Attachments Listing: Sydney Morning Herald Media Coverage

35. 05/08/1988: SBS BOARD PLUMPS FOR MERGER WITH THE DRAGON
36. 15/08/1988: STATE BANK TREASURER SLAMS SOCIETY OVER 'RISKS'
37. 19/08/1988: WA RURAL BANK BIDS FOR STATE SOCIETY
38. 21/08/1988: VOTE ON DRAGON'S BID FOR SOCIETY TO BE CLOSE
39. 22/08/1988: SOCIETIES' MERGER GREETED WITH JEERS
40. 23/08/1988: BOYISH BANKER RUBS HANDS WITH GLEE
41. 13/09/1988: STATE BANK REPORTS RECORD $73.3M PROFIT
42. 28/09/1988: DRAGON ROLLS OUT THE CARPET
43. 10/10/1988: GOVT SOON TO DECIDE STATE BANK'S FUTURE
44. 18/10/1988: STRONG SUPPORT FOR ST GEORGE ISSUE
45. 02/11/1988: ST GEORGE TO CLOSE 16 COUNTRY BRANCHES
46. 29/11/1988: WILL THE HAPPY DRAGON SLAY THE INVESTORS?
47. 23/12/1988: ST GEORGE HALF-YEAR NET UP 25PC TO $15M
48. 19/07/1989: ST GEORGE LIFTS TAKE 43PC TO $36M AFTER STATE BUY
49. 11/03/1990: CARR'S QUESTIONS
50. 17/03/1990: GREINER QUERIED ON BANK BAD DEBTS
51. 27/08/1990: A TENDER MOMENT FOR THE HARDENED CYNICS
52. 01/09/1990: LENDING ORGY 'SUPERVISED'
53. 21/04/1991: THE LESSONS TO BE LEARNT FROM THE FAILURE OF A GREAT BANK
54. 04/03/1995: O'Neill: 'It's time to move on'
55. Copies of actual SMH Newspapers clippings:

Attachment 15: Copies of all Sydney Morning Herald extract stories covering the period.

The Sydney Morning Herald

STATE BANK SCORES A $33M VICTORY

Author: By IAN CASSIE, Banking Writer
Date: 12/12/1986
Words: 369

Publication: Sydney Morning Herald
Section: Business
Page: 21

The State Bank of NSW scored its second major victory in the battle against the Commonwealth Bank, when it was awarded $33 million in the Federal Court yesterday.

The award, by Justice Lockhart of the Federal Court, comes on top of $17 million awarded since July. And the State Bank's run of victories could continue next week, when more judgments on related claims are expected. The case revolves around an agreement struck in December 1931 between the Commonwealth Savings Bank (CSB), the State of NSW and the Government Savings Bank of NSW, the State Bank's predecessor.

Under the terms of the agreement, the whole of the business and assets of the savings bank operations of the Government Savings Bank were handed over to the CSB. In return, the CSB agreed to pay the Government Savings Bank half the profits from its savings bank business in NSW.

However, the CSB rescinded the agreement in 1982, on the grounds that the State Bank or the State Government had broken a clause which stipulated no savings bank would be established or run by the NSW Government.

The Commonwealth argued that the establishment of flexible savings accounts by the State Bank or the operations of the State Building Society broke the agreement.

In July, Justice Lockhart awarded the State Bank $13.8 million relating to 1981-82. In October, $3.2 million was added to this sum as compensation for the delay in the judgment caused by the Commonwealth amending its pleadings.

Yesterday's judgment followed on from the July case, with the $33 million awarded as compensation for 1984-85 profits.

Judgment is expected next week on interest due on these profits, as well as$25.4 million compensation - plus interest - from 1985-86 profits. Cases related to the remaining two years (1982-83 and 1983-84) are expected to come up for judgment in February.

