

1941.
NEW ZEALAND.

RESERVE BANK OF NEW ZEALAND.

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE YEAR
ENDED THE 31st MARCH, 1941.

Presented to both Houses of the General Assembly pursuant to Section 20 of the Reserve Bank of New Zealand Amendment Act, 1936.

ANNUAL REPORT.

To the Hon. the MINISTER OF FINANCE.

THE Board of Directors presents hereunder the report on the operations of the Reserve Bank during the financial year ended the 31st March, 1941.

On the 31st December, 1940, the term of appointment of Mr. Leslie Lefeaux as Governor expired. The Board at its next meeting placed on record its appreciation of the distinguished services rendered to New Zealand and to the Bank by Mr. Lefeaux during his term of office as first Governor of the Bank.

After making such provision as was considered necessary for depreciation and contingencies, the net profit for the year amounted to £351,906 10s. This amount has been paid into the Public Account to the credit of the Consolidated Fund.

The decrease in expenditure of approximately £16,000 was due in the main to a large decrease in the cost of the note issue. Fresh purchases were on a lower scale during the year under review, and as a measure of war economy, notes are now reissued to a larger extent than heretofore.

Salaries paid again showed an increase, due largely to the increased staff needed to cope with the administration of the Finance Emergency Regulations 1940 (No. 2).

Revenue for the year was less than that for the previous year by £25,575. Advances to the Marketing Department were throughout the year at a lower level than during the year ended the 31st March, 1940, but the reduction in revenue from this source was offset by an increase in revenue from the Bank's holdings of British Treasury Bills. Smaller income from investments in Government Stocks and from other sources thus accounts for the decline shown.

The principal changes in the balance-sheet as at 31st March, 1941, compared with that of the previous year were as follows :—

LIABILITIES.

Bank Notes.

The increase of approximately £3,000,000 in bank notes outstanding was a continuation of the upward movement shown in the preceding year. Throughout the year the figure for notes outstanding was consistently higher than in the corresponding periods in the previous year. The effective note circulation—that is to say, notes in the hands of the public—totalled at the 31st March, 1941, £17,162,096, being £2,326,837 higher than at the last Monday in March, 1940.

Demand Liabilities.

(a) *State* : The decline of £586,008 from last year's figure represents a decrease in the sums held in the "Wool Account" awaiting distribution.

(b) *Banks* : Trading banks' balances declined by £1,600,835 to £12,843,770. As these balances fluctuate considerably from month to month, this decrease calls for no special comment.

(c) *Other* : The balance under this heading increased by £679,777 to £931,872; this item also fluctuates widely throughout the year, and at 31st March large amounts were held temporarily at the Reserve Bank on account of certain overseas banks.

ASSETS.

Sterling Exchange.

The increase of £4,079,223 was due to the high level of export income in conjunction with delays in deliveries of licensed imports.

Advances.

To the State or State Undertakings :—

(i) *Marketing Department* : The advances under this heading include a deficit in respect of the guaranteed price for butter and cheese accumulated prior to the war, and the remainder is accounted for by the fact that payments are made to suppliers before receipt of the purchase price from the United Kingdom Government.

(ii) *Other Purposes* : Although these advances had been throughout the year largely in excess of the figure of £15,500,000 as at 31st March, 1941, the Government, before the balance date, had paid off all advances under this heading other than those for housing purposes.

DISCOUNT RATE.

The discount rate was altered to 2 per cent. on the 27th May, 1940. The rates quoted since the Bank commenced business are as follows:—

	Per Cent.
As from 1st August, 1934	4
As from 29th July, 1935	3½
As from 2nd March, 1936	2½
As from 29th June, 1936	2
As from 19th November, 1938	4
As from 6th September, 1939	3
As from 27th May, 1940	2

EXCHANGE RATE.

The Bank's official buying rate for sterling remained unchanged and no official selling rate was quoted.

MANAGEMENT OF PUBLIC DEBT.

Interest-free Loans for War Purposes.

It was arranged that all persons lending money to the Government in response to the appeal by the Minister of Finance for interest-free loans should receive New Zealand Government Stock for the amounts lent. The Bank undertook the management of these interest-free loans, contributions to which totalled £2,589,563. Of this amount, £1,142,182 was converted into New Zealand Government War Loan, 1953, leaving £1,168,381 outstanding at 31st March, 1941.

