FRIDAY MORNING

BANKING CONDITIONS IN DOMINION AS REVIEWED BY RETIRING MANAGER

H. C. McLeod Surveys Financial Year and Points Out Strong Position of Bank of Nova Scotia-Interest of Country Better Served by Goodly Number of Moderate Sized Banks Than by Amalgamation Into Few Large Institutions.

HALIFAX. Jan. 26.—At the annual bank meetings, and it is obvious that meeting of the Bank of Nova Scotia, there are many reasons for withholding information that might apply to the popular answer to this whole question

At the last annual meeting I addressed you in an apologetic strain, as the Bank's profit statement of that time was not up to our usual showing. Our gratification at the favorable reon of that statement intensifie the desire to repeat as soon as possible the Bank's best record for profits. Altho we have not yet accomplished that : purpose, the prospects for pronts are much improved over last year's out-dook. Then, money was very plentical, with interest rates low. In view of the heavy business undertakings and com-mitments that were merely deferred by the crisis of 1907, I predicted that purpose, the prospects for profits are low rates would be temporary, and one-eighth of the percentage of the also voiced the anticipation that the Bank would soon be making fair profits. For it seemed that as the people of North America had been unusually prosperous for more than ten years, and as the panic of 1907 did not surinterfere with the demand for commodities, or even for luxuries, business in all its branches must soon resume the activity that was temporarily checked by the disturbance.

Year's Profits.

Our profits for the first two quarters of 1909 were the most unsatisfactory of any for fourteen years; the third quar-ter was fair: the last excellent. Altogether the showing is 20.13 per cent. on capital, or about 11/2 per cent. better than 1908. Adherence to the policy of keeping a good portion of the Bank's funds readily available always leaves a large amount on which the return must be measured by the competitive the class of business that it aims to interest rates of the world. The slow-ing up of business, following a panic, always results in the payment of a con-always results in the payment of a considerable percentage of the best class there is never any difficulty ab of trade loans. Naturally, the heaviest reduction is in the loans of first quality, for the wealthy trader usually needs advances only when his business is at the maximum. From one cause or an-beyond the ability of a bank to bear ciher we were compelled to accept low rates of interest for the first half of the year on a large proportion of the Bank's funds, and even to buy short term bonds to keep the money employ-d. Nevertheless, even under these nost exceptional conditions, the Bank's coming power and for the past earning power was well above its 12 per cent. dividend requirements. It is pleasing to say that we enter 1910 twenty-two years, such losses would have exceeded the actual losses by a sum considerably in excess of the is pleasing to say that we enter 1910 anticipating a good average year.

Providing for Losses. Like most bankers we are disposed to look on bank assets with more optimism than was possible a year ago. Relieving the present to be a good time in which to take account of the Bank's loans, careful estimates have been uade, particularly in regard to net

es in proportion to loans.

osses of any one year or of even a somewhat longer period. Such ob-ections, however, need not be considto be the correct answer. ered in dealing with the experience of terms of ten, twenty or thirty years. n giving you this Bank's experience shall cover three consecutive per iods of eleven years each, one-third of a century in all. In each of these periods one or more financial periods panics occurred; in the last is includprevious eleven years. The management was the same for the two peri-ods. During the last eleven years the average loans were \$22,367,344, and the percentage of loss was .15 per cent, dentically the same as for the second period This uniformity of result is as satisfactory as it is surprising. Sat-

isfactory not only in showing that the average business of the bank for the past eleven years has been almost treb-led, as compared with the average of the previous eleven years, but also in serving to indicate that a large extension has been made seemingly without bringing into the bank any greater element of uncertainty, or of added danger. Furthermore, it confirms the arguments which support our plan providing for bad debts. We occasionally hear the criticism that this bank's standard of loans is too the class of business that it aims to nt ob-

