

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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A BANK MERGER?

Next week, the shareholders of the Northern Crown Bank will probably have placed before them proposals of an amalgamation. This will take the form of the absorption of the Northern Crown Bank by another bank whose identity as yet has not been made public. If brought before the shareholders at the adjourned annual meeting, the proposal presumably has the support of some at least of the Northern Crown Bank's directors. The people of Western Canada naturally do not like the prospect of the Northern Crown Bank, with headquarters in Winnipeg, being absorbed by another institution. The shareholders and directors, however, apparently face two alternatives; firstly, to continue business with as much success as possible; and secondly, to unite with another institution.

For the year ended November 30th, 1914, the directors took \$200,000 from the bank's reserve and applied it in wiping off the \$117,000 of loans regarded as of such a doubtful a nature as to make it unwise to depend any longer on their realization; also \$56,000 for depreciation in bonds and stocks caused by worldwide financial conditions. A sum of \$100,000 was carried to contingent account from profit and loss to provide for possible future emergencies. The directors decided, possibly unwisely, to pay the annual dividend of 6 per cent. There was then left a balance of only \$14,792 to carry forward at credit of profit and loss.

Dividends during the following year (1915) were not paid. The net profits for the year ended November 30th, 1915, were only \$100,789 compared with \$201,289 in the previous year. The war tax on bank note circulation absorbed \$18,952; \$15,000 was reserved for depreciation in stocks and bonds and \$60,000 was transferred to contingent account. The reserve account stands at \$150,000, as compared with \$350,000 in 1913. The profit and loss account balance is now \$21,630.

In view of these facts and others, the directors and shareholders of the Northern Crown Bank have to con-

sider what action is in the best interests of the bank and its clients. The Monetary Times stated in September last, when another bank merger was under discussion, that the finance minister's refusal to allow the amalgamation could scarcely mean that the government would not allow consolidation of two banks to be discussed, even in a tentative way, in the absence of the government's approval of such discussion. Such a restriction would be impossible to operate.

It would seem, as we said then, that the power given the finance minister by the particular clauses of the bank act is given to prevent only improper amalgamations. It would be a serious matter were it seen fit to interpret the act as a mandate from parliament to prevent any amalgamations, unless one of the parties was in financial distress. That would mean that the shareholders of a bank (speaking generally, and not of particular institutions) would be prevented from disposing of their property until they had nothing left to sell. A bank would not absorb another which is in difficulties, on terms which would be of any value to the shareholders. In short, it would be a poor policy to formulate, that if a bank is in very serious trouble, it will be allowed to sell to another bank; otherwise, it will not be allowed to dispose of its assets. This, obviously, is a dangerous principle. Past experience has shown that a weak bank will hang on until the last stages of decay. The vitality of a weak bank is well known, but the longer it survives the greater the resulting havoc.

Coming back to the case of the Northern Crown Bank, the latest two annual reports indicate that it has lost a certain amount of strength in recent years to justify favorable consideration, by the government, of an amalgamation, should the shareholders and directors deem it advisable. At the same time, great credit is due to the management and directorate for their ability in weathering the storm to the extent they have. The prevailing conditions, especially for a bank with headquarters in the West, have required great care and resourcefulness on the part of those guiding the bank's business.

WESTERN CANADA POWER COMPANY

The Western Canada Power Company has announced that it is unable to meet the coupons on its first mortgage bonds maturing on January 1, 1916, and suggests that two years' coupons be exchanged for preferred stock. This announcement is a further blow to the credit of Canadian corporation bonds generally. During the past few years, a comparatively large number of corporations having got into deep water, have suggested a drastic writing-down of bond holdings or the exchange of bonds or interest coupons for the company's common or preferred stock. The continuance of this undesirable course will lead to a complete lack of faith on the part of investors in the average Canadian corporation bond. They will believe, and with some cause, there is no guarantee that bonds will not be changed into stock certificates or that the coupons will not have to be exchanged for stock. When an investor purchases a bond, he buys for the reasons that a good corporation bond is supposed to have safety of principal and interest, is readily marketable and has precedence over the company's other securities, besides usually being secured by a mortgage on the company's property. This comparatively new factor of uncertainty—the violation of the first principles of bond financing—has already militated considerably against the best interests of Canadian credit and Canadian finance, and will do still