

1894.
NEW ZEALAND.

PROPOSED AMALGAMATION OF THE BANK OF NEW ZEALAND AND THE COLONIAL BANK OF NEW ZEALAND.

(PAPERS RELATIVE TO THE).

Laid upon the Table by the Hon. Mr. Ward with the Leave of the House.

MR. J. MURRAY and the Hon. G. McLEAN to the Hon. the COLONIAL TREASURER.

SIR,—

Wellington, 11th September, 1894.

We have the honour to hand you the enclosed two documents embodying the agreement between us for an amalgamation of the Colonial Bank of New Zealand with the Bank of New Zealand, subject to the approval of the Government and of the shareholders of the respective banks.

We have, &c.,

JOHN MURRAY.

GEORGE McLEAN.

The Hon. J. G. Ward, Colonial Treasurer.

I. NEGOTIATIONS have taken place for the amalgamation of the Bank of New Zealand and the Colonial Bank of New Zealand, and conditions have been provisionally defined.

These are embodied in the accompanying memorandum, and are now respectfully submitted for the sanction of the Government as a necessary preliminary to their being laid before shareholders of the respective banks for their confirmation.

II. It is confidently claimed that this arrangement, if carried into effect, will greatly contribute to the soundness and stability of banking in the colony, and, by reason of the materially increased net profits which will accrue to the Bank of New Zealand from the accession of the Colonial Bank's business, it would strengthen the security of the State in respect of its guarantee for the Bank of New Zealand.

III. The presence on the Bank of New Zealand's balance-sheet of a large item representing shares in the Bank of New Zealand Estates Company is a source of weakness to the bank, and the Colonial Bank reasonably make it a condition of amalgamation, either that it be entirely removed or that the Government undertake to make good the ultimate deficiency, if any, which might remain after liquidation of the assets and of the collateral cover held by the Government, viz:—

(1.) The paid-up capital of the bank, which, under the proposed agreement, is to be written down to	£ 600,000
(2.) Reserve liability of shareholders	1,500,000
(3.) The interest of the Bank of New Zealand shareholders in the future profits of the bank, which, if the amalgamation be carried out, can hardly fail in ten years to accumulate to	500,000
Say.. .. .	<u>£2,600,000</u>

IV. This undertaking in point of fact already exists, because the two millions capital guaranteed by the State is liable to creditors to make good this item with the others in the balance-sheet. The complete separation of the Estates Company from the bank and the assumption by the Government of a share in its management and liquidation would be a measure wise in itself, and which the country desires to see carried out.

V. It is respectfully suggested that a small Board or commission be set up; half to be nominated by the Government, half by the bank, with an administrative head to be jointly appointed.

VI. And it is submitted that, in order to economy, and thereby the better security of the State, arrangements be made for the redemption of the £1,500,000 5½-per-cent. debentures, which are now a first charge on the assets, which impose a heavy and quite unnecessary burden of interest, and so lessen the resources to which the colony has to look for the protection of its guarantee, and which stand in the way of a satisfactory rearrangement of the administration.

It is believed that this can be effected without raising any more money by loan. If part of the money already raised be used for extinguishing so much of these debentures, there will, on the contrary, be an actual reduction in the amount owing.

But this means, by the resumption of some of the estates under the Land for Settlements Act, and by assistance from the bank itself, the incubus referred to can be got rid of.

Wellington, 11th September, 1894.

JOHN MURRAY.

THE undersigned, being of opinion that an amalgamation between the Bank of New Zealand and the Colonial Bank of New Zealand would be mutually advantageous and in the interests of the colony, agree, as regards the Bank of New Zealand, to recommend to the approval of the Government, and, as regards both banks, to recommend to their respective directors and shareholders, the following terms:—

I. The assets of each bank to be reviewed by a Board or other tribunal, upon which the other bank's representatives shall be preponderant. Upon these Boards respectively being satisfied that the assets of each bank are so far sound that any deficiency can be made good by the provisions available therefor, the Bank of New Zealand to assume the liabilities of the Colonial Bank and take over its assets, as hereinafter provided.