New Zealand Government War Loan, 1953.

The Bank issued the prospectus of this loan on the 26th September, 1940. It is non-interest bearing until the 1st October, 1943, but thereafter interest will be paid at the rate of 2½ per cent. per annum. Subject to the provisions of section 41 of the New Zealand Loans Act, 1932, this Stock will be accepted at par in payment of death duties at any time before maturity in respect of the estate of the original holder. It was indicated in the prospectus that the Minister of Finance would not regard any person as having subscribed in proportion to his means unless that person had subscribed at least the amount of the income-tax payable by him in respect of income derived during the year ended the 31st March, 1939, decreased in the case of individuals by £50 and in the case of companies by £70.

Individuals and companies who had already made interest-free loans were given the option of converting them to this issue.

In addition, persons who had made gifts of money direct to the War Expenses Account were permitted to reduce their contributions to the loan by the amount of such gifts.

On the 18th October, 1940, a *Gazette* notice was issued requiring all persons and companies to subscribe to the loans on the terms set out above. The closing date for applications was extended to the 8th November, 1940.

The total applied for under this loan was £9,284,737, including the above-mentioned amount of £1,421,182 converted from interest-free loans. The Bank decided not to make the usual issue and conversion charges to the Government for the work undertaken in connection with this loan, whilst the trading banks and the Stock Exchange Association of New Zealand agreed to forego the commissions ordinarily payable to them.

New Zealand Government National Development Loans, 1945 and 1956–59.

On the 3rd January, 1941, the Bank issued a prospectus for these loans. Two classes of Stock were offered:—

- (1) 3-per-cent. Stock maturing 15th July, 1945, at an issue price of £100.
- (2) 3½-per-cent. Stock maturing 15th January, 1956–59, at an issue price of £97 5s.

The closing date of the loans was not fixed nor was any maximum amount specified.

The proceeds of these loans are to be used for general development purposes comprising railway construction, hydro-electric development, land development and afforestation, housing, roads and highways and public buildings, including telegraph and telephone extensions. As at 31st March, 1941, the loans were still open, but the shorter-dated loan has since been closed.

The Board desires to place on record that the task of issuing the above-named loans was greatly facilitated by the helpful co-operation of the trading banks and the Stock Exchange Association of New Zealand.

EXCHANGE CONTROL.

So far as licensing of overseas trade is concerned, the procedure has not substantially changed except that the fifth licensing period covers the whole of 1941. Previous licensing periods covered six months, though in some cases an extension was made.

Net overseas assets continued at a level which rendered it unnecessary on the whole to "spread" approved remittances during the year under review.

A fuller degree of control was, however, taken over foreign exchange transactions by the Finance Emergency Regulations 1940, which were introduced in April, 1940.

These regulations eliminated the free exchange market by prohibiting all transactions (other than those officially approved) involving the taking or sending of money or securities from New Zealand, or disposing of any money or securities held or payable abroad. At the same time, any foreign exchange transactions at other than the current exchange rate were also prohibited.

In June these regulations were replaced by the Finance Emergency Regulations 1940 (No. 2), which, in addition to re-enacting the measures of control over exchange transactions, provided for the registration of privately-owned overseas currencies and securities of New Zealand residents. So far as Exchange Control is concerned, the effect of these regulations and subsequent amendments is as follows:—

(a) *Foreign Exchange Transactions*: All transactions must be made through the appropriate official channels—i.e., the Reserve Bank or the trading banks as its agents according to the nature of the transactions—and in accordance with authority granted by the Reserve Bank.

(b) *Dealings in Foreign Securities*: Foreign Securities may not be dealt in except under certain specified conditions. Securities situated or registered overseas may be sold if the buyer is another New Zealand resident and payment is made in New Zealand in New Zealand currency. If the buyer is not another New Zealand resident, the foreign currency must be made available to the Reserve Bank or one of its agents.

Securities on the New Zealand register of concerns having a register both in and outside New Zealand may be dealt in provided that, except with permission of the Reserve Bank, no transfer is made from a resident to a non-resident or to an overseas register.

