

1949
NEW ZEALAND

BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31ST MARCH,
1949, AND BALANCE-SHEET AT THE 31ST MARCH, 1949

*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, 1949, 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 ..	399,980	11	3
	430,976	16	3
	830,957	7	6
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	21,875	0	0
Interim dividend on ordinary shares	131,250	0	0
	222,138	13	4
Leaving available for distribution	£608,818	14	2

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

Dividend on C long-term mortgage shares at 6 per cent. per annum	£	s.	d.	£	s.	d.	£	s.	d.
*Reduced by 1d. for every 13½d. or part thereof ..	7,031	5	0						
	527	6	11	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	16,259	15	3			
Dividend on preference B shares (making £43,750 for the year) ..				21,875	0	0			
Dividend at rate of 3½ per cent. on ordinary shares (making £262,500 for the year, equal to 7 per cent.)				131,250	0	0			
Leaving balance to be carried forward				432,930	0	10	£608,818	14	2

Such dividends to be paid in New Zealand currency.

The gross profit for the year, less provision for contingencies, &c., amounted to ..	£2,473,798, an increase of £237,321
Expenses amounted to	£2,073,818, an increase of £267,137

Leaving net profit as above £399,980 a decrease of £29,816

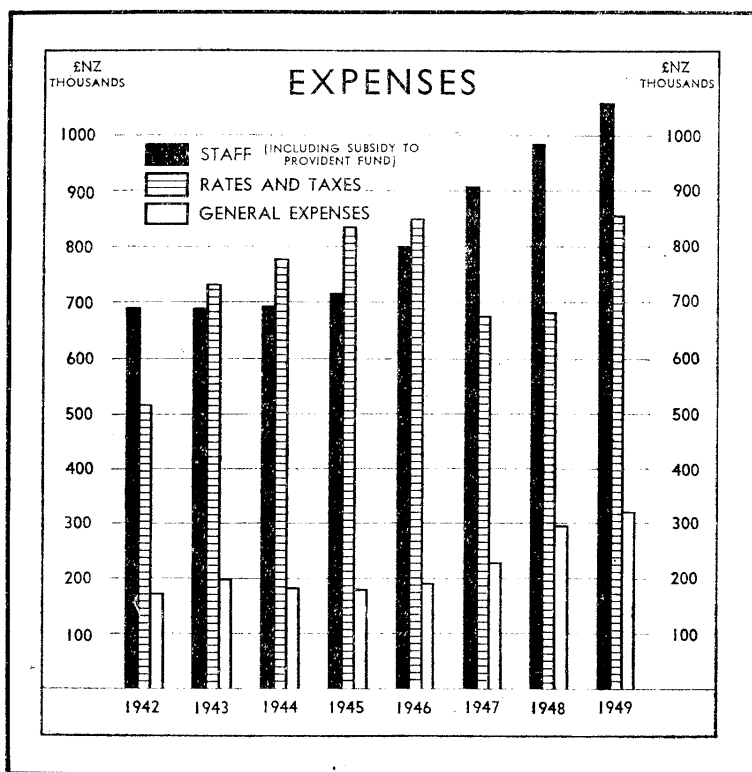
The gross profit shows a satisfactory increase which is accounted for by a higher average level of advances, the continuing increase in the number of customers' accounts, and the increased volume and turnover of the Bank's business generally. Investment income shows a reduction due to repayment on maturity 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	61,459
General expenses	..	..	Up	25,131
Rates and taxes	..	..	Up	180,307
				<u>£266,897</u>

The increase in expenses is due to the higher taxable profit, the all-round increased costs prevailing under present-day conditions, and the extra expense involved in handling a larger volume of business. The following graph clearly shows the movement in expenses during the past eight years :—

