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THE BANKS AND THEIR EARNINGS.

One of the perennial sources of complaint made by persons and newspapers notorious for their antipathy to financial institutions is the alleged excessive earnings of the Canadian banking institutions. To some extent possibly the banks are themselves to blame for what is an erroneous impression, since for many years they have been in the habit of stating in their annual reports that their earnings for the year were at the rate of so much per cent. upon the paid-up capital. The agitator, seeing these figures of say 15 to 23 per cent. and knowing no more than appeared to his eyes at first sight, naturally rushed to the conclusion from the evidence supplied by the banks themselves that they were accumulating excessive profits. However, in recent years, a lead given by Mr. Wilkie, the president of the Canadian Bankers' Association, has induced the banks to state more frequently and clearly what are their real earnings upon the invested funds of the shareholders. These funds comprise in addition to the paid-up capital, the reserve—in the cases of many of the banks as large or larger than the paid-up capital—and the balance of profit and loss account, this being also in the case of several of the banks a very considerable amount.

A recent compilation by the *Financial Post* of the earnings on this basis of fifteen of the banks whose annual reports have been published during recent months shows that the average earnings of these banks on the whole amount of the shareholders' investments last year was 8.8 per cent. The highest rate of earnings shown by any of the fifteen banks was 12.6 per cent.; the lowest 6.8 per cent. Average profits of less than nine per cent. can scarcely be said to be excessive in the case of institutions performing such an important service as do the Canadian banks. There are few business men who would be satisfied with such a rate of profit in their own business, and in fact it is evident that the bankers are as a rule content with a much smaller margin of profit than is the average business men, whether in his own business or in his investments or speculations.

This question of the earining power of the banks is related closely to that of the attractiveness of their stocks as an investment and of the willingness of the stockholders to supply from time to time large amounts of funds for the extension of the capital account in order to keep pace with the growing business of the banks and the enlarged banking requirements of the country. Under present circumstances, the bank stocks can hardly be considered a popular investment and that, despite their excellencies, for obvious reasons. In recent years they have shared the common fate of high-class securities the world over and can now be purchased to produce a considerably higher return than was the case a few years ago. But even under present circumstances the yield does not compare favourably with the rates which can be secured from other first-class Canadian investments. There is moreover the question of the double liability. In Canada, bank shareholders are well aware that while this proviso cannot be altogether neglected, yet in the case of the strong banks, it forms no real drawback to the holding of the securities. But abroad the position is not so well understood and there is a considerable prejudice among many investors against the holding of securities which are only partly paid-up or upon which there is a liability that in certain circumstances would have to be redeemed. And there can be no doubt that this double liability has militated seriously against the popularity of Canadian bank stocks abroad. It has been suggested that Parliament should abolish the double liability on bank shares in the case of those institutions which have a reserve fund equal to their paid-up capital, but it is hardly likely that any such delicate distinction would be drawn between the banks. Probably the most effective means of further popularising bank stocks would be to increase the returns upon them. From time to time in the future, no doubt, very large increases will have to be made in the banking capital of the country. Unless it is made worth its while, that capital will not become available for Canadian banking purposes. There are many other openings for it both in Canada and elsewhere, and considering the great importance of an adequate supply of banking capital, it would seem the part of wisdom to attract it rather than to repel it by ill-considered and prejudiced attacks.