

1948
NEW ZEALAND

BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31st MARCH,
1948, AND BALANCE-SHEET AT THE 31st MARCH, 1948

*Presented to Both Houses of the General Assembly Pursuant to Section 15 of the Bank of
New Zealand Act, 1945, and Section 24 of the Bank of New Zealand and Banking
Amendment Act, 1898*

To the Right Hon. the MINISTER OF FINANCE.

THE Board of Directors presents hereunder the report on the operations of the Bank of New Zealand during the financial year ended 31st March, 1948, in accordance with section 15 of the Bank of New Zealand Act, 1945.

PROFIT AND LOSS ACCOUNT AND DIVIDEND

The profits, after providing for expenses of management, and for all bad and doubtful debts, and other contingencies, and after making provision for the annual donation to the Provident Fund, are	£	s.	d.
To which has to be added : Balance brought forward from last year	429,795	19	9
	399,208	3	2

829,004 2 11

From which has been paid :—	£	s.	d.
Dividend on preference A shares	46,250	0	0
Interim dividend on C long-term mortgage shares	6,503	18	1
Interim dividend on D long-term mortgage shares	16,259	15	3
Interim dividend on preference B shares	18,750	0	0
Interim dividend on ordinary shares	112,500	0	0
	<hr/>	200,263	13 4
Leaving available for distribution	£628,740	9	7

This the Directors propose should be disposed of as follows :—

	£	s.	d.	£	s.	d.	£	s.	d.
Dividend on C long-term mortgage shares at 6 per cent. per annum	7,031	5	0						
*Reduced by 1d. for every 13½d. or part thereof	527	6	11						
	<hr/>			6,503	18	1			
Dividend on D long-term mortgage shares at 7½ per cent. per annum	17,578	2	6						
*Reduced by 1d. for every 13½d. or part thereof	1,318	7	3						
	<hr/>			16,259	15	3			
Dividend on preference B shares (making £43,750 for the year)				25,000	0	0			
Dividend at rate of 4 per cent. on ordinary shares (making £262,500 for the year, equal to 7 per cent.)				150,000	0	0			
Leaving balance to be carried forward				430,976	16	3			
				<hr/>			£628,740	9	7

Such dividends to be paid in New Zealand currency.

The gross profit for the year, less provision for contingencies, &c., amounted to	£2,236,477, an increase of £135,847
Expenses amounted to	£1,806,681, an increase of £141,301
Leaving net profit as above	£429,796, a decrease of £5,454

The gross profit shows a satisfactory increase, which is accounted for by a higher level of advances, increased earnings from exchange transactions, the continuing increase in the number of customers' accounts, and the increased volume and turnover of the Bank's business generally. Investment income shows a reduction, due to repayment on maturity of Government and local-body loans.

* Reduction on account of New Zealand social security charge in pursuance of section 9, Finance Act (No. 2), 1941.

The main fluctuations in expenses are :—

					£
Salaries and allowances .. .. .	..	..	..	Up	71,141
General expenses .. .. .	..	..	..	Up	63,134
Rates and taxes .. .. .	..	..	..	Up	7,171
					<hr/>
					£141,446
					<hr/>

An increase in expenses is to be expected with the higher all-round costs prevailing under present-day conditions, but, in addition, there is the extra expense involved in handling a larger volume of business.

In view of the advances being at a high level, as referred to later in this report, and having regard to the uncertainties ahead and the disturbed state of world affairs, it has been considered prudent to strengthen our internal reserves.

BALANCE-SHEET

Deposits : Fixed and Free (£80,681,281).—These show an increase for the year of £10,868,616, almost wholly accounted for by an increase in free deposits, the increase in fixed deposits being £918,266 only.

The following graphs of deposits and advances in New Zealand have been prepared to show our experience during and immediately after the two Great Wars. Graph A shows the trend of deposits and advances from the beginning of World War I and ten years thereafter. It will be seen a peak was reached two years after World War I and a pronounced fall followed.

Graph B shows the position from the beginning of World War II to date.

Coin, Reserve Bank Notes, and Deposits with Bankers (£24,810,947) show a decrease for the year of £1,546,182. Our cash holdings in Australia reduced during the year, due mainly to an increase in advances to customers.

