



Bank of New Zealand

124th Annual Report 1985



**Board of Directors**

*Chairman*  
Sir Lewis Ross CMG

*Deputy Chairman*  
Sir George Chapman

*Directors*  
R. A. Brierley  
R. J. Campbell  
E. J. Keating  
A. C. McKechnie  
P. G. Morrison

**Group Chief Executive**

W. J. Shaw

**London Board**

*Chairman*  
Sir Harold Smedley KCMG MBE (Mil)

*Deputy Chairman*  
E. P. Chappell CBE

*Directors*  
H. A. Hitchcock DFC  
H. S. Mellor

**Australian Advisory Board**

*Chairman*  
M. G. King AM

*Directors*  
S. W. H. Fairbairn  
J. M. Rothery

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*Cover: The BNZ Centre dominates Wellington City. Opened by the Prime Minister, The Rt. Hon. David Lange in November, 1984, the building is the Bank's world headquarters.*



Bank of New Zealand

**Financial Highlights**

**Consolidated Accounts**

	1985 \$000	1984 \$000
<b>Profit and Loss Account</b>		
Net Trading Income	420,948	344,912
Expenses	278,273	235,551
Net Trading Profit before Tax	142,675	109,361
Provision for Tax	66,288	54,436
Net Profit before Extraordinary Items	75,025	55,248
Net Profit after Extraordinary Items	76,647	55,779
Return on Average Shareholders' Funds	23.60%	22.50%

**Distribution of Profits**

Dividends Paid or Provided	15,000	12,000
Retained Profits	61,647	43,779

**Loan Capital**

Subordinated Loan — Capital Notes	109,807	75,454
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**Shareholders' Funds**

Paid Up Capital	80,000	80,000
Reserves	277,142	198,583
Total Shareholders' Funds	357,142	278,583

**Balance Sheet — Major Items**

Deposits	7,190,130	5,207,284
Lending	6,266,889	4,433,090
Total Assets	8,647,349	6,681,371

## Message from the Chairman



The 1980s already stand out as a period of dramatic change driven by technological, political and economic forces. Events have occurred which have impacted materially on banking. They have created many new opportunities and challenges. In New Zealand, few other sectors appear to face as many changes as are occurring in the finance area. In technology change has continued as expected but in the sphere of Government economic policy the changes have been virtually unprecedented.

The proof of the Bank's ability to maintain its pre-eminent position and achieve profitable growth in this unique period of change and challenge, lies in the record profit of \$75.025M achieved after paying tax at full corporate rates. Total Group assets at the end of the financial year were \$8,647M, an increase of \$1,966M or 29.42% over the previous year.

The results are pleasing to the Board of the Bank and are a tribute to the efforts of a competent and dedicated staff, and in particular to the Group Chief Executive, Mr William J. Shaw who retires in mid-1985.

In view of Mr Shaw's pending retirement I wish to take this opportunity of recording my appreciation, and that of my fellow directors, for the quality of his leadership, his administrative ability and his complete loyalty and devotion to the Bank throughout his long period of service. The impressive progress achieved both in New Zealand and overseas since Mr Shaw's appointment as Chief Executive in 1980 is testimony to his competence.

Not only is BNZ the premier banking institution in New Zealand, but also a particular feature of recent years has been its increasing internationalisation. It is thus well placed to service the increasingly sophisticated requirements of its customers in a new era of deregulation of the finance industry and the breaking down of barriers to the international flow of funds.

Particularly pleasing for everyone involved with BNZ was the opening of our world headquarters, BNZ Centre, by the Prime Minister the Right Honourable David Lange, in November 1984. The building is an asset of which not only the Bank but the country as a whole can be justifiably proud.

I am confident that the Bank will continue to grow and prosper in the financial markets as it capitalises on its traditional strengths and moves quickly to respond to the new and exciting challenges of the times.

Sir Lewis Ross CMG  
Chairman of the Board

## Group Chief Executive's Report



Any year which contains a change of Government, a 20% devaluation, a floating of the New Zealand dollar and widespread deregulation of the financial sector obviously has a dramatic impact on banking. 1984/1985 was such a year. It was a time of contrasts. It began under tight regulation and ended under a "free-market" environment introduced progressively by a new Government. It was a year of challenge and vastly expanded opportunities, undoubtedly the most volatile in a decade notable for the dramatic evolution taking place within the financial sector.

The men and women of BNZ seized on these opportunities and the Bank's financial performance during the period is a record of how our staff have adapted, innovated and coped with the demands of the times.

The Bank has moulded together a team of top professionals who are not only meeting client needs, but also skilfully leading their clients through these turbulent times. By progressive reviews of its internal organisational structure BNZ has created an appropriate foundation on which to build its personal, commercial, corporate and international business.

In the past few years BNZ has become increasingly international in its outlook. It is one of the leading foreign exchange dealers in the Southern Hemisphere and has a global 24-hour trading capability with dealers stationed in key money markets.

BNZ has recently played lead roles in financing some of the country's largest projects; we have pioneered new financing methods; and we are now poised to extend our expertise in our home market through new technologies and services.

We are taking maximum advantage of closer economic ties which are being established with Australia, and the opportunities available as a result of the freeing-up of the finance sector there.

Similarly the sustained economic growth in the Asia/Pacific Rim area and its growing importance to the future of New Zealand's trade and investment patterns are providing BNZ with ever-increasing opportunities.

BNZ is well endowed with a depth of human talent and we have a clear concern for the further development and motivation of our people. Our Equal Employment Opportunity Management Plan, for instance, stands very high in our priorities to ensure BNZ's long term success.

I believe we can look to the future with confidence.

William J. Shaw  
Group Chief Executive

# The New Zealand Economy

## Economic Trends

Real Gross Domestic Product grew by an estimated 4.5% in the year ended March 1985; the fastest economic growth for a decade. The main reasons for the expansion were a rise in export volumes, substantial private sector investment in plant, machinery and buildings (including dwellings) and buoyant private consumption expenditure. As a result, full-time employment rose significantly. However, economic growth was concentrated in the first half of the year. Judged by manufacturing output, the tempo of the recovery, which started in the September quarter 1983, began to slow in the June quarter 1984.

By the March quarter 1984, inflation — measured by the Consumers' Price Index (CPI) — had fallen to an annual rate of 3.5% under the impact of regulations generally preventing increases in prices, wages, rents, profits and dividends and which dated from June 1982. However, prices ceased to be frozen in late February 1984 (although subject to official surveillance) and an \$8 per week General Wage Order became operative from April 1, 1984. Wage increases at the end of 1984 were generally limited to around the 7% guideline set by the new Government.

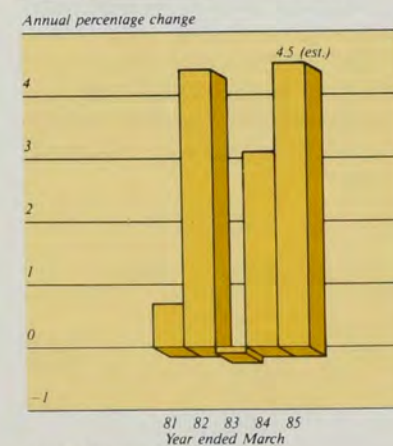
CPI inflation began to rise in the June quarter 1984, a trend reinforced by the 20% devaluation of the New Zealand dollar which was announced on July 18, 1984, following a change of Government in the general election. The annual rate of CPI inflation reached 13.4% by the March quarter 1985.

Because devaluation raised both import prices and interest payments on overseas debt before any benefit from increased export receipts emerged, it also had the immediate effect of increasing the deficit on the current account of the balance of payments.

This effect was superimposed on the trend already being dictated by rising capital goods imports, rising debt interest payments and stagnant overseas prices for primary produce despite an annual increase in export volumes estimated at 5% in the year ended March 1985. From a level of NZ\$1.61 billion in the year ended March 1984 the current account deficit rose to an estimated NZ\$2.3 billion in the year ended March 1985.

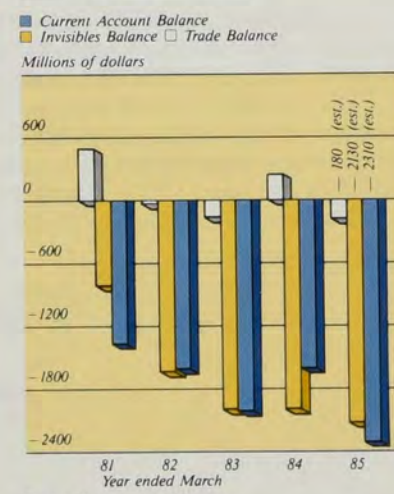
The devaluation was accompanied by an economic policy regime designed to maximise its impact on international price competitiveness. Relatively low wage settlements have been combined with tight fiscal and monetary policies in order to dampen domestic demand. Fiscal policy tightened in the 1984 Budget so that the fiscal deficit fell, partly as the result of buoyant tax revenues, from NZ\$3.1 billion (8.9% of GDP) in 1983/84 to NZ\$2.8 billion (estimated 6.4% of GDP) in 1984/85.

### Real Gross Domestic Product



Source: Department of Statistics  
Bank of New Zealand

### Balance of Payments



Source: Department of Statistics  
Bank of New Zealand

At the same time the deficit has been more than fully financed by the sale of medium-to-long term Government stock on the domestic market.

In addition, the Government has accelerated the process of deregulation and the removal of subsidies in the New Zealand economy.

Over the next three to five years a progressive removal of export tax incentives; of subsidised rural credit; and of incentives for forestry is planned. However, most far-reaching has been the virtual deregulation of the finance industry, accompanied by a major change in the system of monetary control and the announcement of major changes in fiscal policy.

## Monetary Control

Since mid-July 1984, instruments of monetary policy which rely upon direct controls for their effect, comprising the Reserve Asset Ratio, strict exchange control, controls on lending growth and administered interest rates and exchange rates, have been progressively abandoned. In their place is a "more market" philosophy and a different set of policy instruments.

In the early months of 1984/85, before the 20% devaluation of the New Zealand dollar, it became increasingly evident that the policy of control of lending interest rates at below market determined levels (which were rising) was inconsistent with the lending growth guideline of 1% per month. Moreover, the sale of Government stock was considerable in the June quarter 1984. Liquidity became tight, but controls on deposit rates prevented financial institutions from defending themselves against a rise in their lending/deposit ratios. The situation was exacerbated in late June and early July by uncertainty over the exchange rate.

Monetary policy is now centred on tenders of medium-to-long-term Government debt. The pattern of tenders is not dictated by a simple target for growth of money supply; instead, it is intended to allow a long-term interest rate to emerge which is consistent with the desired long-term funding of the Central Government deficit.

