

*Question 11. In declaring a dividend are reserves drawn upon?*

Answer: It is not usual, even if permissible under bank's charter, to draw upon reserves to pay dividends; the general practice is to provide for dividends out of the years' profits. However, in special circumstances reserves might be temporarily drawn upon to contribute towards payment of the dividend; it may be taken as being contrary to banking practice to deplete reserves permanently for the purpose of paying dividends. Nevertheless, reserves form part of shareholders' funds, and the investment of such reserve funds, or the employment of them in banking business, has the effect of contributing towards the earning of dividends.

*Question 12. If dividends are sometimes paid from reserves, are securities sold to provide for these?*

Answer: Not necessarily, and we are not aware of that ever having been done in New Zealand.

*Question 13. What are the uses of reserves?*

Answer: Reserves are set by from undistributed profits and/or from shareholders' contributions for the following purposes:—

- (a) To strengthen the bank's general position;
- (b) To assist in maintaining the bank's position liquid—a necessity of the first magnitude;
- (c) To provide for losses or other contingencies.

A primary essential for the effective conduct of sound banking business is that there should be entire confidence in the bank on the part of depositors, the business community, and the public generally; sound reserves provide a tangible basis for such confidence.

The banks, as trading concerns, adopt the practice of all prudent commercial organizations in building up adequate reserves to enable them to cope with adverse economic conditions. It is to their reserves, combined with prudent trading, that the banks of this country owe their success in withstanding the impact of the depression with unimpaired soundness and without losing one penny of their depositors' funds. Furthermore, banks, as repositories of the funds of depositors, have wisely and traditionally adopted the precaution of building up ample reserves which, apart from their direct utility in the ways just mentioned, afford a tangible assurance to depositors that their interests are being properly safeguarded: in this connection it should be pointed out that all sound banking concerns regard their first duties as being to safeguard the funds of note-holders and depositors. This is in itself a duty of national importance.

It may further be mentioned that the general practice with these reserves is to specially invest portions in readily realizable securities, preferably Government stocks, in balances with central banks and to employ the balance in the banks' own business.

*Question 14. What were the amounts of sterling funds held on New Zealand account by the banks since 1920 to 1932 (quarterly or monthly figures)?*

Answer: These particulars are not available, as it has not been the practice to segregate the figures.

*Question 15. To what extent is there evidence that importers may be withholding external payments in anticipation of a return of New Zealand currency to its former parities?*

Answer: There is evidence that external payments are being retained in New Zealand meanwhile, but so far as the banks are aware not to any considerable extent.

*Question 16. Is there evidence of the withholding or the accelerating of capital movements from or to New Zealand by reason of current economic conditions or of the rate of exchange?*

Answer: To assist the Government, and at the request of the Government, the banks decline to facilitate the transfer of capital funds from England to New Zealand. As to capital transfers from New Zealand, it is clear that the present exchange-rate acts as a deterrent.

*Question 17. What other agencies in New Zealand, apart from the trading banks, extend credit to business men or farmers?*

Answer: Other such agencies include—

- (a) Stock and station agents:
- (b) State Advances, including Advances to Settlers, Rural Advances, Rural Intermediate Credit, Advances to Workers, Repatriation Advances, Fruit Preserving Industry Advances, &c.:
- (c) Government Life Insurance Department:
- (d) Other insurance companies:
- (e) Building and investment societies:
- (f) Savings-banks other than Post Office Savings-bank:
- (g) Wholesale houses and retailers:
- (h) Dairy companies:
- (i) Private lenders and trustees:
- (j) Public Trustee.

*Question 18. Would it be advisable to have greater co-operation between and, if possible, co-ordinated control over these outside agencies?*

Answer: It is felt that it would not be competent for the banks to express an opinion on the principle of co-ordination or control of the outside organizations referred to.