Our balance with the Reserve Bank of New Zealand at £17,577,822 shows a decrease of £289,211, and our holding of Reserve Bank notes at £4,626,138 is down £33,670.

Our statutory deposit with the Reserve Bank of New Zealand amounted to £4,288,748, leaving us with surplus cash in this account at balance date of £13,289,074, compared with a surplus last year of £13,997,100.

No interest is allowed on the balance with the Reserve Bank. This represents idle money which, of course, yields no return, but it serves to emphasize the Bank's substantial liquid funds.

Money at Call and Short Notice, Government Securities, and Other Securities in London (£9,013,020).—This shows an increase of £1,550,000, accounted for by an increase in our call money, but there is no special significance in this.

The moneys at call and short notice service the Bank's day-to-day operations. There are substantial commitments and liabilities against these funds and they are, of course, subject to rapid fluctuations.

The Reserve Bank of New Zealand holds the bulk of the Dominion's overseas funds under the exchange-control system that has been in force for some years.

The Bank's Reserve Fund of £3,575,000, included in the figures under this heading, is invested in British Government securities. There has been no change during the year in our investments in London.

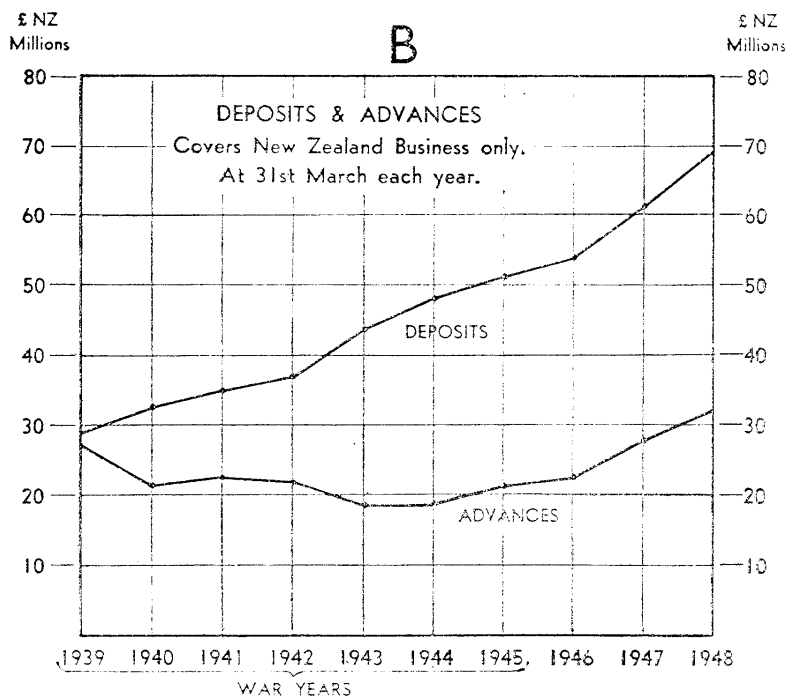
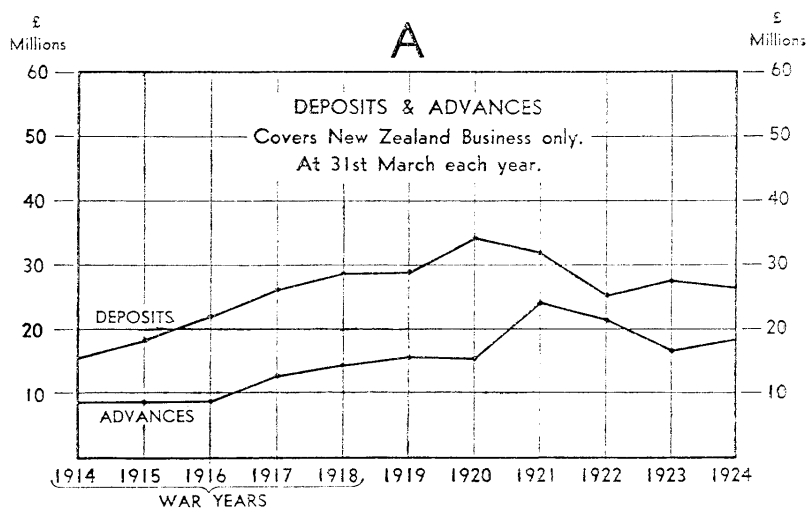
New Zealand Government Securities (£10,589,234).—These show a reduction of £943,329, accounted for by the redemption of stock which fell due during the year.