(c) *Acquisition of Gold Coin and Bullion*: The Minister of Finance is empowered to require New Zealand residents who hold gold coin or gold bullion to offer it for sale to the Reserve Bank at a price to be determined by the Minister of Finance, having regard to the current price of gold in London. So far no action has been taken under this regulation.

(d) *Returns of Foreign Currency, Balances, Fixed Deposits, and Securities*: Every New Zealand resident is required to furnish to the Reserve Bank returns of his holdings of foreign currency, balances, fixed deposits, and securities. Residents must offer to sell the currency and to assign the balances to the Reserve Bank, the price to be determined by the Minister of Finance, having regard to the current rate of exchange. With respect to the foreign securities, the Minister of Finance "if he is of the opinion that it is necessary or expedient so to do for the purposes of strengthening the financial position of New Zealand" may transfer to the Reserve Bank any of these securities at a price to be determined by the Minister, being not less than the market price at the date of transfer. No action has yet been taken by the Government to transfer such securities, or the currencies mentioned above, but the returns have been received and recorded by the Reserve Bank.

The Exchange Control system makes it possible for the first time to make a detailed statement of foreign exchange transactions.

The following table gives a classification of the transactions for the years ended the 31st March 1940 and 1941. The 1940 figures are not as complete as those for 1941 owing to the existence of the free exchange market up to the 10th April, 1940.

Summary of Transactions.

(£(N.Z.)000).

Receipts.	Year ended		Payments.	Year ended	
	31st March 1940.	31st March 1941.		31st March 1940.	31st March 1941.
In respect of—			In respect of—		
Exports	70,975	73,302	Imports, excluding payments in respect of	37,868	42,015
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts due in New Zealand	1,588	4,220	Government imports and in respect of goods imported prior to introduction of licensing system		
Trade debts due in New Zealand, including overseas earnings of New Zealand firms	1,734	3,443	Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	3,187	3,935
Commissions, royalties, and insurance	68	120	Trade debts due overseas, including earnings in New Zealand of overseas firms and payments in respect of goods imported prior to introduction of licensing system	4,671	2,759
Donations and allowances	342	382	Government debt and other services, including payments in respect of imports	14,064	19,628
Travellers' expenses	270	280	Local body debt services	1,634	3,635
Local body loan raised overseas	322	..	Commissions, royalties, and insurance	323	538
Government loan raised overseas	2,500*	..	Donations and allowances	547	622
Unclassified	683	965	Film hire and entertainments	293	343
			Travellers' expenses	727	274
			Unclassified	43	15
	78,482	82,712		63,357	73,764

* Sterling Loan from trading banks since repaid.

OVERSEAS TRADE.

Exports: For the year ended 31st March, 1941, exports reached the high level of £71·2 million, compared with £59·7 million in the previous year, an increase of 19 per cent. The disparity between the value of goods exported and the total of export proceeds received during the year 1940 is explained by the fact that, under the United Kingdom purchase agreement, those receipts included approximately £10 million which would otherwise not have come to hand till after the end of the year. At the same time, however, export prices rose by 10·9 per cent., so that the increase in the volume of exports was 7·6 per cent.

Changes in the volume and value of exports of the principal commodities are as follows :—

			Volume (Thousands).			Value (£(N.Z.)000).		
			1939-40.	1940-41.	Change.	1939-40.	1940-41.	Change.
					Per Cent.			Per Cent.
Butter	..	(cwt.)	2,412	2,579	+ 6·9	16,345	17,824	+ 9·1
Cheese	..	„	1,674	2,327	+39·0	6,094	9,421	+54·6
Beef	..	„	828	1,468	+77·2	1,461	2,864	+96·1
Lamb	..	„	2,818	2,759	- 2·1	9,366	9,764	+ 4·2
Mutton	..	„	1,312	1,299	- 0·9	2,155	2,384	+10·6
Pork	..	„	415	519	+25·2	1,422	1,868	+31·3
Wool	..	(bales)	790	782	- 1·1	12,640	15,121	+19·6
Other	..	..	..	..	..	10,201	11,934	+17·0
Totals	..	..	..	..	+ 7·6	59,684	71,179	+19·3

