

The next was a reply from Mr. Haney to the letter I have just read. It is dated the 13th April, 1916, and marked "Personal."

#### EXHIBIT No. 150.

Filed by Mr. Lafleur, May 5, 1924.

Letter, April 13, 1916, from M. J. Haney to T. A. Crerar. Reply to No. 149, and re Directors' meeting and re pool.

THE HOME BANK OF CANADA  
OFFICE OF THE GENERAL MANAGER

TORONTO, April 13, 1916.

*Personal.*

T. A. CRERAR, Esq.,  
President,

The Grain Growers Grain Company,  
Winnipeg, Man.

Dear Mr. CRERAR:—I have your letter of April 8th, and note contents, which we will fully consider when we have all the evidence before us. If it suits your convenience, we will have a meeting on May 17th; this will enable you to leave home the first of the week. Kindly advise me by return mail if this date is agreeable to the Western Directors.

I am pleased to say that the stock is now being offered at 78, and probably will go higher. I trust that our Western friends will see their way clear to join this pool. While I do not imagine that a very large amount of money will be required, it is wise to be prepared for emergencies. This pool has been in operation two weeks, and eighty-three shares is all that have been presented for transfer, which is an evidence that there is very little on the market for sale at the low prices which have been quoted.

I trust that yourself, Mrs. Crerar, and the children are enjoying the best of health.

Yours truly,

(Sgd.) M. J. HANEY,  
*Vice President.*

Mr. Haney and I then exchanged some telegrams as to the date of this meeting and I have a letter from him dated Toronto, May 3rd, 1916.

**EXHIBIT No. 151.****Filed by Mr. Lafleur, May 5, 1924.****Letter May 3, 1916, from M. J. Haney, to T. A. Crerar, fixing meeting on May 25.**

## THE HOME BANK OF CANADA

HEAD OFFICE,

TORONTO, May 3rd, 1916.

T. A. CRERAR, ESQ.,  
President,Grain Growers' Grain Co., Ltd.,  
Winnipeg, Man.

My dear CRERAR,—I am in receipt of your several telegrams, with reference to the meeting called for the end of this month, and in order to meet your suggestion we shall have the meeting on the 25th of May.

Hoping all are well with you,

I am,

Yours sincerely,

(Sgd.) M. J. HANEY,

P.S.—Please notify Mr. Kennedy and Mr. Persse.

I do not know that that letter is of much importance. That meeting was held at the end of May. I may state that from the time Mr. Machaffie came to Toronto at the end of March, our understanding was that he was attending all directors' meetings. He was present with the Directors at this meeting on May 25th, which was quite in accordance with this letter; and the business of the bank, the accounts, and as I recall it, an estimate of the profits for the end of the year which closed 31st May, was considered. I do not recall any other business at that time.

Q. Did you have any further communication with the bank after that until the time of your resignation?—A. I attended a few other meetings. Perhaps I had better just go over that whole story?

Q. If you will.—A. At this meeting, I remember, at the end of May, there was a decidedly optimistic feeling. The Western Directors felt satisfied with the energetic manner in which Mr. Haney was taking hold of things. He was in close consultation, we understood, with Mr. Lash. I think that was the fact. Mr. Machaffie was optimistic too, as to the position of affairs. I was not at the annual meeting in June of that year. I might say in passing that our company had an office in New York, and in the middle of June the manager of our New York office was killed in an automobile accident, which necessitated my going to New York and remaining there the greater part of the summer, and up until December. I have not in my files a letter to Mr. Machaffie under dated of June 22nd 1916. I had written him immediately after I had reached New York telling him of our manager's death and in a personal way giving him the position we were up against there. We had very heavy commitments in sales of grain and heavy obligations to the New York banks. I do not think that I need read the first part of this letter, which deals with purely personal affairs relating to our New York business. After dealing with that he continues.

Mr. SYMINGTON: Is it Grain Growers and Home Bank business, or is it personal matter entirely? Mr. Young suggests that if it is Grain Growers and Home Bank, you should read it.—A. I have no objection to reading it.

Q. I think you had better read it then so that there will be no misunderstanding?—A. The letter is dated Toronto June 22nd, 1916.

## EXHIBIT No. 152.

Filed by Mr. Lafleur, May 5, 1924.

Letter, June 22, 1916, from W. A. Machaffie to T. A. Crerar, re salary of President and financial position of bank.

## THE HOME BANK OF CANADA

HEAD OFFICE

TORONTO, June 22nd/16.

My Dear CRERAR,—Yours of 20th received, I was inexpressibly shocked to hear about Stimper, apart from his business usefulness he had such a bright and merry disposition that one naturally looked forward to seeing more of him as time goes on.

I quite appreciate the great loss to yourself and to your company and you have my full sympathy. It is fortunate that O'Donohue is well informed regarding commitments and no doubt things will work out all right. Murray's visit would seem opportune, his business ability I would consider quite equal to Stimper's, but of course he lacks the technical experience of the latter in exporting which seemed invaluable.

There is not much to tell you about matters here, the old 'un shows a disposition to wriggle but it will be in vain, Nemesis cannot be dodged. Our balance sheet is so strong that newspaper comment must be favourable, Mr. Haney has just come in and expresses the hope that you will be here on Tuesday.

Since writing above have had half an hour's talk with Haney and learned that the old gentleman tackled him yesterday about his future salary as President. H. said it would be settled by the whole Board but that his own view was \$2,500 a year, this the old man thought insufficient. H. now asks me to urge you to be present and to wire both Persse and Kennedy to the same effect.

I note that you hope to return to Winnipeg before long and by lake if possible. I may have to make the journey too, to attend the Minister's trial so possibly we may travel together, I hope so.

The following items in our financial position to-day will interest you:

Grain Loans . . . . .	\$1,250,000
Anglo French bonds . . . . .	800,000
Imperial Munitions loan . . . . .	500,000
	<hr/>
	\$2,550,000

The two latter items can be financed against for the grain business so with funds from the Domn. Government and some other resources in New York we will be in better shape next Autumn than ever before.

H. got \$200,000 lately from Ontario Government and expects more soon. Hoping to see you on Tuesday,

Yours sincerely,

(Sgd.) W. A. MACHAFFIE.

The Mr. O'Donohue mentioned was Mr. Stemper's assistant. When he says "Murray's visit would seem opportune," I might say there that Mr. Murray was the manager of the Grain Growers' in Winnipeg. I had found it necessary to come back from New York to Winnipeg and I arranged for Mr. Murray to come down and assist Mr. O'Donohue. The first two paragraphs of the letter relate to what I have stated a moment ago as matters more or less personal. In the third paragraph, the allusion to "the old 'un" means General Mason. In the next paragraph "the old gentleman" again means General Mason, and "H." means, I presume Haney.

Immediately following that letter I wrote to Mr. Haney from New York under date June 24th, 1916.

**EXHIBIT No. 153.**

**Filed by Mr. Lafleur, May 5, 1924.**

**Copy letter, June 24, 1916, from T. A. Crerar to M. J. Haney, re annual meeting, and salary of President.**

"June 24, 1916.

Dear Mr. HANEY,—You are doubtless aware of my being in New York, and the occasion of it. I should like very much to attend the annual meeting of the bank on Tuesday—I will not be able to be present, however. Mr. Kennedy will be there, and I am hoping that Mr. Persse will be there.

There is one matter that I wish to give you my views upon, in order that you may be able to state them without question at the meeting of the Board of Directors, to be held after the annual meeting. I refer particularly to the salary to be drawn by the President of the bank under the re-arrangement that has taken place.

You will recall that we had some little discussion on this point, and I entirely agree with you that the salary should not be more than \$2,500 per year, and you are quite at liberty to give my views on this matter to the Board of Directors. Everyone realizes in these strenuous times we are passing through that it is absolutely necessary to retrench in every way possible in the matter of expenses. I am quite sure that General Mason will appreciate the importance of this.

I trust that the meeting will in every way pass off successful I would like also, before closing, to express my appreciations of the excellent services you have rendered to the bank in the past six months.

With kind regards, I am

Yours very truly",

Mr. J. HANEY,

Toronto, Ont.

The next letter I have is from Mr. Machaffie addressed to me at New York, and dated June 28th, 1916.

**EXHIBIT No. 154.**

**Filed by Mr. Lafleur, May 5, 1924.**

**Letter, June 28, 1916, from W. A. Machaffie to T. A. Crerar. Reply to a letter of June 24, and re annual meeting. ✓**

THE HOME BANK OF CANADA

HEAD OFFICE,

TORONTO, June 28, 1916.

Mr. Dear CRRERAR—Yours of 24th to hand and contents quite interesting. I am glad things are shaping round to your satisfaction in New York.

The meeting passed off without important incident though there were murmurs of dissatisfaction regarding the management, Flynn though not present was re-elected as you will see from enclosed clippings, one or two friendly speakers enlarged on the strength of our cash assets.

Ten minutes before the meeting the old wolf told Haney and Barnard that he would not attend the meeting nor stand for re-election because of the inadequacy of the proposed salary, Haney said, "All right" and left his room.



Barnard however smoothed matters over (I do not know what he promised) and things are to be thrashed out at a Directors' meeting to be held after Lash's return to town from a fishing trip to New Brunswick some time next week.

Haney is very anxious that you should be present and the meeting will be arranged to suit your convenience if you will let us know on what day you can be present. It seems to me of vital importance that matters should be dealt with finally at an early date otherwise there is the danger that Haney may become disgusted with the old man's double dealing and chuck the job which apparently would suit the old man better than a reduction in salary but which would very likely lead to most disastrous consequences later on. A little firmness now will, I feel sure, solve one phase of our problem.

Hoping to see you soon, I am

Yours faithfully,

(sgd.) W. A. MACHAFFIE.

I have no copy of the letter of June 28 to Machaffie, but I think probably it was a note written in longhand from a hotel. And I think the matter that Mr. Machaffie referred to there of importance, was the elimination of General Mason as President.

I have another letter here dated July 5, 1916, from Mr. Haney.

#### EXHIBIT No. 155.

Filed by Mr. Lafleur, May 5, 1924.

Letter, July 5, 1916, from M. J. Haney to T. A. Crerar, re Board meeting.

M. J. HANEY, C.E., ENGINEER AND CONTRACTOR

TORONTO, July 5, 1916.

Mr. T. A. CRERAR,  
of Winnipeg, Man.  
Hotel Astor, New York.

My Dear Mr. CRERAR—Your letter received, and I appreciate very much your personal remarks, but the work is only beginning, and it is important we have a *full board meeting* within a month to inaugurate, at least in principle, two essentials to the success of the institution—loyalty and efficiency.

Certain matters transpired before the Annual Meeting which show that there is lack of both in the present head.

Without temper, I have gone over the situation with Mr. Lash, and he agrees that action should be taken.

I, therefore, leave it with you to fix the time within a month when Messrs. Persse, Kennedy and yourself would attend a meeting. Should Mr. Persse not be able to attend (and as he was good enough to say to me if his resignation would help the situation it was at our disposal) he might forward it to me, and Mr. R. P. Gough would be put on in his stead.

Mr. Flynn has now decided to remain on the Board, and I feel I need strength within easy reach.

I am answering your telegram that I will not be here on Monday as I am making a tour of the branches to see what men we have.

T.A.C.—2—July 5, 1916.

Hoping you are getting your affairs in order, I am

Sincerely yours,

(Sgd.) M. J. HANEY.

