The Board considered it prudent policy to make a further reserve for possible losses on new business, and the amount charged to Profit and Loss Account in this regard is £20,000, which brings the additional reserve up to £35,000. Provision has also been made for a transfer of £56,000 to the credit of Contingent Liability Account, this being necessary to cover an increase in the arrears of interest on the transferred mortgages during the financial year. The comparable amount in last year's operations was £72,500. The net profit available for transfer to Appropriation Account amounts to £612,113.

Further consideration has been given to the reserve established to meet fluctuations in the values of the local-body securities held by the Corporation, and the additional amount appropriated in these accounts is £30,000, bringing the reserve up to £60,000. In explanation of this item it should perhaps be mentioned that the Corporation's holding in local-body debentures now amounts to £5,115,133, and a considerable portion of these investments is at comparatively low rates of interest. After making this deduction there is available for payment of income-tax and transfer to the Treasury as surplus profits a sum of £582,114. In effect the whole of this surplus is ultimately received by the Consolidated Fund, either by way of transfer of profits or income-tax, and may reasonably be identified with the share capital—£1,000,000—and the amount owing to the Government in the Corporation's Contingent Liability Account—viz., £11,424,489. The payment represents 4·685 per cent. on the principal owing, but it must be expected that a fairly substantial amount of the principal sum will be written off as a result of reductions granted under the Mortgagors and Lessees Rehabilitation Act.

20. *Balance-sheet.*—On the liabilities side the principal items are Authorized Capital, £1,000,000; Stock and Debentures, £41,585,970.

The former remains the same as for the previous year, but there has been an increase of approximately £2,000,000 in the stock and debenture issue. This additional amount of stock is made up of securities issued to the Government in respect of further assets transferred to the Corporation, together with subscriptions in respect of the Corporation's issues of stock and debentures.

The Contingent Liability Account now stands at £11,424,489, the reduction having arisen through the writing-off of the sum of £403,155 in terms of the Mortgagors and Lessees Rehabilitation Act, *less* the sum of £56,000 additional credit provided to cover the increase in the arrears of interest on old loans and approximately £56,000 in respect of additional loans transferred to the Corporation during the year.

The General Reserve Fund has increased by £150,503 to £3,404,803, and after adding the £20,000 to the reserve for losses and £30,000 to the Investment Fluctuation Reserve the total reserves are increased to £3,499,803.

On the assets side of the Balance-sheet there is some variation in the investments, the principal items being:—

(*a*) A net increase of £340,000 in the amount of Mortgages, bringing the total to £51,199,247. This result is arrived at after taking into account new loans and further advances amounting to approximately £2,974,000 and deducting therefrom loans repaid, instalments of principal received—£2,230,845—and losses written off, £403,155.

(*b*) A reduction in the balance owing on Current Account by £153,569. This reduction is due partly to writings off under the Mortgagors and Lessees Rehabilitation Act and partly to the reduction effected in terms of the arrangements made with the borrowers.

(*c*) Government and Local-body Securities—£5,056,844—show an increase of £1,885,034. The additional investments under this heading arise mainly through the transfer of further local-body securities from the Treasury, but there were also new advances during the year amounting to approximately £458,500.

In last year's report the average amount owing on the various classes of loans outstanding at the 31st March, 1937, was supplied, and there is set out hereunder the same details in respect of the accounts now under review. A tabulated statement of profits and percentages is appended.