Changes in the destination of exports have been as follows :—

			Value (£(N.Z.)000).		Percentage of Total.	
			1939-40.	1940-41.	1939-40.	1940-41.
United Kingdom	..	..	50,540	59,813	84·7	84·0
Australia	..	..	2,108	2,267	3·5	3·2
Canada	..	..	1,033	2,290	1·7	3·2
United States	..	..	2,869	3,035	4·8	4·3
Other	..	..	3,132	3,774	5·3	5·3
All countries	..	..	59,684	71,179	100·0	100·0

Imports : The value of imports shows a small rise for the year, the recorded value being £(N.Z.)47·9 million, as compared with £(N.Z.)45·6 million for the previous year, an increase of 5·1 per cent. (The actual costs were probably somewhat higher than the recorded values owing to the additional freight and insurance charges arising from the war. In the recorded figures for imports such charges have continued to be taken as 10 per cent. of the value in the country of origin, whereas 20 per cent. would probably be a truer figure in present circumstances.) During the year, however, wholesale prices of imported goods rose by about 20 per cent., so that actually the volume of imports fell by about 12·6 per cent.

Changes in the countries of origin of imports are shown in the following table :—

			Year Ended March.			
			Value (£(N.Z.)000).		Percentage of Total.	
Country of Origin of Imports.			1940.	1941.	1940.	1941.
United Kingdom	..	..	20,760	22,145	45·6	46·2
Australia	..	..	6,631	7,789	14·5	16·3
Canada	..	..	3,178	3,314	7·0	6·9
U.S.A.	..	..	5,304	6,425	11·6	13·4
Other	..	..	9,699	8,246	21·3	17·2
All countries	..	..	45,572	47,918	100·0	100·0

These annual figures do not reveal substantial changes which have occurred in more recent months. For the first quarter of 1941 imports from the United Kingdom fell to 38·5 per cent. of the total for that period. Canada's share rose to 9·7 per cent. and that of the U.S.A. to 16·0 per cent.

Net Overseas Assets and Balance of Trade : The following table shows the movements during the past seven years to the end of March, 1941 :—

			(£(N.Z.)million.)	
End of March.			Net Overseas Assets.	Balance of Trade (Twelve Months).
1935	..	..	45·2	12·4
1936	..	..	44·1	12·2
1937	..	..	34·4	12·6
1938	..	..	26·6	6·9
1939	..	..	9·3	3·5
1940—				
March	..	..	23·0	14·1
June	..	..	27·4	19·8
September	..	..	22·2	20·4
December	..	..	23·4	24·7
1941 : March	..	..	29·8	23·3

The unusually large balance of trade for the year ended the 31st March, 1941, contributed to the increase in net overseas assets revealed by the above figures ; but had it not been for delays in the arrival of goods ordered under license, both the balance of trade and the total of net overseas assets would have been very materially lower.

As a consequence of these delays, fourth-period import licenses were to a considerable extent still not utilized when they lapsed at the termination of that period on the 31st December, 1940. The relative unused exchange authorities were accordingly cancelled also ; but the overseas funds thereby released were thereupon reallocated for imports of the fifth period, which covers the whole of 1941.

Thus, after making the necessary allowance for the Reserve Bank's statutory reserve requirements and certain other commitments, the net overseas assets held by the Reserve Bank and the trading banks on the 31st March, 1941, represented, not a freely disposable surplus, but a fund which had already been allocated to provide for fifth-period imports.

In March, 1941, a sum of £4 million sterling was made available in London by the Bank, partly for payments due to the United Kingdom Government in respect of the Dominion's overseas war expenses, and partly to redeem sterling Treasury notes issued in London in terms of the New Zealand Government's Export Credit Agreement with the United Kingdom Government.

TRADING BANKS.

The position of the trading banks as shown by the main items in their monthly returns has been as follows :—

Assets. (£(N.Z.)000.)