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The Sydney Morning Herald

C'WEALTH BANK TO PAY $33M TO STATE

Author: By IAN CASSIE, Banking Writer
Date: 20/12/1986
Words: 284

Publication: Sydney Morning Herald
Section: Business
Page: 19

The Commonwealth Bank has been ordered to pay a further $33 million to the State Bank of NSW - for breaching an agreement in 1982 - taking its compensation payout to $83 million.

The award by Justice Lockhart of the Federal Court - the fourth since July- provides $26 million compensation and interest for 1985-86, as well as $7 million interest on compensation awarded for the previous year.

Further judgments (covering 1982-83 and 1983-84) are expected early in February.

The case revolves around an agreement struck in December 1931 between the Commonwealth Savings Bank (CSB), the State of NSW and the Government Savings Bank of NSW, the State Bank's predecessor.

Under the terms of the agreement, the whole of the business and assets of the savings bank operations of the Government Savings Bank were handed over to the CSB. In return, the CSB agreed to pay the Government Savings Bank half the profits from its savings bank business in NSW.

However, the CSB rescinded the agreement in 1982, on the grounds that the State Bank or the State Government had broken a clause which stipulated that no savings bank would be established or run by the NSW Government.

The Commonwealth argued that the establishment of flexible savings accounts by the State Bank or the operations of the State Building Society broke the agreement.

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The Sydney Morning Herald

A BIG WIN, SMALL LOSS FOR THE STATE BANK

Author: By IAN CASSIE
Date: 24/01/1987
Words: 253

Publication: Sydney Morning Herald
Section: Business
Page: 31

The State Bank of NSW has been awarded a further $46.2 million in its long-running court battle with the Commonwealth Savings Bank but - for once -didn't get everything its own way.

Yesterday's award by Justice Lockhart of the Federal Court provides compensation for 1982-83 and 1983-84 and follows four awards for other years. The State Bank's total compensation now stands at $126 million over the past six months.

However, Justice Lockhart did not award another $10 million in interest sought by the State Bank, a move which State Bank managing director Mr Nick Whitlam said would prompt an appeal to the full bench of the Federal Court.

The case revolves around an agreement struck in December 1931 between the Commonwealth Savings Bank (CSB), the State of NSW and the Government Savings Bank of NSW, the State Bank's predecessor.

Under the terms of the agreement, the whole of the business and assets of the savings bank operations of the Government Savings Bank were handed over to the CSB in return for a half share in the future profits of the CSB's NSW operations.

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The Sydney Morning Herald

REGULAR SHORTS

Author: edited by Mark Westfield
Date: 29/07/1987
Words: 1380

Publication: Sydney Morning Herald
Section: Business
Page: 27

A FEW CHANGES IN THE WIND

THE NSW State Treasury is contemplating a number of major changes at its State Bank and the State Building Society, which could well transform one or both of the institutions.

One line of thought is to sell the building society. But a more likely course is to allow the bank to extend its control completely over the society to become a trading and savings bank.

Certainly, the building society will be a quite different animal after its next annual general meeting on August 7.

The change could well be decided by the outcome of the tussle for control of the society's board, with the bank vying to maintain its dominance.

At present the bank has four directors on the nine-member society board, including the chairman Ken Dennewald with the casting vote.

One of the independent members, Aubrey Knowles, a former State Bank man who usually votes with the bank's four directors, faces re-election.

By all accounts there's a fair amount of arm twisting behind the scenes to ensure Knowles' re-election, which could well result in the bank gobbling up the society.

No doubt this development, if it eventuates, will cause considerable pain at the Commonwealth Bank which has had to fork out more than $90 million after failing to prove that the building society was in effect a savings bank arm of the State Bank.

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The Sydney Morning Herald

STATE BANK PLANS MERGER

Author: By PAUL CLEARY
Date: 30/07/1987
Words: 745

Publication: Sydney Morning Herald
Section: Business
Page: 21

The NSW Government will merge the State Bank of NSW with the State Building Society to form a savings and trading bank with assets totalling $12 billion -when a long-running court battle involving the society is decided.