bank's present capital. A lowering of the standard of loans might not be

ing naturally comes under considera-tion. Many authorities are of opinion followed by heavy losses for a numthat fewer and much larger banks will ber of years, but, nevertheiess, the dry rot would be in the whole mass, although perhaps difficult of detec-tion. This is equivalent to saying that be the outcome of present lines of de-velopment. My opinion is that the in-terests of this country of rapid excare in the selection, and constant su-pervision of loans will be reflected by an even percentage of losses over losses and the average percentage of equal cycles of years, and that this surance against disaster that might be overwhelming were our financial eggs issued. The Bank of Amsterdam exeven result is on the quality the loans. Accounts of Investmen acted the most solemn oaths of segathered into too few banking baskers. In 1992 I also made some references crecy from its employees and issued Although the near future offers only to the method of keeping the accounts the brightest encouragement; to me no statements. of the investments; expressing the anour course seems clear, and that is to the treasure surplus value ticipation that any expand only as rapidly as we are able millions of shown by the favorable quotations of was popularly supposed had, was shown to bank to assimilate new business and new that time would disappear when money loans, so that the resulting losses will have had, became stringent. The panic a myth. For half a century greater not greatly differ from past experience. proved this to be the case; not only publicity has been the tendency in I have indicated that there must that, but a considerable provision was banking; now even the governor of the be rapid banking expansion, and then required to bring to market value Bank of England does not hesitate to in an address to the American Bank- the figure at which the investments rs' Association, urging the necessity stood on the books. Of course the from that development, by whomsoever undertaken, the dangers incident at times make clear statements in reto credit expansion may be anticipated. gard to the bank's investments or to market values at the end of 1907 were Such danger threatens not only the inform the public of the condition of low prices, from which a fair recovery bank premises and other holdings. that experience shows to be always ex- has been made. I merely mention this banks that expand rapidly, but also istent, altho perhaps not detected. As experience in confirmation of the me-the explanation of that plan is not thod by which the investments of this menaces the whole financial machinery of the country. A bank, to remain sound, solid, and wholly independent Bank are dealt with, following the excellent methods that prevailed for must be on guard against dangers many years before I became charged from without as well as prepared fo with the general management. the risks incident to its own business Bank premises is growing to be that appears to be the only safe policy heavy item in the balance sheet, and Cost of Living. this is a feature of bank balance sheets generally. I think it right to say, for the consideration of officers In salaries, the cost of living is a subject the information of the shareholders, with which banks must deal. This cost that a conservative valuation of the is ever increasing; due partially to a more general tendency towards luxury, pend on the prudence with which the financial machinery of the coun-try is operated. There is a law bank premises, safes and office furincluding the present value to and partially to indirect taxation on us of improvements on leased pre-mises, is estimated at \$1,942,587.47. This try is operated. and partially to induce the increase in try is operated. The steady increase in in finance that is almost as sure in the wages of workmen raises the cost in its workings as the natural law of property is shown in the balance sheet the at nearly 51 per cent. of the value. We of commodities, and the tariff, from gravitation; that is, expansion is fol-lowed by crisis. This should not be which some interests derive benefit, should like to see this item at a lowlevies toll from the bank employee. Bradstreet's "Index Number" shows forgotten; it should be taken account er percentage of the actual value; in Bradstreet's "Index Number" shows of now before we get too far with the that in the United States \$3.42 had the superstructure of this term of expanfact we would prefer to have it appear at a wholly nominal value, folsame purchasing power on 1st July, 1896, that \$9.12 had on 1st December, sion, the base of which is already laid, Canadian loans of all sorts are being lowing the example of the greatest banks in the world, but the prefits The cost of living has increase have been heavily taxed for the past 1909. negotiated in Great Britain at the rate more in Canada than in the United of \$150.000,000 to \$175,000,000 annually twelve years in the creation of this States. Bank salaries in general have In the last two years these loans have property and in keeping the account not advanced twenty per cent. sive premises continues. A very large property has been created during the last thirteen years. The calls for new buildings are not keeping pace with the higher stances we have this year departed two or three more points at which the rection of fairly important buildings abonus to junior managers is already in contemplation. I may add that the scale of salaries in this Bank is believed to be comparatively high. The expansion of the bank's branches is keeping pace with our capacity to the stances we have the bank's believed to be comparatively high. equalled about \$50 for every man, wo down to a conservative basis. The same course must be followed so long fifteen years, and increases in salaries is keeping pace with our capacity to enlarge business on such safe lines as The system of Bank note circulation. life which has been interwoven with mproved and adopted in 1890, is the the Bank of Nova Scotia, for I now an will yield average results. Comparapoint of excellence in Canaotable tively speaking, our progress, if judg-ed merely by the size of the balance dian banking. If this excellence is to e maintained, the privileges of circusheet, has not been rapid. Neverthe lation will need to be enlarged more less, the totals have been almost quadrapidly than appears feasible through rupled in thirteen years, mostly by business in new fields, the taking on probable additions to bank capital. ed to the general management. The These privileges are so nearly exhausted that banks freely circulate one for several years. In 1897 there were at and assimilation of which required onsiderable discrimination and care. another's notes. With the reaching of In material progress, the book value of that point, elasticity, the most adshares has grown from \$200 to mirable feature of the system, ceases of Nova Scotia has advanced over \$81. \$283.33, and the dividend has been increased from 8 to 12 per cent. Whe-ther we should expand more rapidly are not anxious to invest in bank list. The other bank shares referred to shares, and it therefore seems to the is a question that is always before us; shares, and it therefore seems to the interests of the country that there should be an enlargement of the privileges of circulation, either based 000,000; the reserve fund from \$1,500,000 to \$3,-000,000; the reserve fund from \$1,500,000 to \$3,is one that may not be disposed of lightly, for on the answer and on the resultant action the future standing of the bank depends. The traditions on a portion of the reserve fund or on to \$5,500,000. Material progress has the deposit with the Government of heen rapid and substantial, as will apof this city, the home of the Bank of gold against notes circulated in excess pear by reference to the charts we are Nova Scotia, where bank disaster has of the present circulation limits. ever occurred, and also the traditions From the outset, we have op ures are generally regarded as conof the bank are towards steady progress consistent only with the soundposed the emergency circulation provisions of the Bank Act, as the pro- tive figures of your property. est principles. On the other hand, visions are of no use to this instituthere is a vast country in the West being rapidly settled; a country in tion, which has not yet thought it ad-which there will be within a few years visable to pay 5 per cent. Interest for What which there will be within a lew years more wealth generally distributed than in all the other sections of Canada. The rapid progress there, as well as in the rest of the country, is seeming-in the rest of the country is set on the country is seeming-in the rest of the country is set on the country is in all the other sections of Canada. years ago we sought an amendment to the fraction of the section of the section against deposits of gold words of praise are too strong to apply of a distinguished statesman that the the section of a distinguished statesman that the the section of a distinguished statesman that the the section of th Raising the subject of losses by bad in the rest of the country, is scenning-