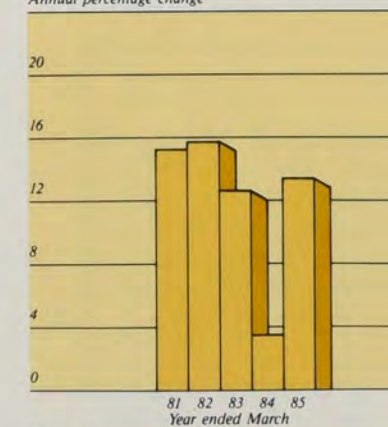
At present this funding policy aims at "non-inflationary" financing of the deficit so that, given the free float of the New Zealand dollar, private sector lending growth can be funded only by the growth in private sector savings that financial institutions can attract.

The Authorities thus allow the growth of private sector credit to be determined primarily by the interaction of the demand for and the supply of credit at the going, freely-determined interest rates. Each institution is free to supply the form and volume of credit that is consistent with its profitability target, constrained only by its own consideration for prudence and liquidity.

Since the Authorities now seek to manage the balance between borrowing and saving in the economy as a whole, it is important that a yield curve be established that will achieve the yet-to-be-publicised monetary policy targets. To this end a

### Prices

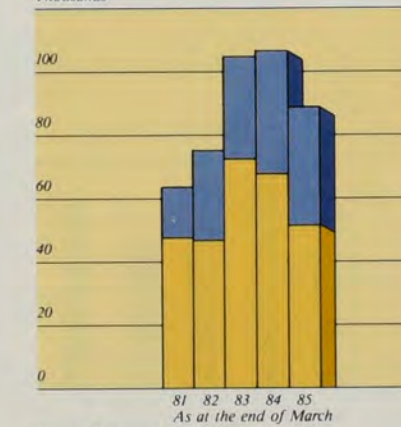
Consumers' Price Index  
Annual percentage change



Source: Department of Statistics

### Unemployment

Job Creation Schemes  
Registered unemployment  
Thousands



Source: Department of Labour

series of Treasury Bill tenders has been initiated. The Reserve Bank is also engaged in the sale and purchase of secondary market instruments to smooth daily fluctuations in short-term interest rates. Such operations have included adjusting the maturity structure of Treasury Bills outstanding and changes, according to market conditions, in the interest rate at which Government stock of less than six months maturity can be discounted at the Reserve Bank.

In the virtual absence of exchange control, all domestic financial institutions are, in effect, free to compete for business anywhere in the world and are increasingly likely to face international competition in New Zealand. Such international influences are likely to increase the responsiveness of the domestic financial system to changes in monetary conditions conveyed to financial markets by movements in interest rates and the floating exchange rate.

## Monetary Conditions

Given that the planning horizon of the Authorities is a medium-to-long-term one, it is too early to assess the effects of changes to the system of monetary control, particularly as 1984/85 was a year of transition from heavy direct control to virtually complete deregulation of the New Zealand finance industry. Shocks are inherent in any such transition and it is probable that a simple measurement of the state of liquidity during 1984/85, such as the growth rate of M3 or the level of 90-day commercial bill rates, cannot be made at face value.

On the surface, monetary conditions were easy throughout much of 1984/85. Annual M3 growth which stood at 11.8% in March 1984 rose to 15% in March 1985. Private sector credit expansion, although somewhat more variable, also increased from an annual rate of 15.5% in March 1984 to 21.1% in March 1985. Between March 1984 and March 1985 all-bank deposits rose by 21.4% and all-bank lending by 23.8%.

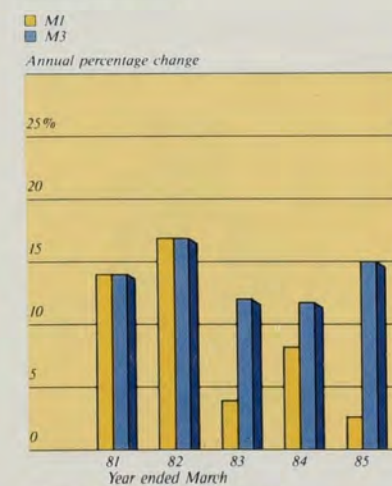
However, the appearance of easy liquidity is belied by the behaviour of interest rates in the face of an aggressive monetary policy on the part of both the present Government and its predecessor.

Until late July 1984 lending increased substantially, arising from the expectation of exchange rate movements and from interest rates controlled below market determined levels. However, controls on deposit interest rates meant that deposit growth was relatively slow.

As a result of substantial customer purchases of foreign exchange, the financial system lost a large volume of reserve assets. Lending-to-deposit ratios rose to unsustainable levels, but despite the aggressive use of direct controls by the Authorities the annual rate of increase in private sector credit was 21% in July 1984 — up from 4% a year earlier.

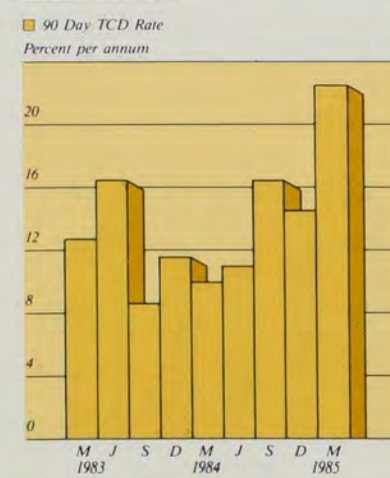
The apparent lack of success in controlling domestic liquidity by direct means led to a major change in policy following the change of Government on July 14,

### Money Supply



Source: Reserve Bank of New Zealand

### Interest Rates



Source: Reserve Bank of New Zealand

1984. An immediate devaluation was accompanied by the removal of lending and deposit interest rate controls. This policy was underpinned by increased monthly tenders for Government stock at interest rates set by prevailing market forces. Within the following eight months, Treasury Bill tenders were begun, the Reserve Asset Ratio system was abandoned, exchange controls were lifted and the exchange rate embarked upon a free float. By the end of the year, therefore, judgment about the relative tightness of monetary conditions had come to depend less on indicators of money supply and more on its price.

Interest rates have been volatile since the removal of controls. In the first few trading days after the election, 90-day commercial bill rates decreased by some 3-4% as foreign exchange flowed into the country following the devaluation, but began to rise as the Government tightened its fiscal and monetary policy stance. Until mid-January 1985 domestic interest rates were high compared to those of overseas centres and encouraged capital inflow.

Since then, and until the float, the strength of the US dollar was a prime factor in leading a number of overseas investors to move out of New Zealand dollar positions, which had the effect of reducing domestic liquidity. Much of the strain was taken by overnight money market interest rates. In the aftermath of the float and at the height of the corporate tax flow, in early March, overnight rates were quoted at several hundred percent p.a. and 90-day bill rates reached a peak of over 35% p.a. By the end of the financial year, however, these rates had eased to around 21% p.a. and around 24% p.a. respectively under the impact of the Reserve Bank entering the market.

## Key Monetary Events

**May 29, 1984** Loan interest rates of trading and savings banks, life insurance companies, superannuation funds and building societies were limited to 15% p.a. and those of other lenders to 17% p.a. (mortgage loan rates continued to be restricted to a maximum of 11% p.a. for first mortgages).

**June 12, 1984** The Interest on Deposits Regulations 1984 prescribed maximum rates of interest payable by financial institutions, including trading banks.

**July 18, 1984** Government announced a devaluation of the New Zealand dollar by 20%.

**July 19, 1984** Regulations Revocation Order 1984 removed controls on lending and deposit rates.

**August 30, 1984** The Reserve Bank abolished the "30-day rule" which had prevented the payment of interest on trading bank deposits of less than 30 days.

The restriction limiting the rate of interest payable on ordinary savings accounts to a maximum of 3% was removed.

**August 31, 1984** The 1% per month credit growth guideline was removed.

**December 21, 1984** The Reserve Bank announced that New Zealand residents could purchase unlimited foreign exchange for investment purposes, rather than only for approved purposes.

**February 11, 1985** All compulsory securities ratios on financial institutions, including reserve asset ratios on trading banks, were removed.

**March 4, 1985** New Zealand dollar was allowed to float freely.

## Report of the Directors to the Right Honourable Minister of Finance

For the Year ended 31 March 1985

### Results for the Year

Consolidated tax-paid profit of the BNZ Group (before extraordinary items) was \$75.025M (1984 \$55.248M) an increase of 35.80%. This figure includes the Group's share of the subsidiary BNZ Finance Limited tax-paid profit of \$8.234M. The Bank's shareholding in the finance company was increased during the year from 67.52% to 74.88%. Group tax provision is \$66.288M (1984 \$54.436M).

Net trading profit of the BNZ Group before tax and before adjustment for minority interests and associated companies was a record at \$142.675M an increase of 30.46% above the previous year's figure of \$109.361M.

The Shareholders' equity in the Group has been further strengthened by transfer of \$61.647M to reserves (1984 \$43.779M) bringing the total of capital and reserves at year end to \$357.142M.

The record profit performance was achieved primarily from higher business volumes, the expanding range of the Bank's fee income services, its increasing capabilities in the foreign exchange, money and capital market fields domestically and internationally, and a more sophisticated approach to the management of the Bank's funds on a global basis. These factors collectively, combined with careful control over operating expenditure, more than compensated for severe pressure on the interest margin between domestic deposit and lending business.

After-tax return on average Group Shareholders' Funds increased from 22.50% in 1984 to 23.60%. Provision has been made for dividend payments to the Government totalling \$15M (1984 \$12M).

### Report on Operations

The series of economic and monetary changes which occurred in New Zealand during 1984/85 presented one of the most challenging periods in recent history. Much of the restructuring which had taken place within BNZ during the past five years placed us in a position to take advantage of the country's new economic direction. Similarly, we were ready to provide our customers with the domestic and international services necessary for capitalising on opportunities presented by the new circumstances.

#### An Expanding International Role

Over recent years BNZ has become increasingly international in its outlook. As the country's relationship with its neighbours and trading partners has changed, so too has BNZ. In fact, as our positioning around the world shows, we have been quick to respond to these changes, providing our customers with a broad range of services in all the major areas in which they do business. For instance, besides our 24-hour global foreign exchange capability we are developing marketing and strategic planning services in offices abroad. We continue to play a leading role in financing New Zealand's major projects and in assisting our customers to realise their financing objectives at home and abroad.

BNZ enjoys a close relationship with more business clients in New Zealand than any other bank. Therefore, our responsibilities are greater. We have to identify opportunities quickly and develop expertise to provide the professional services customers require. This has been particularly so during 1984/85. The widespread economic restructuring which has occurred provides business with expanded opportunities. New Zealand (and its currency) is developing a new internationalism and this has presented a challenge which BNZ is well positioned and determined to meet.