The plans were revealed to The Sydney Morning Herald yesterday by a spokesman for the State Treasurer, Mr Booth.

The spokesman said that once the court case was resolved, the Government would allow its bank to take on a savings bank.

He said that while there were several ways for the State Bank to gain a savings bank operation, absorbing the State Building Society was the favoured option.

The spokesman said the merger would mean less competition between the society and the bank.

"If the bank swallowed the society it would remove certain areas ... where the society is in competition with bank," he said.

This supports speculation that the State Bank's influence over the building society's board has stopped the society offering services that compete with the bank.

The situation is expected to come to a head at a board meeting of the society next Friday, when two seats are to be contested.

The society's nine-man board includes four representatives of the State Bank, which owns all the fixed capital of the society. The other five directors, including general manager Mr Denis Cleary, represent the society's shareholders.

Under an agreement reached in 1982 between the State Bank and the building society, the society gave the bank the four board seats in return for an agency arrangement with the bank.

In the absence of Mr Cleary, the bank representatives have the casting vote and control.

At the election next Friday, two directors, Mr Aubrey Knowles and Mr John Cribb, representing the shareholders, are offering themselves for re-election, which would maintain the status quo. Mr Knowles was a long-serving employee of the State Bank. A third candidate is Mr Bruce Treloar, a past director and chairman of the society.

The spokesman for the Treasurer said the election was crucial because the bank needed to maintain its control of the board for the State Government to fulfil its merger plans.

The merger plans would need approval from the society's shareholders at a general meeting of members. The move in 1982, when the society changed its name from the RSL-Premier Building Society to the State and the State Bank gained its board seats, was approved by 100 society members out of 270,000.

The court case between the State Bank and the Commonwealth Bank, although unrelated to the merger, hinges on the State's alleged control of the building society. Once the case is settled, the merger plans can move ahead.

Mr Cleary, a major figure at the society in his three-year tenure as general manager, was unavailable for comment last night.

The company secretary of the State Bank, Mr Richard Turner, said he could not comment on the prospect of a merger while the court case was under way.

The case is centred on the State Bank's alleged control of the building society, and an agreement between the banks that the State Bank would not have a savings bank operation in NSW.

The agreement was reached in 1931 following the merger of the then Government Savings Bank of NSW and the Commonwealth Savings Bank.

Under the agreement, the Commonwealth Savings Bank had to pay half its profits to the NSW Government's trading bank, now the State Bank of NSW.

However, since the State Bank gained its board seats at the State Building Society in 1982, the Commonwealth Bank argues that the State has violated the agreement and thus no further such payments need be made.

While the court case is still under way, and is based on the issue of the State Bank having a retail operation in the form of the building society, neither of the banks will end the agreement and allow the State Bank to take on a savings bank role.

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The Sydney Morning Herald

GIO THREATENS STATE BANK MERGER BOYCOTT

Author: By PAUL CLEARY
Date: 31/07/1987
Words: 709

Publication: Sydney Morning Herald
Section: Business
Page: 37

The NSW Government Insurance Office's managing director, Mr Bill Jocelyn, has threatened to withdraw business from the State Bank of NSW should it merge with the State Building Society.

Mr Jocelyn's comments follow the revelation that the NSW Government is considering a merger between the bank and the building society, to allow the bank to assume savings bank operations.

Mr Jocelyn said: "We are probably the State Bank's biggest customer. I have to consider now whether or not to break that relationship if they are going to move on the State Building Society."

After The Sydney Morning Herald's exclusive story yesterday, the State Bank issued a statement which, while purporting to deny the report, confirmed that a merger was an option. The statement says that "if and when" the amalgamation agreement with the Commonwealth Bank is terminated, "the Bank will need to assess its relationship with the Society".

"At the time all parties will be consulted on the appropriate future for the Society, and the bank's role in that future, if any." The statement is worded in a way that suggests the society has little control over its own destiny.

