

tile failures in this country have arisen from borrowing too freely. I have never known any one to fail in Canada because he borrowed too little.

But there is another source of dissatisfaction, not to say vexation, namely, that out of these slender earnings we have to take so much, in this country, for

LOSSES

and depreciation. I say in this country: for investigations have led me to the conclusion that banking losses are greater in Canada, as a rule, than they are elsewhere. It is true, and it is a very satisfactory thing to say, that by far the larger part of our customers make good use of our money and repay it when they promise. Our money has helped them to carry on their trade, and out of what we have lent them they have made profit after paying us interest. So far this is satisfactory. It is some alleviation to the harassing cares of a banker's life to notice the large number of persons who have been assisted to a prosperous career by means of the advances made them. But it does happen unfortunately every year, that some customers do not use our money wisely, and that the advances made have done them more harm than good. In such cases when parties fail they put us in for a loss, unless our security covers it. It is consequently part of our business to see whether our customers are doing well. And none of them who exercise judgment will find fault with their banker making enquiries at times as to their prosperity or otherwise. The very life of our business is to deal with sound and solvent people. I do not think any one could reasonably accuse the officers of this bank of officiousness. Neither do I think stockholders can accuse us of negligence or want of vigilance. You will remember that there are thirty places in the Dominion where the bank, through its managers, is lending money every day in the year, these points stretching all the way from Quebec and New York in the East to Winnipeg and Brandon in the North-West. It is hardly needful to tell you that the Board and general management exercise their best judgment in supervising and directing all this. But it has been more than once said that we are none of us infallible. With all the exercise of trained and experienced judgment, mistakes are sometimes made which give rise to losses. In some cases we are deliberately deceived by those with whom we deal. This is the most unpleasant part of a banker's experience. Parties who have borne an honorable name for years, sometimes, under pressure, make false statements, and submit false balance sheets; false statements about their own position, about the *bona fides* of the paper they present for discount, or about the position of their customers. In other cases customers deceive the bank without any dishonest intention, because they have first deceived themselves. They cannot be charged with dishonesty, but they can with carelessness or folly—a serious matter enough. With all a banker's care it is impossible always to guard against these things.

From the reports of Dun, Wiman & Co. you may learn that there have been over 1,800 failures in the Dominion during the year, with \$17,800,000 liabilities. This is considerably beyond the average. It is impossible that we could do business all over the Dominion for a whole year without falling in with some of these. I must say, however, that the failures in our circle have not been numerous, even in a year like this, and that the amounts lost in any one case have not been large, considering the magnitude of our business. Still, an amount that looks only small as a loan, bulks very large as a loss. This is an old banking maxim and we have opportunities of proving it more or less every year.

DEPRECIATIONS.

The report mentions depreciations. These depend upon the outcome of insolvent estates not yet wound up. It devolves on us generally, in case of an important failure, to collect multitudes of bills, to arrange with endorsers, to sell merchandise, sometimes in Canada, sometimes in a foreign country, or to sell property of various kinds, lands, factories, ships, timber limits, and what not. The winding up of some estates is a complicated process and an anxious one. It would be bad judgment to slaughter properties. It would do injury to others as well as to the bank. As a rule, there-

fore, we proceed slowly, and wait opportunities in order to make the best of an estate in the interest of the stockholders. This process may take years. Two years is a short time for this purpose; it is much more common for it to take five years, and sometimes even ten. We have at times to follow delinquent debtors into foreign countries, and make arrangements with them spread over long terms of years. And the variety of the securities to be dealt with is very great. Now, every time a balance sheet is placed before you there must be a valuation of these securities. But the outcome of all such assets is largely affected by the state of trade at the time. A good year's trade will bring out full valuations, and even more than previous estimates, and a bad one the reverse. I have known, and not in this bank only, depreciations to take place year after year in almost every insolvent estate on its books, and I have known the contrary year after year. Every bank in the world has some insolvent estates to deal with, and it is part of a banker's trade, so to speak, to know how to make the best of them. We have had some small recoveries ourselves this year, but in many cases there have been depreciations. In certain districts of Canada, where we do considerable business, the crops have been poor for three successive years. Had there been good times in these districts, much of what we have written off during the last year or two might have been added to the "Rest." It is here we must frankly confess to disappointment. Yet, after all, to pay you a dividend of 7 per cent. on so large a capital as ours, in these times, and to add \$175,000 to the "Rest," is not a discouraging result.

INSOLVENT ESTATES ACT.

I entirely concur in what has been said in another place about the desirableness of an act for the equitable distribution of insolvent estates. But I must confess to jealousy of any act which gives a debtor a discharge by a mere majority of his creditors. A Dominion act to provide for equitable distribution would undoubtedly be a great public benefit. The subject is surrounded with difficulties. The experience of half a century in England, the United States and Canada shows that it passes the wit of man to devise an insolvency act giving a discharge, which has not been so abused that men were glad to repeat it. It may be worth while to make an endeavor in the direction above referred to, and the foundation has already been laid in the labors of a committee of the House of Commons, which sat some years ago.