#### Asian and Pacific Opportunities

Indications are that important business expansion will occur in the Pacific Basin region throughout the remainder of this decade, with New Zealand companies



BNZ's Senior Manager at Singapore, Peter Anderson (left) and the Manager for International Trade Development and Investment Advisory Services, Garry Prior (centre) meeting with Singapore businessman Gan Kong Eng in Singapore.

becoming increasingly involved in business in South East Asia, the Far East, and the United States. Identifying this expansion some time ago, BNZ set about acquiring contacts in, and knowledge of, potential markets. For instance, close links have been forged with banks in Asian countries and a Representative Office will be opened in Hong Kong mid-1985.

Our offices in Singapore and Tokyo continue to be of increasing importance to New Zealand businesses and through Singapore office we are pioneering a marketing service which is designed to provide opportunities, expertise and local information to BNZ clients interested in capitalising on developments in Asia.

Relationships with mainland China were strengthened during the year by a visit to New Zealand of a high ranking delegation from the Bank of China led by its President. Later in the year our Group Chief Executive, Mr Shaw, and other senior executives responded by visiting China. Our new Hong Kong office will be active in seeking out opportunities to expand New Zealand trade as well as organise the financing of joint venture projects.

#### Australia

While New Zealand business is poised to develop opportunities in Asia it has already made considerable headway in Australia as a result of the policy of Closer Economic Relationships (CER). BNZ is assisting its customers with this expansion and, at the same time, helping Australian businesses to take advantage of opportunities in New Zealand which are provided under CER.

Australia presented BNZ with further challenges during the year when it, too, experienced significant deregulation of its finance sector. Competition between banks, which has traditionally been strong in Australia, will soon increase markedly, with new licences being granted to foreign banks. To meet the competition BNZ is increasing its services to corporate business and in future will become more involved in providing merchant-banking type operations.

Treasury operations in Australia were expanded in the money market and foreign exchange fields as a result of the volume, increasing sophistication and wider range of corporate business being written.

Following the success of the Foreign Exchange Advisory and Videotex services in New Zealand they were introduced into Australia and are providing information particularly relevant to the Australian market.

#### **United States of America**

Another indication of the new internationalism was BNZ's decision to enter the United States Commercial Paper market, after obtaining the highest possible relevant credit ratings from two of the top international rating agencies — Standard and Poors Corporation and Moody's Investors Service. Funds raised through the Commercial Paper market will be used in the further development of the Bank's international business.

During the year, New York branch entered loan participations for a number of major developments and projects initiated in the USA and New Zealand.

To assist with funding of these assets, Floating Rate Negotiable Certificates of Deposit were issued, at most favourable rates, reflecting BNZ's high standing in the world's capital markets.

Business activity increased at the Los Angeles Agency during the year, headed by a substantial growth in the commercial loan portfolio.

An outstanding event taking place in Los Angeles during 1984 was the 23rd Olympiad. The BNZ Agency helped raise finance for the New Zealand team and was able to assist team members during their visit.

#### **Pacific Islands**

We play a major role in the banking industry in Fiji where we have operated since 1876. BNZ has a policy of encouraging maximum development of local personnel and, in line with this, a further three Fiji staff members were appointed to executive positions during the year.

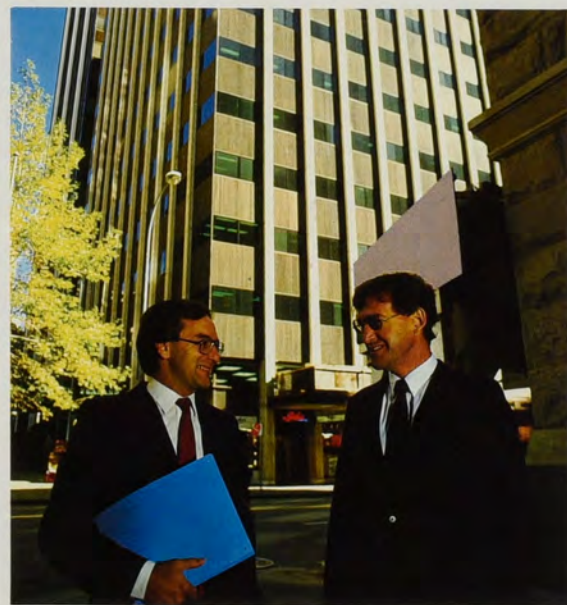
The Bank is represented in Western Samoa, sharing ownership of the Bank of Western Samoa with the Government of that country. We also have a 20 percent interest in the Bank of Tonga.

Both of these banks are major institutions in their respective territories, providing a wide range of banking services.

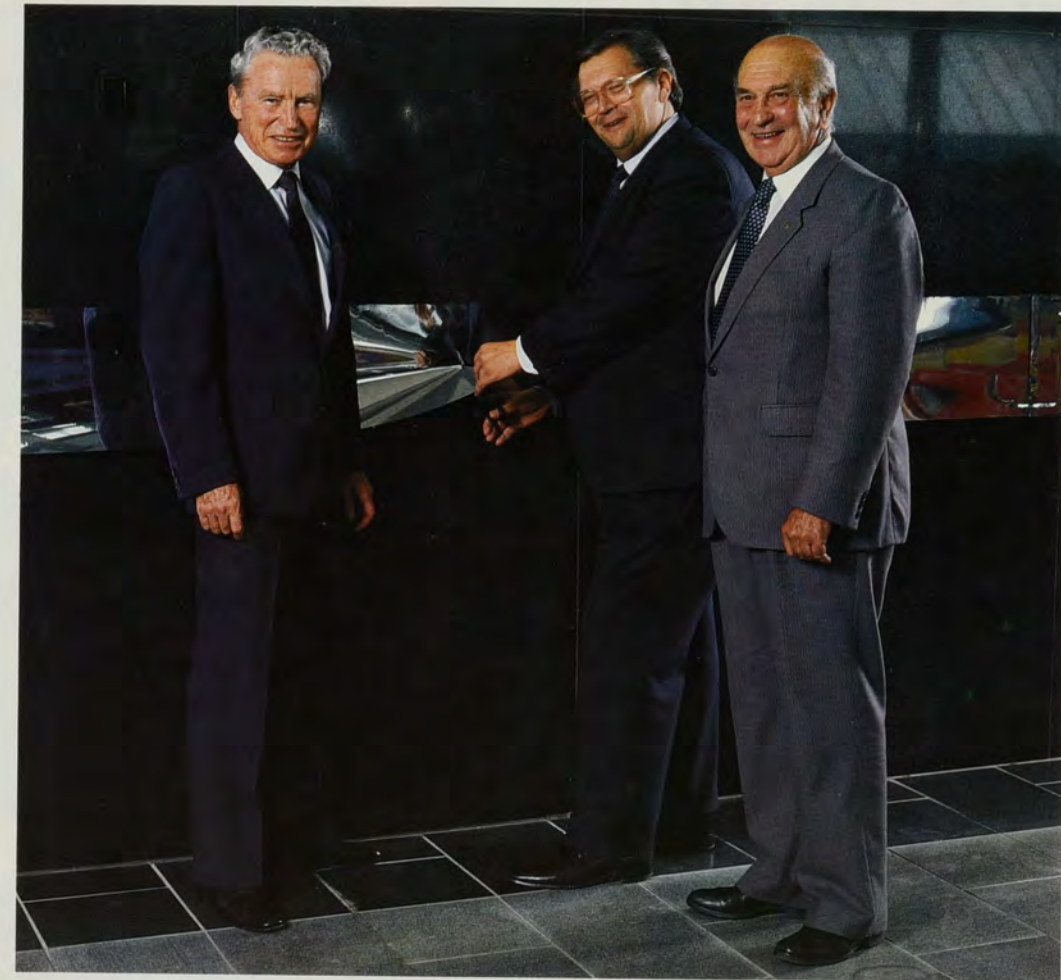
#### **United Kingdom and Europe Operations**

London Office, the Bank's headquarters for UK and Europe, was relocated at 91 Gresham Street and enjoys up-to-date working conditions, communications and systems.

London Office continues to develop its capabilities and its range of services in the Corporate, International and Treasury areas. Business volumes increased markedly, as did its profit contribution aided by the successful restructuring of its operations during the preceding year and the movement to new premises.



*Senior Manager Corporate Financial Services, BNZ Australia, Lloyd Coakley (right) with a Corporate Banking Manager, Brian Jones, outside BNZ's Australian headquarters in Sydney.*



*The Prime Minister, The Rt. Hon. David Lange (centre) officially opened BNZ Centre on November 14, 1984. With him was the Chairman of the Board of Directors, Sir Lewis Ross CMG (right) and the Bank's Group Chief Executive, William J. Shaw.*

Further emphasis is being placed on the development and acquisition of additional and diversified professional skills so that BNZ can effectively service its corporate customers through the ever increasing range of funding and financial methods available in the European capital markets.

#### **BNZ Centre**

Headquarters for BNZ's worldwide activities are now located in the 30-level BNZ Centre which dominates the Wellington skyline. Officially opened in November 1984 by the Prime Minister, the Right Honourable David Lange, it enabled us to accommodate the majority of our Head Office divisions in one building. The balance was fully let from the outset.

The new Wellington Branch, in the lower portion of the building, opened for business in September 1984. Its retail banking operations are located in the heart of the underground Shopping Centre. This type of development is a "first" for New Zealand and is proving very successful.

#### **Treasury Operations**

The former Funds Division of the Bank was restructured into a Group Treasury Division with emphasis on development of money market and foreign exchange activities both in New Zealand and around the globe.

A Regional Treasury was established in Christchurch to serve South Island markets. In the North Island, operations in Wellington and Auckland were expanded to provide a full range of professional funding and investment services.

A call deposit scheme known as "Autocall" was successfully introduced in September, 1984, in response to the new freedom to pay interest on overnight and short term deposits.

### Foreign Exchange Services

In the foreign exchange field, priority was given to the recruitment of skilled personnel, coupled with the training of existing staff. Also, upgrading of facilities in various centres was undertaken and the decision was made to install an automated global control system.

In New Zealand, competition was enhanced by the economic and regulatory changes and to help meet these new challenges BNZ combined its domestic and foreign exchange trading areas in Head Office into a new dealing room with highly sophisticated telecommunications equipment. BNZ has more than maintained its market leadership in foreign exchange trading activities in New Zealand.