II. The Bank of New Zealand to take the necessary measures to increase its capital by the creation of new shares, of the nominal value of one million pounds sterling, to be designated B shares. Of these, four hundred thousand pounds to be issued to the shareholders of the Colonial Bank in lieu of, and exchange for, the present paid-up capital of that bank; the shares so issued to be considered as fully-paid-up shares, and to carry no further liability whatever. The remaining six hundred thousand pounds in shares to be vested in the President of the bank for the time being, and to be held for the present as unissued, but to be at the disposal of the shareholders of the Bank of New Zealand or their transferees at a period to be appointed by the directors of the bank for the time being, but not later than the end of the year 1903. The subscriptions to be *pro rata* to the holdings of the C shares hereinafter mentioned, and six months to be given to subscribers in which to pay for the shares by instalments. When all the instalments are paid, the shares to carry no further liability. Such of those shares as are not subscribed for by those having a right to do so shall thereafter be absolutely the property of the bank as then constituted, and free from any restriction as to issue. The Bank of New Zealand to write down its present paid-up capital of nine hundred thousand pounds to six hundred thousand pounds, the sum of three hundred thousand pounds so released to be used as hereinafter provided. The old shares so written down to be designated C shares.

The capital of the bank after amalgamation thus to be:—

	£
Guaranteed preference stock (A)	2,000,000
B shares, fully paid up	400,000
C shares, fully paid up	600,000
	<hr/>
	3,000,000
B shares unissued	600,000
	<hr/>
	£3,600,000

III. The first Board of Directors shall consist of seven members, of which four shall be elected by the present shareholders of the Bank of New Zealand, and three shall be elected by the present shareholders of the Colonial Bank, or their respective transferees. It is of the essence of this agreement that the Bank of New Zealand shall have a preponderance of one member on the new Board of Directors. Therefore, if the Government should appoint as President of the bank a person heretofore connected with either bank, such President shall stand for one of the directors to be nominated by that bank.

IV. With the exceptions of the principal executive officers—namely, the joint general managers, chief inspector, and London manager (regarding which a separate agreement has been entered into)—the officers of the bank shall be selected by the new Board of Directors from the present staffs of both banks, and appointed to their various posts. These selections, so far as may be practicable, shall be made in accordance with the numbers and positions of the present officers of the two present staffs relatively, departure from this condition being only made where deemed necessary in the interests of the bank. The Colonial Bank officers coming in shall have no rights in the present Bank of New Zealand Guarantee and Provident Fund. Officers dispensed with to be compensated by the bank to which they at present belong.

V. The liabilities and assets of the Colonial Bank shall be taken over by the Bank of New Zealand as provided in clause I., excepting such assets or advance business which by the new Board of Directors (having a preponderating number elected by the Bank of New Zealand) shall

be considered unfit and not proper to be so taken. Such amounts as may be so rejected, but which it may not be thought expedient to wind up, or not to wind up speedily, also such amounts as are determined to be subjected to speedy realisation, shall be liquidated or otherwise treated by the bank under the new Board for behoof of the present shareholders of the Colonial Bank or their transferees, but under direction and according to the wishes of appointees of the said shareholders.

The reserve funds and undivided profits of the Colonial Bank shall be used in the first instance to make good any deficiency resulting from liquidation as above. If any surplus remains after making good such deficiency, such surplus shall be divided equitably amongst the shareholders of the Colonial Bank; if the reserve fund and profits be insufficient to make good the deficiency, then a call shall be struck on the Colonial Bank shares, and shall go to make good such deficiency before the final exemption of the shareholders from liability. The limit of time allowed for acceptance or rejection of advance business as above shall be four calendar months from the date of amalgamation, and no such account shall be carried on for more than twelve months, unless with deposit of a reserve against it to the satisfaction of the Board.