P.S. I am to-day forwarding copy of this letter to Mr. Kennedy and Mr. Persse.

Then the next is a reply to that letter, from myself, from New York, dated July 7.

**EXHIBIT No. 156.****Filed by Mr. Lafleur, May 5, 1924.****Copy letter, July 7, 1916, from T. A. Crerar to M. J. Haney, re  
Directors' meeting.**

July 7, 1916.

Dear Mr. HANEY:—Your letter of July 5th came to hand to-day, and I think I understand thoroughly the position of affairs in Toronto.

I am leaving for Winnipeg to-morrow, and may spend a few hours in Toronto on my way home on Monday. I will be coming back to New York about the first of August, and can easily arrange to come back by Toronto and spend a day there and have the directors' meeting such as you suggest.

When I get back to Winnipeg, I will take up the matter at once with Mr. Kennedy and Mr. Persse, and advise you by wire so as to give you ample time for the calling of the meeting.

With kindest regards, I am,

Yours very truly,

M. J. HANEY, C.E.,  
McKinnon Bldg.,  
Toronto, Ont.

I was delayed in Winnipeg. On the way home I contracted an illness and was in bed, if I recall it, for ten days or two weeks, with the result that I had to go back to New York before I came to Toronto, but the Directors' meeting was held in the month of August in Toronto, and my recollection is that I came from New York to attend to it.

At that meeting General Mason resigned the Presidency; Mr. Haney was made Vice President, and Mr. Gough—no I am wrong; at that meeting General Mason resigned the Presidency; the position of President was not filled at the meeting; my recollection is that Mr. Persse's resignation was tendered at that time and accepted and Mr. Gough elected in his place. I do not recall anything else that took place at that meeting more than the discussion of ordinary business. The important event was of course the resignation of General Mason as President.

Now the next letter I have here is one addressed to Mr. Lash, dated September, 15th, 1916, from Winnipeg. It relates to a settlement of Mr. Fisher's account. Mr. Persse and Mr. Kennedy and myself felt that we should not personally have to pay Mr. Fisher's fee; that we went to him when the bank had no regular solicitor, and a question arose then as to the settlement of Mr. Fisher's account, which the Western Directors stated should be paid by the bank.

Mr. SYMINGTON: You need not go into that.

Mr. LAFLEUR: If that is all that is in the letter it is not very important to this Inquiry. It is just to show that you were keeping in touch with the affairs.—A. The only reference in the letter here is that all the papers that Mr. Fisher had, I mean the communications he had had, the memorandum we had received from the bank, and everything, was sent to Mr. Lash, to be held by his firm as solicitors for the bank. And on September 25th, I received a letter from Mr. Lash acknowledging receipt of the papers, the documents, and stating that they would be held by his firm as solicitors for the bank. That does not need to go in?

Q. No, I don't think so, unless my friends wish it. I do not see the utility of it.—A. That is all there is in it.

Q. Does that close the correspondence?—A. No.

Q. Have you got some more?—A. Yes, the next correspondence I have is a letter to Mr. Haney on June 14th, 1917. I might say that my recollection is that I attended another meeting or two. I recall a meeting in either November or December in Toronto, when Mr. Haney was made President of the bank, Mr. Gough was elected to the position of Vice President, and Mr. Machaffie was given the position of Assistant to the President. I have no recollection of attending any meetings of the Board in 1917. I may say that I was on the Board of Grain Supervisors for Canada that was appointed early in 1917, as I recall it, and I recall a discussion I had with Mr. Macdonell in Ottawa.

Q. That is Mr. Claude Macdonell?—A. Yes. Mr. Claude Macdonell who was a director of the bank; on the occasion of a visit I made to Ottawa, in consultation with many others on the handling of the wheat. That was in May, 1917. I learned from Mr. Macdonell then that there was apparently friction between Mr. Machaffie and Mr. Haney. I do not recall having any intimation of that before.

Q. You did not discuss that quarrel with Mr. Machaffie did you?—A. No, not then; but I learned from Mr. Macdonell on this occasion in Ottawa that there was some friction; he thought it was due to misunderstanding; but I learned something from him that gave me much more uneasiness even than that, and that was that the Directors were proposing to make Cooper Mason General Manager of the bank. I might say, as will come out in another letter I shall read, that at the end of December, 1916, I received a wire for the Western Directors from Mr. Haney asking if we would agree to Mr. Machaffie's appointment as General Manager. We replied that we would. We learned afterwards, through one of our Directors, Mr. Kennedy, who had been East on some business matters, that that appointment had not been made because some member of the Bankers' Association, whose name he did not get, had raised some objection to Mr. Machaffie. That was the information he had got from Mr. Haney, but Mr. Machaffie was still continuing to discharge his duties which he had come from Winnipeg to discharge. After learning from Mr. Macdonell that the Directors in the East had under consideration the appointment of Cooper Mason as General Manager, I wrote Mr. Haney on June 14th 1917, from Winnipeg, immediately or within a few days after my return from Ottawa:

#### EXHIBIT No. 157.

Filed by Mr. Lafleur, May 5, 1924.

Letter June 14, 1917, from T. A. Crerar to M. J. Haney, re appointment of General Manager, etc.

(Copy)

WINNIPEG, June 14th, 1917.

M. J. HANEY, Esq.,  
President, Home Bank of Canada,  
Toronto, Ont.

Dear Mr. HANEY,—As Mr. Kennedy and I expect to be in Toronto on Saturday, the 23rd inst., we are hoping that the regular Board Meeting will be held on that date, so that we will both be present, as there are one or two matters we would like discussed then.

It was with very great regret, indeed, that I found it necessary to be absent from Winnipeg on the occasion of your visit here from the 27th to 31st May. Late in the afternoon of Saturday, the 26th, I received a request from the Chairman of the British Wheat Commission, then in Ottawa, as well as from the Gov-

ernment, to attend an important conference relative to the manner in which Canadian Wheat could be most effectively and satisfactorily handled for the purpose of aiding Great Britain and her allies in the War. I could not, of course, fail to go, and it was most unfortunate that it came in the way on the occasion of your own and Mr. Gough's visit here.

And referring to the matters that we would like to have discussed at the Board Meeting, I think it well to refer to some of them now in advance of our meeting.

While in Ottawa last month I had a talk with Mr. MacDonell, who, to my surprise, intimated that it had been decided by the Eastern members of the Board to appoint Colonel Mason as General Manager of the Bank, subject to the approval of the Western Members. I could not, of course, imagine that such could have been really the case, as I quite understood from yourself that you would not think for a moment of such an appointment. However, as Mr. MacDonell asked me what I thought of it, I did not hesitate to tell him that the Western Members could not consider such a proposal. I am quite confident that such an appointment cannot be seriously thought of by the Board, and I need not express to you how such a nomination would affect the relations of Mr. Kennedy and myself to the Bank. I need say no more about this, as I am taking it for granted that there is no foundation for it.

There is, however, another matter that is giving us much concern, I refer to the position of Mr. MacHaffie: We knew, of course, that you had frequently spoken in favour of appointing him General Manager, and you will recall your wire to me of 24th December, asking if Kennedy and I would approve his appointment, and my reply of the 26th in the affirmative. We took it for granted that the appointment would be made in due course, and it came somewhat as a surprise to us to receive your letter of 27th January, indicating that it was no longer proposed to make the appointment. It was a real surprise, however, when some time later, you told Mr. Kennedy in Toronto that you had changed your mind on the question of his appointment because some unnamed member of the Bankers' Association had suggested some objection to Mr. Machaffie filling such a position, although the actual objection was not stated.

While we in the West had counted on his appointment, yet if the majority of the Board had approved the appointment of some other person of standing and experience who would not be objectionable to us, we would gladly have joined in the appointment of such a person. But, after thinking it over, we cannot understand your approving the rejection of Mr. Machaffie simply because some person has suggested an unstated objection to him, even though that person is a member of the Bankers' Association. We think it is scarcely fair treatment of him under the circumstances.

Let me say, however, that in our view a serious wrong has been done to Machaffie by a further act of the Board in which we were not consulted. When Machaffie was brought to Toronto, he was, as he had been for years, Manager of the Bank in Winnipeg. He still continued to hold that position, his place in Toronto, of course, being simply a temporary one pending the appointment of a General Manager, while Mr. Reid, his assistant in Winnipeg, performed the duties of Manager there in the meantime. Now, to our astonishment, Mr. Reid informed us last month that he had received formal notice from the head office of his own appointment as Manager in Winnipeg.

I need hardly say that Mr. Reid is the very man whom we would have recommended to the office here on a vacancy occurring, but when, and how, and why, did a vacancy occur here? We most decidedly desire to have full information upon these points, and we will expect it all to be gone into at the meeting on the 23rd June.

Just look at the situation for a moment, and you will appreciate how it strikes Mr. Kennedy and myself. Maccaffie was taken from Winnipeg more than a year ago to assist you personally in the general oversight of the Bank's business at the head office. He had been given to understand, too, from time to time that his appointment to the General Managership was practically assured, yet now his place in Winnipeg is apparently vacated and another man put in his position, and all this without any intimation of any such promise being given to the Western Members of the Board.

Let me add at the same time that we regard it as most important for the Bank's future that the best possible man available should be chosen as general manager, and that with the least possible delay. We are not at all satisfied to let matters continue as they now are.

We have not in this letter commented upon the fact that for reasons utterly unknown to us, Mr. Maccaffie has not for a considerable time past been doing the duties which he was taken from Winnipeg to do. Leaving that aside, however, what we desire to put before you now respecting the future of the Bank is that we must press for the speedy appointment of a real General Manager, who will have the qualifications, as well as the force and firmness that such an officer requires. Prior to your going on the Board, the office of President and General Manager was filled by one man. We regard it as essential that in the future a man filling the office of General Manager shall have the powers and shall in practice perform the duties pertaining to such an office, as it is done in other banks. He should, as far as the conduct of banking business is concerned, have the real charge, and he should be possessed of qualifications that will fit him to be the chief adviser of the President and Board as to the conduct of banking business.

I cannot close this letter without once more assuring you—and that very sincerely—of my appreciation of the very excellent services that you have, in my judgment, personally rendered to the Bank since you became its president. Personally I feel every assurance—and Mr. Kennedy has the same feeling—that by following only sound policies and developing the Bank's business by taking full advantage of the opportunities that lie before us, we can under your presidency and with the assistance of a good general manager before many years bring the Bank to a first class position in the Canadian banking fraternity, and should a satisfactory explanation be given as to the treatment extended to Mr. Maccaffie, and should there be no attempt made to place Colonel Mason again in the position of General Manager, we would be very glad to continue co-operation with you and join you in seeking to get the best man possible for the position, with the qualifications and with the view to his exercising the powers and doing the duties that we have outlined.

With kind regards, I am,

Yours truly,"

HIS LORDSHIP: We will take recess until 2.30.

Adjourned at 1 p.m. until 2.30 p.m. on Monday, May 5, 1924.

#### AFTERNOON SESSION

OTTAWA, ONT., Monday April 5, 1924.

Proceedings resumed at 2.30 p.m.

THOMAS A. CRERAR, *examination by Mr. Lafleur, resumed.*

Q. Have you any further correspondence to produce, Mr. Crerar?—A. There are some few further letters. I might say that after writing that letter to Mr. Haney on the 14th of June, I next met him in Winnipeg in July, I cannot recall the date, but he was in Winnipeg on his way out to Vancouver, if I remember right, and I think he was visiting quite a number of the branches of the

bank at that time, and I recall a conversation I had with Mr. Haney on that occasion in which the relationship between himself and Mr. Machaffie was discussed.