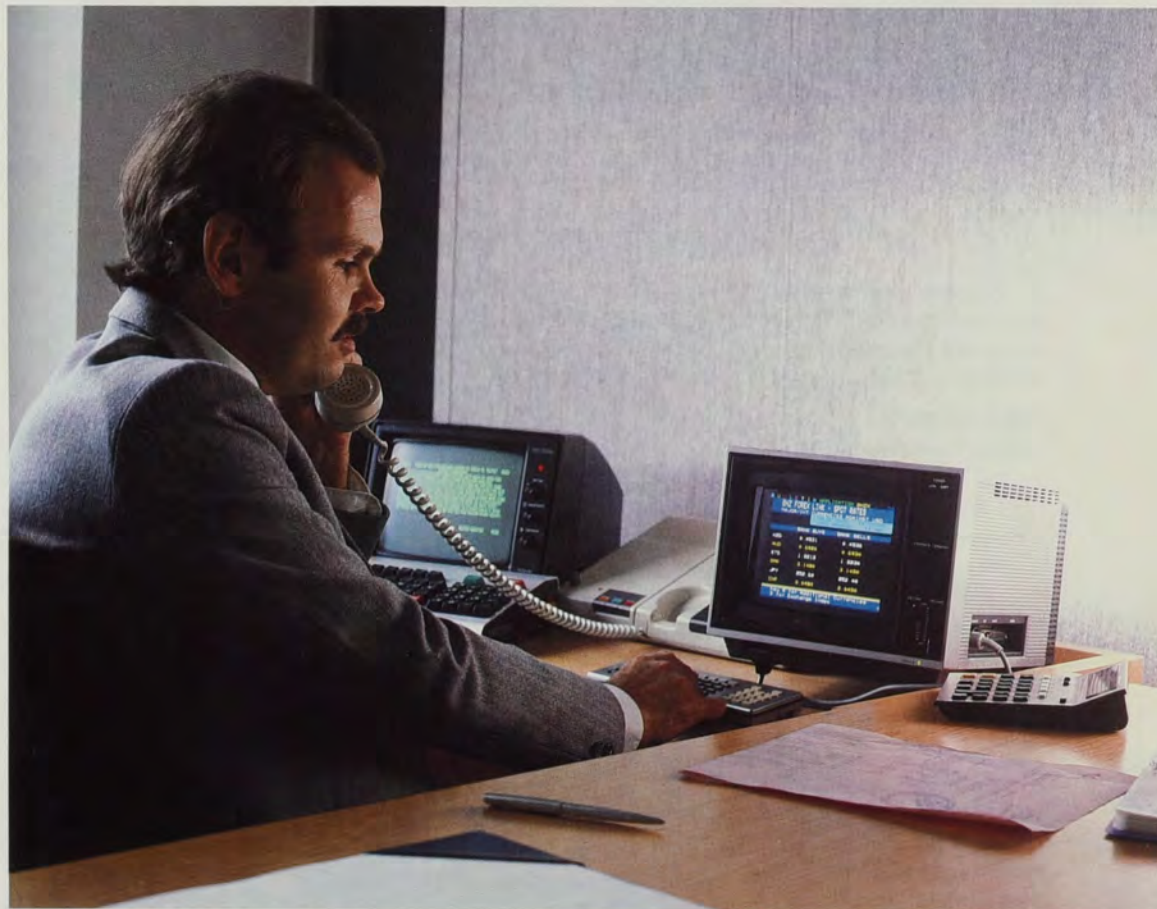
The devaluation, unprecedented market volatility, the lifting of exchange controls and the New Zealand dollar float, all focussed customer attention on the management of foreign exchange risk and the wider range of options available. At the same time, overseas borrowing became a more readily available alternative to domestic loans. The result was a dramatic increase in client demand for advice on all foreign exchange matters, and we are well placed to service these needs through our expanded Foreign Exchange Advisory Service. Our Videotex system has also been extended to provide an increasingly valuable range of financial information and market news to subscribers.

We are now also able to offer a range of foreign currency account facilities to customers in New Zealand and these have met with strong interest.

### Futures Exchange Formed

Coinciding with the sweeping changes taking place in the financial sector, was the introduction of a New Zealand Futures Exchange, of which BNZ was a founding member.

The Exchange opened at the end of January, 1985, dealing initially in a US dollar contract. Work is continuing towards the establishment of Share Price Index and Prime Commercial Paper contracts.



*BNZ provides a Videotex service which disseminates information on financial and market trends. The Videotex network also links BNZ's offices throughout the world.*



*The foreign exchange dealing room at BNZ Centre. The Bank is the country's leading foreign exchange dealer, and strategically placed offices around the world provide a 24-hour trading capacity.*

Instead of using the "open outcry" system common elsewhere, the 17 trading members of the New Zealand Futures Exchange complete transactions from their own offices, using a specially developed computer system.

Participation in this market enables us to better meet the requirements of customers for increasingly sophisticated risk management tools.

### Investment Services

Also evident is a continuing demand for professional investment management, witnessed in the expansion of our Portfolio Management Department which provides a complete management and advisory service to clients, covering investment in shares, debentures, properties, mortgages, Government stock, local authority stock and other investment vehicles.

The Bank's Share Registry Service also experienced strong growth of business activity during the year.

### Corporate Banking

The changes within the economy tested the skills of the Corporate Banking Division which succeeded in providing clients with an increased range of innovative products and services designed to capitalise on the new conditions.

We continued to lead developments in the New Zealand capital markets with the introduction of two new Tender Panel related instruments. These were the Bankers Acceptance Tender Facility (BATF) and a hybrid of the Promissory Note Facility and the BATF. Facilities in place for all these Tender Panel instruments at the end of the year totalled \$420M with a further \$200M under negotiation.

The Division's Project and Advisory Teams undertook several major new assignments during the year. These included the appointment of BNZ as sole financial adviser for Stage II of the New Zealand Railways Corporation's Electrification Project which will require financing of approximately NZ\$100M.

Other notable developments during the year included:—

- Approval of the Japanese authorities for BNZ to participate as an underwriter in most types of Japanese Samurai issues.



- BNZ's appointment as a Lead Manager in arranging the New Zealand Government's major 1984 offshore loan facility of US\$1.5 billion.
- Arranging and participating in a number of debt and equity issues for Corporates both in Australia and New Zealand.
- A closer involvement with the tourist industry through our participation in financing several hotel developments.
- Arranging and participating in a number of interest rate and currency swaps. These enabled us to provide Corporates with longer-term NZ dollar financing.

### Personal Banking

The return to a free market permitted BNZ to offer higher interest rates in the Savings Bank area and we were the first bank to take advantage of this new freedom by raising interest rates on Passbook Savings Accounts from 3 percent to 10 percent on October 1, 1984. These are an extremely popular form of account and customer response to the new 10 percent interest rate was immediate and most encouraging.

To improve the standard of service, BNZ introduced separate tellers for personal and commercial account customers at larger branches. To speed customer service, tellers are also being equipped with computer terminals, enabling customers to carry out most transactions at one counter.

Another move designed to increase the level of service to BNZ customers is the creation of a third category of office — the Service Centre. These are tailored to the needs of customers in specific areas. For example, a branch located near a university will have a heavier-than-normal demand for student-related services. Similarly, a branch in the heart of a commercial area is likely to have more business customers than is the case in suburban branches.

While the Service Centres concentrate on the functions most desired by the customers in their areas, there will still be access to all the Bank's services.

The new concept was first tested by the George Street Service Centre in Dunedin in March, 1983. Other Service Centres have been introduced progressively and selected agencies and branches are in the process of making the transition. These Centres are expected to play an important role in BNZ's future.

### Area Banking Proceeding

Another change designed to meet new conditions is Area Banking which should be fully implemented by the end of 1985.

BNZ is dividing the country into 28 areas, each supervised by an area manager. Auckland, Wellington and Christchurch branches will operate as areas in their own right.



*The Executive Chairman of one of New Zealand's largest companies Carter Holt Holdings Limited, Mr Richard Carter (left), and BNZ's Chief Manager Corporate Banking Mr Alan Eathorne at one of the company's timber plants in Auckland.*



*BNZ is changing the face of banking in New Zealand. The Bank's Wellington Branch (above) is designed to eliminate queues by speedily catering for banking needs in a bright and modern environment.*

The main benefits for customers will be faster decisions and a much closer, more interactive banking relationship.

For BNZ the system offers improved communications between officer and customer which will allow the Bank to make a greater impact on the market at a neighbourhood level. In addition, the organisational structure allows more flexibility with technological options and product service strategies.

### Banking Made Easier

Another development which found favour with personal account holders was the extension of bank hours (previously 10 am — 4 pm) to 9 am — 4.30 pm. This, coupled with the continued success of Automatic Teller Machines (ATMs), has made BNZ more accessible to customers.

AutoAccess, an innovative high interest account offering access to funds through Autobank ATMs, showed remarkable customer appeal during its first year of availability — particularly to the younger age group.

### Sponsorship and Promotion

In 1984 an agreement was reached with the New Zealand Amateur Swimming Association for a major BNZ sponsorship package covering a three-year period and including 11 national swimming, diving, waterpolo and synchronised swimming championships.

Whilst BNZ has been actively involved with sporting, artistic and cultural sponsorships for many years, this is its largest single sponsorship to date.

### BNZ Travel

Despite intense competition in the travel industry our Travel Service continues to enjoy satisfactory growth with fully I.A.T.A. accredited Travel Centres in Auckland, Wellington and Christchurch. The Auckland and Otago Campus Travel Offices also obtained I.A.T.A. accreditation during the year.

New Zealand is an increasingly attractive tourist destination, and opportunities in this market are extensive.

### Visa Cards

The development of the BNZ Visa Service continued in 1984/85 and resulted in very satisfactory growth.

BNZ Visa was first in the market to offer Credit Insurance to cardholders. This was launched in September, 1984, with pleasing results.

A successful merchant recruitment campaign has increased the number of retailers accepting Visa cards to over 20,000.

### Small/Medium Business

Today's small/medium business concern may be tomorrow's multinational company and BNZ is committed to providing support and encouraging this growth process.

Our traditional services, while an essential mainstay of BNZ assistance to customers, are being tailored and broadened to meet individual customer needs. By establishing closer relationships with customers we aim to increase business opportunities for both them and the BNZ. In this way we have enhanced existing banking relationships and gained new business with global penetration. We have successfully arranged finance through bank guaranteed bonds, and provided access to offshore finance opportunities.

### Professional and Services

Our long-standing association with a wide range of statutory authorities, and the professional and finance sectors, together with strong support from the many clubs and societies, has led to the development of specialised services to meet their changing needs.

The special schemes available to solicitors and accountants are continually being upgraded. We also extended the range of packaged products with the introduction of special benefits to university people through the Sabbatical Travel Scheme.

### Primary Industries

In recognition of its prominence as a banker to the farming sector, the Bank has introduced new products including the Autosave Farm Ownership accounts designed to assist young farmers to finance their first farm.

For existing farmers BNZ has provided access to international capital markets for raising competitively priced funds for development and diversification purposes.