Late last night, a statement also was expected from the State Building Society, but its release was cancelled. The society's general manager, Mr Denis Cleary, was unavailable for comment yesterday. Under the amalgamation agreement, the State Bank is prevented from entering into retail banking.

A court case is continuing between the State Bank and the Commonwealth Bank over the State Bank's involvement with the building society. The case has stalled any move by the State Bank to take on savings bank operations.

The State Bank's statement said: "It is premature for only one option, ie, merger, to be publicly canvassed at this time." It claimed that the election for State Building Society directors next Friday "has no bearing on these matters and will not affect the relationship between the Bank and the Society".

The extent of the State Bank's influence over the society's board is unclear, although Friday's election for two board seats previously held by society representatives has focused attention on the issue. The State Bank has four seats on the nine-man board, and controls the board if only one of the society's representatives votes with the State Bank. If one of the society's directors is also an employee of the society, however, the ninth board member, society general manager Mr Cleary, does not sit. When the board is equally divided, the State Bank has the casting vote.

Although a merger would have to be passed by the building society's shareholders, Mr Jocelyn said this could prove to be no barrier to the bank.

"The danger here is shareholders often don't exercise their vote and they can be elbowed," he said.

When the State Bank gained its board seats in 1982, the motion was approved by a mere 100 members, although at the time the society had 270,000 members.

Commenting on the State Bank's involvement on the society's board, Mr Jocelyn said: "I thought the building society would be allowed to be independent." Now, I'm just wondering what our situation is relative to them," he said.

"The State Bank has a big interest, but I thought they'd take a neutral position. I didn't think they'd try and take it over."

The spokesman for the NSW Treasurer, Mr Booth, who revealed the merger option to the Herald, did not deny his statement.

These were: that the merger was a favoured option for the State Government; that a merger had advantages because areas where both institutions compete could be joined together; that once the Commonwealth court case was resolved, the State Government would allow the State Bank to assume a savings bank function.

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The Sydney Morning Herald

MORTGAGE RATES CONTINUE DOWNWARD SLIDE

Author: By PETER FREEMAN
Date: 11/08/1987
Words: 1021
Publication: Sydney Morning Herald
Section: Money
Page: 59

THE State Building Society has given extra momentum to the downward trend in home loan rates by cutting its rate on new mortgages from 15.5 per cent to 14.75 per cent - 0.2 of a percentage point below the best rate being offered by its main bank and building society rivals.

Just why the State Building Society has decided to make a larger cut than its rivals is not clear, although some speculation suggests that it is part of a strategy to boost the society's profile in an attempt to ward off possible efforts by the State Bank to fully absorb the society into the bank.

From the point of view of new home loan borrowers, the key fact is not so much the reasons for the cut but the fact the society has set aside $150 million, or $7.5 million a week, for home lending between now and the end of the year.

People with existing State Building Society mortgages have been less fortunate, since their loan rates will be cut to only 15 per cent, the same as most other major home loan lenders.

Announcing the rate reductions the society's general manager, Denis Cleary, said the small drop in the rate on existing loans reflected the society's continuing portfolio of high cost funds obtained in the recent, very high interest rate environment.

"As our deposit growth is moving strongly, and in view of the very high demand for housing, we believe it is appropriate to give priority assistance particularly to those who are looking to take their first step into home ownership."

The rate cuts by the State Building Society contrast sharply to the approach being taken by the National Australia Bank which, while having announced a cut in its mortgage rate to 15 per cent, is continuing to charge up to 17 per cent for new home loans.

What's more, it is imposing tough conditions on potential home buyers, with reports of some credit-worthy borrowers being turned away because they did not have enough for a deposit equal to at least 20 per cent of the purchase price. One potential customer was even sent by a sympathetic National branch manager to a rival financial institution where he knew a better deal was available.

A spokesman for the National has been quoted as saying that customers who either have not supported the bank, who have low deposits or who intend to borrow above the bank's average loan level would be charged up to 17 per cent

The explanation for this policy appears to centre on the fact that the bank made a major push to lift its share of the home loan market when mortgages were regulated at 13.5 per cent. As a result it has been caught with a large proportion of regulated, and essentially unprofitable, home loans.