It seemed to me, from my conversation with Mr. Haney, that the difference between them was of a personal character. At any rate I asked him then, as I recall, if he had any objection to my mentioning the conversation to Mr. Machaffie, and he had none.

Q. Are you going to put in a letter of September 1st?—A. I have that here.

Q. You will find a reference to the meeting with Mr. Haney as having taken place at the Fort Garry Hotel on the trip West early in July?—A. That is the meeting I refer to.

Q. Yes.—A. Mr. Haney went on West, and I had a conversation with him on his return, which was in August. The only matter I recall that was discussed at that meeting was the line of credit for the Grain Growers Grain Company for the grain year that was then commencing.

I find on August 1st I wrote to Mr. Lash.

### EXHIBIT No. 158.

Filed by Mr. Lafleur, May 5, 1924.

Letter, August 1, 1917, from T. A. Crerar to Z. A. Lash, re matters connected with the bank's affairs.

(Copy)

"WINNIPEG, August 1st, 1917.

Z. A. LASH, Esq., K.C.,  
Bank of Commerce Building,  
Toronto, Ont.

DEAR MR. LASH,—I am going to trouble you once more by bringing to your attention as Chief Counsel of the Home Bank of Canada, certain other matters connected with the Bank's affairs.

I think it better, in the first place, to hand you, as I do herewith, copy of a letter I addressed on the 14th of June last to Mr. Haney. This letter sets out somewhat fully the reasons that led Mr. Kennedy and myself, as directors, to place the situation as we viewed it before the President.

Having had an opportunity of discussing the situation since then with Mr. Haney while in this city recently, Mr. Kennedy and I feel that if we are to continue to hold our seats as directors we must insist upon our views being met to at least a reasonable degree.

We have felt, at the same time, that it is proper to place the whole matter before you as Chief Counsel, so that you may, as we earnestly desire that you will—take it up with the President with a view to the situation being fully dealt with at an early meeting of the Board. And one reason, I may say, that influences us to address this letter to you is that we wish to be very clearly on record as placing the matter fully before the chief Legal authority connected with the Bank.

Following then what is set out in that letter—which Mr. Kennedy and I now reaffirm—let me say that the expression of our confidence in the energy and ability shewn by Mr. Haney in assisting to bring the Bank into a much improved condition, represents our actual feeling in the matter. We fully recognize his marked ability and strength, all of which was, of course, unknown to either of us when he first—without the knowledge of any of the Western directors—went on the Board. The first suggestion, indeed, that came to us indicating the force that we have since come to recognize in him, was in your own letter to Mr. Fisher, in which, according to my recollection, you referred to him as the "strong man" of the Bank.

In my recent talk with Mr. Haney I pressed on him once more the views that are set forth in the letter, and he quite frankly admitted that his actions might be open to objection. At the same time he added, with equal frankness, that *that was his way*—regarding himself, as he put it, as “the executive” of the Bank.

Mr. Kennedy and I would indeed be glad to co-operate with Mr. Haney to the best of our ability, but we are decidedly of opinion that some competent man of banking experience should be appointed to the position of General Manager—and that with the least possible delay. Mr. Haney has not had banking experience, and it was for this reason, in fact, that he felt it advisable to procure the services of a trained and experienced banker in the person of Mr. Machaffie, pending the appointment of a General Manager.

Now, while we would have gladly approved Mr. Machaffie's appointment, and while we were as in the enclosed letter set forth led to expect it, yet we on our part never proposed it—leaving it to the full Board, after careful enquiry, to make the choice. And let me say that to yourself, with the knowledge you have of men available for such a position, far beyond the knowledge, as we think, of any member of the Board, we would be disposed to look more than to any other person for suggestions in that line. We do protest, however, most decidedly against the treatment that has been extended to Mr. Machaffie, who, as Manager of the Chief Agency in the West, had been long associated so closely with the Western business of the Bank and with us as Western members of the Board.

Let me repeat, that Mr. Kennedy and I are most anxious to co-operate with Mr. Haney on the lines suggested. Having regard to the somewhat large interest in the stock of the Bank held by the grain growers of the West, as well as by the Grain Growers Grain Company with which we are associated; having regard, too, to the satisfactory business heretofore done by the Bank among the Western farmers, we need not say that we are most anxious to assist in assuring the continuance as well as the extension of that business. But we are not content to see the affairs of the Bank carried on under a one-man rule such as was exercised under the former management. As set forth in letter to Mr. Haney, we wish a real General Manager chosen because of recognized qualifications for the position, who will be armed with the powers and charged with the duties usually exercised and carried out by the General Manager of a Bank.

Should an understanding be reached looking to co-operation on the lines suggested, there are a few other matters that we would very much like to discuss personally with Mr. Haney and yourself.

Let me add, that we have not told Mr. Machaffie of our having written the enclosed letter to Mr. Haney, nor does he know aught of our sending this communication to you.

Trusting you will believe that it is purely and solely in the interest of the Bank that we are troubling you with this,

I am,

Yours very truly,”

Q. Did you get any answer to that?—A. No, I have no record of any answer to that, Mr. Lafleur. I have searched through my files and I cannot find any. That letter was dated August 1st.

Q. 1917?—A. Yes, 1917. I mentioned a moment ago that I saw Mr. Haney some time in August on his return from the Coast, but the only matter discussed was our credit for the ensuing year.

I find the next I have is a letter dated September 1st, 1917, to M. J. Haney, Esq., President Home Bank of Canada, Toronto.

**EXHIBIT No. 159.****Filed by Mr. Lafleur, May 5, 1924.****Letter, September 1, 1917, from T. A. Crerar to M. J. Haney, re Machaffie.**

"SEPTEMBER 1, 1917.

M. J. HANEY, ESQ.,  
 President—Home Bank of Canada,  
 Toronto, Ontario.

DEAR HANEY, At my meeting with you in the Fort Garry Hotel when on your trip west in early July, we discussed the question of Mr. Machaffie's position with the Bank, and our talk, you will recall, was quite frank upon the matter. It was understood then that when I went East a few weeks later as I intended, I should discuss the matter of our conversation with Machaffie, and it was perfectly understood between us that I was at liberty to mention to him anything that you had told me in respect to his work.

I also asked you on that occasion if you would be willing to discuss with Machaffie, as frankly as you had done with me, his relationship to the Bank and where in your opinion his work had been unsatisfactory during the six months previous, as up to this period his work had been satisfactory. You quite frankly and unreservedly stated your willingness to do this. It was also understood that upon your return from the West, which you expected would be about a month later, we should have further conversation about it. As intended, I saw Mr. Machaffie a few weeks after the time of my conversation with you just referred to. I told Mr. Machaffie as fully and correctly as I could your view, and it seemed quite clear to me that the difficulty had arisen largely through misunderstanding. I also told Mr. Machaffie on that occasion that you had stated your willingness to discuss the whole matter frankly with him, and he was glad of having an opportunity to meet you in this way. When in Winnipeg on your way home two weeks ago I told you of all this, and certainly understood that you would have a talk with Mr. Machaffie along the lines that I mentioned.

On Wednesday morning last I received the following message from Mr. Machaffie:—

"Without opportunity of discussion along lines mentioned by you was informed to-day before Gough and Daly that services not of value to institution and given until noon Thursday to make suggestion as to my future position and told Winnipeg out of question. This no doubt is preliminary to drastic action. If you have any advice send me night letter Wednesday to head office. Better not communicate with others here".

In view of the understanding I had with you about the matter, I was to say the least surprised. I at once wired Machaffie as follows:—

"Wire received. We think it essential we wire President to-night protesting against any action till after Board Meeting. Reply quick."

Getting no reply from him that day, I sent another message by night letter as follows:—

"Suggest if any drastic action taken you claim right and be on record of stating all circumstances your case to full Board for their consideration and decision."

Friday morning I received from him the following wire:—

"I produced both your telegram at meeting without effect. Made suggestion for establishment Inspection Department under me. Am promised reply to this suggestion on Saturday."



Whereupon I wired you as follows:—

“Much disappointed at Machaffie’s case being dealt with until meeting held at which we would be present as per previous understanding. However we strongly approve creation of Inspection Department under his charge considering such a step would be essentially in best interests of bank. Kennedy and myself urgently protest against any other disposition until meeting held.”

To this I have your reply this morning as follows:—

“Message received. Am not aware of nature of Machaffie’s communication to you. If he depended upon his work rather than his friends he would probably be more successful.”

To this I have promptly replied as follows:—

“Am mailing you full copies of messages from Machaffie which contain nothing objectionable. Frankly think he has been very unfairly treated. We read your message as suggesting that friends referred to are seeking to help him in disregard of Bank’s interests. We cannot think you seriously mean this. We urge suggestions as to inspectorship may yet be adopted.”

I also yesterday wired to Mr. Machaffie as follows:—

“Wired President to-day strongly urging creation Inspection Department your appointment as head of same and that if not done nothing be done in your case until full board meeting.”

Let me make two observations on these telegrams:—

(1) That these are the only communications I have had from Mr. Machaffie since I saw him in Toronto on the occasion referred to in this letter, and that there is nothing of an objectionable character in them.

(2) That the suggestion implied in your telegram received this morning, if we read it right; that Machaffie’s “friends” were standing behind him even to the detriment of the Bank’s business is wholly unwarranted.

I am surprised and disappointed that you have not taken the opportunity to discuss the matter with him along the terms of our understanding, and that any disposition of his case would be considered before a full meeting of the Board is held, as understood between us. As far as Mr. Kennedy and I are concerned, we want it understood that we are not standing behind Mr. Machaffie one iota beyond what his merits call for. At the same time we are not willing to see him, after his long association with the Bank and the valuable services that he has rendered it in the past, dismissed with no more regard than might be shown to a \$50.00 a month clerk.

Let us add further that we think the suggestion of creating an Inspection Department with Machaffie at its head, will not only be in the true interests of the Bank but will solve the difficulty as far as he is concerned. If this is not done, we would repeat the request indicated in our message to you that no disposition of his case be made until we have had an opportunity to discuss the whole matter at a full Board Meeting, such indeed being the understanding we had.

In this connection may I mention to you that some years ago, and before you were connected with the Bank, this very question of appointing an Inspector was taken up by the Western Members of the Board and pressed at that time upon their colleagues. To our great disappointment, while the suggestion was favorably received, nothing was ever done to carry it out. You will see therefore that the question of appointing such an Inspector is by no means a new one with us in the West.

I am,  
Yours truly,”

To that letter I received the following reply from Mr. Haney:

**EXHIBIT No. 160.****Filed by Mr. Lafleur, May 5, 1924.****Letter, September 5, 1917, from M. J. Haney to T. A. Crerar,  
re Machaffie, etc.**

"TORONTO, September 5th, 1917.

My dear Mr. CREERAR,—I am in receipt of your telegrams, copies of which are in your letter of September 1st, and do not think that anything can be gained by correspondence in this matter.

I am arranging to have a complete system outlined for the management of the Bank, and when this is done the Board will have an opportunity to discuss it.

With reference to Mr. Machaffie, I had a further talk with him, and am satisfied that he should have a rest of some kind that would clear his mind of certain ideas he has with reference to treatment, etc., and have invited him to see me from day to day and we will determine what is best to be done.