The need for suitably skilled personnel to service the primary sector has also been recognised by the Bank establishing a close liaison with the Agricultural Training Council (ATC) and becoming a major sponsor of the ATC training programme.



*Closing the doors on history. General management team members (from left) Ronald Mear, Robert McCay, and Peter Travers leave, for the last time, the building which was the Bank's headquarters for 84 years. BNZ head office staff are now located in the new building across the road at 1 Willis Street.*



*Terminals are being introduced to BNZ Branches as an extension of the popular Automatic Teller Machine service pioneered by the Bank. It is also involved in a pilot scheme for Electronic Funds Transfer at Point of Sale.*

A research paper was prepared on the structure and economics of the deer farming industry in New Zealand. This has been accepted as an authoritative document by the industry.

BNZ's Primary Industry Section sponsors and provides input for the farm finance section of a Videotex service which permits subscribing farmers to access, via their television sets, financial, production and market information critical to efficient farm management.

### Technology and the Future

The employment of the best technology to achieve efficient customer servicing and a high level of support for Bank personnel remains a strategic aim of BNZ.

Electronic Funds Transfer Services have been extended through the installation of point-of-sale workstations in selected retail outlets, under a pilot scheme in co-operation with the other trading banks.

At branch level, tellers are making increasing use of computer terminals which, besides speeding up transactions for customers, have eliminated much of the paper work for both parties. The key is the customer's Autobank card which permits a variety of transactions to be conducted at tellers' counters, including cash withdrawals, deposits or balance enquiries.

### The Bank's People

The new directions taken by BNZ, and its ability to turn the challenges presented by the new conditions into positive opportunities for achieving business growth, are a tribute to the vision of our senior executives and the dedication and energy of staff at all levels.

A broadening range of skills acquired by our staff, including those of a specialist nature, have allowed us to offer a wider range of financial services.

During the past year BNZ launched its Equal Employment Opportunity Management Plan which reinforces the policy of equality of opportunity for all our people. The Plan incorporates specific steps that are being developed and implemented to ensure BNZ's policy is widely understood and practised in all areas.

Training and development of staff at all levels continues to receive emphasis, especially as the Bank diversifies. Extensive training in customer relations and business acquisition skills has begun and will support the marketing efforts of all branches.

BNZ is a major employer in New Zealand and at March 31, 1985, our staff totalled 6848 people. We also employed 277 in Australia, 453 in the Pacific Islands, 58 in U.S.A., 108 in London and 29 in other off-shore sectors, a global total of 7773.

### Finance Subsidiary and Associate Companies

#### BNZ Finance Limited

BNZ Finance Limited is a listed public company of which some 75% of the shareholding is now held by the Bank.

For the year ending March 31, 1985, the company recorded a significant increase in profitability. It provides clients with a wide range of financial services, complementing facilities available from the Bank.

#### Hunter BNZ Finance Limited

This Australian public company is owned on an equal shareholding by BNZ and Perpetual Trustees Australia Limited and continues to operate successfully.

The Company's principal activities cover the provision of commercial and industrial short to medium-term lease finance and real estate lending.

#### Bradbury Wilkinson and Company (NZ) Limited

The Bank has a 30% shareholding in this Whangarei-based joint venture with Bradbury, Wilkinson P.L.C. of the United Kingdom.

The company is engaged in the printing of bank notes and other security documents.

#### Chief Board

The Chairman, Sir Lewis Ross, CMG, was reappointed for a further term of three years from April 1, 1984.

Mr E. J. Keating was reappointed to the Board for a further term of three years from April 1, 1984.

Mrs C. J. Rushton's term on the Board expired on October 31, 1984, and Mr H. H. Parata, CBE DSO, resigned due to ill health on November 22, 1984.

Two new directors were appointed for three-year terms from February 1, 1985 — Mr R. A. Brierley and Mr R. J. Campbell.

#### Australian Advisory Board

Mr V. E. Jennings, OBE, retired from the Board.

Mr S. W. H. Fairbairn was appointed to the Board for a three-year term from November 1, 1984.

#### Group Chief Executive

Mr William J. Shaw, the Group Chief Executive of the Bank since January 1, 1980, retires on June 12, 1985. The Board has appointed Mr Robert B. McCay to succeed him.

*For and on behalf of the Board of Directors*

Sir Lewis Ross CMG  
Chairman

Sir George Chapman  
Deputy Chairman

Head Office  
Bank of New Zealand  
16 May 1985



Bank of New Zealand

### Financial Statements of BNZ Group

#### Financial Summary 1976-1985 Consolidated Accounts

	1985 \$000	1984 \$000	1983 \$000	1982 \$000	1981 \$000	1980 \$000	1979 \$000	1978 \$000	1977 \$000	1976 \$000
<b>Profit and Loss Account</b>										
Net Trading Income	420,948	344,912	285,052	251,322	186,066	138,029	114,205	88,647	78,931	66,040
Expenses	278,273	235,551	218,362	181,253	137,352	108,014	87,741	73,603	63,168	54,067
Net Trading Profit before Tax	142,675	109,361	66,690	70,069	48,714	30,015	26,464	15,044	15,763	11,973
Provision for Tax	66,288	54,436	31,690	35,274	25,599	16,769	14,461	7,574	8,282	6,034
Net Profit before Extraordinary Items	75,025	55,248	35,936	34,591	23,115	13,246	12,003	7,470	7,481	5,939
Net Profit after Extraordinary Items	76,647	55,779	36,155	35,357	23,211	14,067	12,158	7,719	7,730	6,352
Return on Average Shareholders' Funds	23.60%	22.50%	19.12%	23.17%	18.32%	11.77%	11.52%	8.03%	9.04%	7.63%
<b>Distribution of Profits</b>										
Dividends Paid or Provided	15,000	12,000	7,594	6,953	6,640	6,505	6,105	3,805	3,605	3,605
Retained Profits	61,647	43,779	28,561	28,404	16,571	7,562	6,053	3,914	4,125	2,747
<b>Loan Capital</b>										
Subordinated Loan — Capital Notes	109,807	75,454	75,966	—	—	—	—	—	—	—
<b>Shareholders' Funds</b>										
Paid Up Capital	80,000	80,000	60,750	41,500	41,500	41,500	41,500	41,500	26,500	26,500
Reserves	277,142	198,583	151,714	121,882	93,726	75,672	66,327	59,032	59,080	53,516
Total Shareholders' Funds	357,142	278,583	212,464	163,382	135,226	117,172	107,827	100,532	85,580	80,016
<b>Balance Sheet — Major Items</b>										
Deposits	7,190,130	5,207,284	4,906,406	4,408,852	3,754,597	3,068,349	2,428,320	2,021,717	1,764,807	1,427,982
Lending	6,266,889	4,433,090	3,906,324	3,513,010	2,953,519	2,378,782	1,892,576	1,469,937	1,307,522	989,227
Total Assets	8,647,349	6,681,371	6,305,520	5,298,668	4,641,844	3,747,009	2,852,506	2,440,644	1,956,117	1,600,714

**Consolidated Balance Sheet**

As at 31 March 1985		1985	1984
	Note	\$000	\$000
<b>Liabilities</b>			
Deposits	(10)	7,190,130	5,207,284
Balances due to Other Banks	(2)	496,929	641,415
Bills Payable and Other Liabilities		374,816	344,312
Provision for Taxation — Current		—	36,249
Provision for Dividend		10,608	8,656
Deferred Taxation	(12)	99,368	79,541
Minority Interests in Subsidiaries		8,549	9,877
		<u>8,180,400</u>	
<b>Subordinated Loan — Capital Notes</b>	(5)	109,807	75,454
<b>Capital and Reserves</b>			
Issued and Paid Up Capital	(4)	80,000	80,000
Capital Reserves		49,643	22,659
Revenue Reserves		231,808	172,424
Share of Associate Companies' Reserves		7,987	7,036
Goodwill on Consolidation		(12,296)	(3,536)
		<u>357,142</u>	<u>(3,536)</u>
		<u>8,647,349</u>	<u>6,681,371</u>

The notes to the financial statements are to be read in conjunction with this Balance Sheet and the Profit and Loss Statement below.

**Consolidated Profit and Loss Statement**

For the year ended 31 March 1985		1985	1984
	Note	\$000	\$000
<b>Trading Income</b>			
Interest, Commissions, Foreign Exchange Earnings and other including income from Government and Local Body Securities and Investments in other Companies and after Provision for Bad and Doubtful Debts	(6, 7, & 11)	1,127,524	790,480
<b>Interest Expense</b>		<u>706,576</u>	<u>445,568</u>
<b>Net Trading Income</b>		420,948	344,912
<b>Operating Expenses</b>			
Audit Expenses		456	449
Directors' Remuneration		175	131
Depreciation		14,999	8,880
Salaries and Allowances		126,985	120,649
Other Operating Expenses		135,658	105,442
		<u>278,273</u>	<u>105,442</u>
<b>Net Trading Profit before Taxation</b>		142,675	109,361
Provision for Taxation		66,288	54,436
<b>Net Profit after Taxation</b>		76,387	54,925
Minority Interests in Subsidiaries		2,069	2,144
		<u>74,318</u>	<u>52,781</u>
Group Share of Associate Companies' Tax Paid Income		707	2,467
		<u>75,025</u>	<u>55,248</u>
Extraordinary Adjustment — Capital Profits on Property Sales	(4)	1,622	531
<b>Net Profit after Extraordinary Adjustments</b>		<u>76,647</u>	<u>55,779</u>
<b>This Income was Distributed as follows:</b>			
Interim Dividend Paid		5,000	4,000
Provision for Final Dividend		10,000	8,000
Transfer to Reserves		60,940	41,312
Held in Associate Companies		707	2,467
		<u>76,647</u>	<u>55,779</u>

**Assets**

		1985	1984
	Note	\$000	\$000
Cash, Deposits with Bankers, Remittances and Other Short Notice Moneys		806,116	968,450
New Zealand and Overseas Government and Local Body Securities	(6)	1,314,471	1,078,020
Advances, Bills Discounted, Lease Receivables and Other Debts due to the Bank after deducting Provision for Bad and Doubtful Debts	(3 & 11)	6,266,889	4,433,090
Investments in Other Companies			
— Interests in Associated and other Companies	(7)	21,726	6,211
— Share of Reserves		<u>7,987</u>	<u>7,036</u>
Bank Properties and Equipment	(9)	230,160	188,564
		<u>8,647,349</u>	<u>6,681,371</u>

W. J. Shaw  
Group Chief Executive

On behalf of the Board  
Sir Lewis Ross CMG  
Director

Sir George Chapman  
Director

**Balance Sheet**

As at 31 March 1985		1985	1984
Note		\$000	\$000
<b>Liabilities</b>			
Deposits	(8)	6,509,999	4,446,251
Balances due to Other Banks	(2)	496,929	641,415
Bills Payable and Other Liabilities		351,522	326,061
Provision for Taxation — Current		—	29,213
Provision for Dividend		10,000	8,000
Deferred Taxation	(12)	92,096	71,138
		<u>7,460,546</u>	
<b>Subordinated Loan — Capital Notes</b>	(5)	109,807	75,454
<b>Capital and Reserves</b>	(4)		
Issued and Paid Up Capital		80,000	80,000
Capital Reserves		44,506	21,560
Revenue Reserves		199,380	145,726
		<u>7,894,239</u>	<u>5,844,818</u>

The notes to the Financial Statements are to be read in conjunction with this Balance Sheet and the Profit and Loss Statement below.

