

attention. The result of the considerations that have occupied the attention of the executive of the bank and myself are embodied in the attached proposals. They are,—

1. An amalgamation between the Bank of New Zealand and the Colonial Bank.
2. The clearing of both of all bad or doubtful accounts.
3. Each proprietary to be held responsible for and to provide for any losses made on any accounts now held by either.
4. The capital of the combined banks to be £3,600,000.
5. All profits after certain provisions named in the proposal hereto to be paid to liquidate the Assets Company.
6. The Estates Company to be separated from the bank, the colony undertaking, should any deficiency ultimately arise, to make good such. This is virtually the position now.
7. The collateral securities against the Assets Company to be held by the Government to be £2,100,000. The profits from the bank to be paid into the Assets Company estimated to realise at least another £500,000. Total, £2,600,000.

I am of opinion that, to guard the interests of the colony, the Agent-General should be appointed to the London board; not if the Estates Company remains attached to the bank. The colony, with a clean and sound bank, would gain by having such a representative on the London board.

There should also be a small advising board in Melbourne or Sydney to control and advise upon the Australian business. The policy in each of the Australian Colonies should be to reduce business gradually, and to confine the business of the bank there entirely to one of a liquid character. Advances there on property or real estate should generally be avoided.

The Government to control the Estates Company by the appointing of a president or chairman to it, and also two directors. The bank shareholders, who would be liable for £1,500,000, also to appoint two directors.

The Government Bank of New Zealand Auditor also to be auditor of the Estates Company.

The name of the Estates Company to be changed by the excision of the words "Bank" and "New Zealand." It would be well, in my opinion, to completely change its name. The past odium attaching to it would thus not continue to live daily in the history of the bank, and the colony could well afford not to have its name attached to it either.

The position is both a difficult and a serious one. In the absence of the proposal now under consideration being adopted, the next best course, and one which could be adopted, would be to separate the Estates Company from the bank, and guarantee its outcome, holding the uncalled capital of the Bank of New Zealand against any loss that might arise. In the event of this course being adopted, the colony should control the Estates Company as suggested under the amalgamation scheme. If this course is thought to be preferable to an amalgamation, it will be essential to retire the £1,500,000 of 5½-per-cent. Estates Company debentures, and to do this an issue of 3½-per-cent. Government stock would be necessary. So far as my opinion is worth anything, the latter scheme has much less to recommend it than an amalgamation.

The whole matter, however, requires the most careful consideration of all the Ministers.

Wellington, 12th September, 1894.

J. G. WARD.

These proposals were considered by the Government, and certain conditions insisted upon, which the banks were not disposed to accept.

Nothing was done to give practical effect to this agreement during the session of 1894; and on the 23rd October a clause was inserted in the Bank-note Issue Act prohibiting amalgamation of the Bank of New Zealand with any other bank without the consent of Parliament.

It was, however, clearly contemplated that amalgamation would at some time take place between the Bank of New Zealand and the Colonial Bank; and, with this object in view, the Government Auditor, Mr. Butt, during the recess, made a preliminary investigation into the business of the Colonial Bank.

During the session of 1895 negotiations were renewed, the basis of the proposals being the purchase by the Bank of New Zealand of the good business of the Colonial Bank instead of amalgamation as before proposed.

The Joint Committee of 1895 took evidence from the directors of both institutions and others with respect to the proposed purchase, and came to the conclusion that the purchase by the Bank of New Zealand of some other banking business was desirable for the purpose of increasing its earning-power. During the session protracted negotiations took place between the directors of the two banks. For the purpose of ascertaining the position of the Colonial Bank, its accounts were minutely investigated by Messrs. Litchfield and Buller, inspectors of the Bank of New Zealand. These gentlemen appear to have treated the accounts severely, and to have been most careful in guarding the interests of the Bank of New Zealand. Their view of the Colonial Bank's accounts was less sanguine than those of the general manager of that bank and the President of the Bank of New Zealand.

The directors of the Bank of New Zealand preferred to take the advice of their inspectors, and the evidence adduced before this Committee shows that, under the stringent system of liquidation adopted, their estimates have proved more correct.

These inspectors were subsequently given appointments for three years to make their position in the bank assured.

After the Colonial Bank had been completely "taken to pieces" three lists were made of its accounts. These were subsequently increased to four—the "B" list being divided into two. The "A" list (£926,197) consisted of accounts considered good. The "B" list (£604,695) contained doubtful accounts, against which cover was taken amounting to £272,072. The "C" list contained accounts in respect to which the Bank of New Zealand directors required time to consider whether