

THE VICE-PRESIDENT.

The Vice-President then spoke as follows,—

There is not much in the General Statement, laid before you, calling for special comment. Deposits not bearing interest have temporarily increased since last year \$5,200,000. Deposits bearing interest have decreased \$9,000,000, partly through the withdrawal of funds for railway construction and partly owing to our depositors making more permanent investments in securities at the present tempting low prices. There has been, however, a satisfactory and general increase in our regular deposit business through the entire Dominion. To meet the special withdrawals and to provide for the increase in our current loans in Canada, we have reduced our call loans in other countries \$6,400,000. Our profits have been satisfactory, showing \$1,980,000, as against \$1,797,000 last year. The Bank Premises Account remains at the nominal amount of \$600,000. Every year a certain expenditure will be made on this account, and I do not see that any good object will be served by increasing the figure at which it stands.

Early in the year, in view of the approaching stringency in the money markets of the world, we slightly advanced our rates of discount, not so much with a desire to increase our profits, but more to give a practical indication to our customers of our expectations of the trend of financial affairs, and to impress upon them that in the conduct of their business they must bear it in mind, and govern themselves accordingly.

The stringency is largely the result of universal prosperity, and as a natural consequence the world has been spending more and saving less. This state of affairs will cure itself by retrenchment. When it comes suddenly, as it usually does, it brings many hardships, but we will eventually reach a much better and sounder basis, though the process may be, in the meantime, somewhat unpleasant. Still, in Canada, where we have been exceptionally prosperous for several years, we can stand a temporary reverse without serious consequences, and I do not look for a reaction on anything like the scale which we experienced in previous similar epochs.

Owing to the lateness of the crop in the Northwest, the approaching closing of lake navigation, and the fact that a considerable portion of the wheat was low grade, a fear was expressed in some quarters that sufficient funds would not be forthcoming to satisfy the abnormal pressure to move the crop promptly. To meet this, the Government asked the banks to co-operate with them in assisting the export of wheat as rapidly as possible. The joint action has had the desired effect: the crop is now being forwarded in a normal way, and there are buyers for all grades of wheat in the market. There is one factor in the condition of affairs in the Northwest which must not be lost sight of, and that is the large amount of low grade wheat in this year's crop, making it a much more risky one for exporters to handle, and rendering it necessary for banks to be more careful in granting credits.

I wish to allude briefly to some criticism which has recently been made in the press respecting the practice of Canadian banks in keeping a portion of their reserves in other countries. The aggregate of call and current loans by the banks elsewhere than in Canada, approximating at times \$100,000,000, has been cited as evidence that these institutions are not serving the needs of Canadian borrowers as freely as they might, were all this money loaned in this country. In the first place, let me point out that a year ago, when these loans abroad, in England, the United States and other countries, amounted to \$96,000,000, the banks had deposits made with their foreign branches of \$55,000,000; so that the actual net amount of foreign loans was only some \$41,000,000. Every dollar of this money is loaned on call at short date, upon the most ample security. It constitutes a part of the reserves of Canadian banks. If to-morrow we were to call in the whole of our loans of this class, which are at all times immediately available, the mercantile public of Canada would derive absolutely no benefit from the action. Being a portion of our reserves, the choice given the bank is between retaining the money unproductive in its vaults, or lending it at call upon interest in foreign financial centres. We adopt the latter alternative, as being in the interest not alone of the Shareholders, but of the commercial community of Canada.

Let me illustrate this by a concrete case. A year ago the banks had \$96,000,000 loaned abroad; to-day these

loans amount to \$73,200,000, a reduction of \$23,000,000. In the same period current loans in Canada have been enlarged by \$48,000,000, and the cash reserves have been increased upwards of \$5,000,000; that is to say, as occasion warranted, the banks have drawn upon their reserves abroad to meet requirements at home, and have carried on the process with as much facility as if the reserves had been stored in their own vaults. Assume that these call loans on readily realizable securities protected by ample margins, had been in the same markets in Canada, and that the money was required for commercial purposes, does anyone suppose that the sudden calling in of the loans would not have been attended by most baneful effects? In making such loans here we would probably have enhanced local stock market values unduly, to be followed by a sharp collapse and serious losses upon their sudden withdrawal. The employment by Canadian banks of a portion of their reserves in call loans abroad is not a new policy. It has prevailed from the beginning of our banking, and is in the interest alike of bank shareholders and bank depositors.

I wish also to correct another erroneous impression which appears to have crept into the public mind, and that is, that in consequence of the financial condition in the United States our loans are tied up and the money cannot be brought into Canada. I have no hesitation in saying that there has been no time during the present crisis when we could not realize all our call loans in the United States and transfer the proceeds to England, whence we could easily import gold here if it should be considered advisable. But as we know how liquid and available they are, we continue to retain all that is not needed here, both as part of our reserves and as a valuable aid to our international exchanges.

THE PRESIDENT'S REMARKS.

The President, in moving the adoption of the directors' report, said:

Our review would be imperfect without reference to the startling financial collapse which has taken place in the neighboring Republic. It first evidenced itself in the decline in values of stocks and securities of all kinds and this shrinkage, before long, assumed unexampled proportions as the supply of credit for speculation failed. The distrust spread to banks and trust companies, and was duly followed by the hoarding of currency, and, of course, a serious interference with ordinary commercial transactions and undertakings. As a result of this declination of credit, the suspension or failure of several important financial institutions ensued.

Following, as the reverse did, on a period of unexampled prosperity and inflation, during which credit was abundant, capital poured forth freely, with in consequence a more or less general rise in the price of commodities and labor, when sound principles of finance were forgotten, and fictitious capital created to an enormous extent, it was only consistent with all previous experience, and apparently inevitable, that a reaction should come. To this result, various causes contributed. Among the most prominent was a wave of distrust and hostility to corporations and capital, which seems to have passed over the United States, and for which some justification was given by the management of some great companies within its borders. This hostility to corporations, to my view, merely hastened the coming and added to the violence of a collapse, bound to come anyway.

Strangely enough, the hostility to which I refer has manifested itself strongly against railways, in spite of the fact that railways on this continent have been constructed and are operated at least as cheaply and efficiently as anywhere in the world, with a consequent preponderating influence on the development of the country and a substantial assistance in raising the price receivable by the agriculturalists for their produce.

No doubt all these disturbing conditions may be expected to pass away and normal and saner views once more rule, and it must not be overlooked that all the present trouble leaves the resources of that country practically undiminished and its powers of recuperation unimpaired.

Here in Canada we have escaped most, if not all, of the troubles of our neighbors. The collapse in stocks has, no doubt, affected many investors, but beyond a certain tightening of the money market and advancing interest, I see no evidence of serious ill effects. The banks have been