I trust when you and Mr. Kennedy come east we will have the pleasure of seeing you at the Board meetings if it is convenient.

Very truly yours,

(Sgd.) M. J. HANEY.

T. A. CREERAR, Esq.,  
President, The Grain Growers Grain Co., Ltd.,  
McDermott Ave. & Rorie Street,  
Winnipeg, Man.

Mr. LEE: What is the date of that?

WITNESS: September 5th, 1917.

I think I may state here what is probably now generally known, that during the months of August and September, 1917, negotiations were on for the formation of a Union Government in Canada, and, in that connection, I had paid one or two visits to Ottawa. If my memory serves me correctly, I was away from Winnipeg during the greater part of September. On my return at the end of September I was asked to go to Ottawa in the near future, and I find I have a wire to Mr. Haney on October 5th, 1917, from Winnipeg.

**EXHIBIT No. 161.****Filed by Mr. Lafleur, May 5, 1924.****Telegram, October 5, 1917, from T. A. Crerar to M. J. Haney,  
re arranging full Board meeting.**

"Expect leave for east tomorrow. Could you arrange for full Board meeting about October 12th or 13th? Mr. Kennedy can come down then."

To which I got this reply.

**EXHIBIT No. 162.****Filed by Mr. Lafleur, May 5, 1924.****Telegram, October 6, 1917, from M. J. Haney to T. A. Crerar.  
Reply to telegram of October 5, 1917.**

"TORONTO, Ont., October 6th, 1917.

T. A. CRERAR,  
President,  
United Grain Growers' Grain Company,  
Winnipeg, Man.  
Message received. Pleased to know you are coming east.

(Sgd.) M. J. HANEY."

MR. LAFLEUR: No reference to date of meeting?—A. No reference to date of meeting in the message. I left Winnipeg, according to this message it would be on the 6th October, and came to Ottawa, and on the 12<sup>th</sup>, or on the 11th October the negotiations leading to the formation of the Union Government were consummated, and I was sworn in as a Minister of the Crown on October 12th. A few days following, on October 15th, I find I sent the following telegram to Mr. Haney from Ottawa.

**EXHIBIT No. 163.**

**Filed by Mr. Lafleur, May 5, 1924.**  
**Telegram, October 15, 1917, from T. A. Crerar to M. J. Haney,**  
**re going to Toronto.**

"OTTAWA, Ont., October 15th, 1917.

M. J. HANEY,  
c/o Home Bank,  
Toronto.

Will be in Toronto tomorrow. Want particularly see you."  
To which I received the following reply on the same date, namely, October 15<sup>th</sup>, from Toronto.

**EXHIBIT No. 164.**

**Filed by Mr. Lafleur, May 5, 1924.**  
**Telegram, October 15, 1917, from M. J. Haney to T. A. Crerar.**  
**Replying to telegram of same date.**

"TORONTO, Ont., Oct., 15-17.

HON. T. A. CRERAR,  
Minister of Agriculture, Ottawa, Ont.  
Sorry I will be in New York tomorrow returning Thursday.

(Sgd.) M. J. HANEY."

Now, I could not wait to see Mr. Haney on that occasion, as arrangements had been made for a public meeting in Winnipeg which I was expected to address, and I left for Winnipeg without seeing him. I had no further communications, and attended no further meetings of the bank, until I wrote to Mr. Haney on January 3rd, 1918. The election was on the 17th December, 1917, and on January 3rd, a few days after the holidays, I wrote Mr. Haney tendering my resignation. The letter is as follows:

**EXHIBIT No. 165.**

**Filed by Mr. Lafleur, May 5, 1924.**  
**Letter, January 3, 1924, from T. A. Crerar to M. J. Haney, tendering resignation.**

"January 3rd, 1918.

M. J. HANEY, Esq.,  
President, Home Bank of Canada,  
Toronto, Ontario.

DEAR SIR,—I herein tender you my resignation as a Director of the Home Bank of Canada, to take effect immediately.

I am,  
Yours truly,"

With that letter I wrote Mr. Haney from Winnipeg, as follows:—

**EXHIBIT No. 166.**

**Filed by Mr. Lafleur, May 5, 1924.**

**Letter, January 3, 1924, from T. A. Crerar to M. J. Haney, re explanatory letter accompanying resignation.**

"January 3rd, 1918.

M. J. HANEY, Esq.,  
President, Home Bank of Canada,  
Toronto, Ontario.

Dear Mr. HANEY,—In handing you, as I do herewith, my resignation from the directorate of your bank, I have thought it well to accompany it with this explanatory letter.

In the first place, let me say that I am placing my resignation in your hands at this particular time for the reason that having accepted a place in the Dominion Cabinet I felt that I ought not to continue to fill the position of a Bank Director.

And, having regard to the somewhat strong terms in which for a considerable time past my Western colleagues on the Board and myself have felt it our duty to criticize some features of the Bank's past management and to urge the taking of certain steps that we felt to be to the Bank's advantage, I may say that our views have not changed, and in retiring now from the Board I will still entertain the hope that the views we have so pressed will, to some extent at least, be approved by you and acted upon by the Board. These views are somewhat fully set forth in my letter to you of the 14th June last.

I am,  
Yours truly,"

Mr. LEE: What is the date of that letter?

WITNESS: This is the same date as the other, January 3rd.

Now, that concludes the correspondence I had with Mr. Haney, or anyone else associated with the bank.

Mr. LAFLEUR: Did you not get a letter from Mr. Machaffie prior to that date about his re-engagement? I have a note that you got some communication from him.—A. No, I have no letter, but I recall that some considerable time after—

Q. After you left the Board?—A. After I left the Board, and I think after Mr. Haney gave up the Presidency, Mr. Machaffie spoke to me and asked me to write to Mr. Daly, who was then President of the Bank, putting in a word for him. He had been out of employment and wished to get some position, as I recall.

Q. Did you do so?—A. I wrote to Mr. Daly but I have not a copy of the letter.

Q. Up to the time of your resignation, were the Grain Growers' holdings still there in the bank?—A. Yes.

Q. And what happened in regard to those holdings, in regard to the thousand odd shares?—A. Those shares were sold to Mr. Daly in June, 1919, according to my recollection.

Q. Can you tell us the circumstances?—A. Well, I was not at that time, except on very rare occasions, attending meetings of the Board of Directors of the Grain Growers in Winnipeg. I was in Ottawa attending to my duties here which kept me very fully employed, but about the end of 1918 the Directors of the United Grain Growers decided that they would sell these shares if they could get a satisfactory price for them, and the reason I learned afterwards, although I was not present at the time, indeed I was practically out of touch with the business of the United Grain Growers during that period I was in the Government, was that they had in contemplation an elevator programme in Western Canada, of building country elevators, and they wished to convert this security into cash for this purpose.

Efforts were made after that from time to time to sell some of these shares. I think they had bids of 75, or thereabouts, but the matter was not taken up actively until the spring of 1919, and I recall a conversation that I had with Mr. Daly in my office in Ottawa which, according to my recollection, was in April, 1919, and Mr. Daly intimated to me that he wished to get the proxies for the Grain Growers' stock, and I gathered, in conversation with him, that there was some difference of opinion between himself and Mr. Haney. At any rate, he expressed to me then that he was afraid that Mr. Haney might be gathering the proxies of shares with a view to controlling the Annual Meeting, and that he thought some of Mr. Haney's actions in the bank were a little speculative, and he wished to get control of these proxies. I told him that I understood our Board wished to sell these shares, so he asked then that if they were sold he be given the first chance to buy them. I communicated that to my associates in the Company in Winnipeg, and they carried on the negotiations with Mr. Daly afterwards.

Q. But no proxies were given?—A. No proxies were given but the shares were sold to Mr. Daly, I think, in the first part of June. Mr. Black who is now the Provincial Treasurer in Manitoba, and who was then Treasurer of the United Grain Growers, came to Toronto and closed the matter up personally with Mr. Daly.

Q. You had nothing to do with these negotiations?—A. I had nothing to do with these negotiations.

Q. Do you know what price they got for their shares?—A. I think they were sold at \$100 per share to Mr. Daly.

Q. They did pay 133?—A. They paid 133 for them.

Q. Does that close your relations with the Home Bank, and its Directors, and staff?—A. Yes. I should make reference, perhaps, to one other thing, the only thing I recall that I have not mentioned, and that was a conversation I had with Mr. Machaffie in Ottawa, I think it was in the spring of 1918, in which he discussed his grievance against Mr. Haney, and told me that he thought Mr. Haney had been very unfair to him, and was too inclined to take chances in conducting the bank's business. That is the only thing I recall outside of what I have stated.

Q. There is just one explanation I want to ask concerning your testimony. You said that when you were looking into the Frost account in Toronto, that is the British Columbia account, you ascertained, if I understood right, that the amount was \$1,300,000 in excess of what you thought, or what you had been told. Is that right, or am I to take it that you ascertained that that was the total of the account? I did not quite catch what you said.—A. No. As I recall the information given to us in November, 1914, it was that the Frost account was about a million and a half dollars.

Q. Am I wrong, is it the Pellatt account in which you said that the wrong amount had been given you?—A. It was the Pellatt account.

Q. What was the discrepancy?—A. Well, my recollection is that when we first discussed the matter at the Board meeting in November, 1914, when we asked for this information, we were told that Pellatt owed the bank \$1,100,000, or thereabouts. Later on, before the sessions of that meeting of the Board were concluded, we found, or rather we were told that it was some \$500,00 or \$600,000 more than that.

Q. The discrepancy was \$500,000 or \$600,000?—A. Fully, and I believe that we learned later it was even in excess of that. I think the Pellatt account at that time stood at something around \$1,850,000 or \$1,900,000.

Mr. LAFLEUR: That will be all I have to ask you for the present, Mr. Crerar.

*Cross-Examined by Mr. McLaughlin:*

Q. Mr. Crerar, before Mr. Fisher on your behalf sent in the memoranda, exhibits 2, 3 and 5, you had been endeavoring for more than a year and a half to get explanations about the real state of the bank?—A. No. I would say for fourteen months.

Q. And you had never been able to get satisfactory information?—A. No. The point was that we had absolutely no confidence whatever in the General Management of the bank; we had absolutely no confidence whatever in General Mason as head of the bank.

Q. I think you were perfectly right, and you found the statements made by the management were contradictory from time to time?—A. They were, particularly in the early meetings.

Q. And, as three Directors of the bank, you had in your opinion, done everything you possibly could to get information from the head office of the bank?—A. We tried to get information, and what was chiefly in our minds at the time was that we had endeavoured to get a change in management.

Q. There were two things, you were wanting a change in management and wanting to get information about the true state of the bank's affairs?—A. Yes, sir.

Q. And you had been unable to obtain any information?—A. To our satisfaction, no.

Q. And, as a last resort, you took the very exceptional course of three Directors of the bank going to the Finance Department?—A. Yes, sir.

Q. To obtain information there. You first consulted Mr. Fisher who, I believe, is a counsel of large experience?—A. Yes, one of the lawyers of standing and repute in the city of Winnipeg.

Q. Of very high standing, and recognized as a man of fine judgment?—A. Yes.

Q. And, as a result of your consultation with him, you decided that the only course open to you was to appeal to the Finance Minister?—A. We decided that the full facts, as we had them, should be placed before the Finance Minister.