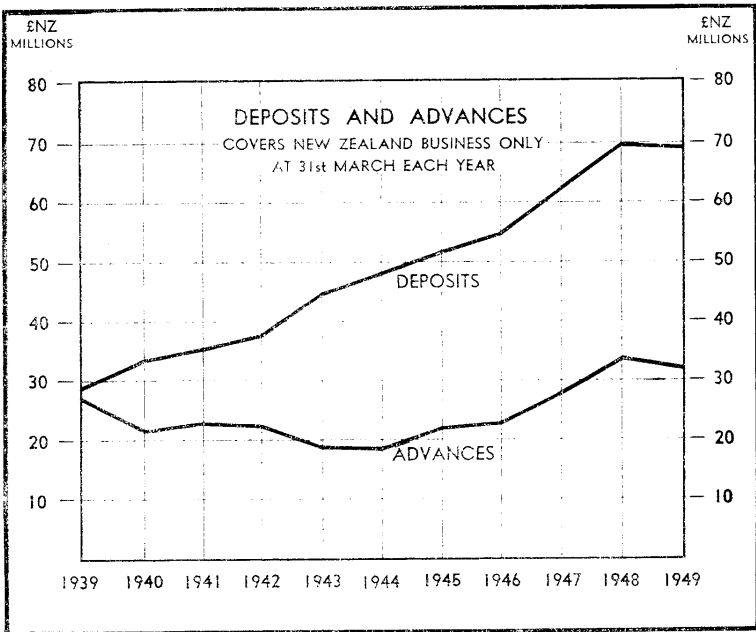


There have been no alterations in bank interest-rates or service charges to the public.

BALANCE-SHEET

Deposits : Fixed and Free (£77,698,778).—These show a decrease for the year of £2,982,503. There is a small increase in free deposits from the public - the reduction in the total being on account of reductions in Government balances of approximately £2,300,000 and in fixed deposits of approximately £700,000.

The graph below shows that the steady growth in the total of customers' deposits with us in New Zealand, which continued from 1939 till this year, has checked, and this experience is common to the other banks trading in New Zealand.



Coin, Reserve Bank Notes, and Deposits With Bankers, (£30,302,785) show an increase for the year of £5,491,838.

Our balance with the Reserve Bank of New Zealand at £22,877,458 shows an increase of £5,299,636, and our holding of Reserve Bank notes at £4,799,862 is up £173,724.

Our statutory deposit with the Reserve Bank of New Zealand amounted to £4,396,881, leaving us with surplus cash in this account at balance date of £18,480,577, compared with a surplus last year of £13,289,074.

The increase in our balance with the Reserve Bank is accounted for in the main by a decrease in New Zealand Government and local-body securities, a decrease in cheques held of other banks, and settlement covering the depreciation of overseas assets held on behalf of the Reserve Bank as a result of the alteration of exchange on 19th August, 1948.

No interest is allowed on the balance with the Reserve Bank. This represents idle money, but it naturally makes the position of the Bank extremely liquid.

Money at Call and Short Notice, Government Securities, and Other Securities in London (£8,989,030).—This shows a decrease of £23,990.

The moneys at call and short notice in London 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 holding of investments in London.

New Zealand Government Securities (£9,191,076).—These show a reduction of £1,398,158, accounted for by the redemption of stock which fell due during the year.

The Government policy of not permitting the trading banks to invest in Government loans still applies and is having its effect. Over the last five years the reduction of our investments in such securities is £8,229,618.

Australian Government Securities (£774,491) show a decrease during the year of £312,469, which is accounted for by repayments at maturity and variation of Australian funds in relation to New Zealand currency.

Fiji Government Securities (£158,251) show a decrease during the year of £17,249, accounted for by the variation in the exchange-rates.

Municipal and Other Local-body Securities (£1,165,435), a decrease of £94,163, due mainly to repayments at maturity.

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

<i>Other Advances and Securities and Debts Due to the Bank (After Deducting Provision for Bad and Doubtful Debts)</i>	£
.. .. .	35,475,934
<i>Bills Discounted</i>	870,312

£36,346,246

These show a decrease on last year's figures of £3,291,815 and £352,248 respectively, a total decrease of £3,644,063, though, as previously mentioned in this report, there was a higher average level of advances throughout the year.

Our advances to customers in New Zealand had been increasing since 1944, with a marked increase in the years ended 31st March, 1947 and 1948, the increase in the first period being caused by the return to more normal trading and the building-up of depleted stocks after the war, while the increase in the second period was due to the volume and high price of imports which arrived towards the end of 1947 and caused importers to temporarily lean very heavily on their bankers pending the goods going into consumption.

Our advances to customers in New Zealand at 31st March, 1949, show a reduction of £1,886,285 compared with the figures at the same date last year, with, as was to be expected, a reduction in the advances to merchants, wholesalers, and retailers, due to their stock position having been adjusted.

The following analysis of our advances in New Zealand, on a percentage basis of the total advances, shows under the various headings the requirements of our customers. To give a wider comparison the percentages at the end of March in the last four years are quoted :—

	25th March, 1946.	26th March, 1947.	31st March, 1948.	31st March, 1949.
	Per Cent.	Per Cent.	Per Cent.	Per Cent.
Farmers	39·10	34·11	25·47	25·58
Industries allied to primary production ..	14·72	15·75	14·47	18·01
Other manufacturing and productive industries..	10·31	10·15	14·04	16·12
Merchants, wholesalers	4·24	8·15	11·78	7·08
Retailers	5·19	6·28	8·68	7·53
Private individuals	10·04	9·05	8·35	8·30

(The percentage requirements of other classes of customers are small and show little variation.)

