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BANKING CAPITAL INCREASES.

At the annual meeting of its stockholders, held a short time ago, the Bank of Toronto decided to increase its authorized capital from $4,000,000 to $10,000,000. When the full amount of the present authorized capital is paid in (the Bank Statement for 31st December, 1906, showing $3,954,640) the capital paid will stand at $4,000,000, and the rest fund at $4,500,000. The Bank Act stipulates that increases in capital stock, when made, shall not be at a premium exceeding "the percentage which the reserve fund of the bank then bears to the paid-up capital stock thereof." The reason for this is quite plain. It is that the issue price so fixed is approximately equal to the book value of the stock. Thus, in the case of a bank with a paid-up capital of $1,000,000, and reserve fund of $500,000, leaving out of account the profit and loss balance, contingent funds, etc., the presumption is that the property is worth 150 per cent., and stockholders are not to be asked to pay more than that for the new stock they buy. It would be possible, of course, to follow the method adopted by many industrial and railroad corporations in watering their capitals. There is nothing in the Bank Act to prevent new issues of a stock, commanding a high premium in the markets, at par or considerably under the market quotation. But, though the Bank Act does not prohibit stock watering, competition does. The almost universal practice of the Canadian banks has been to make their new stock issues at prices almost up to the highest mark permitted by the law. If any institution did differently, if it started in to give stock bonuses of this kind to its stockholders, it would ultimately be in some danger of being passed, in the matter of annual dividends, by competitors that adhered to the general practice.

As the Bank of Toronto's reserve fund is now practically 112½ p.c. of its capital, it could at the present time issue the new stock at 212½. But the probability is that the new funds will be called up in round amounts from time to time. By the time the whole is in, no doubt, the "rest" will bear a considerably higher ratio to the paid-up capital than it bears to-day. At any rate, supposing the issues were made at a price not exceeding 200, the directors have the right to call no less than $12,000,000 in cash. Adding to this the $6,000,000 of increased note issuing rights, available if commercial conditions continue such that practically all the authorized bank circulation is in demand, and a total of something like $18,000,000 is had, irrespective of the prospective gains in deposits. In the last three years the gain in deposits has been over $8,500,000 or say $3,000,000 per year.

Judging from these figures there can be no doubt that the Bank of Toronto intends to be in a position to care for all the wants of its customers and to be prepared to take up all business of a desirable kind that presents itself.

Less than a year ago, the experienced president and general manager of the Imperial Bank of Canada, in his address at the bank's annual meeting, referred to the intensification of the banking competition that has lately taken place. Then Mr. Wilkie mentioned that he had advocated some years ago that the older institutions freely increase their capitals and open branches, anticipating the development of the Dominion. Had this been done more generally the older banks would have gained great advantages for themselves, "instead of giving an excuse for new corporations to come into existence and supply wants which ought to have been, and might have been supplied by the banks then in existence."

Besides the Bank of Toronto, several other banks have announced important capital increases to enable them to handle their growing business. Of course, by keeping the capital down and striving to increase deposits rapidly a much better showing in the way of earnings on capital can be secured. And even when the deposits reach so large a sum as seven or eight times the capital and rest, the bank's position can be kept strong by carrying unusually large amounts of cash and of the best class of quick assets. But even when the cash reserve is strong an increase in capital, and a consequent reduction in the proportion of the deposits to the stockholders' own funds, always broadens and strenthens the basis of the credit structure. A new issue of stock is the proper remedy when the bank's current loans and discounts, all of a good class of paper, show a tendency to absorb all the gains in deposits It is the more necessary when in addition, the quick assets begin to show a tendency to be transformed into current discounts.