The message for potential home buyers is fairly simple: if you are a customer of the National and it tries to charge you more than 15 per cent, don't accept the deal. Go elsewhere.

Similarly, the ANZ Bank is making its new home loans at 15.25 per cent. Once again it is clearly sensible to shop around, especially since Westpac claims to be making all its home loans of less than $100,000 at 15 per cent.

While the Commonwealth Bank is also adopting the same policy it tends to be less flexible about whom it lends to, generally demanding some sort of record of banking with the Commonwealth. Westpac is not imposing this condition.

It bears repeating that the best deal at present is the 14.75 per cent rate which is being offered by the State Building Society.

As for the overall outlook for interest rates, this was given a boost yesterday with the release of consumer price index figures showing that inflation in the June quarter was 1.5 per cent, giving a total for the year of 9.3 per cent.

The June quarter result was at the bottom of the expected range, with some economists having expected a figure of around 1.8 to 1.9 per cent.

At 1.5 per cent the June quarter result was significantly below the December quarter inflation figure of 2.9 per cent. The March quarter rate was 2 per cent.

While some observers remain nervous about the longer term outlook for inflation, yesterday's result lent weight to the view that rates should be able to maintain their downward trend, at least for the rest of the year.

This view was put recently by the stockbroker Bain and Company in its Fixed Interest Report for August, where it argued that the trend for rates for the rest of 1987 should be down.

Bain says that this will result in the 10-year bond rate falling to 12 per cent or lower while 90-day bills should drop to around 11.5 per cent. At present they are around 13 per cent and 12.8 per cent respectively.

"It is important to recognise that economic conditions in Australia now are clearly more favourable than at this same point in 1986," the report says.

"There is now growing acceptance that Australia should not experience another dramatic fall in its terms of trade this financial year."

If this view turns out to be correct then pressure will be taken off Australia's balance of payments and, as a result, off both the Australian dollar and interest rates as well.

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The Sydney Morning Herald

STATE BUILDING SOCIETY SET TO EXPAND INDEPENDENT OF BANK

Author: By PAUL CLEARY
Date: 24/08/1987
Words: 672
Publication: Sydney Morning Herald
Section: Business
Page: 27

The State Building Society appears set to expand rapidly as an independent entity after the failed campaign by the State Bank of NSW to have both its candidates re-elected to the society's board.

The NSW Government had earlier revealed its plans to merge the society with the State Bank of NSW, and had indicated that the election was crucial should these plans be put into effect.

Elected to the board and replacing Mr Aubrey Knowles is Mr Bruce Treloar, a former employee of the building society. Mr Knowles was a former employee of the State Bank and had been supported by the bank in letters sent to society members.

According to the NSW Government, the State Bank needed to maintain the status quo in order to carry out intentions to make the building society the savings bank arm of the State Bank. The State Bank still has four members on the nine-man board, but it had backed two candidates who were running as representatives of the society's shareholders.

While the society appears to be no longer under the shadow of the State Bank, any plan for rapid expansion will need to have a capital raising similar to that recently announced by the St George Building Society.

The St George Building Society recently issued $100 million in share capital, reducing its gearing ratio from 27 to 15.

Highlighted in the State Building Society's annual report, released yesterday, is the fact that the society has a gearing ratio of 29 times its capital a base.

This compares with a gearing ratio for most banks of no more than 15.25.

The State Building Society's general manager, Mr Denis Cleary, would not comment on an issue of capital. He said, however, that the society's gearing was a "little fine".

The State Bank's apparent influence on the society appears to have proved to be financially rewarding. The State Building Society's profit for the year to May 31 increased only 4 per cent to $1.639 million, while its total assets grew by 12 per cent.