The Government policy of not permitting the trading banks to subscribe for or take up Government loans is having its effect. Over the last four years the reduction in such securities in the case of this Bank alone is £6,831,460.

Australian Government Securities (£1,086,960) show practically no change during the year.

Fiji Government Securities (£175,500) show a decrease during the year of £26,600, accounted for by the sale of Fiji Government debentures previously taken up.

Municipal and Other Local-body Securities (£1,259,598), a decrease of £112,978, due to repayments at maturity.

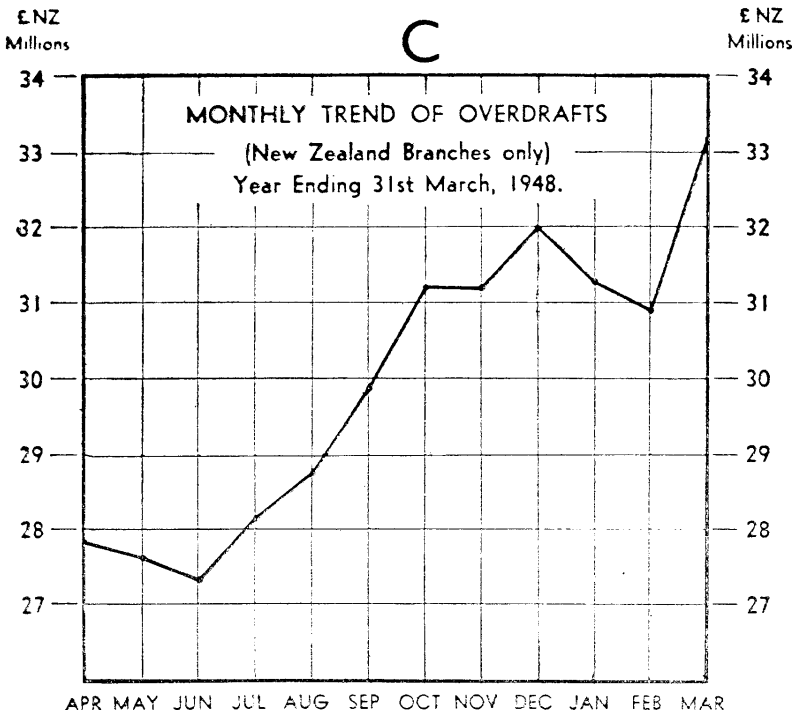


As mentioned in previous years, in accordance with Government policy, the trading banks are not at present taking up local-body loans.

<i>Other Advances and Securities and Debts Due to the Bank (after Deducting</i>						£
<i>Provision for Bad and Doubtful Debts)</i>	..	..	..	..	..	38,767,749
<i>Bills Discounted</i>	..	..	..	..	..	1,222,560
						<u>£39,990,309</u>

These show an increase of £8,039,255 and £380,070 respectively, a total increase of £8,419,325.

As shown in the foregoing Graph B, our advances to customers in New Zealand have been increasing since 1944, with a marked increase in the last two years. The increase in the twelve months to 31st March, 1947, was substantial and was caused by the return to more normal trading and the building-up of depleted merchandise stocks, &c., after the war, but the increase in the last year was due to other causes. The following graph of the monthly movement shows that the increase took place in the latter part of 1947 and early 1948. This was due to the volume of imports which arrived during that period and which caused almost all importers to lean very heavily on their bankers to enable the goods to be landed. The fear that relative import licences would be cancelled if the goods were not delivered in 1947 induced special efforts by English exporters and shippers, and the goods were despatched in almost embarrassing quantity. Somewhat the same thing happened in 1920, though for different reasons. It appears evident that there is at present some overstocking in some lines of merchandise, though basic materials are still in short supply. The overstocking may possibly cause some trading losses to those involved, but these should not be serious, and the present abnormal position should adjust itself in the course of time. The high price of goods, particularly imported goods, calls for larger capital resources, and the recent experience is a reminder that the banking system can be subjected to sudden strains.