The Reserve Bank's control of advances has been continued throughout the year, and while this works as smoothly as can be expected, it results in considerable first-class loan business having to be declined on account of the restrictions, with resultant accumulation of idle money. The cost of ingathering and holding deposits is steadily increasing, and unless a proper proportion of these funds can be used to earn interest the effect on the Bank's net earnings must be adverse.

Advances to farmers are reducing, partly due to the higher prices for produce, especially wool, and partly to the application of the advance-control policy, which prevents our taking over farm mortgages. When prices are good, farmers normally reduce their mortgages, and when a certain stage is reached find it economical to borrow on current account from a bank rather than continue a fixed mortgage. This method is not at present available to them. We therefore cannot expect to maintain the volume of our farm-advance business, which tends to run off in the ordinary course of events and requires a steady flow of new advances to replace those which have been cleared. This adversely affects our country branches particularly, as they cater almost exclusively for the farming community.

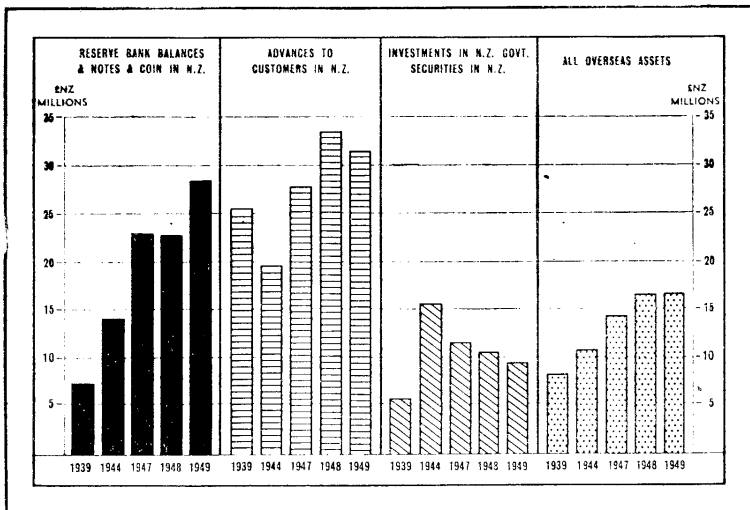
Advances to secondary industry, on the other hand, are increasing, which is a natural result of the increase in manufacturing in New Zealand. These advances, in the main, represent the provision of raw materials of manufacture and usual running-expenses, the cost of both of which has been rising for some years.

						£
<i>Long-term Mortgage Department</i>	..	..	..	..	..	703,125
<i>Transfers to Long-term Mortgage Department</i>	..	..	..	..	..	91,701
						<hr/> £794,826 <hr/>

This Department has increased its advances during the year by £74,221, and is now using £91,701 transferred from the ordinary banking funds in terms of the relative statutory provision. The increase is mainly accounted for by loans under local-body housing schemes arranged in recent years, as mentioned in previous reports.

TOTAL ASSETS

Marked variations have occurred in the composition of the assets of the Bank, and the following graph shows the movement in some of the main items, the comparison being made for a pre-war year (1939), the latter period of the war (1944), and the last three years. The graph shows the influence of the war, with its expansion of money resulting in the growth of bank deposits, and how it affected our assets. It will be understood that the same influences account for the growth of our overseas assets, as we do a general deposit and lending business in our overseas branches.