	Deposits at Reserve Bank.	Reserve Bank Notes.	Total Cash in New Zealand.	Net Overseas Assets.	Government Securities.	Advances and Discounts.
1940.						
March	13,862	3,544	18,049	9,988	16,540	48,161
April	15,341	4,294	20,377	10,771	15,892	49,541
May	15,765	3,785	20,273	11,542	15,892	49,556
June	16,212	3,918	20,840	12,572	15,903	47,457
July	16,737	4,258	21,695	12,555	15,992	46,102
August	17,522	4,424	22,632	12,508	16,001	45,379
September	15,438	4,161	20,280	12,213	17,074	46,586
October	13,253	4,007	17,904	12,417	17,257	47,476
November	13,964	4,179	18,822	12,420	17,302	47,263
December	12,720	5,226	18,623	11,916	17,519	48,079
1941.						
January	14,322	5,491	20,580	13,161	18,519	46,710
February	16,485	4,941	22,177	14,179	18,525	47,282
March	12,832	4,279	17,860	12,239	15,434	53,680

Liabilities in New Zealand. (£(N.Z.)000.)

	Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1940.			
March	46,640	31,246	77,885
April	48,163	31,251	79,414
May	48,071	31,815	79,887
June	49,113	31,387	80,500
July	48,423	30,745	79,168
August	48,831	30,870	79,701
September	48,158	30,576	78,734
October	46,731	30,352	77,083
November	48,204	29,735	77,939
December	49,684	29,376	79,060
1941.			
January	52,115	29,110	81,225
February	56,060	29,010	85,070
March	53,682	28,630	82,312

The figures show a rise of £7,042,000 in demand liabilities and a fall of £2,616,000 in time liabilities. The ratio of demand to total demand and time liabilities has thus risen from 59·9 per cent. to the high level of 65·2 per cent.

Throughout the year there was a steady rise in their holdings of Government Securities, but a sharp fall in March, 1941, has resulted in a net fall of £1·1 million since the 31st March, 1940. Advances and discounts remained relatively steady throughout the year until March, 1941, when they rose by £6,398,000 largely because of accommodation granted on account of primary products in store awaiting export. The proportion of advances and discounts to total demand and time liabilities rose during the year from 61·8 per cent. to 65·2 per cent.

POST OFFICE SAVINGS BANK.

In spite of the calls made on the public by way of taxation, savings certificates, war loans, and patriotic appeals, the deposits in the Post Office Savings Bank showed steady improvement throughout the year.

(£(N.Z.) millions.)

Year ended 31st March,						Deposits.	Withdrawals.	Excess Deposits.	Credit Balances.
1935	..	..	..	..	..	24·2	20·9	3·2	49·4
1936	..	..	..	..	..	25·6	23·5	2·1	52·9
1937	..	..	..	..	..	30·7	27·0	3·6	58·1
1938	..	..	..	..	..	33·0	29·6	3·4	63·1
1939	..	..	..	..	..	30·4	34·6	—4·2	60·7
1940	..	..	..	..	..	25·2	29·5	—4·3	58·0
1941	..	..	..	..	..	28·6	25·3	3·3	63·0

PRICES AND GENERAL BUSINESS CONDITIONS.

The principal price indices have fluctuated during the year under review as follows:—

(1926-30 = 1000.)

				Export.	Retail.		Wholesale.			
					Food.	All Groups.	Imported Items.	Locally Produced Items.	All Groups.	
1940.										
March	..	..	..	1007	1060	1012	1218	1073	1158
April	..	..	..	1010	1073	1017	1236	1090	1175
May	..	..	..	996	1078	1029	1248	1096	1185
June	..	..	..	995	1071	1026	1263	1089	1190
July	..	..	..	1000	1074	1027	1292	1083	1205
August	..	..	..	988	1070	1042	1334	1073	1225
September	..	..	..	995	1095	1050	1351	1077	1236
October	..	..	..	991	1087	1048	1380	1075	1253
November	..	..	..	998	1087	1054	1383	1083	1258
December	..	..	..	975	1084	1053	1390	1099	1268
1941.										
January	..	..	..	1002	1076	1050	1406	1091	1274
February	..	..	..	992	1077	1056	1410	1099	1280
March	..	..	..	986	1081	1057	1416	1110	1288
Change for year (per cent.)				..	—2·1	+2·0	+4·4	+16·3	+3·4	+11·2

According to the above indices the price increases recorded have been small, except in the case of imported goods; the rise in the latter was, of course, mainly responsible for the rise in the wholesale-price index under the heading "All Groups." Thus it is seen how the Dominion's internal price structure has been affected both by wartime costs of production in overseas countries, particularly the United Kingdom, and by increased freight and insurance charges arising from the same cause.