The Reserve Bank's control of advances has been continued during the year in accordance with the public announcements of policy. It is designed to avoid the use of bank credit for purposes which would more suitably be financed by loans or capital from other sources. The operation of the policy has not hampered ordinary trading business, but it has been much misunderstood by the general public. That it has not prevented an increase in advances is obvious, but without it the advances may well have been higher. Such a policy must be reasonably flexible if it is not to force hardship on certain people, and the Reserve Bank has administered the policy with every consideration.

In last year's report two years' figures relating to our New Zealand business were quoted showing the analysis of the advances as at March under the various headings used for statistical purposes, and quoted hereunder are three year's figures, as they are of particular interest. The figures have been reduced to percentages of the total advances for each of the years:—

(New Zealand business only)

	25th March, 1946.	26th March, 1947.	31st March, 1948.
	Per Cent.	Per Cent.	Per Cent.
Farmers	39·10	34·11	25·47
Industries allied to primary production	14·72	15·75	14·47
Other manufacturing and productive industries	10·31	10·15	14·04
Merchants, wholesalers	4·24	8·15	11·78
Retailers	5·19	6·28	8·68
Transport	1·43	1·54	1·76
Local bodies, municipal authorities, public utility concerns, &c.	1·77	1·73	1·59
Stock and station agents	1·15	1·33	1·25
Hotels, restaurants, &c.	3·42	3·61	3·23
Entertainment concerns	0·50	0·39	0·38
Financial companies, societies, &c.	1·56	1·35	1·78
Religious and charitable	0·35	0·39	0·37
Professional	1·96	1·82	1·78
Private individuals	10·04	9·05	8·35
Miscellaneous	4·26	4·35	5·07

It will be seen that there has been a marked increase in the requirements of—

- (a) Other manufacturing and productive industries :
- (b) Merchants, wholesalers :
- (c) Retailers.

The reasons for this have already been set out.

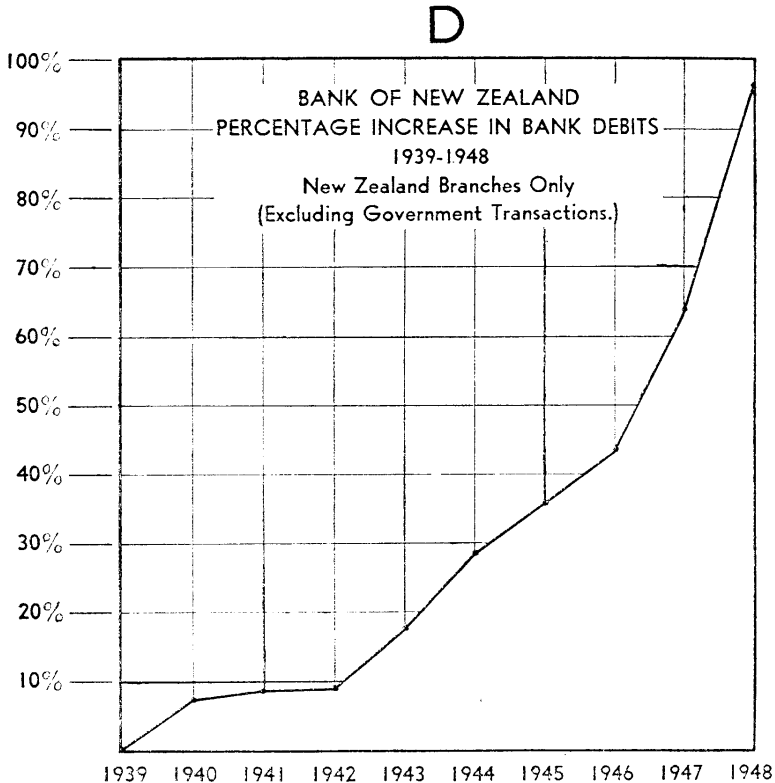
	£
<i>Long-term Mortgage Department</i>	703,125
<i>Transfers to Mortgage Department</i>	17,480
	<u>£720,605</u>

This Department has increased its advances during the year by £96,367, and is now using £17,480 transferred from the ordinary banking funds in terms of the relative statutory provision. The increase is accounted for by loans under local-body housing finance schemes arranged in recent years, as mentioned in previous reports.