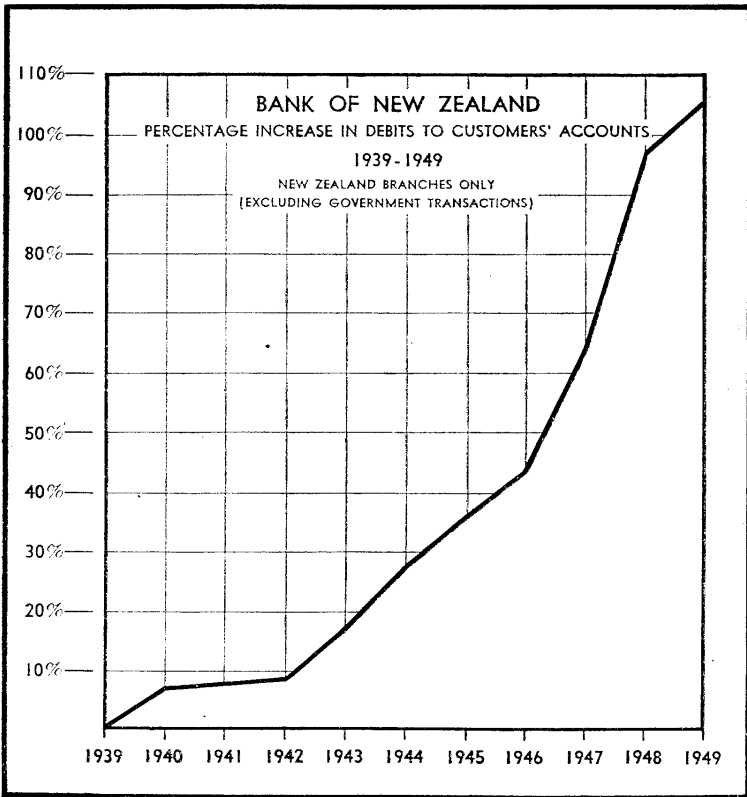
The total assets of the Bank for the same five years covered by the foregoing graph are as follows :—

				£
1939	..	..	..	50,707,741
1944	..	..	..	71,038,514
1947	..	..	..	87,034,037
1948	..	..	..	98,485,110
1949	..	..	..	96,642,721

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 it is evidence also of the increase in the volume of our business.



EXCHANGE-RATES

The restoration of New Zealand exchange-rates to parity with sterling, which was effected by the Government as from the 19th August, 1948, resulted in an increase of 20 per cent. in the value of New Zealand currency in relation to other currencies. Overseas assets and investments of New Zealand holders were, of course, affected in the reverse direction.

Under the Finance Emergency Regulations 1940 (No. 2) the trading banks hold current balances of overseas currency as agents of the Reserve Bank and are indemnified by that Bank against loss on alteration of exchange-rates. The necessary adjustment was effected promptly by the Reserve Bank following the return to parity.

Our overseas assets were not written up for Balance-sheet purposes when the New Zealand pound was originally devalued, and consequently no alteration was required when the New Zealand pound was restored to parity with sterling.

REHABILITATION BUSINESS

The Bank continues to assist District Rehabilitation Committees in the important work of rehabilitation, and during the year arrangements were completed with the State Advances Corporation of New Zealand whereby the Bank agreed to take over certain rehabilitation loans already granted and to make advances to other ex-servicemen. The arrangements cover only those cases where administration by the Bank is considered advantageous and where the advance complies with the Reserve Bank's advance-control policy.

DROUGHT AND FLOOD RELIEF

Repayments have been satisfactorily maintained of the drought-relief advances which were made three years ago by arrangement with the Government under Government guarantee, and the small remaining balance should be successfully liquidated.

By arrangement with the Government, advances were made to assist producers who suffered by the extensive flooding in the Gisborne district in May of last year. By arrangement with the Government the Bank also agreed to afford financial assistance to those who suffered damage in the tornado which occurred at Hamilton in August last. In dealing with all cases the Bank co-operated fully with the Government's officers in the affected areas. This method of affording financial assistance to those affected has worked smoothly and satisfactorily, and in most cases the advances will be repaid by the borrowers within a reasonable time.

PRODUCE DEPARTMENT

This Department, which was more or less in abeyance during the war, is again functioning, and performs a useful service in assisting former customers with the marketing of their produce—principally wool.

During the year the Bank resumed publication of its *Produce Circular*, which had been discontinued throughout the war years. The information contained in this circular, which is widely circulated to customers, exporters, and others, covers a wide range of commodities with market reports and quotations.

AUSTRALIA

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

The proposals of the Commonwealth Government to nationalize the trading banks in Australia and take over all their assets are, of course, fully known to you, and pending the result of the litigation arising out of the proposals we are carrying on our business as usual.

Fiji and Samoa

Our businesses at Suva and Apia have been more than maintained and continue to show increased activity. Very favourable prices are ruling for the principal exports of both places.

LONDON

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

The additional space we were able to arrange for in the building we occupy is being altered and rearranged to provide better facilities for customers, visitors, and staff.

SHAREHOLDING

In terms of the Finance Act, 1948, section 3, the few remaining private holdings of shares on the overseas registers vested in His Majesty on the 1st day of January, 1949, and the whole of the shares are therefore now owned by the Crown.

BOARD OF DIRECTORS

There was no change in the personnel of the Board, with the exception that Mr. G. G. Littlejohn was appointed a Director from 1st August, 1948, which brought the Board to the maximum number of seven under section 11 of the Bank of New Zealand Act, 1945.

