

1946
NEW ZEALAND

RESERVE BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31st MARCH, 1946

Presented to both Houses of the General Assembly pursuant to Section 20 of the Reserve Bank of New Zealand Amendment Act, 1936

ANNUAL REPORT

To the Right Hon. the MINISTER OF FINANCE.

THE Board of Directors presents hereunder the report on the operations of the Reserve Bank during the financial year ended 31st March, 1946.

The appointment of one of the Bank's original Directors, Mr. J. G. Duncan, expired on the 31st July, 1945, and, pursuant to the provisions of section 7 of the Reserve Bank of New Zealand Amendment Act, 1936, Mr. Duncan was reappointed to the Board.

The net profit for the year, after making provision for depreciation and contingencies, amounted to £540,919 18s. 9d. This amount has since been paid into the Public Account to the credit of the Consolidated Fund.

BALANCE-SHEET

The principal changes in the Balance-sheet as at 31st March, 1946, compared with that of the previous year, were as follows:—

LIABILITIES

Bank Notes

The total of notes outstanding at 31st March, 1946, was £(N.Z.)43,489,031, an increase of approximately £(N.Z.)3·29 millions. This increase is smaller by approximately £(N.Z.)660,000 than that recorded for the year ended 31st March, 1945, and represents a further slowing-down of the rate of increase in notes outstanding which became apparent in that year.

The effective note-circulation—that is, the notes held by the public—shows a similar tendency, as can be seen in the following table of the effective note-circulation since the Bank commenced operations :—

(£(N.Z.)000)

As at last Monday in March,				Effective Note-circulation.	Increase.
1935	..	..	..	6,236	..
1936	..	..	..	7,105	+ 869
1937	..	..	..	9,844	+2,739
1938	..	..	..	9,536	— 308
1939	..	..	..	11,176	+1,640
1940	..	..	..	14,835	+3,659
1941	..	..	..	17,162	+2,327
1942	..	..	..	20,177	+3,015
1943	..	..	..	26,175	+5,998
1944	..	..	..	31,193	+5,018
1945	..	..	..	34,186	+2,993
1946	..	..	..	36,643	+2,458

Demand Liabilities

(a) *State*.—Deposits under this heading rose by approximately £(N.Z.)9 millions from £(N.Z.)15·59 millions at 31st March, 1945, to £(N.Z.)24·52 millions at 31st March, 1946. This is mainly accounted for by larger balances held at the Bank in the Public Account and in the Post Office Account.

(b) *Banks*.—The total deposits held by the trading banks at the Reserve Bank increased from £(N.Z.)32·71 millions to £(N.Z.)47·77 millions, an increase of approximately £(N.Z.)15 millions. The peak figure recorded for these deposits during the year under review was £(N.Z.)65·50 millions on the 11th February, 1946.

The level of these deposits responds in the following manner to the financing of exports and imports: the deposits rise when the trading banks present for payment at the Reserve Bank the cheques which the Marketing Department has drawn in payment for export produce purchased from the customers of the trading banks; on the other hand, the level falls when the trading banks draw on these deposits to buy from the Reserve Bank part of the overseas proceeds of exports in order to provide their customers with exchange to pay for imports.

Thus the rise during the year in the trading banks' deposits at the Reserve Bank is a reflection of the fact that, compared with exports, imports were in relatively short supply; consequently, the proportion of export proceeds which the trading banks had occasion to buy from the Reserve Bank by drawing on their balances here was considerably less than it would have been had all the imports which were licensed been available to New Zealand.

There are, of course, other exchange transactions and other factors affecting the level of the trading banks' deposits at the Reserve Bank which it is not necessary to mention in detail for the purposes of the above illustration.

The minimum balances which the trading banks are required by statute to hold at the Reserve Bank—namely, 7 per cent. of their demand liabilities in New Zealand and 3 per cent. of their time liabilities in New Zealand—and which form a part of the total figures for deposits given above, rose from £(N.Z.)7,761,660 at 31st March, 1945, to £(N.Z.)9,207,126 at 31st March, 1946, reflecting the increase in their demand and time liabilities over the period.