The State Building Society, however, has share capital that was acquired by the State Bank in exchange for an agency agreement. The share capital is worth only $3.040 million, but the society paid $2 million in dividends. In the previous financial year, the building society paid only $914,000 in dividends

Mr Cleary would not comment on the large payment to the State Bank. Transferring these dividends to the society's reserves would help to lower the gearing ratio.

The State Bank had sent letters to society members supporting the two candidates. When the bank replied to the revelation that the State Government had plans to merge the two institutions via the bank's influence on the boards, the bank did not deny that the society's future was in its hands.

"At the time all parties will be consulted on the appropriate future of the society and the bank's role in that future, if any."

According to the NSW Government and the State Bank's desire to maintain the society's existing board structure, the previous line-up was in-keeping with any plans to merge the society.

And while a merger would depend on the shareholders, it also would require approval from the bank's board.

When building society's have merged, these plans have been put to members by the board.

When the State Bank gained its four board seats, this was passed by a mere 100 shareholders out of the society's then 270,000 shareholders.

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The Sydney Morning Herald

BAD DEBTS, RURAL WOE HIT STATE BANK

Author: By PAUL CLEARY
Date: 21/09/1987
Words: 612
Publication: Sydney Morning Herald
Section: Business
Page: 27

The State Bank of NSW's core operations took a battering from a rise in bad debts and a slump in the rural sector in the latest financial year, but the bank has been saved from posting a slump in net earnings.

A higher dividend from the State Building Society and one-off interest payments from the Commonwealth Banking Corporation helped the wholly owned State Government bank earn $52.216 million in 1986-87, a rise of 1.1 per cent on the previous year.

The bank's managing director Mr John O'Neill attributed the flat result to "tough economic conditions", accompanied by increased competition in the banking industry and a slump in the rural sector.

He foreshadowed an improved performance in the current financial year as lower interest rates improved the bank's margins.

High interest rates and the recession resulted in a steep rise in the level of bad debts, predominantly from the rural sector where the State Bank had more exposure than other banks.

The increase in the charge for bad debts would not be revealed until the bank's annual report was released in late October, but Mr O'Neill said it was "in line with industry practice".

The harsh conditions partially were alleviated by a one-off interest payment from the Commonwealth Bank and a lift in State Building Society dividend to $2 million from $914,000 last year.

Under a 1931 agreement the Commonwealth Bank was obliged to contribute half its savings bank profits to the State Bank in exchange for an agreement that the State Bank would not operate a retail operation.

But the Commonwealth refused to make the payments four years ago, saying that the State Bank had broken the agreement through the operation of the State Building Society, and the matter now is being fought through the courts

The one-off payment is accumulated interest from the capital payments the Commonwealth Bank has refused to pay during the past four years.

The State Government has attempted to strengthen the bank's capital base by allowing it to retain a greater proportion of its profit.

The bank's company secretary, Mr Richard Turner, said last night that in past years the State Government had scooped 73 per cent of the bank's earnings through paying half its profit in taxes, and half of the remainder in a fixed dividend.

Mr Turner said that this year's result was the first time the dividend had been negotiated, which has lowered its payment to $34 million or 65 per cent.

"When the negotiated dividend was introduced in January, the minister said it was to lower the take from the bank in order to allow the bank to build more capital," Mr Turner said.

Although the bank expected to lift its earnings this year, Mr Turner said the rural sector still was affected by high interest payments and low commodity prices.

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The Sydney Morning Herald

REGULAR SHORTS

Author: Edited by Glenn Burge
Date: 21/09/1987
Words: 1379

Publication: Sydney Morning Herald
Section: Business
Page: 29

ANOTHER LEAVES THE STATE PACK

THE exodus from the State Bank of NSW's treasury division has continued with the departure of David Hulme, who will leave his post soon as general manager of the treasury operations after less than 12 months in the job.

Hulme's replacement, announced yesterday, is the highly respected Phil Gray, who will take up a newly created post as group treasurer.

CBD had heard a few rumours recently that Hulme had decided to leave, with speculation that headhunters were seeking a suitably qualified candidate. Phil's credentials apparently were considered perfect for the position.