**Profit and Loss Statement**

For the year ended 31 March 1985		1985	1984
Note		\$000	\$000
<b>Trading Income</b>			
Interest, Commission, Foreign Exchange Earnings and other including income from Government and Local Body Securities and Investments in other Companies and after Provision for Bad and Doubtful Debts	(6, 7 & 11)	1,011,583	687,739
<b>Interest Expense</b>		<u>631,932</u>	<u>381,287</u>
<b>Net Trading Income</b>		379,651	306,452
<b>Operating Expenses</b>			
Audit Expenses		391	389
Directors' Remuneration		116	91
Depreciation		12,898	8,503
Salaries and Allowances		117,909	111,074
Other Operating Expenses		123,644	96,384
		<u>254,958</u>	<u>96,384</u>
<b>Net Trading Profit before Taxation</b>		124,693	90,011
Provision for Taxation		58,992	44,915
<b>Net Profit after Taxation</b>		65,701	45,096
Extraordinary Adjustment — Capital Profits on Property Sales	(4)	1,622	531
<b>Net Profit after Extraordinary Adjustments</b>		67,323	45,627
Dividends — Savings Bank		500	500
— BNZ Finance Ltd.		2,452	1,181
		<u>70,275</u>	<u>47,308</u>
<b>This Income was distributed as follows:</b>			
Interim Dividend Paid		5,000	4,000
Provision for Final Dividend		10,000	8,000
Transfer to Reserves		55,275	35,308
		<u>70,275</u>	<u>47,308</u>

**Assets**

		1985	1984
Note		\$000	\$000
Cash, Deposits with Bankers, Remittances and Other Short Notice Moneys		805,883	968,046
New Zealand and Overseas Government and Local Body Securities	(6)	1,060,480	810,308
Advances, Bills Discounted, Lease Receivables and Other Debts due to the Bank after deducting Provision for Bad and Doubtful Debts	(3 & 11)	5,650,081	3,833,912
Investments in other Companies	(7)	16,956	1,851
Investments in Subsidiaries	(8)	218,985	129,053
Bank Properties and Equipment	(9)	141,854	101,648
		<u>7,894,239</u>	<u>5,844,818</u>

W. J. Shaw  
Group Chief Executive

On behalf of the Board  
Sir Lewis Ross CMG  
Director

Sir George Chapman  
Director

## Notes to the Financial Statements of Bank of New Zealand and its Subsidiaries

### 1. Statement of Accounting Policies

#### General Accounting Policies

The going concern concept has been adopted in the preparation of these financial statements. Unless otherwise stated, the measurement base adopted is the historical cost. Accrual accounting is used to match expenses and revenues.

#### Particular Accounting Policies

##### Basis of Consolidation

The consolidated accounts include all subsidiary companies. The Bank has used the purchase method of consolidation. Investments in associate companies have been treated on an equity accounting basis. The profit shown in the profit and loss statement represents the profit of all companies in the group, less the minority shareholders' proportion of the after tax profit of BNZ Finance Limited. The consolidated balance sheet has been adjusted for the minority shareholders' interest in net assets for BNZ Finance Limited and this is shown under the heading "minority interests in subsidiaries" in the consolidated balance sheet. Intercompany transactions have been eliminated.

##### Income Recognition

Government and Local Body Securities premiums and discounts are amortised annually to achieve a level rate of return over the life of the stock.

Income on lease transactions is apportioned between accounting periods using the financing method which produces a level rate of return on funds not yet recovered.

##### Valuation of Government and Local Body Securities

Securities are valued at cost except for those held by BNZ Finance Limited which are valued at lower of cost or net realisable value. As the majority of securities are normally held to or near maturity no provision is considered necessary for any difference between book and market value.

##### Bad and Doubtful Debts

Provision for Bad and Doubtful Debts is made as considered necessary having regard to both specific and general factors. The specific element arises as a result of an annual appraisal of identified advances involving special risks, whilst the general element arises from a broad review of all advances, the bulk of which are subject to normal lending risks.

##### Valuation of Investments in Other Companies

Investments in associate companies are valued at cost except for one investment which has been valued by directors based on independent professional valuation.

##### Valuation of Bank Properties and Equipment

Land is shown at latest Government Valuation.

Buildings are shown at original cost, plus improvements less depreciation.

Equipment is shown at original cost less depreciation.

##### Depreciation

Depreciation has been calculated using the rates applicable to specific assets as follows:

Buildings and Leasehold Improvements are depreciated on a straight line basis over 40-100 years.

Equipment is written off at rates of 5%, 10%, 20% and 25% as appropriate by the diminishing value method.

##### Tax Allocation

The charge against income for taxation is the estimated liability in respect of the accounting profit reported for the year. The net effect of timing differences between net income recognised for accounting and taxation purposes has been allowed for in Deferred Taxation.

##### Conversion of Foreign Currencies

Figures in the financial statements are expressed in New Zealand currency. Rates used in conversion are those ruling at Balance Date.

##### Changes in Accounting Policies

There have been no material changes in accounting policies. The accounting treatment in respect to the Provision for Bad and Doubtful Debts made by the Bank of New Zealand has been altered in line with generally accepted practice. This change is reflected in the amended opening balances where appropriate, of Provision for Bad and Doubtful Debts and Deferred Taxation.

### 2. Balances Due to Other Banks

Compensatory Deposits are lodged by the Reserve Bank of New Zealand (the Central Bank) with all trading banks in New Zealand to relieve liquidity pressures on the banking system resulting each March from the high flow of Tax Monies to Government. Bank of New Zealand's share, \$192,014,000 (1984 — \$340,360,000) is included under this heading.

### 3. Advances, Bills Discounted, Lease Receivables and Other Debts Due to the Bank after Deducting Provision for Bad and Doubtful Debts

Include Bank Acceptances at 31 March 1985 amounting to \$205,958,000 (1984 — \$173,033,000).

### 4. Capital and Reserves

Authorised and Issued Capital \$80,000,000 in ordinary \$1 shares	Trading Bank		Consolidated	
	1985 \$000	1984 \$000	1985 \$000	1984 \$000
<b>Paid Up Capital</b>				
80,000,000 Ordinary \$1 shares fully paid up	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
<b>Capital Reserves</b>				
<b>Bank Property Capital Reserve</b>				
Opening Balance	7,060	6,529	7,060	6,529
Add Net Capital Profits on Property Sales	<u>1,622</u>	<u>531</u>	<u>1,622</u>	<u>531</u>
	<u>8,682</u>	<u>7,060</u>	<u>8,682</u>	<u>7,060</u>
<b>Bank Property Revaluation Reserve</b>				
Opening Balance	10,659	8,100	11,758	9,117
Add Net Increases due to revaluation of Land to latest Government Valuation	<u>2,530</u>	<u>2,559</u>	<u>6,568</u>	<u>2,641</u>
	<u>13,189</u>	<u>10,659</u>	<u>18,326</u>	<u>11,758</u>
<b>Share Revaluation Reserve</b>				
Revaluation of Investment in Other Company	<u>15,390</u>	—	<u>15,390</u>	—
	<u>15,390</u>	—	<u>15,390</u>	—
<b>Exchange Fluctuation Reserve</b>				
Opening Balance	3,841	3,781	3,841	3,781
Add Net Exchange variation due to revaluation this year on Capital Items	<u>3,404</u>	<u>60</u>	<u>3,404</u>	<u>60</u>
	<u>7,245</u>	<u>3,841</u>	<u>7,245</u>	<u>3,841</u>
<b>Total Capital Reserves</b>	<u>44,506</u>	<u>21,560</u>	<u>49,643</u>	<u>22,659</u>
<b>Revenue Reserves</b>				
Opening Balance	145,726	110,949	172,424	131,052
Prior Period Adjustment (Intra-Group adjustment)	—	—	—	591
Exchange Fluctuation on opening balance	—	—	66	—
Additions from year's profits	<u>53,654</u>	<u>34,777</u>	<u>59,318</u>	<u>40,781</u>
<b>Total Revenue Reserves</b>	<u>199,380</u>	<u>145,726</u>	<u>231,808</u>	<u>172,424</u>
Add Share of Associate Companies' Reserves	—	—	7,987	7,036
Goodwill arising on acquisition of shares in BNZ Finance Ltd	—	—	(12,296)	(3,536)
	<u>199,380</u>	<u>145,726</u>	<u>227,499</u>	<u>175,924</u>
<b>Total Capital and Reserves</b>	<u>323,886</u>	<u>247,286</u>	<u>357,142</u>	<u>278,583</u>

## 5. Subordinated Loan — Capital Notes \$109,807,000

Issue at par of US\$50,000,000 11.375% 10 years Capital Notes due 1 March 1993.

## 6. New Zealand and Overseas Government and Local Body Securities

	Trading Bank		Consolidated	
	1985 \$000	1984 \$000	1985 \$000	1984 \$000
Book Value	1,060,480	810,308	1,314,471	1,078,020
Market Value at Balance Date	1,001,221	840,229	1,246,893	1,111,329
Redemption Value	1,069,974	804,357	1,344,832	1,078,289
	Trading Bank		Consolidated	
	1985 \$000	1984 \$000	1985 \$000	1984 \$000
Included in the above Book Value figures are Overseas Government and Local Body Securities amounting to	94,417	66,084	98,574	71,683
Total Income from Government and Local Body Securities	118,334	106,885	148,254	131,754

## 7. Investments in Other Companies

Valued at cost unless otherwise stated.