Q. You found it was your duty to place the full facts before the Finance Minister?—A. We did, under the circumstances.

Q. You were becoming very disturbed at that time as to the condition of the bank?—A. I would say that was a matter of anxiety to us, but we were more disturbed at our inability to get things started in the right direction.

Q. You felt that, in order to perform your duty as Directors, there was a lot of information that you required which you had not got?—A. Well, we thought there might be more information.

Q. And such information as you had was sufficient to make you suspicious?—A. Well, we felt we could not rely on anything the General Manager of the bank told us.

Q. So then you appealed to the Finance Minister, and you asked the Finance Minister for an investigation by his Department?—A. Yes, it is set out in the correspondence.

Q. It is set out in Exhibits 52 and 53. In Exhibit 52, Mr. Fisher says, on your behalf:

“it is true that my clients are most desirous to co-operate harmoniously with Mr. Haney, whom Mr. Lash, rightly as I think, regards as the strong man amongst the Eastern Members of the Board, and at the recent meetings I understood my clients gave evidence of such desire. But it was quite clear to me that they would not for a moment be content with an investigation to be conducted by the Board as at present constituted.”

That is right?—A. That is correct.

Q. What you wanted was a straightforward, independent, honest investigation?—A. That was undoubtedly what we wanted then.

Q. Then in Exhibit 53, at page 83, he says:

“And they are equally firm in their conviction that under the circumstances disclosed in the three memoranda placed in your hands at their instance on 22nd January last, and the papers accompanying the same, including the report of the first inspection of the chief Toronto office, it will be wholly unsatisfactory to have an investigation made by the Board as at present constituted.”

And at the end of the same Exhibit, it says:

“On the whole, it is the hope of my clients that you will be able to see your way to direct a full investigation by an auditor appointed by your Department.”

Now, what you wanted, and asked for, was a full investigation of the whole affairs of the bank?—A. That was what we had in mind.

Q. It was not merely an investigation of two or three accounts, although these accounts were prominently in your mind?—A. No. I would say that we had in mind at that time more making an examination into the bank as a whole.

Q. Yes, into the bank as a whole?—A. Because we felt we could not depend on statements that we received from the President and General Manager.

Q. Now, you submitted all these facts that were at your disposal to the Minister of Finance?—A. Yes, sir.

Q. And you specially mentioned as typical three or four accounts?—A. Well, those accounts were the ones that were giving us chief concern. I should make it clear here that as far as the other general accounts in the Toronto branch were concerned the Directors in Toronto were always strongly of the view that there would not be very serious losses in those accounts.

Q. Take the Prudential account, that, was one that was giving you a great deal of anxiety?—A. Yes, sir.

Q. And the information that you submitted to the Minister showed that at first it had been stated to you by the General Manager that it was secured by a deposit of \$500,000?—A. Yes, sir.

Q. Which you found afterwards was not true?—A. Correct.

Q. That is, the deposit could not be held as security at all. You were told also, according to what was submitted to the Finance Minister, that they had the first mortgage bonds of a railroad at New Orleans, and it turned out afterwards that that was not true?—A. I don't recall that. I think they had the bonds.

Q. They had the bonds, but it turned out, according to the material that you submitted and sent down, that the railroad that had issued the bonds had a prior mortgage issue of \$512,000. Do you remember that?—A. Yes, I believe that is correct.

Q. Which was not worth fifty cents on the dollar, that these bonds were only secured by a deposit of the subsidiary company called the Algiers Company?—A. There were two subsidiaries, as I recall it.

Q. And that they had a bond issue of \$300,000?—A. My recollection is that the obligations of those companies was the \$180,000 that was owing to a man named Carrol.

Q. \$254,000 of this \$300,000 had been deposited to secure \$180,000, and that security was only on the stock?—A. We discovered that.

Q. And you also submitted to the Minister a report by Mr. Merrick, a prominent solicitor in New Orleans; that is on the file submitted to him?—A. Yes.

Q. In which he stated that there was little hope of the bank recovering any respectable portion of its claim?—A. I believe that view was expressed.

Q. And you had a report by Mr. Adair, Supervisor of the bank, who went down there and investigated, that is Exhibit 65, in which he reports there is practically no equity for the bank?—A. Yes, there was a report from Mr. Adair.

Q. And you had a report from Mr. Anglin which you submitted to the Minister also?—A. I recall that.

Q. In which he would not advise the bank to put any more money into the enterprise, to try to save what they had?—A. I do not recall that that was in Mr. Anglin's report, but it may have been.

Q. I do not want to take up any more time than is necessary, because these things are in. The Anglin report is Exhibit 40. And then you know also that the Prudential Trust Company disputed their liability, that was also submitted to the Minister?—A. Yes, I think that is correct.

Q. So that that account looked pretty bad in your eyes?—A. That was the account I may say that gave us the most concern at that time.

Q. Well, were you aware that while you were a Director those railways went into the hands of a Receiver, and that the assets were sold?—A. I do not recall that.

Q. And that the bank received nothing?—A. No, I do not recall that.

Q. This was done while you were a Director, but I dare say it was done behind your back, and then the bank bought these securities of the subsidiary road, the Algiers Road, for \$235,000, making a new investment?—A. I do not recall this particularly, Mr. McLaughlin, but I do recall that discussions took place as to protecting the securities to the bank that lay in the Algiers Railway, and I think the other was the Western and something. I recall discussions of that kind, I do not recall what you have just stated.

Q. Well, evidently the Board decided not to protect them, because they let them go under Receiver's sale?—A. I cannot recall that. It may have been with a view to buying them in.

Mr. SYMINGTON: Get the date and then you will know. What date was that?

Mr. McLAUGHLIN: I think it was in 1916. That is given in Mr. Clarkson's evidence, as reported in his report. I do not remember the exact date.

WITNESS: I recall very clearly that the matter was under discussion, and the view of the Directors was that what security there was should be protected.

Q. What is that?—A. I recall that the matter was discussed, and that what security there was in the Algiers, and the other subsidiary concern of the New Orleans and Grand Isle Railway should be protected.

Q. You do not then know exactly what was done?—A. I do not know the steps that were taken.



Q. What was done appears to be, according to the evidence, that they were foreclosed out altogether, and that the bank made a new investment which the Prudential Trust had nothing to do with, by buying in the Algiers Road, not at the sale but subsequently from the purchaser?—A. Was that clearing up the Carrol obligation?

Q. This is Mr. Clarkson's report:

"1917. In this year the New Orleans and Belle Isle Railway Company went into the Receiver's hands, following which its assets were taken over by holders of securities with liens prior to those held by the bank as security for its advances. The bank later acquired the South New Orleans Railway Light and Power Company by the purchase of securities to the amount of \$235,000."

A. What date is that, 1917?

Q. 1917.—A. Oh, well, I was not aware of that. I do not recall attending any directors' meetings in Toronto in 1917.

Q. I am quite well satisfied, from what you said, that you were not being kept informed as to what was actually being done. Now, were you aware that the Frost loan from the time it started, away back in 1906, or 1907, right down till 1916, and from then on right down to the time you ceased to be a Director, there never had been a dollar of interest paid on it?—A. I know that no interest had been paid on the loan up to 1915. My recollection is that that information was given to us in the November meeting of 1914, but my impression is that we were told after that that Frost had made some small payments on account of interest.

Q. It appears, according to the Liquidator's report, that any payment made on account of interest was taken out of money borrowed from the Bank, and the account went on increasing from year to year and there never was any reduction.—A. I take it that would be correct then.

Q. The Pellatt account you have told us about. Now there were other accounts existing at that time that have turned out very unfortunately. Do you know anything about the Holmes account?—A. I remember the Holmes account was one that was discussed during 1915. It was represented to us that there was adequate security behind it.

Q. \$200,000 had been advanced on South African scrip?—A. I recall something of that nature now you mention it.

Q. Real estate, which would not be a legal investment for the Bank?—A. I do not know as to that.

Q. And the Liquidator reports that as practically a total loss, he may recover \$25,000 out of \$225,000. There was no investigation made of that account?—A. No specific investigation.

Q. Nothing further than what the General Manager stated, that he thought it was absolutely secure?—A. That is during 1915?

Q. Yes?—A. No, that account I presume as well as some others—

Q. You could get no information except the statement of the General Manager, and you did not believe that to be reliable?—A. No, we did not feel it to be reliable.

Q. Did you know anything about the King Shoe Company account at that time?—A. I recall that account.

Q. Which turned out to be a very heavy loss?—A. Yes, I recall that because if I remember aright there was a few hundred thousand dollars involved.

Q. Do you remember anything about the large amount that General Mason and his son owed the bank?—A. No, although it was disclosed at the meeting in November, 1914, that General Mason and his son both owed the Bank,—if my recollection is right the combined amount was somewhere around \$70,000.

Q. Yes, seventy to ninety thousand dollars, and the bank held no security for that.—A. I understood there was security on their personal property, their residences.

Q. If that were so it would be a loan against real estate which would not be legal. These are matters that the Liquidator reports as practically a total loss to-day.

Then the Barnard loan was one that you were anxious about, too. There had been a pretended settlement of that?—A. Yes I recall that loan gave us concern during 1915 and towards the end of 1915 or early in 1916 some settlement had been effected between General Mason and Mr. Barnard without our knowledge.

Q. You were told that that had been settled, but you were not satisfied that that was really a genuine settlement, according to Mr. Fisher's report?—A. I recall that we were not satisfied with the settlement and the means by which it had been made.

Q. There was some \$148,000 written off and a note taken for \$262,000 from the Fidelity Trust Company?—A. I believe that is right.

Q. And you found out that the Fidelity Trust Company was a nominal company controlled by Mr. Barnard?—A. I think our investigation or enquiry afterward disclosed that.

Q. And the company did not keep any office open and had a writ issued against it for rent?—A. Well I do not know that we learned the latter fact.

Q. That appears in what is filed before the Minister.—A. Then I daresay it was there. These were enquiries that were set on foot from Winnipeg, I might say, to find out what the standing of the Fidelity Trust Company was.

Q. That report is on file here. Then you also knew Mr. Barnard as a Director of the Prudential Trust Company which was disputing its liability?—A. Yes sir.

Q. Notwithstanding his large indebtedness and his being a Director of the Prudential also, he was appointed a Director of the Bank?—A. Yes but without our knowledge or approval.

Q. At a meeting of which you had never had any notice?—A. Quite. I should say in that respect that I think that appointment was made at one of the ordinary meetings of the bank.

Q. But still for a matter like that there ought to be notice to the Directors of what business was coming up?—A. We thought so.

Q. And you objected to that. And it also aroused your suspicion that Mr. Gooderham had resigned, as well as Mr. MacNaught, and Mr. Haney had been appointed in his place at a meeting of which you had no notice?—A. Yes, I do not remember when Mr. MacNaught and Mr. Gooderham resigned, I think it was at the end of 1915.

Q. Were you made aware, as one of the Directors, of how the profits were made up, say for the years 1915, 1916, 1917 when you were on the Board?—A. No.—I am not clear as to 1915.

Q. Here is what the liquidator says about 1915, you will probably recognize whether you knew about this at all (page 270):

"Now about the profits for a few years. In 1915, you will find it on page 9 of your report, the profits were shown to be how much?—A. \$163,900.

Q. That is the statement previous to the time the Directors put in their complaints. Then you will find at the top of the page what items were taken into profits.—A. \$42,526 taken as a profit earned in connection with the purchase of La Banque Internationale.