THE TORONTO WORLD

future, it is more likely to be availed of by the needy, to whom rate of in-terest is a secondary consideration; it cannot be a stable foundation for note circulation by conservative banks. Becarve Fund. by conservative banks. Reserve Fund. terial progress, the Bank of Nova Sco

Reserve Fund. The reserve fund has reached 183 1-3 per cent. of the capital, and with the present outlook should soon reach 200 per cent. While it is desirable that the provisions of the new Bank Act should not render it impracticable to go on and increase in strength by ad-ditions to the reserve fund, we fear that the Act may be so framed that no encouragement will be given to re-serve strength. If these apprehensions are correct and the rate of profit con-tinues as favorable as we anticipate,

buttion is that it will go on with the idea of safety dominating its policy. I have the utmost confidence that this will be the Bank's course. If there were any doubts on that subject I could not now lay down the work that has been largely my life work; a work of so much importance that I have not re-garded the greatest temptations to abandon it for other fields. Perhaps you are mentally inquiring why this change? The plain, simple truth is always best. I have contem-plated retirement for some time and at tinues as favorable as we anticipate, the subject of increased distribution may be assumed to be covered by one word, EXPAND; and that may prove of profits, either by stock dividends or by higher cash dividends, will need to be considered, Op-

to be the correct answer. Op-posed to this are the dangers in-cident to banking, where a rapid increase of deposits, either from the savings of the thrifty, or that The difference of opinion with th general managers of the other Cana-dian banks on the subject of the exter-nal examination of banks is regret-table. But holding the views that I have held for result from Government or other orrowings abroad, or from other have held for many years, and know plated retirement for some time and at sources, makes a corresponding ex-pansion of loans essential to the pay-ment of bank dividends. These his visit I have urged the request so ing that the bankers of the world, outstrongly that the board have acceded to my desires in the matter. No Differences With Board side of Canada, hold similar views and that all English-speaking countries have the protection urged, I deemed it dangers, pointed out by theorists, are hasized in the practise of banking, a duty to the bank, as well as to the public, to make the subject of exter-There are absolutely no differences with the board. I count each memnot only in the experience of individual banks, but in the banking experience banks, but in the banking experience of countries as well. From them the Australian crash resulted. They had much to do with the destruction of the man examination of banks a live issue in Canada, before the revision of the Bank Act is undertaken in parlia-ment. In this I am gratified to have per a warm personal friend, and am sure these friendships will always en-Australian crash resulted. They had Bank Act is undertaken in parlia-much to do with the destruction of the ment. In this I am gratified to have dure. But I am not satisfied with Sovereign Bank, an institution that de-the hearty support of my fellow-di-banking conditions in Canada, and I am apprehensive of the results that posit department with a speed hitherto am apprehensive of the results that will follow the period of fresh infla-tion of bank credit on which Canada veloped its branch system and its de-posit department with a speed hitherto unparalleled in Canada. The pressure of rapidly growing deposits sets up a keen competition among banks for borrowing accounts. Such competition incut statistic pressure in the shares on this sub-incut statistic pressure in the sub-borrowing accounts. Such competition incut statistic pressure in the shares on this sub-incut statistic pressure in the sub-statistic pressure in the sub-incut statistic pressure in the sub-incut statistic pressure in the sub-tion of bank credit on which Canada has just entered. For more than ten has just entered. For more bank-ing conditions, and while my agita-tion on the subject of cash reserves borrowing accounts. Such competition inevitably results in a growing disre-gard of sound credit requirements, and greater concessions are accorded customers with a view to inducing them to increase their-borrowings. It does not need the eye of the expert to perceive the danger in such con-ditions. If the original management of the Sovereign Bank had not made the fatal blunders that crippled and finally wrecked the institution, in all probability its totals would now be ap-proaching the sixty million mark. Such tion on the subject of cash probability its totals would now be approaching the sixty million mark. Such a mushroom growth could not compact its elements into a firm and time-defying fibre. Business gathered so hastily must of necessity be honey-combed by weak and inflated credits, needing only the touch of adverse needing only the touch of adverse times to reveal its true quality. To all case for external examination is so gest no other remedy for the demontimes to reveal its true quality. To all who are in a position to judge, such a condition would mean menace; a cut-stant danger threatening the financial situation, calling for the exercise of extreme care and the use of every pre-caution to guard against its appalling possibilities. Those who have given careful study to the situation that con-fronted the bankers of Canada during that period, beginning with the failure of the Contarlo Bank and ending with the collapse of the Sovereign Bank, know well that this is no mere chimera of imagination. In discussing this The public are strongly in favor of external supervision. But the gen-eral managers and directors of banks would seem that in so far as public epinion goes all the necessary work has been accomplished. We have dealt with the subject mainly from the standpoints of the shareholder and of imagination. In discussing this subject the trend of Canadian bank. stand in the way. I have earnestly and consistently sought to do my duty the standpoints of the shareholder and the public, without paying much at-tention to the special position of the savings depositors, who are the back-bone of the country, and whose influ-ence would be all-powerful in its coun-clis. In the early days of banking ab

advocated will come. Secretive man-agement must end. But I have not the patience to await these changes nor the disposition to quietly tolerpansion will better be served by a goodly number of moderate sized banks, than by amalgamation into a few large institutions. In times of adversity, numbers should afford in-the banks of Scotland did business the time banking ab-solute secrecy was the rule, and in some quarters there still exists ad-miration for these old-time methods. The banks of Scotland did business return of the disposition to quietly toler-ate banking practice that has pro-ate banking practice that has pro-duced so much loss and which looms a dark cloud on an otherwise fair out-ate banking practice that has pro-duced so much loss and which looms a dark cloud on an otherwise fair out-a the banks of Scotland did business return of vilege of retirement. the bank will remain a subject great interest to me.

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the intensity of the disturbance of 1907 was not sufficient to test the quality of assets in Canada, we may now make some references to the method adopted. this Bank some years ago of providing for losses. Addressing you in 1902 I made rather an unusual statenent in reference to the Bank's policy in providing for losses by bad debts. That statement received your hearty approval, and recently has been are provingly quoted by an eminent banker fors' Association, urging the necessity for each bank to provide a contingent fund against losses by the bad debts

