As you are aware, the Bank has substantial commitments and contingent liabilities against the funds shown under this heading. Under the present exchange-control system the Reserve Bank holds the bulk of the Dominion's overseas funds.

The total of our investments in London has not changed materially during the year, and includes £3,575,000 British Government securities, in which the Bank's Reserve Fund is invested.

New Zealand Government Securities, £11,532,563, a reduction of £2,211,586, accounted for by the Government redemption of stock which fell due during the year.

As mentioned last year, the Government, as a matter of policy, is not permitting the trading banks to subscribe for or take up Government loans.

Australian Government Securities, £1,089,953, show no change during the year.

Fiji Government Securities, £202,100, an increase of £152,100, accounted for by our taking up Fiji Government debentures under an underwriting contract.

Municipal and other Local-body Securities, £1,372,576, a decrease of £94,119, due to repayments.

Under Government policy the trading banks are not taking up local-body loans.

Other Advances and Securities and Debts due to the Bank (after deducting provision for Bad and Doubtful Debts), £30,728,494. *Bills discounted*, £842,490, show a total increase for the year of £6,872,429. This increase in advances over last year was expected and is symptomatic of the return of business to peacetime conditions. Importations of trade goods instead of munitions of war, the change-over of factories from the making of goods for the use of the Armed Forces to the making of goods for civilian use, the restocking of warehouses, factories, and shops, &c., have all meant increased demands for overdraft accommodation. A further cause is the rise of costs and prices. Every rise in wages and every increase in the price of goods causes more pressure on the working capital of business and is frequently reflected in an increase in Bank advances. Delay in completion of jobs, due to shortage of materials, industrial disturbance, or any other cause, has also the same result. Shipping delays, both in New Zealand and overseas, also increase the pressure. Owing to these shipping delays, overseas manufacturers and exporters frequently require a cash payment as soon as goods are ready for shipment, as against the ordinary method of payment against shipping documents. This means that the New Zealand importer has to stand out of his money much longer, with resultant pressure on his bank account. The fact that business can readily avail itself of bank credit to meet conditions which often arise quite unexpectedly enables the economy of the country to be carried on much more smoothly than would otherwise be the case, and it is very desirable that the banking system should be maintained in a strong and flexible condition so that it can shoulder any demands without undue strain. Fortunately, this is the position to-day, and the Bank of New Zealand is in a particularly favourable position to meet all requirements.

The Reserve Bank of New Zealand has laid down certain principles governing the advance policy of all the banks in New Zealand with the object of restricting the use of Bank credit for purposes which would more suitably be financed by either share capital or by borrowing outside the banking system. In past years a good deal of the capital required for development of both primary and secondary industry was provided by the banks, and this assisted the economy of the country enormously at a period when the country's early growth was hampered by the lack of capital. At present, with the increase of the money supply resulting from the necessities of war finance, there is ample capital seeking investment, as evidenced by the over-subscription of all recent share issues.