Q. Was that justifiable?—A. No sir it was not earned.

Q. What else?—A. \$179,710 for the Frost advances.

Q. Not earned either?—A. Not as the facts turned out, in the light of present facts.

Q. It was a profit that never came to the bank either then or at any time since?—A. The bank has never received it.

Q. And never will. What else?—A. \$31,167 on loans on the New Orleans securities.

Q. What else?—A. \$22,537 as interest on the Home City Estates advances.

Q. How much does that amount to altogether that was taken in that year's profits that was not earned?—A. \$276,940 is the amount of that interest."

I do not suppose for a moment that you are aware that while they made up their profits as \$279,000, \$276,000 of that had to be written up of interest that was not paid and which the bank has never been able to collect.—A. No, sir, I was not.

Q. You would have been very much surprised, if you had had that information?—A. Yes sir.

Q. And you certainly would not have approved of it?—A. I would not.

"Q. About \$100,000 more than—A. \$116,000 more than the profits." (page 271).

Q. Now take the year ending May 31st, 1916. What do you find the earnings for that period to be?"

That is the year when all this discussion was going on.

"A. \$133,406

Q. What unearned amounts were taken in to make that up?—

A. About \$210,000. Frost \$170,676. New Orleans \$8,100 and \$32,000 on other items.

Q. How much more than all the profits they professed to have made?—About \$77,000."

A. That was 1916?

Q. 1916, May 31st. Were you aware that Mr. Lash on behalf of your Directors had given the Minister an assurance in March 1916 that unearned interest would not be taken into profits on the Frost or the New Orleans account?—A. No sir I was not.

Q. And you were not aware that it was taken into profits?—A. I have no recollection of any discussion on that. I might say that Mr. Machaffie and Mr. Hancy had then taken charge of matters as far as the managements was concerned, in March, 1916.

Q. You were of the opinion, as you stated before, that an independent investigation was necessary?—A. We held that view.

Q. And Mr. Fisher was of that opinion?—A. Yes, that was Mr. Fisher's opinion.

Q. And Mr. Lash was of that opinion in the first place? On Exhibit No. 72,—I do not suppose you saw this,—Mr. Lash says, "I have always thought that the investigation should be by an outside competent person who would be quite free from an interference by the present management or Board." That is a letter from Mr. Lash to Sir Thomas White of February 29th, 1916.—A. No, I knew nothing of that.

Q. Then on March 4th Mr. Lash suggests for the first time that the investigation should be from the inside?—A. I think Mr. Lash in his telegram to Mr. Fisher of February 14th suggested that also, that is the Exhibit I filed this morning. (Exhibit No. 147) In that Exhibit Mr. Lash says:—

"I have told him (Sir Thomas) that the information he asked for is ready but that as it will be useless to him unless full investigation made I am retaining it hoping that he will allow investigation to be made

under directions of Board, I think he will comply if your clients request him to do so."

Q. I am glad you called my attention to that because Mr. Lash says in his letter of February 29th that the investigation should be by an absolutely independent outsider.—A. I know nothing of that.

Q. Which was right in your opinion?—A. At that time we felt that the investigation should be by an outsider. I changed my opinion, for the time being at any rate, later on.

Q. I suppose that is your opinion now, that the investigation should have been by an outsider?—A. I think probably it would have been better, sir.

Q. Well it is not a question of think, you know now?—A. Yes.

Q. Were you in Ottawa on the 28th of March when there was an interview between Mr. Haney and Mr. Lash and Sir Thomas White?—A. That is 1916?

Q. Yes.—A. No sir I was not present. The letter I wrote to Sir Thomas White was dated March 20th and I had to leave for the west immediately after that.

Q. In that interview which Mr. Lash has repeated in the letter to Sir Thomas White (Exhibit No. 83) he says:

"Mr. Machaffie, Manager of the Winnipeg Branch, has been brought to Toronto to act as Mr. Haney's chief assistant. Mr. Machaffie is regarded as one of the ablest officers in the employment of the Bank. He is a trained banker, and before coming to the Home Bank he was in the service of the Merchants Bank and the Bank of British North America. He is in no way responsible for the general management in the past, and he has managed the business in Winnipeg satisfactorily."

Then farther on, paragraph eight:—

"With a view to ascertaining the actual position of the bank, a thorough investigation will be made, under the directions of Mr. Haney and Mr. Machaffie. The Board is of the opinion that the result of this investigation will show that the capital of the bank is intact, and that no loss will be suffered by any of its depositors or creditors—"

So you will see there that Mr. Lash promised Sir Thomas White that a thorough investigation would be made under the direction of Mr. Haney and Mr. Machaffie?—A. Yes sir.

Q. Was that investigation ever made?—A. My recollection is and my understanding certainly was—

Q. Mr. Machaffie says he never had any part in making any investigation?—A. Well Mr. Machaffie was associated with Mr. Haney throughout 1916 and indeed during 1917.

Q. But we had him here giving evidence the other day and he said he never heard of such an investigation being made, had no part in it?—A. Well I certainly understood, and my western colleagues understood—

Q. Do you remember a report being made?

Mr. SYMINGTON: Why don't you let him answer the questions, you are interrupting his answers.

WITNESS: Information was given to the Directors at meetings at which the Western Directors were present, of the general position of the Bank, I do not recall that any written report was made by Mr. Machaffie or Mr. Haney.

Mr. McLAUGHLIN: So that when Mr. Machaffie says he was no party to making any report of that kind you do not dispute it?—A. I have no recollection of any written report but there was at the Directors' meetings discussion of all these accounts, and I recall that both Mr. Machaffie and Mr. Haney in 1916 were optimistic for the future.

Q. I would assume from this promise to Sir Thomas White that a thorough investigation was going to be made and a report sent to him.—A. I do not know as to that.

Q. He says of course that he never got one?—A. Well I did not know of the communications that Mr. Lash had with Sir Thomas White, beyond the letter I wrote to Sir Thomas myself.

Q. You continued to be of the opinion, and so did Mr. Fisher and you all, that an independent investigation was necessary, until Mr. Lash advocated an investigation by Mr. Haney and Mr. Machaffie?—A. I was of that opinion and I think the other Western Directors were too, until the meeting of the Directors in March, 1916, in Toronto. I recall very distinctly that on that occasion it was represented to us by the Eastern Directors that an enquiry by an outside auditor coming into the Bank could not be kept from the knowledge of the staff, that rumours might get out on the street and there would be a run on the Bank and it would have to close its doors; and I recall also that that was Mr. Lash's view.

Q. It clearly appeared that the management did not want an independent inspection?—A. Who do you mean by the management.

Q. The General Manager and the Directors who were taking his part. A. Well that may be. The impression I got distinctly was that the Directors,—some of them I did not attach much importance to their opinion but I did to Mr. Haney's and I think to Mr. Macdonell's at that time,—unquestionably their view was that there was very grave danger in having an outside inspection.

Q. And you of course had a great deal of confidence in Mr. Machaffie?—A. Yes we had.

Q. And you would have been satisfied with a thorough examination and inspection and report by Mr. Machaffie I suppose?—A. I thought from Mr. Machaffie and Mr. Haney we could get full information as to the Bank's position.

Q. And I suppose if Mr. Machaffie had made a thorough investigation and report you would have relied upon that with a great deal of confidence?—A. I think I would have done so at that time, yes.

Q. That reports you did get from time to time do not seem to have been reliable.—A. Well—

Q. This terrible disaster would not have happened if they had been. Of course I am not questioning your absolute good faith in the matter.—A. Will you repeat your question?

Q. I say that the reports you got, the information that was given you about the Bank and its flourishing condition was evidently not according to the fact?—A. Judged by subsequent events, no. I think at that time the general feeling was that the Bank could re-establish itself. I might mention for instance the account with the Grain Growers, in Winnipeg, in 1917 our company paid the Bank about \$117,000 in interest alone. It was probably the largest account the Bank had in Western Canada. We felt that the Bank had a good earning power if it were properly handled.

Q. Evidently in the letters you wrote suggesting a thorough investigation and report, and if it was found that the whole reserve should be written off and probably some of the capital, steps should be taken to obtain an amalgamation or absorption by another Bank—A. We had that in view?

Q. Yes, you wrote that letter?—A. Yes, that is the letter of April, 1916.

Q. Yes, and you never got such a full report as you suggested in that letter?—A. There was never a written report from Mr. Haney and Mr. Machaffie, that I recall.

Q. At that time three times the capital of the Bank was locked up in these accounts that were not paying interest?—A. Pretty close three times the capital.

Q. And about half the deposits? I suppose you saw this letter written by Mr. Lash to Mr. Fisher who was acting for you, Mr. Fisher would show you everything. (Exhibit No. 132.) On February 29th, 1916, he wrote.

"My Dear FISHER:—I have received your letter of the just as I was leaving last week for a week's absence on business.

I saw Sir Thomas White while I was in Ottawa on Tuesday last, the 22nd, and I explained the position up to that time. Among other things I told him that we were endeavouring to perfect certain securities which we were taking from Sir Henry Pellatt.—"

then farther down:

"The more I consider the Bank's position, even assuming that every account will ultimately be collected in full, the more doubtful I feel as to the possibility of its continuing in business. The amount locked up indefinitely in four large accounts, is probably three times the paid-up capital, and more than half the total deposits; and if anything should take place which would cause a comparatively small percentage of the depositors to ask for their money, I do not see how the Bank could without assistance from outside continue with open doors."

I suppose you remember seeing that letter?—A. I do not recall but I probably saw it.

Q. What do you think of Mr. Lash's statement there?—A. You mean as to its accuracy?

Q. Yes, how would that agree with your judgment?—A. No it would not agree with my judgment at that time I did not feel I had information to form—

Q. I suppose it agrees with your judgment now?—A. The course of events has shown that.

Q. This Bank of course had no right to obtain deposits under false pretences any more than any other institution?—A. I would say it is wrong for a bank to do that.

Q. If this Bank had published the fact that three times its capital and half its deposits was locked up in three large accounts which were paying no interest, what would have been the result?—A. The Bank would have closed its doors inside of—

Q. Twenty four hours?—A. Yes, less than that I should say.

Q. So if the true facts had been known to the public the Bank would have had to close its doors?—A. If the facts of these large accounts had been known to the public at that time I think the depositors would naturally have gone after their money.

Q. And they would have received no more deposits, or very little?—A. Scarcely.

Q. Now the one thing you were anxious about was to have an independent investigation, and you never succeeded in getting one?—A. We never had a written report from Mr. Haney and Mr. Machaffie.

Q. You never got the independent investigation that you wanted in the first instance?—A. No, but we had a very full discussion of these accounts at various Board meetings.

Q. And the discussion did not do any good?—A. Well Mr. Haney's judgment and Mr. Machaffie's in 1916 was that the Bank could be brought to a sound position.

Q. But Mr. Machaffie says he never had an opportunity to make an investigation?—A. Well—

Q. Anyway you got no independent investigation?—A. We had no independent investigation, no written report from Mr. Machaffie and Mr. Haney.

Q. And the other thing you wanted and that you felt absolutely necessary for the success of the Bank was a change in management?—A. Yes we were insistent on that from the first.

Q. And that was not a change from James Mason to James Cooper Mason?—A. Certainly not.

Q. So that you never obtained the change in management either?—A. No.

Q. The change from father to son was not what you wanted and was not satisfactory?—A. Cooper Mason was made General Manager after I left the Board.

