

The Sovereign Bank of Canada

Annual Report.

President's Introductory Remarks.

Before asking the Secretary to read the Directors' report, it seems advisable that I should explain why I am your Chairman to-day. Until very recently I have not been a shareholder in this Bank, except to a very small extent, and I have not in any way been interested in its affairs. Upon my return from England in April last, the large foreign interests which held stock in the Bank represented to me that they were not satisfied with the way in which it was being managed, and they intimated that they would like me to take the active Presidency. It was also stated to me that Mr. Macdonald, your late President, had expressed himself as anxious to be relieved of office, feeling that special attention at the moment was necessary, and that he had not the technical knowledge, nor had he the time to devote from his business, which takes him away from Toronto for long periods of time, to properly look after the Bank's affairs.

Apart from the dissatisfaction with the management, they stated that the Bank's methods had caused great irritation to the other Canadian Banks, who were, in consequence, not very friendly towards it, and they felt that, owing to my close connection with a number of the banking institutions, I might be able at the present moment to bring about a better feeling with the other banks.

My first duty on taking office was to ask the Board to appoint Mr. Jemmett, of the Canadian Bank of Commerce, as Joint General Manager, and Mr. Stewart was at once given leave of absence. Subsequently, Mr. Stewart sent in his resignation, which has been accepted, and Mr. Jemmett has been appointed General Manager. Mr. Cassels and Mr. Mackenzie had already been secured as inspectors, to make a quick report of the Bank's affairs, and from the day on which Mr. Jemmett assumed his duties he, together with myself and the inspectors, has been continuously engaged in a revaluation of the Bank's entire assets. Had not Mr. Cassels and Mr. Mackenzie possessed some previous knowledge of the Bank's affairs, it would have been impossible to have accomplished this work in the time allotted to us, namely, the period between the 1st May and the present date. I am glad to say, however, that, by constant work almost night and day, we are now able to lay before you the true position of the Bank. In doing so I wish to say that I realize to the full the gravity of what we have found it necessary to do, and the keen disappointment you will feel. The facts are that the management was too anxious to build up a business quickly, and you are now to feel the effects of over zeal, and losses which have been incurred through unauthorized advances.

In the course of my investigations I find some of our largest losses are in accounts never authorized, or never reported to the Directors. In fact, in some cases, the Directors were kept in total ignorance of their existence, never having heard of them until brought to their attention by us.

Without further comment, therefore, we will enter on the formal business of the meeting, and I will call upon the Secretary to read the Directors' Report.

THE DIRECTORS' REPORT

The annual report of the Sovereign Bank of Canada presented at the annual meeting of the shareholders on Tuesday was as follows:

The Directors beg to present to the Shareholders the Fifth Annual Report covering the year ending 30th April, 1907, together with a statement of assets and liabilities as on the 31st May, 1907. For reasons which will be apparent as we proceed, the Report this year deals also with events which have occurred since the closing of the books on 30th April last.

During the past year it became evident that the affairs of the Bank demanded more time than the then President could give, and he expressed his desire to be relieved of the presidency at the end of the Bank's year. At a meeting of the Board held on the 1st May last, his resignation was accordingly accepted. At the same meeting Mr. D. M. Stewart resigned from the Directorate, and Mr. Aemilius Jarvis was elected to the Board to fill the vacancy thus caused. Mr. Jarvis was subsequently elected President in place of Mr. Macdonald, who consented to remain on the Board and was elected vice-president. Mr. J. H. Dunn, of London, England, who was here at the time in the interest of the Dresdner Bank, was also a director.

It was represented to Mr. Jarvis that the duties of the Presidency would take up a considerable portion of his time and that it would therefore be necessary to make his remuneration sufficient to compensate him for this. A resolution confirming this arrangement will be submitted for your approval.

The new President at once found it his duty to strengthen the Executive, and on the 6th May Mr. F. G. Jemmett, who had for 22 years been in the service of the Canadian Bank of Commerce, and for the last five years Secretary of that bank, became Joint General Manager, Mr. Stewart being at the same time granted leave of absence. Mr. Jemmett's first duty was to make as complete and exact a valuation as possible of the assets of the Bank, and the results of his valuation are given in his report to the Board, which is as follows:

General Manager's Report.

The President and Directors of the Sovereign Bank of Canada:

Early in May last you offered me the position of Joint General Manager of this Bank, and on the 6th of that month I entered on my new duties, which, owing to Mr. Stewart having been granted leave of absence, involved my taking at once full charge of the bank.

Apart from the general supervision of the daily business of the Bank, the first task awaiting me was the valuation of the assets placed in my charge and as there was an interval of only five weeks between the day on which I began work and the date set for the annual meeting of Shareholders, I have had to devote myself to this valuation to the exclusion, as nearly as possible, of everything else.

In the very short time at my disposal it would have been impossible for me to have arrived at a definite conclusion without the invaluable assistance of the Chief Inspector, Mr. Robert Cassels, whom I have known for many years, and with whom I had for some time been intimately associated in the work of the head office of the Canadian Bank of Commerce. It is owing to the unwearied and intelligent aid of Mr. Cassels and of Mr. Mackenzie, the inspector, both of whom entered the service some little time earlier than myself, that I have been able to complete my valuation by this date.

In the valuation of assets amounting to \$25,000,000 it is obvious that there is room for a wide difference of opinion, but when a distinct element of doubt is clearly present in any particular asset, the only right course for a conservative banker is to take the safe view of it, and to place a definite value only on that amount which can, without reasonable doubt, be covered within some reasonable time. Any conjectural value which an asset may have, and which rests entirely on the ability of some person to do something he hopes he may be able to do, and which if he has good fortune it is perhaps not unreasonable to think he may be able to do, should clearly be disregarded. The value, therefore, which has been placed on the Bank's assets is the value which we feel.

CERTAIN CAN BE RECOVERED.

not in all cases at once, but by the exercise for a reasonable time of care and patience.

The results of my examination on the lines which I have indicated are as follows:

I have to recommend that there be written off for Bad Debts, \$700,655 91, for depreciation in securities \$150,607 95, and for reduction in Bank Premises and Furniture \$48,109 25. In addition to the foregoing, the sum of \$541,494 should be set aside in Contingent Fund for accounts which are in liquidation, or in which there is a large element of doubt, and a further Contingent Fund of \$800,000 should be provided in respect of certain unsatisfactory advances, the outcome of which is at present by no means clear. To do this it will be necessary to appropriate the whole of the Rest Fund, leaving the Bank with a paid-up capital of \$3,000,000. After this has been done there will remain \$25,252 50 to carry forward in the Profit and Loss Account of the current year. There is no question that this result will be a great disappointment to the Board, and it is with much regret that I find it my duty to advise you to this effect. My course, however, was clear—to take the facts as I found them and to inform you as promptly as possible of the real condition of the Bank.

It would at the moment be of little use, and would be extremely distasteful to me, to enter into any criticism of