ASSETS

Sterling Exchange

The substantial increase of £(N.Z.)17·53 millions in the Bank's holdings of sterling exchange from £(N.Z.)48,124,989 at 31st March, 1945, to £(N.Z.)65,655,890 at 31st March, 1946, is due to the previously mentioned low level of imports in relation to export income; and also to the fact that, although large repayments of overseas debt were made during the year, part of the sterling required for this and other purposes was provided by the New Zealand High Commissioner in London from funds which he held at the beginning of the year and from amounts which were received by him during the year.

The overseas loans repaid were :—

	£(Stg.)	£(N.Z.)
5 per cent. loan due 1st January, 1946	12,886,110	16,107,638
4 per cent. loan due 1st February, 1943-63	10,505,989	13,132,487
Memorandum of Security	18,250,000	22,812,500

Advances

(1) *Marketing Organizations*.—This heading has been changed from "Marketing Department" to "Marketing Organizations" consequent upon the passing of the Wool Disposal Act, 1945. The Wool Industry Account administered by the Marketing Department has been closed, and an account entitled the "Wool Disposal Account" has been opened by the Wool Disposal Commission.

The weekly average of advances to the Marketing Department was lower by £(N.Z.)437,703 than in the previous year. The credit balances in other accounts administered by the Department often exceeded the advances outstanding and as credit balances are set off against advances for interest purposes the amount of interest received from the Department in respect of accommodation granted to individual accounts was small.

(2) *Other Purposes*.—The increase of £(N.Z.)18 millions in advances for Other Purposes from £(N.Z.)27 millions to £(N.Z.)45 millions is the result of the Bank's discounting additional Treasury bills, part of the proceeds of which were used by the Government to purchase sterling from the Bank in connection with the repayment of the amount owing to the British Government under the Memorandum of Security.

As from 22nd February, 1946, the Bank reduced to 1 per cent. per annum the rate of discount on all New Zealand Government Treasury bills taken up by the Reserve Bank. The previous rates were 1 per cent. per annum for the first £(N.Z.)5 millions outstanding, and thereafter 1½ per cent. per annum.

The rates applicable for overdrafts to the Marketing Department remained unchanged as follows :—

First £(N.Z.)5,000,000	1 per cent. per annum
Thereafter	1½ per cent. per annum

As the net amount outstanding during the year did not at any time exceed £(N.Z.)5,000,000, the effective rate has been 1 per cent. per annum.

Investments

The total of investments as at 31st March, 1945, was £(N.Z.)12·97 millions, and as at 31st March, 1946, £(N.Z.)5·19 millions, a decrease of approximately £(N.Z.)7·78 millions.

There were wide fluctuations in the Bank's holdings under this heading during the year, the peak being reached in February, 1946, when the amount held was approximately £(N.Z.)21 millions. The increases were the result principally of the Bank's purchasing stock from the Government, the proceeds of which were used by the Government to purchase sterling for the redemption of the sterling loans referred to above; the subsequent decrease was due to the fact that the Government was able to repurchase

securities from the Reserve Bank from funds in hand and not immediately required for disbursement in other directions. Consequently, it should not be assumed that the reduction in the Reserve Bank's accommodation to the Government effected by the particular transactions representing the repurchase of these securities is intended to be regarded as permanent at this stage.

DISCOUNT RATE

The minimum rate for the discounting of approved bills of exchange has remained unchanged since 26th July, 1941, at 1½ per cent.

EXCHANGE RATE

No alteration was made in the Bank's official buying rate for sterling (£(N.Z.)124=£(stg.)100), and no official selling rate was quoted.

The trading banks' telegraphic transfer rates for buying and selling sterling also remained unchanged at their previous year's levels of £(N.Z.)124 7s. 6d. and £(N.Z.)125, respectively, for £(stg.)100.

However, the Bank agreed during the year (pursuant to Regulation 3 (2) of the Finance Emergency Regulations 1940 (No. 2)) to the following alterations in the trading banks' New Zealand - London on demand and usance rates :—

On 7th August, 1945.	Old Rate.	New Rate.
On demand—Selling (on basis of £(stg.)100)	£(N.Z.)124 19s. 6d.	£(N.Z.)125*

* Air-mail postage is payable by the banks.