Q. While you were on the Board there was no change at all made in the General Manager?—A. No General Manager had been appointed in succession to General Mason.

Q. And the assurance that had been given to you that a new General Manager would be appointed was not carried out?—A. No.

Q. Mr. Haney had assured you that the question of General Manager should be taken up and settled?—A. That was Mr. Haney's view at that time and during 1916. This question was under discussion and at the end of 1916 he asked us, as I stated in my evidence this morning, by wire in Winnipeg whether we would agree to Mr. Machaffie's appointment. That appointment however was not made.

Q. So General Mason, while he was not a success as a Bank Manager, certainly succeeded in getting his own way in connection with this bank, in blocking an independent investigation which both Mr. Lash, Sir Thomas White, Mr. Fisher and yourself thought necessary. I do not blame you in the matter you were brought over from that view under the promise that an investigation would be made in which Mr. Machaffie would take part.—A. That was our understanding.

Q. And that was your sole reason for giving up your demand for an independent investigation, your confidence in Mr. Machaffie?—A. Yes, we had confidence in Mr. Machaffie, and we had confidence in Mr. Haney at that time, and we expected that they would give their best attention to the affairs of the bank.

Q. Then you got no change in the General Manager, and from year to year the continuing management, to which Mr. Haney became a party, professed that the bank was gaining, getting into a better state all the time?—A. In 1916, Mr. Haney and Mr. Machaffie were according to our understanding performing the functions of the General Manager.

Q. But Mr. Machaffie's action in the matter seems to be the result of the fact that he never was permitted to make the investigation that it was intended he should make?—A. Well, that complaint was not made to myself, or so far as I know to any other of the Western Directors.

Q. Mr. Persse, I believe, resigned shortly after 1916?—A. I think Mr. Persse's resignation was given in August, 1916.

Mr. LEE: November 3rd, 1916.

A. Well, the latter part of 1916.

Mr. McLAUGHLIN: What was the reason of his resignation? He was not satisfied, I suppose?—A. No, it was not on that account; Mr. Haney wanted to get some additional Directors, or some additional strength on the Board in Toronto, and I think the matter was discussed with Mr. Persse and he expressed a willingness to withdraw.

Q. When did Mr. Kennedy resign?—A. I think Mr. Kennedy resigned after Cooper Mason was made General Manager.

Q. That would be after you resigned?—A. After I resigned, yes.

Q. And you, as you said in your letter of 5th January, 1918 when you resigned, were still dissatisfied with the management?—A. I drew Mr. Haney's attention to the representations I had made in my letter of June 14th previous.

Q. And you were still of the same mind?—A. I was still of the same mind that Cooper Mason should not be made General Manager and that a General Manager should be secured.

Q. And the disaster that has resulted to this Bank I suppose has been really caused by the fact that the change in management that you desired was not made, and that the investigation was not made that you desired?—A. Well that is only my opinion but if we could have had a competent General Manager in 1916 I do not think we would have had the condition of affairs that you have today.

Q. I have no doubt about that, because the Liquidator tells us that the Bank has lost at least \$7,500,000 since 1916. A competent General Manager would probably have prevented that.—A. I may say this, that from the intimation I had,—and I think this view was shared by my Western colleagues as to the Bank's general position in 1916,—our conclusion was that the bank had good earning possibilities, I know that in Western Canada it was well regarded.

Q. But evidently you were not given full information, because the evidence submitted is that the Bank was in a very precarious position in 1916, was practically insolvent?—A. I would say that was not my opinion at that time, and I would say too that probably we did not have as full information on many of these accounts as we should have had.

Q. If there had been a thoroughly independent investigation that information probably would have been available to you?—A. I cannot express an opinion on that.

Q. An independent investigation would probably have found out the true facts?—A. I would say that it might have disclosed more information than was given to the Board, but I cannot express an opinion on that.

Q. This Bank went on doing business and taking in deposits when as you said a while ago if the true facts had been known, the facts stated in Mr. Lash's letter, that three times the capital and half the deposits were locked up in three accounts bearing no interest, the Bank could not have continued in business?—A. I would think, if that information was given to the public in the newspapers for instance there is not much doubt what would have happened to the bank.

Q. I suppose as a public man you agree that the public really ought to know the facts in connection with a bank in which they are asked to deposit their money? Or ought they to be asked to deposit it in ignorance?—A. I do not know that I can pass an opinion on that.

Q. Then we will leave it.—A. I might say that there are perhaps a good many banks that if their business were exposed to the public gaze they would be in difficulties.

Q. If their business were exposed to the public they would probably have themselves a good deal better?—A. That may be.

Q. Banks have no more right than any other individuals to obtain money under false pretenses, they have no right to obtain money under growing statements that are not true.—A. I quite agree with that.

Q. I know you do, and I appreciate what you did to try to stem the tide and prevent the failure of this bank, although being human like myself and the rest of us you made a mistake in judgment in yielding to Mr. Lash?—A. That may have been a mistake at that time. I did what in my judgment was the best thing to do.

Q. And that was not your judgment until Mr. Lash had expressed that view?—A. No, I say quite frankly I was influenced to that opinion by the representations—

Q. You wanted an honest independent investigation before that?—A. I was influenced to change—



Mr. LAFLEUR: Let him finish his answer.

Q. And you thought that investigation would be made by Mr. Machaffie in whom you had confidence?—A. I changed my view because of the representations made by the Eastern Directors and by Mr. Lash that such a step as an outside enquiry would probably mean the Bank closing its doors.

Q. And you believed that this thorough investigation would be made, in which Mr. Machaffie would take part?—A. I thought in addition to that that Mr. Haney as Chief Executive Officer of the Bank,—he had at that meeting been elevated to the position of Vice-President,—and with Mr. Machaffie in whom the Western Directors had confidence at his elbow, that a change for the better could be made in the institution and the information desired could be secured.

Q. And they would make that investigation?—A. That we would get the information, any information we wanted.

*Cross-examined by Mr. Lee:*

Q. I suppose in 1915 the purpose you had in view was to assure yourself that this Bank was going to be safe for the people, that is the depositors and the shareholders; that was the disturbing element in your mind at that time?—A. Yes, sir.

Q. And you had been on the Board of Directors, elected I believe on May 11th, 1910?—A. It was in May, 1910, as I recall.

Q. And you continued to act until January 9th, 1918?—A. Yes, sir.

Q. As you told us, you retired when you went into the Union Government?—A. Yes, sir.

Q. During all the time you were on the Board this Bank paid dividends?—A. Yes, sir.

Q. Were you present at any Directors' meetings when the dividends were declared?—A. I cannot recall, I may have been. My recollection is that I was present at one meeting when a dividend was declared.

Q. What year would that be?—A. In 1915 or 1916. I mention that because I had attended no meetings as far as I can recall from the Annual Meeting in 1911 until this meeting that took place in November, 1914.

Q. Then you think that meeting was in 1916, the Directors' meeting which you attended at which a dividend was declared?—A. That may have been in the early part of 1916.

Q. Do you remember what the dividend was?—A. Then?

Q. Yes?—A. 5 per cent.

Q. I suppose before declaring the dividend you had a statement from the General Manager in reference to it, do you remember that?—A. I do not recall, a statement of earnings do you mean?

Q. Yes?—A. No I cannot recall a statement of earnings.

Q. Did you make any investigation to find out whether a dividend could be declared in 1916?—A. Not that I recall.

Q. Did you make any in 1917 or 1918?—A. I was not on the Board in 1918.

Q. You were up to January 9th, 1918. When was the dividend declared that year, about May was it? (May 31st.) Then you are quite right. So that dividends had been declared every year from the time you went on the Board until the time you ceased to be on the Board?—A. Dividends were paid every year.

Q. And they were paid in the year that you made the objections through Mr. Fisher to Sir Thomas White?

A. That was in 1916?—A. Yes sir.

Q. And they were paid in the following year, 1917?—A. Yes sir.

Q. Do you not think it might have been advisable for you Western Directors to have looked into the Bank's condition in 1917 before you declared a dividend?—A. I will say that we had full confidence in Mr. Haney and Mr. Machaffie.

And Mr. Haney became President of the Bank in the latter part of 1916, he had been Vice-President and the active executive officer practically from January 1916.

Q. Did you make any inquiries at all from either Mr. Haney or Mr. Machaffie whether you could declare the 1917 dividend?—A. I have no recollection of that, I think not.

Q. Did any of you gentlemen, Mr. Persse, Mr. Kennedy or yourself, make any enquiries of that nature to your knowledge?—A. No, as far as my knowledge goes.

Q. So that after you knew in 1916 that this Bank was in a very shaky condition you idly sat down and declared a dividend, is that the situation?—A. No, I will say that after March, 1916; we were guided largely in respect to the Bank's affairs by the opinion of Mr. Haney and Mr. Machaffie.

Q. I understand that very well. But do you not think that you as a Director, before being a party to declaring a dividend to the shareholders, should have made some further investigation to ascertain if these profits were true or false?—A. Well we took the statements that were presented to us by the management of the Bank.

Q. You were suspicious in 1916 that the statements General Mason made were not true, that is correct, isn't it?—A. In 1915.

Q. And you were still more suspicious in 1916 of General Mason's statements?—A. Of the information General Mason was giving the Board.

Q. He had furnished you with one statement and some of the correspondence at the three days meeting that his own overdraft was about \$31,000 on one day, and next day it was about \$53,000, do you remember that?—A. Yes, I think there was some deception.

Q. And the following day it was \$76,000, you remember that? So that you were getting more suspicious of General Mason's statements all the time?—A. Let me make this clear that after our first meeting or two I declined to accept for my own information any statements that General Mason made, unless they were verified. I dislike to have to make such a statement but I am giving you the fact.

Q. Did you write any letter at all to the President and make any objection at all in 1916 or 1917 to a dividend being declared?—A. No, I have no recollection of that.

Q. But you were getting more suspicious in 1917 of General Mason than you were in 1916?—A. No, General Mason had been practically eliminated in March, 1916.

Q. Who signed that year's statement, do you remember?—A. I do not know. I may have known but I do not recollect now. I know I did not.

Q. Did you make any complaint to Sir Thomas White about dividends being paid to the shareholders?—A. No, I presumed Sir Thomas knew that.

Q. Did that ever come before your Board in any of your meetings in 1915, 1916 or 1917?—A. To make representations to Sir Thomas White?

Q. Yes, that is your Western Board?—A. No I have no recollection of that.

Q. Did that question come up at any of the meetings that you attended in Toronto as to the advisability of declaring the dividend?—A. During 1916?

Q. 1915, 1916 or 1917?—A. I think the matter was discussed. My only recollection of that being discussed was at some meeting at the early part of 1915, or it may have been at the time of the annual meeting in 1915.

Q. It is not usual to discuss dividends at the Annual Meeting?—A. Well I mean at the Directors' meeting.

Q. In the early part of 1915 you discussed the advisability of declaring a dividend?—A. No, we discussed the advisability of passing the dividend as I recollect, or cutting it down, and it was cut down from 7 to 5 per cent.

Q. Do you remember what the reason was that permitted you to even pay 5 per cent at that time?—A. You mean that permitted me personally?

Q. Yes?—A. To strengthen the Bank's resources. I think I may say that at that time I would have been quite willing to have passed the dividend.