Mr. Robert Mill, who served as a Director on our London Board for the past sixteen years, has now retired, and has not yet been replaced. There is no other change in our local Directors in London, Sydney, or Melbourne.

The Board desires to place on record its appreciation of the services of our overseas Directors.

PREMISES

With only a slight improvement in the labour and materials position, we have continued our policy of maintaining our buildings as far as we are able under existing conditions. No new banking premises are under construction, but in two cases we have been able to convert other buildings to our requirements. Some of our premises should be rebuilt, but as this is impossible under present-day conditions owing to the building restrictions in force we are making interior alterations where practicable to alleviate the position. However, this is not possible in every case, and the inability to erect new premises or to make adequate additions to existing buildings is becoming a serious problem.

BRANCHES AND AGENCIES

During the year new branches were established at Henderson, Remuera, and Vivian Street, Wellington. These have already justified themselves. More branches would be opened if premises could be provided.

The following new agencies were opened: Havelock North (Hastings); Mangakino (Putaruru); Mount Wellington, Panmure (Otahuhu); Ward Street, Hamilton; Ngongataha (Rotorua); Parnell (Auckland); Norsewood (Dannevirke). We now operate 143 branches and 124 agencies in New Zealand.

STAFF GENERALLY

During the past year the number of our staff has been maintained sufficiently to cope with the requirements of our steadily expanding business, the present number being 2,099, as compared with 2,018 last year, an increase of 81.

In consequence of a decision by postal ballot, the staffs of the trading banks throughout New Zealand decided to seek an award through the Arbitration Court as to salaries and service conditions. An application was accordingly filed by the New Zealand Bank Officials' Industrial Union of Workers, and an award has been granted fixing salaries of male employees for the first eighteen years of service, and female employees for the first twelve years, with certain slight alterations to other conditions of service.

The welfare and comfort of the staff receives constant attention, and the Board again wishes to place on record its high appreciation of the loyal and efficient services of the staff in New Zealand, Australia, Fiji, Samoa, and London.

CONCLUSION

The accompanying Balance-sheet shows the Bank to be 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, both in the Dominion and overseas, and give a complete banking service.

For and on behalf of the Board of Directors,

A. T. DONNELLY, Chairman.

Head Office, Bank of New Zealand, Wellington,
19th May, 1949.

“ 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>
Reserve Fund	3,575,000	0	0
Undivided profits	432,930	0	10
	<u>4,007,930</u>	<u>0</u>	<u>10</u>
	<u>£10,336,055</u>	<u>0</u>	<u>10</u>

"A"—continued
BANK OF NEW ZEALAND
BALANCE-SHEET AT 31ST MARCH, 1919

<i>Liabilities</i>			<i>Assets</i>		
Capital—	£	s. d.	£	s. d.	£
Preference A fully-paid £1 shares	500,000	0 0			
C long-term mortgage fully-paid					
£1 shares	234,375	0 0			30,302,785
D long-term mortgage fully-paid					
£1 shares	468,750	0 0			163,520
Preference B fully-paid £1 shares	1,375,000	0 0			771,268
Ordinary fully-paid £1 shares ..	3,750,000	0 0			
Reserve Fund (invested in British Government securities)					8,989,030
Deposits					
Balances due to other banks					1,230,698
Bills payable and other liabilities (including provision for contingencies)					9,191,075
Provision for taxes					774,490
London Office acceptances under credits					158,250
Balance of profit and loss					1,165,434
					5,580,891
					58,327,447
					870,311
					35,475,934
					997,236
					176,964
					794,826
					£96,642,721

All assets and liabilities are expressed in New Zealand currency.

LONG-TERM MORTGAGE DEPARTMENT

Long-term Mortgage Fund—	£	s.	d.	£	s.	d.
Capital	703,125	0	0	794,826	18	4
Transfers from Bank	91,701	18	4			
	£794,826	18	4	£794,826	18	4

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

Account ..	3,317 11 0				
Rates and taxes ..	858,664 17 7				
		2,073,817 19 10		399,980 11 3	
				<u>£830,957 7 6</u>	

RESERVE FUND

	£	s.	d.	£	s.	d.
Balance ..	..	3,575,000	0 0	..	..	3,575,000 0 0
		<u>£3,575,000</u>	<u>0 0</u>			<u>£3,575,000 0 0</u>

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 17th day of May, 1949.

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 18th day of May, 1949.

D. F. REID, Chief Auditor.

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