The effect of this alteration was to bring into alignment the on-demand and telegraphic transfer rates. This was considered appropriate because of the inauguration of fast air-mail facilities replacing, as from 31st July, 1945, the airgraph service previously used.

The improvement in the mail-services and the consequent reduction in the transit time between New Zealand and London enabled the trading banks to quote more favourable on-demand and usance buying rates to the public as from 18th February, 1946, as follows :—

On Demand and Usance—Buying

(On basis of £(Stg.)100)

	Old Rate.			New Rate.		
	£	s.	d.	£	s.	d.
On demand	123	12	6	123	15	3
3 days' sight	123	11	6	123	14	6
30 days' sight	123	7	6	123	10	9
60 days' sight	123	2	6	123	6	6
90 days' sight	122	17	6	123	2	3
120 days' sight	122	12	6	122	18	0

MANAGEMENT OF PUBLIC DEBT IN NEW ZEALAND

The following major loan operations were undertaken during the year :—

1945 Victory Loan.—In last year's annual report it was recorded that up to 31st March, 1945, £(N.Z.)182,440 had been received in the form of advance subscriptions to this loan. Between the 31st March, 1945, and the issuing of the prospectus for the loan on the 14th May, 1945, a further £(N.Z.)1,610,395 was received, making a total of advance subscriptions of £(N.Z.)1,792,835.

The prospectus offered the following stocks for subscription :—

- 2½ per cent. stock maturing 15th April, 1950–51.
3 per cent. stock maturing 15th April, 1956–59.

In addition, the loan included investments in National Savings Bonds and National Savings Accounts, authorized in accordance with the National Savings Act, 1940.

When the loan closed on the 16th June, 1945, a total of £(N.Z.)25,529,700 had been subscribed, representing an oversubscription of £(N.Z.)529,700. Subscriptions were as follows :—

	Applica- tions.	Amount. £(N.Z.)
2½ per cent., 15th April, 1950–51	9,442	7,616,780
3 per cent., 15th April, 1956–59	21,337	8,585,920
	30,779	£(N.Z.)16,202,700
National Savings Bonds and deposits to National Savings Accounts from 1st April, 1945, to 31st March, 1946		9,327,000
		<u>£(N.Z.)25,529,700</u>

The loan organization was, as on previous occasions, directed by the National War Loan Council through the National Savings Committees and the National War Loan Working Committee. The success of the loan was largely due to the untiring efforts of these committees and of the district committees. The Bank desires to express its appreciation of the work so cheerfully and willingly carried out by all those associated with these committees.

3 per cent. Stock, 15th July, 1945.—This loan, amounting to £(N.Z.)2,144,910, which was a part of the National Development Loan issued in 1941, was repaid at maturity.

Over-counter Sales.—On 3rd January, 1946, the Bank issued a prospectus inviting applications for 3 per cent. stock at par maturing 15th July, 1961–63, on which interest was to be payable from the date of the taking up of the stock. At the 31st March, 386 applications had been received, totalling £(N.Z.)2,625,430.

Conversion Loan.—The necessary notice having been given in the *Gazette*, a prospectus was issued on 15th January, 1946, for the conversion or repayment of a 4 per cent. loan maturing 15th April, 1946–49, totalling £(N.Z.)8,931,480. In terms of the prospectus, holders were offered conversion at par as from 15th April, 1946, into 3 per cent. stock maturing 15th April, 1960–63.

Although the actual conversion did not take place until the 15th April, 1946, the position was as follows when the offer closed on 15th February, 1946 :—

	Number of Holders.	Amount. £(N.Z.)
Conversion	4,992	6,379,320
Redemption	2,769	1,532,425
	7,761	£(N.Z.)7,911,745

By the actual conversion date almost all outstanding applications had been received.

In addition to the loan transactions mentioned above, the Bank undertook during the year, at the request of the Treasury, the work relating to the acquisition by the

Government, in terms of the Bank of New Zealand Act, 1945, of the shares not already held by the Government and which were recorded in the Register kept by the Bank of New Zealand in Wellington.

In terms of the Bank of New Zealand Act, 1945, ordinary shareholders had the option of taking—

(a) £2 5s. in cash for each ordinary share held by them.

*(b) £2 6s. 8d. per share in tax-free non-transferable New Zealand Government 3 per cent. stock maturing 15th November, 1957.