CURRENT ACCOUNTS

The number of accounts continues to show a very satisfactory increase.

The following graph of the annual total of amounts debited to customers' accounts shows the great increase in monetary turnover, and reflects the increase in prices and in the volume of business :—



REHABILITATION BUSINESS

In order to assist in the work of rehabilitation of ex-service personnel, an arrangement has been come to with the Rehabilitation Department for the Bank's services to be used in certain cases in an advisory capacity. [It was felt that our Managers would be able to afford valuable assistance in this very important work of rehabilitation, and it was arranged that, where desired, they should be co-opted to the District Rehabilitation Committees. The idea has proved itself and our Managers have cheerfully undertaken this additional duty.

DROUGHT AND FLOOD RELIEF

The drought-relief advances which were made two years ago by arrangement with the Government, and under Government guarantee, have been systematically reduced, and the small remaining balance should be liquidated successfully. The flooding in the Wairarapa last year was dealt with in a similar way, but fortunately the actual flood losses were relatively minor and there was little necessity for relief loans. The Bank co-operated fully with the Government's officers in dealing with the cases.

WOOL

Last year the pre-war system of sale by auction was reverted to, and the large Government holdings of old wool, now known as "stock pile wool," are being included in the auctions under arrangements made by the Governments interested to avoid undue fluctuations in the market. The total stock pile wool holding shows a much greater rate of reduction than was originally expected. The world-wide demand for wool has been very strong and has resulted in extremely favourable prices to the growers. The demand appears likely to continue meantime, although as inventories in manufacturing countries become better balanced the present keenness in buying may be expected to abate. There has, however, been evident a reduction in the world production of wool, and any forecast of future prices would be futile.

Difficulties and delays with shipping and in the establishing of letters of credit, for which exchange permits from various overseas exchange-control authorities are required, still remain, but on the whole the business of wool selling and exporting is working smoothly and satisfactorily from the banking standpoint.

Our complete banking arrangements in New Zealand and London, and with overseas agents and connections, enable us to promptly and efficiently handle our proportion of the Dominion's wool business. A number of our customers have shipped their wool to the London market for sale, and increased quantities of wool are being handled by our Produce Department there.

AUSTRALIA

Our Australian business has been well maintained and demand for advances is strong. Our branches in Sydney and Melbourne give good service to our many New Zealand customers who do business with Australia or visit there.

The proposals of the Australian Government to nationalize the trading banks in Australia and take over all their assets are, of course, fully known to you, and the matter has been the subject of litigation which has been fully reported in the press. The hearing before the High Court in Australia was completed in April, the decision being reserved.

FIJI AND SAMOA

Our businesses at Suva and Apia have been more than maintained, and show increased activity, with both colonies receiving very favourable prices for their exports.

LONDON

Our business continues to be very active and the branch is well staffed and equipped to transact the increasing volume of business handled.

Recently we have been able to arrange for additional space in the building we occupy at No. 1 Queen Victoria Street, which will permit of our rearranging and bettering the facilities for customers, including visitors to England, and the staff.

SHAREHOLDING

The number of shareholders remaining on overseas registers at 31st March last was :—

	Ordinary Shares.	D.L.T.M. Shares.
London Register : 41 shareholders	.. 5,104	1,908
Australian Register : 4 shareholders	.. 859	62
	<hr/> 5,963	<hr/> 1,970

BOARD OF DIRECTORS

There was no change in the Board of Directors during the year.

We very much regret to record the death of Mr. T. F. Tallents, of the London Board, on 17th November, 1947. To fill the vacancy, Mr. F. E. Harmer was appointed a Director as from 1st April, 1948.

This was the only change in our local Directors at London, Melbourne, and Sydney.

The Board desires to again place on record its appreciation of the services of the Bank's local Directors.

PREMISES

Our buildings are being maintained in good order and repair consistent with the present difficulty in obtaining materials and labour. The new premises at Alexandra have been completed and occupied, but no new premises are under construction at the moment owing to the present difficulty in obtaining building permits for new construction work. We are continuing our policy of making interior alterations where necessary and possible to enable the work of the branches concerned to be carried out more comfortably and expeditiously. There is a definite limit to what can be achieved by this means, and the deferred building of business premises is creating a problem which will be difficult to solve.