THE BARING STOPPAGE.

The directors' report refers to a trying period in London and New York. I hardly need to remind you of the events of the fall of last year. The world was then startled by the news that a great financial firm in London, whose reputed wealth was nearly equal to that of all our banks put together, and whose connections embraced every financial centre in the world, was in difficulties. It transpired that the acceptances of the house were current on such an enormous scale as to require some ten millions of dollars per week to meet them, and that other houses of reputed wealth and wide connections were closely connected with them. Such an event as the stoppage of a firm like this was staggering to contemplate. One is almost bewildered by the consideration of what might have happened had \$80,000,000 of bills payable in London been protested and sent back to every quarter of the globe. These hints will give you an idea of the tremendous issues involved in the negotiations that took place when the firm appealed to the Bank of England for assistance; and what a state of tension was created in centres of finance like New York until the period of uncertainty was passed. It was in New York, principally, that we were concerned. Our direct interest, indeed, was but small. We had only \$10,000 of bills on Barings altogether, and if every one of them had come back, it would not have caused us the least inconvenience. But the indirect effect of such a stoppage no one could calculate. That we would have fared as well as our neighbours I have no doubt, for the greater part of the sterling bills we held were commercial bills drawn by good firms in the United States and Canada on good firms in Liverpool, Glasgow and London, with whom we were well acquainted. We had cables from London two or three times a day during the period of

suspense. Finally the welcome news was received that a combination of the strongest banks in England and Scotland, under the lead of the Bank of England, had undertaken to pay all the liabilities of the house, amounting to \$100,000,000; and that not a bill would go back protested. You may understand the gigantic nature of the firm's operations from the fact that they expected to realize enough from the assets to meet all this, and to hand back \$20,000,000 of a surplus to the partners. It is to be feared that nothing like this will be realized.

During this period of disturbance we went on with our business in New York as usual. This was done quite deliberately. I acted on information gathered in England last summer, when spending some time in London, Liverpool and Glasgow, and carefully noting the position of the leading lines of trade. The result was a conviction that the general commercial position in Britain was sound. But there were whisperings even then about certain financial houses. And though it was almost financial treason to do it, men about Lombard street did mention, in a sort of bated breath, even the great name of Baring. I took due note of this at the time, and after well considering the position, came to the conclusion that the banking world of England could not afford to let such a house go down, and that the whole financial strength of Great Britain would be brought to bear on the position in case of need. This was last July. When November came matters turned out as I had anticipated. And, as it happened, we have rather profited than otherwise by the disturbance, owing to the high credit commanded by our sterling bills.

This great financial event is suggestive in several ways. For example it may lead to a reflection that combinations are sometimes highly beneficial. Had it not been for the banking combination of last November, the whole world would have been plunged in an unprecedented financial disaster. The full force of this would have been felt by this country. It was by the combined action of the banks of Scotland that this country was saved from a commercial panic on the occasion of the failure of the Western Bank of Scotland and the City of Glasgow Bank. It was similar action by the banks of New York that saved the United States in a moment of extreme peril at the outset of the war. And the same combination has ever since been a powerful bulwark against an unsound currency, and a most influential force in favor of conservative methods of business generally. The Scotch banks, too, still maintain their union; and while no one can deny that there is a reasonable competition in banking in Scotland, or allege that the public are not well served, the union of banks has had a powerful effect in the introduction and maintenance of sound methods of trading, crediting, and carrying on business generally. There can be no doubt that a Bankers' Association in Canada, conducted on proper principles, would be of the greatest benefit both to the banks themselves, to their customers, and to the public at large.

The stoppage of the house of Baring suggests reflections also on the subject of trading beyond means and ability. It is an old subject, and, I may add, it is a very sore subject. Though much has been said before, I must repeat that this is at the root of most of our commercial and banking troubles. Our record of failures is almost a national disgrace, and a considerable portion may be attributed to this cause. Some men commence business without capital at all. Their success or otherwise is purely a game of chance, and the chances are ten to one against them. Storekeepers, too, who have means enough to carry on a good retail business, sometimes branch out to a wholesale business, where far more capital is required, where risks are greater, and where a different line of experience altogether is called for. Is it a wonder that they fail? Men without capital should be content to serve others until they accumulate a fund to start upon. Retailers may well also be content with their own line of business until they have accumulated capital justifying larger ventures. If they do not, they are likely to be swamped. The same applies to men in the wholesale trade. A moderate capital suffices for a moderate business, but when men with moderate capital ambitiously strike out in lines requiring ten times as much of both capital and experience, what wonder if