(c) £2 13s. 4d. per share in ordinary New Zealand Government 3 per cent. stock maturing 15th November, 1957-60.

The holders of D long-term mortgage shares had the option of taking—

(a) £1 10s. per share in cash.

(b) £1 10s. per share in ordinary New Zealand Government 3 per cent. stock maturing 15th November, 1957-60.

In addition to the provisions relating to repayment in cash or repayment by the taking-up of New Zealand Government stock, the Bank of New Zealand Act, 1945, provided for the payment of an additional dividend equal to two and six-tenths of a penny per share on the ordinary shares of the Bank and one and a half penny per share, less national and social security tax, on the D long-term mortgage shares. These dividends were in addition to the ordinary half-yearly dividend of 3 per cent. on the ordinary shares and $7\frac{1}{2}$ per cent. per annum on the D long-term mortgage shares. The Bank undertook the payment of these additional dividends.

EXCHANGE CONTROL

The following table gives a classification of overseas exchange transactions for the years ended 31st March, 1943, to 1946, inclusive:—

SUMMARY OF TRANSACTIONS (£(N.Z.)000)

	Year ended 31st March,			
	1943.	1944.	1945.	1946.
<i>Receipts</i>				
In respect of—				
Exports	80,885	74,118	85,287	108,521
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts due in New Zealand	4,339	4,901	5,861	8,129
Trade debts due in New Zealand, including overseas earnings of New Zealand firms	3,687	3,216	4,205	5,388
Commissions, royalties, and insurance	252	250	295	441
Donations and allowances	290	350	424	669
Travellers' expenses	493	194	272	713
Receipts on account of American authorities and personnel	5,057	16,440	5,818	1,724
Receipts by High Commissioner in London	599	4,081	28,559	16,212
Unclassified	395	294	156	..
	95,997	103,844	130,877	141,797

* The personal representatives of a deceased stockholder may obtain earlier redemption at a date fixed by them on giving not less than fourteen days' notice in writing of their intention to require repayment. In addition, this tax-free stock is convertible into ordinary 3 per cent. stock maturing 15th November, 1957-60, at par.

	Year ended 31st March,			
	1943.	1944.	1945.	1946.
<i>Payments</i>				
In respect of—				
Imports, excluding payments in respect of Government imports and in respect of goods imported prior to introduction of licensing system	33,103	28,152	30,873	36,139
Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	3,643	3,778	4,741	5,745
Trade debts due overseas, including earnings in New Zealand of overseas firms and payments in respect of goods imported prior to introduction of licensing system	3,445	2,372	1,437	1,881
Government debt and other services, including payments in respect of imports	46,981	51,470	48,063	87,344
Local-body debt services	2,013	1,414	1,539	1,140
Commissions, royalties, and insurance	922	846	719	627
Donations and allowances	565	787	675	1,141
Film hire and entertainments	794	619	508	544
Travellers' expenses	72	113	191	496
American authorities and personnel	1,832	6,318	4,402	1,014
Unclassified .. .. .	..	403	169	..
	93,370	96,272	93,317	136,071

The total figures for the year ended 31st March, 1946, disclose a favourable balance of receipts over payments of £(N.Z.)5-726 millions.

A notable feature in this table compared with the previous year is an increase of £(N.Z.)23-234 millions in the amount received in respect of the Dominion's exports (from £(N.Z.)85-287 millions to £(N.Z.)108-521 millions).

A further feature is the rise in payments under the heading "Government Debt and other services, including payments in respect of Government Imports" from £(N.Z.)48-063 millions to £(N.Z.)87-344 millions, an increase of £(N.Z.)39-281 millions.