Q. Were Mr. Persse and Mr. Kennedy of the same opinion at that time?—A. I think they shared my view.

Q. That the dividend should be passed?—A. My recollection is,—and let me say by way of interjection it is difficult to throw one's mind back eight years and recall details of a conversation at a Board meeting, but my recollection is that at that time the Western Directors suggested that the dividend should be passed and that the Eastern Directors were of the opinion that such a step might have a very prejudicial effect on the Bank. Our motive was to strengthen the Bank's resources. The question of whether the dividend could legally be paid, or not I cannot recall was discussed.

Q. But you think that would have been something that might readily come up in the minds of the Directors in 1916 after you had made these serious charges to Sir Thomas White?—A. Well I don't know as to that; all I can say is that as far as the Eastern Directors were concerned, we had confidence in Mr. Haney and Mr. Machaffie.

Q. But do you mean to say that the dividend in 1916 was passed by the Eastern Directors, by a majority over the heads of the Western Directors?—A. No, as a matter of fact I doubt if the Western Directors were present at the meetings when the dividends were declared. I can only recall one occasion. It will perhaps make it clearer if I state that after Mr. Haney and Mr. Machaffie were given charge of affairs, the Western Directors attended comparatively few meetings during the balance of 1916 and I do not think I was at a single meeting in the East in 1917. At any rate I cannot recall one.

Q. You cannot recall any meeting in 1917 that you attended?—A. In 1917, no.

Q. Were any of the other Western Directors present at any of the meetings when a dividend was declared in 1917?—A. I cannot recall that Mr. Lee. Mr. Persse would not be because he had resigned.

Q. Mr. Persse resigned on the 3rd of November, 1916.—A. Yes, it was in the latter part of November in 1916 as I recall it.

Q. And he went on the Board on the 13th of May, 1908?—A. I might say in answer to your question, I think that Mr. Kennedy was at the annual meeting in 1917. I am not certain of that but my recollection is that he was.

Q. Now you spoke to my learned friend this morning in reference to a pool which had been requested by Mr. Haney in the correspondence with you. Mr. Haney, I believe, desired to support the stock of this bank in 1916 by buying stock to the extent of \$200,000. Am I correct in assuming that from what you said?—A. He suggested in a letter to me—I have forgotten the date of it, but it is in the record—that the Eastern Directors were desirous of creating this pool for the purchase of Home Bank shares that might be offered for sale. He asked our participation in it.

Q. What did he mean by your participation?—A. I was just about to explain that. He asked if we would participate in that, and my reply is in the record. There was no participation whatever on the part of the Western Directors or Western interests in that.

Q. Your reply was that yourself, or the Western Directors, or your clients the Grain Growers' Association, would take no part in that pool?—A. That was the effect of it, yes.

Q. And you did not take any part in the pool?—A. None.

Q. So that anything that was done to bolster up the stock and buy it in, was done by the Eastern Directors, by Mr. Haney and his friends?—A. Yes, and without our knowledge, other than the suggestion in Mr. Haney's letter.

Q. Without any knowledge other than the suggestion by Mr. Haney. Did you ever find out afterwards whether Mr. Haney did form that pool or not?—A. There is a reference in a letter that I have from Mr. Haney, as I recall, in the record, that the pool had been in operation some time and that only 83 shares had been purchased. I think that is correct.

Q. Am I seized of the fact when I say that \$200,000 was to be raised to form a pool? Is that correct?—A. I know of nothing more than the suggestion in Mr. Haney's letter.

Q. That is Exhibit 148. Do you remember what date that was?—A. I don't at the moment. I can get it in a moment if I have a look at the file. Yes, the first reference to that was in the letter of April 3rd, in the concluding paragraph.

Q. "I am arranging for a pool to support Home Bank stock and maintain it at a price not below 80. This will require \$200,000 and we want the co-operation of our Western friends and I hope you will help me to the extent of \$50,000." What you say is that in your letter, Exhibit 149, your answer to Mr. Haney, you said regarding that pool:—

"I note what you say in respect to a pool to support the stock. I cannot of course say at the moment what we can do. If this company were to contribute anything towards such a pool, it could only be done on the approval of our Directors, and this would mean disclosing fully to them the situation as it now stands."

What did you mean by that? Did you understand that Mr. Haney was asking the United Grain Growers' Association to participate in a pool to hold up the bank stock, or did you understand that Mr. Haney's letter to you was a personal one requesting you and your fellow Directors to hold up that bank stock?—A. I cannot recall at the moment, Mr. Lee, what I might have thought when I got Mr. Haney's letter.

Q. I am not sure, because you use these words:—

"If this company were to contribute anything towards such a pool, it could only be done on the approval of our Directors."

—A. Well, I think that was probably a polite way of telling Mr. Haney that I did not want to consider it.

Q. But what did you mean by the word "company" there?—A. The United Grain Growers.

Q. So that you took it that Mr. Haney was making a request to the United Grain Growers' Association to participate in holding the bank stock up by buying in stock at 80, is that what you understood?—A. That may have been the impression that I got from his letter at the time.

Q. That was the impression that you got from his letter, and getting that letter in 1916, did that not lead you to become more suspicious of the solvency of this bank, in view of all the other facts which you knew in February, when a proposition like that is made to you to hold up the stock in this way, which stock was not listed on the stock market, did not that cause more suspicion in your mind?—A. No, I don't know that I attached any particular significance to it at the time.

Q. You had bought at 133 and the stock was being supported then only at 80. Did it not occur to you that this bank as far as the general public regarded it, that the stock was going down and that people had not that confidence in it which they should have?—A. No, I did not have that impression. As a matter of fact there had been a very heavy depreciation in the stock of most concerns at that time.

Q. Can you point me to one bank stock that in a period of three years had gone down 60 per cent, so far as you know?—A. No. This had not gone down 60 per cent.

Mr. SYMINGTON: The Northern Crown went down. That was one of those that we cut in two.

Mr. LEE: The Northern Crown. Mr. Crerar, my learned friend has stated that the stock of the Northern Crown bank fell. Was that a fact? I will ask Mr. Symington's question for him.—A. The Northern Crown bank, yes.

Q. But the Northern Crown Bank had not been in existence very many years, had it? It was a comparatively new bank?—A. No, it was in existence quite a number of years, I don't recall how many. But my recollection is that the stock of the Bank of Montreal dropped very considerably during that period.

Q. But it never dropped 50 per cent did it or 40 per cent?—A. I may be wrong, but my recollection is that it dropped about 100 points. I may be wrong in that.

Q. You Surprise me, Mr. Crerar. I am probably not familiar enough with financial matters to say, but I am rather inclined to think you are wrong.—A. I may be. I say that is my recollection. That can be verified.

Q. However, did not that create a suspicion in your mind, having made these statements to Mr. White, after getting the letter which you saw from Mr. Lash in 1915, to Mr. Fisher,—you saw that letter didn't you?—A. I probably did. I cannot recall it.

Q. You know the letter I am referring to. That is the letter which Mr. Machaffie produced here the other day, which had been written by Mr. Haney.

Mr. BROWNING: It is Exhibit 132, appearing at page 291.

Mr. LEE: Yes, this is the letter that I am referring to, Mr. Crerar. It is dated February 29th, 1916, written by Mr. Lash to Mr. Fisher. Did you ever see that letter before? If you read it over you will be able to say.—A. Yes, this is the letter that Mr. McLaughlin referred to in his examination. I have no recollection of it but probably I saw it.

Q. If you did not see it the contents of it were communicated to you?—A. I quite expect they were. I have no recollection of it.

Q. And after knowing the contents of that letter, and the statements that you made to Mr. White, and the fact of the communication from Mr. Haney where he desired you to go into a pool for \$200,000 to hold this stock up, if a dividend was declared by the Directors knowing all those facts, do you think it would have been justified?—A. As far as Mr. Lash's letter was concerned, Mr. Lash has evidently altered his opinion, in March.

Q. You had the utmost confidence in Mr. Lash?—A. I had; the utmost.

Q. And you had the utmost confidence in Mr. Fisher?—A. Yes.

Q. And I, am just asking you this question, having regard to this letter, and to the charges that you made to Sir Thomas White, requesting a full investigation of the bank's affairs, and the statement afterwards by Mr. Haney requesting you to enter into a pool of \$200,000 to hold the stock up, do you think after those facts were known that it was advisable for the Directors to have declared a dividend?—A. Such a judgment would not be reached on the facts you state, because Mr. Lash subsequently had expressed his view, that there should be no outside investigation; he had confidence in Mr. Haney and Mr. Machaffie. If Mr. Lash held the view, such as stated here, he certainly did not state it at our March meeting.

Q. But you as a business man knew these facts before the dividend of 1917 was declared, did you not? You knew them all?—A. We had the correspondence.

Q. And you knew that these facts were in existence. Did you do anything at all in reference to preventing a dividend from being declared?—A. In 1916?

Q. In 1916 or 1917.—A. No, I cannot recall that any action of that kind was taken.

Q. Did any of the Western Directors?—A. I cannot recall that they did.

Q. Of course you can speak for yourself, I suppose.—A. We were guided by the view of Mr. Haney and Mr. Machaffie, who were in active charge of the bank's affairs from March on in 1916.

Q. From the time at which you made your charges to the time at which you resigned from the Board and went into the Government, you did not know anything more than the statements made to you by Machaffie, and by Lash, and by Col. Mason?—A. Not Col. Mason.

Q. General Mason?—A. Not General Mason, no. Mr. Haney and Mr. Machaffie.

Q. Mason told you things in 1915?—A. Correct.

Q. And Mason told you things in 1916?—A. Mason had nothing to do with the conduct of the bank's affairs after March, 1916, more than as an ordinary Director.

Q. Up to that time in 1916, he had to do with them. And then you relied upon Haney after that altogether and upon Mr. Lash?—A. Well, from March, 1916, on, Mr. Haney and Mr. Machaffie were really performing the functions of a General Manager in the bank, with Mr. Lash's firm as Counsel of the bank; and Mr. Lash, as we understood, and as we believed then, and as I have no reason to doubt, in consultation with them. Now I want to make it clear that that change brought a great relief to the Western Directors.

Q. Did it satisfy them?—A. We were satisfied that the bank's affairs would be handled in the best way they could be handled.

Q. You were satisfied that the bank's affairs were being handled in the best way they could be handled, and did you communicate that fact to Sir Thomas White, that you were quite satisfied that everything was going along well then?—A. No, we had no occasion to communicate it to Sir Thomas White.

His LORDSHIP: I suppose, Mr. Lee, you will hardly finish to-night, will you?

Mr. LEE: I do not know; I have a few more questions to ask, and my learned friend Mr. Reid wants to ask some questions, and probably Mr. Browning.

Mr. SYMINGTON: Mr. Crerar wants to speak in the House to-morrow, and wants to get away.

Hon. Mr. CRERAR: I should like to get through this afternoon, if possible; but if not, I can come back to-morrow morning. I will probably not speak to-morrow; I have to make some preparation before I speak.

Mr. LEE: I do not think we could close to-night, because, as I say, Mr. Reid wants to ask some questions, and Mr. Browning has a few questions. Mr. Crerar, I might say that we will facilitate you in any way at all to-morrow?

Hon. Mr. CRERAR: That is all right.

His LORDSHIP: We will adjourn until ten o'clock to-morrow morning.

Proceedings stand adjourned at 4.35 p.m. Monday, May 5, 1924, until 10 a.m. Tuesday, May 6, 1924.