

### THE COLONIAL BANK.

The balance-sheets of the Colonial Bank, and the conduct of its directors and officers, are included among the subjects mentioned in the order of reference. On these points, however, the Committee have not made a detailed enquiry, but from the evidence brought before them are of the opinion that the balance-sheet dated the 31st August, 1895, did not fully disclose the position of the Colonial Bank. This will be apparent when it is mentioned that the whole of the accounts which subsequently figured in the "A," "B," "C," and "D" lists, were put down in it as good assets.

The Committee consider that the position of the Colonial Bank, as disclosed in the examination which preceded the purchase agreement, shows that mismanagement must have taken place, the responsibility for which rests upon the directors and officers of that institution.

### DIRECTORS AND OFFICERS OF THE BANK OF NEW ZEALAND.

The Committee are of the opinion that the crisis in the bank's history in 1888 was directly traceable to the errors of judgment and gross mismanagement of the directors and officers of the bank. That the directors were not warranted in recommending a dividend on the 26th April, 1888, or in paying dividends at any time subsequently, if the real losses of the bank had been deducted from the profits made; that neither in their balance-sheets nor in their statements to the shareholders did they disclose the real position of the bank, but based their estimates of value, not upon the current market prices of the time, but upon an imaginary rise in the value of land and produce which they apparently expected to take place. The system of maintaining a fictitious book-value of property whose real value had decreased year by year is one which your Committee cannot too strongly condemn. The above remarks do not apply to the present directors, who, since their appointment, appear to have been anxious to discover the bed-rock value of the properties and accounts of the bank. Your Committee are of opinion that no overdrafts should be allowed to any directors or officers of the bank.

### THE PRESIDENT AND GENERAL MANAGER.

The Presidency was first offered to Mr. Watson, the Chief Inspector of the Colonial Bank, on the 25th September, 1894. He declined, considering the salary insufficient. It was then offered to Mr. Coates, the General Manager of the National Bank of New Zealand, but was not accepted by him, as his directors would not release him from his previous engagement. It was again offered to Mr. Watson on the 6th October, 1894, at an increased salary of £2,250 per annum, and accepted by him. The Government do not appear to have been specially anxious to appoint Mr. Watson, but were chiefly desirous of obtaining a competent man to fill the position. The present General Manager (Mr. Henry Mackenzie, formerly General Manager of the Colonial Bank) was appointed on the 25th day of November, 1895. Several of the directors were opposed to this appointment, on the ground that it was undesirable that the two chief officers of the Bank of New Zealand should be chosen from the staff of a bank the management of which they considered had been far from satisfactory. On the other hand, several directors favoured the appointment of Mr. Mackenzie, on the ground that it would give confidence to the customers of the Colonial Bank, and that there would be less risk of losing the good accounts, and thus it would be for the benefit of the Bank of New Zealand. The Premier was consulted, and refused to advise, but suggested that Mr. Mackenzie should be temporarily appointed. This the majority of the directors agreed to, though Mr. Booth recorded his dissent, and Mr. Mackenzie was appointed, subject to three months' notice.

In the opinion of your Committee it is essential for the success of the Bank of New Zealand, and to inspire and maintain confidence in that institution, that an important alteration in the management should be made.

Your Committee therefore recommend that a reorganization should take place: The office of President should be abolished; a new General Manager should be appointed; the Directors should be increased to seven, and should consist of the three now representing the shareholders, and three to be appointed by the Governor in Council, in addition to the present Government representative. The Chairman to have the power of veto and to be selected by the Governor in Council.

### BALANCE-SHEETS.

From the investigations made by the Committee it has been shown that a large percentage of balance-sheets of public companies have failed to show bills under discount as liabilities, and, in some cases, even as contingent liabilities. They are of opinion that the present law is insufficient to compel banks and companies to state the exact position of their affairs in their balance-sheets, and that legislation should be introduced to further protect shareholders and the public.

### AGREEMENT WITH BANK OFFICIALS. (*President and Government Auditor.*)

Shortly after the appointment of the President and Government Auditor, the salary of the former was secured by deed during the term of his engagement, and an agreement was made with the latter that, in the event of his losing his position as Auditor, he would be reinstated in the service of the bank. These agreements were entered into without the knowledge or consent of the Government. Your Committee are of opinion that they should not have been made without the approval of the Government, and that Mr. Butt's agreement should be cancelled, arrangements being made that he should not be prejudiced thereby.

### PRIVATE ACCOUNTS.

Your Committee were unable to make any investigation into private accounts. At the commencement of the inquiry, questions were asked of the President with this object, but he declined