TRADING BANKS

The following table of combined totals has been compiled from the monthly returns made by the trading banks to the Reserve Bank in accordance with statutory requirements:—

(£(N.Z.)000)

Last Monday in Month.	Liabilities in New Zealand.			Advances and Discounts.	Government Securities.	Net Overseas Assets.	Bankers' Cash.*
	Demand.	Time.	Total.				
1945							
March	93,656	30,837	124,493	55,148	29,025	15,623	39,172
April	97,209	31,055	128,264	53,370	29,025	14,817	45,552
May	99,778	31,033	130,810	51,333	29,025	15,707	50,575
June	96,889	31,173	128,062	52,573	29,024	15,167	45,924
July	97,776	31,148	128,924	50,876	27,273	12,719	53,547
August	100,865	31,510	132,375	48,784	27,273	13,229	58,241
September	102,360	32,149	134,509	49,132	27,273	12,461	59,875
October	103,918	32,314	136,233	52,240	27,274	11,751	62,068
November	106,164	33,071	139,235	52,565	27,274	11,608	63,013
December	108,146	33,347	141,493	53,333	27,273	10,963	67,469
1946							
January	111,986	33,411	145,397	51,710	27,273	10,388	70,229
February	117,450	32,854	150,304	52,799	27,273	11,844	72,458
March	110,918	32,594	143,512	57,953	26,773	12,605	59,480

* "Bankers' Cash" includes balances with the Reserve Bank, Reserve Bank notes and coins.

The principal changes shown in this table are the increase of £(N.Z.)19 millions in the trading banks' total demand and time liabilities in New Zealand, and a corresponding increase in the asset item of bankers' cash. The upward movement in bankers' cash items took the form of an increase of approximately £(N.Z.)1 million in holdings of Reserve Bank notes and some £(N.Z.)19 millions in deposits at the Reserve Bank, to which reference has been made earlier in this report.

During the year advances and discounts increased by £(N.Z.)2·80 millions to £(N.Z.)57,953,000, while the amount of unexercised overdraft authorities increased from £(N.Z.)37·07 millions to £(N.Z.)42·40 millions. The provision of funds for the payment of income-tax in March, 1946, was an important influence in the upward movement of £(N.Z.)5·15 millions in advances and discounts and also in the contraction of £(N.Z.)6·53 millions in demand liabilities which occurred in the banks' figures during that month.

MONEY SUPPLY IN NEW ZEALAND

The following tables set out in detail the changes that have occurred in the amount of money in circulation in New Zealand in the form of coin, notes, and demand deposits of the Reserve Bank and the trading banks since 1939:—

VOLUME OF MONEY IN CIRCULATION IN NEW ZEALAND IN THE FORM OF COIN, NOTES, AND BANK DEMAND DEPOSITS* (LAST MONDAY IN MARCH)

(£(N.Z.)millions)

Volume of Money

—	1939.	1940.	1941.	1942.	1943.	1944.	1945.	1946.
Coin (estimated)	1·4	1·6	1·7	1·9	2·2	2·5	2·6	2·9
Notes held by public	11·2	14·8	17·2	20·2	26·2	31·2	34·2	36·6
Demand deposits at—								
(a) Reserve Bank†	4·8	6·9	7·2	13·7	15·9	19·0	17·5	30·0
(b) Trading banks‡	38·4	46·6	53·7	61·5	77·1	85·1	93·7	110·9
Total	55·8	70·0	79·7	97·2	121·5	137·7	148·0	180·4
Change during year	+ 0·6	+14·1	+9·9	+17·5	+24·1	+16·4	+10·2	+32·4

Causes of Changes in Volume of Money

—	1939-40.	1940-41.	1941-42.	1942-43.	1943-44.	1944-45.	1945-46.
Overseas transactions§	+12·9	+ 8·0	+ 1·1	+ 6·0	+ 3·4	+24·6	+37·0
Bank credit—							
Reserve Bank—							
Advances	+ 2·7	- 3·7	+12·2	+ 1·8	+11·8	-14·6	+ 4·7
Investments in New Zealand	+ 0·3	- 0·6	+ 0·4	+ 6·5	+ 0·4	- 0·2	- 8·9
Trading banks—							
Advances	- 7·4	+ 5·5	- 4·1	- 4·7	+ 2·0	+ 8·3	+ 2·8
Investments	+ 6·5	- 0·8	+ 8·7	+12·7	+ 1·2	- 7·0	- 2·4
Shift from time to demand liabilities at trading banks||	- 1·4	+ 2·6	+ 0·2	- 0·1	- 1·2	- 1·1	- 1·8
Other items	+ 0·5	- 1·1	- 1·0	+ 1·9	- 1·2	+ 0·2	+ 1·0
Change during year	+14·1	+ 9·9	+17·5	+24·1	+16·4	+10·2	+32·4

For notes, see page 9.