Conditions in the main Auckland office still give cause for considerable concern, but we cannot as yet do much to alleviate the position as the necessary permit to rebuild has been refused. Temporary alterations are being made as a stop-gap, but these do not solve the real problem. What is required is a new building sufficient to house our own increasing business and also to provide sorely-needed office space for the business community.

BRANCHES

During the year the following agencies were converted to full branches, in each case existing premises being altered for our purposes within the scope of Building Control permission: Katikati, Ngatea, Ponsonby, Takapuna. These new branches have all justified themselves and are a convenience to the communities they serve.

AGENCIES

The following new agencies were opened: Ashhurst (Palmerston North); Glen Eden (Newton, Auckland); Kaeo (Kaikohe); Kopu (Thames); Milford (Devonport); Oneroa, Waiheke Island (Auckland); Victoria Street West (Auckland).

Following the conversion of Ngatea Agency to a full branch, our agency at Kaihere was closed, as agency facilities are not now required there.

STAFF GENERALLY

The staff position generally is becoming more stabilized as the disturbance caused by the war recedes into the past. The housing shortage is, however, the cause of considerable trouble in arranging staff movements, and every care is taken to avoid creating difficulties for married officers in this respect.

With our expanding business it is necessary to increase the staff employed, but with the prevailing shortage of man-power and the resultant competition for employees we have found it difficult to keep the numbers up to what we require. Despite this, the staff is efficient, and gives cheerful and willing service to our thousands of customers.

The present numbers are :—

Men	..	..	..	..	..	1,540
Women	..	..	..	..	..	478
Total	..	..	..	..	..	2,018

which is an increase of 156 on the numbers twelve months ago.

Following on the general wage increase of 10s. a week granted by the Arbitration Court, an increase in salary of £25 per annum was granted to all members of the staff, both on and off scale salary, as from 1st October, 1947.

Provision has again been made this year towards helping the retired officers and their dependants drawing Provident Fund pension to meet the rising cost of living, and the payment of a bonus to pensioners on the following basis was authorized by the Board :—

	£
Officers who had served twenty-five years and over ..	.. 30
Widows drawing widows' life pension ..	.. 10
All others ..	.. 15

The active business conditions during the past twelve months have kept the staff working at high pressure, and the Board once again desires to express its high appreciation of the loyal and efficient service rendered by them in the interests of the Bank and its customers.

CONCLUSION

The accompanying Balance-sheet shows that the Bank is in a strong and liquid position. The assets have been conservatively valued, and full provision for possible bad debts has been made. The Bank is well equipped to meet its customers' requirements and give a complete banking service to the community it serves.

For and on behalf of the Board of Directors,

A. T. DONNELLY, Chairman.

Head Office, Bank of New Zealand, Wellington,
20th May, 1948.

“ A ”

BANK OF NEW ZEALAND

Incorporated by Act of the General Assembly, 29th July, 1861

AUTHORIZED CAPITAL

	£	s.	d.
Preference A shares—500,000 at £1	500,000	0	0
C long-term mortgage shares—468,750 at £1	468,750	0	0
D long-term mortgage shares—937,500 at £1	937,500	0	0
Preference B shares—1,375,000 at £1	1,375,000	0	0
Ordinary shares—3,750,000 at £1	3,750,000	0	0
	<u>£7,031,250</u>	<u>0</u>	<u>0</u>

SUBSCRIBED CAPITAL

	£	s.	d.
Preference A shares	500,000	0	0
C long-term mortgage shares	234,375	0	0
D long-term mortgage shares	468,750	0	0
Preference B shares	1,375,000	0	0
Ordinary shares	3,750,000	0	0
	<u>£6,328,125</u>	<u>0</u>	<u>0</u>

PAID-UP CAPITAL

	£	s.	d.
Preference A shares	500,000	0	0
C long-term mortgage shares	234,375	0	0
D long-term mortgage shares	468,750	0	0
Preference B shares	1,375,000	0	0
Ordinary shares	3,750,000	0	0
	<u>6,328,125</u>	<u>0</u>	<u>0</u>
	£	s.	d.
Reserve Fund	3,575,000	0	0
Undivided profits	430,976	16	3
	<u>4,005,976</u>	<u>16</u>	<u>3</u>
	<u>£10,334,101</u>	<u>16</u>	<u>3</u>

LONG-TERM MORTGAGE DEPARTMENT

Long-term Mortgage Fund— Capital Transfers from Bank	£	s.	d.	Loans	£	s.	d.
..	703,125	0	0	..	720,605	16	5
..	17,480	16	5	..			
..					£720,605	16	5

This is the Balance-sheet referred to in the certificate on attached Profit and Loss Statement marked "B."