On the whole, business has been maintained on a fairly high level of activity.

Aggregate incomes and the value of production have increased, while the value of domestic trade, as shown by sales-tax receipts, has remained steady. But as the value of domestic trade is expressed in higher prices (the causes for which have already been referred to), it follows that the volume has shown a decline.

The diversion of a considerable proportion of the national income and of available man-power towards production of capital goods and equipment for war purposes, coupled with the withdrawal of large numbers of men from civil life into the armed forces, cannot fail to involve a decline in the normal consumption of goods and services.

In these circumstances the maximum possible contribution by members of the community to war loans, including National Savings Accounts, would not only have the effect of helping the Empire's war effort, but in addition would enable the financial structure of the Dominion to bear the inevitable strain of war conditions with the minimum disturbance of prices.

STAFF.

At the 31st March the permanent male staff numbered 68. Of this number 20 have proceeded or are proceeding overseas in the Royal Navy, the N.Z.E.F., and the R.N.Z.A.F.; 5 are on full-time home defence; 10 are in the National Military Reserve and the Territorials. Practically without exception the remainder of the male staff (including 7 juniors who are still ineligible for the Territorials and a number of others who are medically unfit for overseas or home service) are undertaking duties in the Home Guard and the Emergency Precautions Scheme. A number of the female staff are undergoing training in nursing and other war services.

The staff during a strenuous year have continued to carry out their duties efficiently and well, and the Board desires to record its appreciation of their loyal services.

For and on behalf of the Board of Directors :

W. F. L. WARD, Acting-Governor.

E. C. FUSSELL, Deputy Governor.

27th June, 1941.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1941.

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	139,181	18	1	Balance of profit after making provision for rebate on Treasury Bills not yet due, and for sundry liabilities and contingencies	491,088	8	1
Balance, being profit for year	351,906	10	0				
	<u>£491,088</u>	<u>8</u>	<u>1</u>		<u>£491,088</u>	<u>8</u>	<u>1</u>

PROFIT AND LOSS APPROPRIATION ACCOUNT.

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	361,363	6	10	Balance at 1st April, 1940	361,363	6	10
Balance	351,906	10	0	Balance from Profit and Loss Account	351,906	10	0
	<u>£713,269</u>	<u>16</u>	<u>10</u>		<u>£713,269</u>	<u>16</u>	<u>10</u>

BALANCE-SHEET AS AT 31ST MARCH, 1941.

<i>Liabilities.</i>	£	s.	d.	<i>Assets.</i>	£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at face value)	2,801,873	10	0
Bank notes	21,440,822	10	0	Sterling exchange	17,536,569	9	9
Demand liabilities—				Subsidiary coin	82,333	17	7
(a) State	6,269,551	0	5	Advances to the State or State undertakings—			
(b) Banks	12,843,770	5	11	(1) Marketing Department	2,926,463	0	6
(c) Other	931,872	9	8	(2) For other purposes	15,500,000	0	0
Liabilities in currencies other than New Zealand currency	7,260	1	2	Investments	3,772,322	4	0
Other accounts	820,894	5	9	Other assets	1,546,515	1	1
Profit and Loss Appropriation Account	351,906	10	0	N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £(N.Z.)124			
	<u>£44,166,077</u>	<u>2</u>	<u>11</u>		<u>£44,166,077</u>	<u>2</u>	<u>11</u>

W. F. L. WARD, Acting-Governor.

E. C. FUSSELL, Deputy Governor.

W. R. EGGERS, Chief Accountant.

Auditors' Certificate and Report.—We have audited the balance-sheet as at 31st March, 1941, above set forth, and have obtained all the information and explanations we have required.

We have accepted the certificate of the Bank of England as to assets held on account of the Reserve Bank of New Zealand.

In our opinion the balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Bank as at 31st March, 1941, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

D. G. JOHNSTON }
J. L. GRIFFIN } Public Accountants, Auditors.

Wellington, New Zealand, 20th June, 1941.