VI. The new Board of Directors shall pass in like review the assets and liabilities of the Bank of New Zealand in existence prior to amalgamation; but, if any representative of the Colonial Bank on the Board shall take exception to any asset so reviewed, then the tribunal must be narrowed by so many of the representatives of the Bank of New Zealand withdrawing as shall leave a preponderating number of Colonial Bank appointees to decide whether such asset shall be taken over or rejected.

Within four months from date of amalgamation there shall be set aside for liquidation or other treatment all such assets and accounts as may be considered unfit and not proper to be continued as business of the bank.

Such accounts as may be so set aside shall be liquidated or otherwise treated by the new Board in the same manner as those of the Colonial Bank, but under the direction and according to the wishes of the appointees of the present shareholders of the Bank of New Zealand.

The three hundred thousand pounds released from the capital of the bank as per clause II., the reserve funds, and the undivided profits of the Bank of New Zealand shall be used in the first instance to make good any deficiency resulting from liquidation as above. If any surplus remains after making good such deficiency, such surplus shall be credited to the account of the Bank of New Zealand Estates Company (Limited) with the bank. If the said released capital, reserve funds, and undivided profits be insufficient to make good the deficiency, then the dividends and profits which shall accrue on the six hundred thousand pounds C shares shall be used in the first instance to make good such deficiency, and shall be so applied until the deficiency be wiped off.

VII. The present premises of both the Bank of New Zealand and the Colonial Bank to be valued by the new Board on the basis that they are going concerns; and if these values be agreeable to the appointees of the relative banks, then such values be adopted and the premises so agreed upon be taken over by the amalgamated bank. If the appointees of either bank disagree with any such valuation of the new Board, then the Board and the appointees so disagreeing shall in each case appoint an umpire, whose valuation shall be final. But it shall be reserved for the appointees of each bank to decide whether the amount of any valuation should be accepted from the amalgamated bank, or that in preference any particular premises should be liquidated as specified in clauses V. and VI. hereof. Should the valuations of the present premises of the Bank of New Zealand amount to a sum exceeding that at which the whole of the premises now stands in the books of the said bank, such surplus shall be credited to the liquidation account for the ultimate behoof of the Bank of New Zealand Estates Company (Limited), as per clause VI., and any surplus in like manner arising by valuation of the premises of the Colonial Bank shall be credited to the liquidation account mentioned in clause V.

If instead of a surplus there should arise a deficiency to either bank on account of premises, such deficiency shall be treated, in the case of the Bank of New Zealand, as provided for deficiencies on other assets in clause VI., and in the case of the Colonial Bank as likewise provided in clause V.

VIII. It is an integral part of this agreement that before amalgamation takes place legislation shall be passed by the Parliament of New Zealand by means of which the Bank of New Zealand Estates Company (Limited) will be entirely separated from the bank, so that the present shareholders of the Colonial Bank who are about to transfer their capital, and the future creditors of the Bank of New Zealand, may run no risk whatever from the bank's connection with the said Estates Company or future advances to it.

IX. It is hereby agreed that, after payment of four per cent. per annum on the guaranteed preference stock, and six per cent. per annum dividend on the other paid-up capital of the bank, and after placing twenty thousand pounds per annum to a new reserve fund, all other profits and dividends earned and payable (after due provision for bad and doubtful debts) shall be applied to reduce the ultimate deficiency of the Bank of New Zealand Estates Company (Limited).

X. The bank shall afford to the Bank of New Zealand Estates Company the necessary banking facilities, under suitable guarantee, for carrying on and liquidating the business and

assets of the company, and the concerns belonging to it. Amounts at credit of the company with the bank are to be placed for interest purposes against amounts at debit, and interest at the rate of four per cent. per annum is to be charged or allowed on the daily balances on either side until the company shall be either liquidated or placed in a solvent condition.

XI. The said amalgamation shall take effect within fourteen days after the shareholders of the respective banks shall have adopted a resolution approving of such amalgamation; but the parties may by mutual consent extend such period of fourteen days for a further period not exceeding two months.

Dated at Wellington, the 11th day of September, 1894.

JOHN MURRAY.
GEORGE McLEAN.