Changes in Volume of Money, 1939-1946

Coin estimated .. .. .	..	..	..	..	..	+ 1·5
Notes held by public .. .. .	..	..	..	..	..	+ 25·5
Demand deposits at—						
Reserve Bank† .. .. .	..	..	..	..	..	+ 25·2
Trading banks‡ .. .. .	..	..	..	..	..	+ 72·5
Total .. .. .	..	..	..	..	..	+124·7

Causes of Changes in Volume of Money 1939-1946

Overseas transactions§ .. .. .	..	..	..	..	..	+ 93·1
Bank credit—						
Reserve Bank—						
Advances .. .. .	..	..	..	..	..	+ 14·8
Investments in New Zealand .. .. .	..	..	..	..	..	- 2·2
Trading banks—						
Advances .. .. .	..	..	..	..	..	+ 2·4
Investments .. .. .	..	..	..	..	..	+ 18·8
Shift from time to demand deposits at trading banks|| .. .. .	..	..	..	..	..	- 2·7
Other items .. .. .	..	..	..	..	..	+ 0·4
Total .. .. .	..	..	..	..	..	+124·7

* Excludes deposits held at savings-banks.

† *I.e.*, Government and other demand deposits at Reserve Bank, excluding trading banks' balances at Reserve Bank.

‡ *I.e.*, Trading banks' total demand liabilities in New Zealand.

§ As shown by changes in the Reserve Banks' sterling exchange plus overseas investments and trading banks' assets overseas in respect of New Zealand business, less overseas liabilities. Plus sign indicates that overseas exchange receipts exceeded disbursements, and minus sign indicates an excess of disbursements.

|| Minus sign indicates shift from demand to time liabilities.

An examination of the foregoing table shows that the amount of money in the form of coin, notes, and demand deposits increased by £(N.Z.)32·4 millions during the twelve months up to the last Monday in March, 1946, which is the nearest date to the end of the financial year for which the combined figures of the Reserve Bank and the trading banks are ascertainable.

It will be seen that this increase was more than accounted for by the excess of £(N.Z.)37 millions in receipts over expenditure under the heading of "Overseas Transactions."

As a result, however, of the repayment after the last Monday in March of the Memorandum of Security advance of £(stg.)18·25 millions in London, the excess in overseas receipts was reduced, and, to the extent that accommodation was required from the Reserve Bank, the Bank's advances in New Zealand were increased; but, as the transaction did not involve expenditure in New Zealand, there was no resultant increase in the domestic supply of money.

The chief reason for the present high level of net overseas assets of the banking system and consequential rise in the volume of money as demonstrated in the money supply table was the delay in the arrival of a large proportion of authorized imports.

As imports become available in more adequate quantities the result should be that the volume of money will be brought into more balanced relationship with the volume of goods and services offered for sale in New Zealand, and the upward pressure on prices should become less.

An important consideration which is becoming more widely recognized is that wise monetary measures can make their best contributions to the betterment of standards of living and economic security only if they are allied to an expanding production of goods and services, the enjoyment of which is the real test of prosperity.

STAFF

The staff, which at 31st March, 1946, totalled 320, has maintained its high standard of performance during the past year, and the Board desires to record its appreciation of the results achieved.

For and on behalf of the Board of Directors.

W. L. WARD, Governor.

E. C. FUSSELL, Deputy Governor.

21st June, 1946.

RESERVE BANK OF NEW ZEALAND

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST MARCH, 1946

	£	s.	d.		£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	222,538	13	0	Balance of profit after making provision for rebate on Treasury bills not yet due, and for sundry liabilities and contingencies	763,458	11	9
Balance, being profit for year	540,919	18	9				
	<u>£763,458 11 9</u>				<u>£763,458 11 9</u>		

PROFIT AND LOSS APPROPRIATION ACCOUNT

	£	s.	d.		£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	549,686	6	4	Balance as at 1st April, 1945	549,686	6	4
Balance	540,919	18	9	Balance from Profit and Loss Account	540,919	18	9
	<u>£1,090,606 5 1</u>				<u>£1,090,606 5 1</u>		