the explanation of that part is long, I shall repeat it here: "Losses hybrid debts estimat-"ed, and provided for." "By scrutinizing the assets as "shown these words will appear "almost meaningless unless they "signify more than that the "notes and hills overdue have been provided for, and the "words are intended and expected to be understood as hav-"ing a deeper meaning. Doubt-"less those who have perused "the history of this institution, "issued a few months since, will "have observed that progress "has not been steady, even dur-"ing the past thirty years. Good 'times and bad times succeed "each other. The period from "1876 to 1885, with its lack of progress and struggle to earn "dividends, the under excellent "management, will long be reembered. Altho it was a bad "neriod for profits, it was fruit-'ful of experience, costly exper-"lence; the most valuable lesson eing that to make appropria "tions for losses after they are "ascertained is unreliable and "Incorrect. From the record you will see one year in which an "actual loss is shown, more than the regular profits for the year "having been required to pay losses on assets that a few "months before were good in the "opinion of most capable bankwho have since attained "marked distinction in their call-The simple fact is, ex-"ing. "perience shows that by taking "a long period of time, a certain "percentage of the total loans 'made must be provided for as "bad, with the natural conclu-"sion that the scientific method "Is to provide that percentage "each year, thus insuring comsteady progress "paratively "This plan is in agreement with the acknowledged fact that "losses creep in during good "times, to be detected later when credits are more carefuladministered. For life in-"surance companies, actuaries readily calculate, with mathe-"matical precision, the loss to "be realized from the death rate, "and while this Bank's exper-"lence does not permit of the same accuracy, the death rate n our assets may be more correctly measured by the methods indicated than by any others known to us

No Need to Conceal.

1 - Sandan - Sy

nounce my retirement, perhaps I should say a few words as to my stewardship joined the bank in 1882, and from 1885 was more or less in touch with head office affairs. In 1897 I succeedbank had been making good progress least four banks whose shares were quoted higher than ours. The Bank to fully exist. Apparently, capitalists per share and occupies the top of the of the above company, and let all parties have declined in the meantime. The accustomed to furnish you. Our figservative figures. They are conserva-Confidence in Staff. is of greater importance to

> -Harmor

There will be offered for sale by Public Auction, at C. J. Townsend's Auction Rooms, 66 and 68 King Street East, Toronto, on Saturday, 5th Febru-Business Activity. So far as human judgment goes, there would appear goed reason to ex-pect active and profitable business for two or three years, possibly longer Few, if any, countries have ever snown the credit expansion that Canada is now experiencing and this makes for at least temporary prosperity. The term of unusual prosperity, and the per-manence of the good results will de-pend on the prudence with which the finencial machinery of the count of the poundation. TERMS—Ten per cent, of the pur-TERMS—Ten per cent. of the pur-chase money to be paid down on the day of sale; for balance terms will be made known at the sale. For further particulars apply to JONES & LEONARD, Solicitors, 18 Toronto Street, Toronto. ESTATE NOTICES being IN THE HIGH COURT OF JUSTICE -Judicial Notice to Creditors, Con-tributories and Members of the Toronto Park Company, Limited. lar. Barnard, 246 Spadina. Telephone. JUDICIAL NOTICE TO CREDITORS. Contributories, Shareholders and Members of the McCann, Knox Milling Company, Limited. PURSUANT to the Winding-Up Order in this matter, the official referee will, on Wednesday, the 2nd day of February, 1910, at the hour of 4 o'clock in the afternoon, this chembers in the Home Afternoon, at the hour of 4 o clock in the afternoon, at his chambers in the Home Life Build-ing, corner Adelaide and Victoria-streets. Torouto, appoint a permanent liquidator of the above company, and let all hen attend. Dated this 22nd day of January, 1910. ED. KAPPELLE, Official Referee. HORSES AND CARRIAGES. GOOD HEAVY MARE IN FOAL heavy horse, for sale or exchange good work horse. 129 Curzon-street. PERSONAL A NCIENT ORDER OF HIBERNIANS, Hamilton, require talent for enter-tainment in Grand Opera House on March 17th next. Applications, terms, etc., to be addressed E. J. Glavin. 73 Ferrie-street East, before Feb. 1st, 1919. 456 sion before shareholders' meetings is of a distinguished statesman that the one of the advantages of this plan of providing for losses. Shareholders' meetings are of continued providing for losses. Shareholders are which up to the particular account is seldom, if ever, at important centres, which up to the solution and particular account is seldom, if ever, and an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, and appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, and appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, and appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, an appropriate subject of comment at of doing a share, which up to the solution and particular account is seldom. If ever, and the particular account is seldom. If the particular account is seldom. If the particular account is seldom. If the particular account is seldom.

AUCTION SALES.

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DWELLING PROPERTY

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