BANK OF NEW ZEALAND—continued
“B”

PROFIT AND LOSS

	£	s.	d.	£	s.	d.
Dividend on C long-term mortgage shares	6,503	18	1			
Dividend on D long-term mortgage shares	16,259	15	3			
Dividend on preference B shares	25,000	0	0			
Dividend on ordinary shares	150,000	0	0			
Balance carried down	..	..	..	197,763	13	4
				399,208	3	2
				<u>£596,971</u>	<u>16</u>	<u>6</u>
Dividend paid, December, 1947—				£	s.	d.
Dividend on preference A shares	..			46,250	0	0
Interim dividend on C long-term mortgage shares	..			6,503	18	1
Interim dividend on D long-term mortgage shares	..			16,259	15	3
Interim dividend on Preference B shares	..			18,750	0	0
Interim dividend on ordinary shares	..			112,500	0	0
				<u>200,263</u>	<u>13</u>	<u>4</u>
Balance, being profit for the year	..			429,795	19	9
To which has to be added amount brought forward from last year	..			399,208	3	2
				<u>829,004</u>	<u>2</u>	<u>11</u>
Less dividend paid, as above	..			200,263	13	4
				<u>628,740</u>	<u>9</u>	<u>7</u>
Balance brought down	..					
Profits for year ended 31st March, 1948, including recoveries, and after payment of and provision for all interest due and accrued on deposits, provision for bad and doubtful debts and other contingencies, and for the annual donation to the Provident Fund are	..			2,236,477	4	5
Less—	£	s.	d.			
Salaries and allowances at Head Office and 264 branches and agencies	833,918	5	2			
Directors' remuneration, including London Board and local Directors in Australia	9,995	16	5			
General expenses, including rent, stationery, telegrams, postages, travelling, repairs to premises, depreciation, &c.	281,169	13	0			
Audit Expenses	3,239	3	10			
Account	678,358	6	3			
Rates and taxes	1,806,681	4	8			
				<u>429,795</u>	<u>19</u>	<u>9</u>
				<u>£829,004</u>	<u>2</u>	<u>11</u>

RESERVE FUND

	£	s.	d.		£	s.	d.
Balance	0	Balance per last statement	..	..	0
	0		..	3,575,000	0

NOTE.—London assets are shown in this balance-sheet in sterling, and no provision has been made for appreciation in their relation to New Zealand currency.

CERTIFICATES

We hereby certify that, having carefully examined the foregoing balance-sheet (marked "A'") and statements, we are satisfied that they have been correctly compiled from the books and accounts of the Bank, and that the balance-sheet is a full and fair balance-sheet, properly drawn up and exhibits a true and correct view of the state of the Bank's affairs at the date thereof.

Dated this 18th day of May, 1948.

P. L. PORTER, General Manager.
D. FAIRGRAY, Chief Accountant.

I, David Firth Reid, the Chief Auditor of the Bank of New Zealand, do hereby certify—

- (1) That, having carefully examined the foregoing balance-sheet (marked "A'") and statements, I am satisfied that they have been correctly compiled from the books and accounts of the Bank.
- (2) That I am also satisfied that the said balance-sheet is a full and fair balance-sheet, properly drawn up, and exhibits a true and correct view of the state of the Bank's affairs at the date thereof.
- (3) That I have verified so much of the cash, investments, securities, and assets of the Bank as at the date of the said balance-sheet were held at the Head Office in Wellington and have had access to certified returns of so much thereof as were then held at the various branches and agencies of the Bank, or were then in transit.

Dated this 19th day of May, 1948.

D. F. REID, Chief Auditor.

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