	Book Value		% of Paid up Capital	Results included to
	1985 \$000	1984 \$000		
<b>Associate Companies</b>				
Databank Systems Ltd 80,000 shares of \$1 each fully paid	80	80	40%	31/3/84
Bank of Western Samoa 3,750 shares of 200 Tala each fully paid	478	472	50%	31/12/84
Bank of Tonga 20,000 shares of 10 Pa'anga each fully paid	108	98	20%	31/12/84
Bradbury, Wilkinson & Company (NZ) Ltd 900,000 shares of \$1 each fully paid	900	900	30%	31/12/84
Hunter BNZ Finance Ltd 2,500,000 shares of A\$1 each fully paid (held through BNZ Investments (Australia) Pty Ltd)	4,770	4,360	50%	31/12/84
A & B Properties Pty Ltd (Sydney) 50 shares of A\$1 fully paid. Valued at Directors' Valuation	15,390	—	50%	30/6/84
	21,726	5,910		
<b>Other Companies</b>				
Private Investment Company for Asia S.A. 48 shares of US\$5000 each fully paid	—	301		
	21,726	6,211		
Income from Associate Companies	171	194		

## 8. Bank of New Zealand Financial Statements only

### Investments in Subsidiaries

Wholly owned Subsidiaries of Bank of New Zealand and their paid up capital are as follows:

	1985 \$000	1984 \$000
Bank of New Zealand Savings Bank Ltd	2,000	2,000
BNZ Properties Ltd	100	100
BNZ North End Investment Ltd	10	10
BNZ Investments Ltd	10	10
BNZ Investments (Australia) Pty Ltd	4,770	4,360
BNZ Nominees Ltd	10	10
Podium Construction Ltd	10	10
Warspite Nominees Ltd (London — Capital £10)	—	—
BNZ Aircraft Leasing Ltd (Capital \$100)	—	—
	6,910	6,500
Cost of 74.88% (1984 67.52%) Share Investment in BNZ Finance Ltd	29,528	18,552
Amounts owing by Subsidiaries	182,547	104,001
	218,985	129,053
Amounts owing to Subsidiaries (included in Deposits)	16,037	12,195

## 9. Bank Properties and Equipment

	Cost or Valuation		Consolidated Accumulated Depreciation		Book Value	
	1985 \$000	1984 \$000	1985 \$000	1984 \$000	1985 \$000	1984 \$000
Land	37,416	29,248	—	—	37,416	29,248
Buildings	105,658	124,916	7,436	6,276	98,222	118,640
Leasehold Improvements	6,372	4,554	867	847	5,505	3,707
Equipment	121,315	64,528	32,298	27,559	89,017	36,969
	270,761	223,246	40,601	34,682	230,160	188,564
	Cost or Valuation		Trading Bank Accumulated Depreciation		Book Value	
	1985 \$000	1984 \$000	1985 \$000	1984 \$000	1985 \$000	1984 \$000
Land	29,004	24,948	—	—	29,004	24,948
Buildings	45,266	43,557	6,718	6,176	38,548	37,381
Leasehold Improvements	6,372	4,554	867	847	5,505	3,707
Equipment	99,028	62,509	30,231	26,897	68,797	35,612
	179,670	135,568	37,816	33,920	141,854	101,648

## 10. Deposits

<i>Includes Borrowings by Finance Company Subsidiary</i>	1985	1984
	\$000	\$000
Borrowings not separately detailed in the balance sheet are:		
Debenture Stock maturing within one year	347,198	353,514
Debenture Stock maturing between one and two years	58,292	56,439
Debenture Stock maturing over two years	9,352	19,742
	<u>414,842</u>	<u>429,695</u>

The above debenture stock is secured by a floating charge over the assets of BNZ Finance Limited and its charging subsidiaries. The weighted interest rate on these borrowings is 17.21%.

## 11. Provision for Bad and Doubtful Debts

	Trading Bank		Consolidated	
	Specific	General	Specific	General
	1985	1985	1985	1985
	\$000	\$000	\$000	\$000
Opening Balance	33,244	40,182	33,244	47,997
Net Movements during year	3,659	7,000	3,659	4,085
<b>Balance of provision account at end of year</b>	<u>36,903</u>	<u>47,182</u>	<u>36,903</u>	<u>52,082</u>

## 12. Deferred Taxation

	Trading Bank		Consolidated	
	1985	1984	1985	1984
	\$000	\$000	\$000	\$000
Opening Balance	55,893	58,564	64,296	69,091
Increased by:				
Timing differences this year between accounting and taxation income	36,203	12,574	35,072	10,450
	<u>92,096</u>	<u>71,138</u>	<u>99,368</u>	<u>79,541</u>

## 13. Capital Expenditure Commitments

Commitments for capital expenditure entered into and not provided for in the Financial Statements totalled \$30,575,000 at 31 March 1985 (1984 — \$30,159,000).

## 14. Contingent Liabilities

- (a) Outstanding Letters of Credit, endorsements and other engagements entered into by Bank of New Zealand Group amounted to \$2,554,886,000 at 31 March 1985 (1984 — \$1,715,237,000) and in respect of which there are corresponding obligations by customers. In addition, there are outstanding contracts for the sale and purchase of foreign currencies.
- (b) BNZ North End Investment Ltd has a contingent liability of \$273,000 (1984 — \$273,000) in respect to a debenture issue by Pastoral House Partnership of which it is a partner.
- (c) Bank of New Zealand has a contingent liability in respect to its guarantee of deposits with Bank of New Zealand Savings Bank Ltd.

# Bank of New Zealand and its Subsidiaries

## Statement of Changes in Financial Position

For the year ended 31 March 1985

\$000

### Funds were provided

#### From Operations

Net Profit after Taxation and Extraordinary Adjustments	76,647
Adjustment for items not requiring the outlay of funds in the current period:	
— Depreciation	14,999
— Movement in Deferred Taxation	19,827
— Profits (After Tax) retained by Associates	(707)
	<u>110,766</u>

#### Funds were applied

Payment of Dividends	15,000
Increased investment in BNZ Finance Ltd	10,088
Net Purchases of Bank Properties and Equipment	47,016
Increases in working capital including exchange adjustments	38,662
	<u>110,766</u>

#### Increase/(Decrease) in Working Capital

Advances, Bills Discounted, Lease Receivables etc	1,833,799
Investments in New Zealand and Overseas Government & Local Body Securities	236,451
Balances due to other Banks	144,486
Deposits	(1,982,846)
Cash Deposits with Banks, Remittances and other Short Notice Moneys	(162,334)
Bills Payable, Provisions and other Liabilities	(30,894)
	<u>38,662</u>

### Auditors' Report to the Shareholders

We have examined the financial statements of Bank of New Zealand and subsidiaries, comprising a consolidated balance sheet, profit and loss statement and statement of changes in financial position, and the Bank's balance sheet and profit and loss statement, and accompanying notes as shown on the foregoing financial pages.

We have obtained all the information and explanations we have required. In our opinion:

Bank of New Zealand and subsidiaries have kept proper financial records.

These financial statements give a true and fair view of the state of affairs of Bank of New Zealand and subsidiaries as at 31 March 1985, and the results of the business and changes in its financial position for the year ended on that date.

Wellington, New Zealand  
16 May 1985

Ernst & Whinney  
Chartered Accountants

Hogg Young Cathie & Co.  
Chartered Accountants



**Balance Sheet**

As at 31 March 1985

	1985 \$000	1984 \$000
<b>Liabilities</b>		
Deposits	282,476	297,168
Provision for Taxation — Current	—	593
Other Liabilities	9,531	8,365
Deferred Taxation	1,217	1,529
<b>Capital and Reserves</b>		
Authorised and Issued Capital — 1,000,000 Ordinary Shares of \$2 each	2,000	2,000
Paid-up Capital	2,000	2,000
Revenue Reserve	19,228	17,282
	<u>314,452</u>	<u>326,937</u>

**Profit and Loss Statement**

For the year ended 31 March 1985

	1985 \$000	1984 \$000
<b>Trading Income</b>		
Income from Government and Local Authority Securities	22,706	17,695
Income from Other Investments	18,331	24,130
Other Income	110	42
	<u>41,147</u>	<u>41,867</u>
<b>Operating Expenses</b>		
Interest to Depositors	21,612	22,896
Audit Fee	8	8
Management and Operating Expenses	15,026	15,049
Net Profit before Taxation	4,501	3,914
Provision for Taxation	2,055	1,799
Net Profit after Taxation	<u>2,446</u>	<u>2,115</u>
<b>This Income was distributed as follows:</b>		
Dividend paid	500	500
Transfer to Reserve	1,946	1,615
	<u>2,446</u>	<u>2,115</u>

	Note	1985 \$000	1984 \$000
<b>Assets</b>			
Deposits at Bank of New Zealand		12,690	9,702
Investments:			
New Zealand and Overseas Government Securities	(2)	146,164	149,474
New Zealand and Overseas Local Authority Securities	(2)	3,028	4,437
Loans Less Provision for Bad and Doubtful Debts		144,927	162,456
Other Investments		7,643	868
		<u>314,452</u>	<u>326,937</u>

W. J. Shaw  
Group Chief Executive

On behalf of the Board

Sir Lewis Ross CMG  
Director

Sir George Chapman  
Director

**Notes to the Financial Statements of Bank of New Zealand Savings Bank Limited**

**1. Statement of Accounting Policies**

**General Accounting Policies**

The going concern concept has been adopted in the preparation of these financial statements, with historical cost as the measurement base.

Accrual accounting is used to match expenses and revenues.

**Particular Accounting Policies**

**Tax Allocation**

The charge against income for taxation is the estimated liability in respect to the accounting profit reported for the year. The net effect of timing differences between net income recognised for accounting and taxation purposes has been allowed for in Deferred Taxation.

**Conversion of Foreign Currencies**

Figures in the accounts are expressed in New Zealand Currency. Rates used in conversion are those ruling at Balance Date.

**Income Recognition**

Government and local body securities premiums and discounts are amortised annually to achieve a level rate of return over the life of the stock.

**Valuation of Government and Local Body Securities**

As the majority of securities are normally held to or near maturity no provision is considered necessary for any difference between book and market value.

**Changes in Accounting Policies**

There have been no material changes in Accounting Policies

**2. New Zealand and Overseas Government and Local Authority Securities**

The redemption value of the Government Stock and Local Authority Securities appearing in the balance sheet is \$162,143,000 (\$155,869,000) and the market value \$140,356,000 (\$155,339,000).

**Auditors' Report to Members of Bank of New Zealand Savings Bank Limited**

We have obtained all the information and explanations that we have required. In our opinion proper accounting records have been kept by the company so far as appears from our examination of those records. In our opinion, according to the best of our information and the explanations given to us and as shown by the said records, the balance sheet and the profit and loss statement, together with the notes thereto, are properly drawn up so as to give respectively a true and fair view of the state of the Company's affairs as at 31 March 1985, and of the results of its business for the year ended on that date.

According to such information and explanations, the accounts, the balance sheet, the profit and loss statement and the notes give the information required by the Companies Act 1955, in the manner so required.

Wellington, New Zealand  
16 May, 1985

Ernst & Whinney  
Chartered Accountants

Hogg Young Cathie & Co.  
Chartered Accountants

## Bank of New Zealand Group and Associates

### Bank of New Zealand Group

#### Bank of New Zealand (Established 1861)

Capital held by the New Zealand Government. Group assets exceed \$8,600M making it the largest banking Group in New Zealand.

With over 400 offices, including 30 overseas in London, New York, Los Angeles, Tokyo, Hong Kong, Singapore, Australia and Fiji, it is further represented in the Pacific area through its connections with the Bank of Western Samoa and the Bank of Tonga.

#### Bank of New Zealand Savings Bank Limited

Wholly owned subsidiary of Bank of New Zealand.

#### BNZ Investments Limited

Wholly owned subsidiary of Bank of New Zealand providing specialised financial facilities to corporate borrowers.

#### BNZ Investments (Australia) Pty Ltd

Wholly owned subsidiary through which Bank of New Zealand holds its 50% interest in Hunter BNZ Finance Limited (see below).

#### BNZ North America Inc.

Wholly owned subsidiary of the Bank formed to participate in the United States Commercial Paper Market.

#### BNZ Nominees Limited

##### Warspite Nominees Limited

Wholly owned subsidiaries providing nominee services in New Zealand and Overseas respectively. New Zealand services include portfolio management.

#### BNZ Aircraft Leasing Limited

Wholly owned by BNZ Nominees Limited

#### BNZ North End Investment Limited

##### BNZ Properties Limited

##### Podium Construction Limited

Wholly owned subsidiaries involved in major property developments in which BNZ holds interests.

#### BNZ Finance Limited

Listed public company which, with its subsidiaries, offers merchant banking and finance company services. Subsidiary of the Bank.

### Banking Associates of Bank of New Zealand

#### Bank of Tonga

Owned 40% by the Government of Tonga with Bank of New Zealand, Bank of Hawaii International Inc. and Westpac Banking Corporation each holding a 20% interest.

#### Bank of Western Samoa

Owned by the Government of Western Samoa and Bank of New Zealand in equal shares.

### Other Associate Company Interests of Bank of New Zealand

#### Databank Systems Limited

A computer services company owned by and operated for Bank of New Zealand and the other three trading banks engaged in banking business in New Zealand.

#### Bradbury, Wilkinson & Company (NZ) Limited

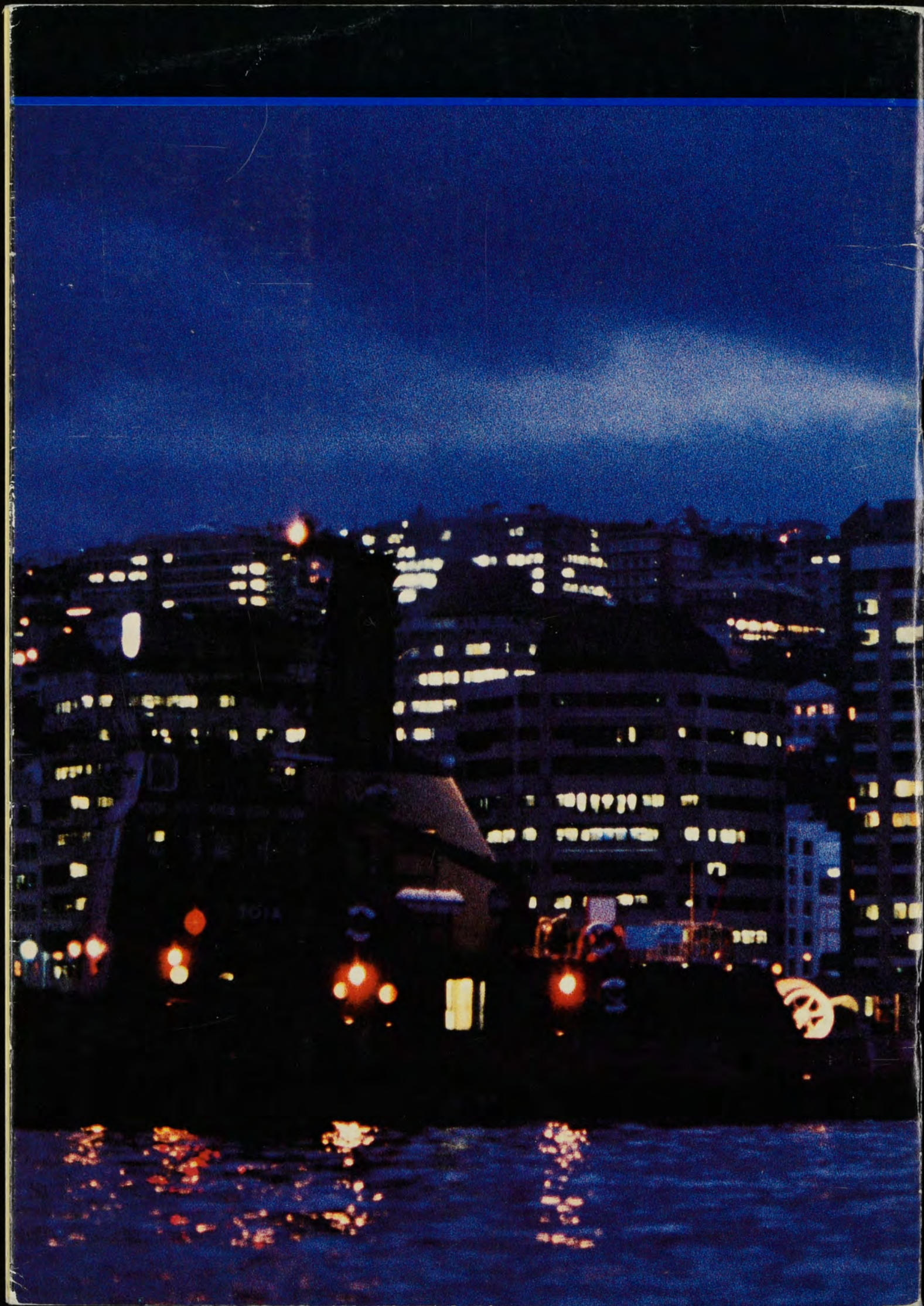
Specialised bank note and security document printing business operating at Whangarei. An associate of the old established United Kingdom company.

#### Hunter BNZ Finance Limited

Australian finance company having its main office in Sydney and branches in Melbourne, Brisbane and Perth.

#### A & B Properties Pty Limited (Sydney)

Owner of BNZ House in Sydney.





Bank of New Zealand  
Group and Associates

1985

## Bank of New Zealand Group

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### Bank of New Zealand

(Established 1861)

Bank of New Zealand's capital is held by the New Zealand Government. The Bank and its Savings Bank and other subsidiaries, with assets in excess of NZ\$8,600M, make up the largest banking group in New Zealand.

Full banking services are offered — the Bank has over 400 offices including over 30 overseas offices in London, New York, Los Angeles, Tokyo, Hong Kong, Singapore, Australia and Fiji.

The Bank is further represented in the Pacific area through its connections with the Bank of Western Samoa and the Bank of Tonga.

The Bank also operates in Auckland a Share Registry department serving many of New Zealand's foremost public companies.

### Bank of New Zealand Savings Bank Limited

This Savings Bank Subsidiary of the Bank has full savings facilities for customers in New Zealand and Australia. Similar facilities are available in Fiji through BNZ Branches.

### BNZ Investments Limited

This wholly owned subsidiary of the Bank, provides specialised financial facilities to corporate borrowers.

### BNZ Investments (Australia) Pty.Ltd

Through this wholly owned subsidiary, the Bank holds a 50% interest in the Sydney (NSW) based finance company, Hunter BNZ Finance Ltd.

### BNZ North America Inc.

This subsidiary of the Bank was formed to participate in the United States Commercial Paper Market.

### BNZ Nominees Limited Warspite Nominees Limited

BNZ Nominees Limited, a subsidiary of the Bank, offers nominee services in New Zealand, including full portfolio management and advisory services.

Another subsidiary, Warspite Nominees Limited, registered in London, offers similar facilities overseas.

### BNZ North End Investment Limited BNZ Properties Limited

Subsidiary companies holding property interests.

### BNZ Finance Limited

BNZ Finance Limited is a listed public company in which Bank of New Zealand now holds 75% of the Issued Capital.

Total assets exceed \$545M and shareholders' funds exceed \$34M.

BNZ Finance offers a wide range of finance facilities and in addition to the loan and lease facilities available directly to customers through its own offices, the Company's hire purchase facilities are provided through branches of Bank of New Zealand which act as agent for the Company for financing motor vehicles, farm machinery and industrial plant and equipment.

BNZ Finance is also a major money market operator in New Zealand.

The Company qualifies for Authorised Trustee Investment status and its current prospectus and debenture rates are available on request at any BNZ Finance office or branch of the Bank of New Zealand.

BNZ Finance has offices in Wellington, Auckland, Hamilton and Christchurch.

*Postal Address:*

P.O. Box 401, Wellington 1.  
New Zealand  
Telex: BNZFIN NZ30072

## Associates of the Bank of New Zealand

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### Bank of Tonga

This Bank commenced operations in July 1974. 40% of its capital is held by the Government of Tonga; the balance is divided equally among Bank of New Zealand, Bank of Hawaii International Inc. and Westpac Banking Corporation.

### Bank of Western Samoa

The Bank of Western Samoa, established in 1959, is jointly owned by the Government of Western Samoa and the Bank of New Zealand.

## Comparative statistics of Trading Banks in New Zealand

*As at 31 March 1985*

	Number of Banking Offices in New Zealand	Deposits in New Zealand*	Loans and Advances in New Zealand*
	<i>Dollars in Millions</i>		
<b>Bank of New Zealand</b>	385	4405	3228
<i>Head Office: Wellington, New Zealand</i>			
<b>ANZ Banking Group (New Zealand) Ltd</b>	217	2414	1949
<i>Head Office: Wellington, New Zealand</i>			
<i>(a 75% owned subsidiary of the Melbourne (Victoria) based Australia &amp; N.Z. Banking Group Ltd.)</i>			
<b>The National Bank of New Zealand Ltd</b>	195	1764	1420
<i>Head Office: Wellington, New Zealand</i>			
<i>(a wholly owned subsidiary of the United Kingdom based Lloyds Bank Plc.)</i>			
<b>Westpac Banking Corporation</b>	220	2255	1770
<i>Head Office: Sydney, Australia</i>			
<i>(in which were merged as from 1.10.82 Bank of New South Wales and The Commercial Bank of Australia Ltd.)</i>			

\* From figures published in New Zealand  
Gazette

As at 27 March, 1985



# Bank of New Zealand

*Head Office:*

P.O. Box 2392, Wellington  
New Zealand

Telex: BANK NZ NZ3344

Cables: BANKZELAND