Before his appointment, Phil was an executive director and treasurer of the Australian Bank, so CBD assumes the State Bank opened its cheque book sufficiently to entice him away to join top teller John O'Neil.

In his well-rounded career, the 35-year-old Phil before the Australian Bank had a stint in treasury at the Commonwealth Bank, where he attained the post of Australian manager, money markets and futures operations.

The former top teller at the State Bank and son of a famous dad, Nick Whitlam would be no doubt disappointed with Hulme's decision.

Nick hand picked Hulme from the Wheat Board for the job of assistant general-manager of treasury under Vic Danko last October, after an exhaustive search.

The publicity-shy Whitlam indicated at the time of the appointment, however, that Hulme would take over as general-manager sometime in 1987, although his elevation came a bit earlier than expected, when Vic quit in December.

Given the spate of departures from the treasury operations in the past 12 months, with about 20 staff leaving due to the bank's bureaucracy and low morale, O'Neil will be delighted for Phil to restore some stability in the operation.

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The Sydney Morning Herald

GRAY DEPARTURE BLOW FOR AUSTRALIAN BANK

Author: By PATRICIA HOWARD in Melbourne
Date: 08/10/1987
Words: 282
Publication: Sydney Morning Herald
Section: Business
Page: 22

Australian Bank's prospects have suffered another major blow with the defection of Mr Phil Gray, former head of treasury, to join the State Bank of NSW from Monday.

Although the Australian Bank has been plagued by staff resignations during the past two years, the departure of Mr Gray may be the straw that breaks the camel's back.

While heading the group's treasury operations, Mr Gray devised the group's unique "transferable investment certificates", issues of which totalled more than $4 billion last financial year.

Although the bank staged a major turnaround to change a previous loss of$5.49 million to a profit of $1.72 million for the financial year just ended, the result was boosted heavily by the treasury operation's performance.

The bank has undergone a program of severe rationalisation, resulting in the sale of large chunks of its operations, including its retail branch network in Perth, Melbourne and Brisbane.

Without Mr Gray at the helm of its treasury division, Australian Bank will be severely challenged to repeat last year's result. Not that Mr Gray will have it easy as the head of the State Bank of NSW's treasury division.

The State Bank of NSW is reportedly quite concerned about the inroads being made by its southern cousin, the State Bank Victoria, into what it considers its own backyard.

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The Sydney Morning Herald

STATE, COMMONWEALTH BANKS SETTLE OLD FEUD

Author: By PAUL CLEARY
Date: 16/10/1987
Words: 463
Publication: Sydney Morning Herald
Section: Business
Page: 40

The State Bank of NSW moved a step closer to its goal of operating as a savings bank yesterday when it was revealed that the bank and the Commonwealth Banking Corporation will negotiate a settlement on their prolonged court battle.

The court battle has been running since 1981. Its settlement will allow the two banks to terminate a 1931 agreement that prevented the State Bank from operating a savings bank. In return, the State Bank received half the Commonwealth Bank's NSW savings bank profit.

The State Bank's managing director Mr John O'Neill said yesterday the Federal Government and the NSW Government had recommended that discussions begin on "negotiating a settlement". He said the discussions would include representatives from both banks and both governments.

Mr O'Neill said the State Bank had recovered most of the profit payments which the Commonwealth Bank had refused to make. He said the State Bank had been paid $129 million, although some interest payments and damages were still owing.

Mr O'Neill said that once the dispute over payments was settled through the negotiations, both parties would move to end the profit-sharing agreement. "We both want it (the agreement) terminated. The State Bank sees that would be the most suitable agreement. The question is the amount (to be paid in a settlement). The Commonwealth Bank say they want it settled for nothing," he said. The Commonwealth Bank would not comment.

It is understood that the legal fees have cost each party $2 million.

The court battle was centred on the State Bank's alleged control of the State Building Society. The State Bank owns all the society's fixed capital shares, and has four directors on its nine-man board.

It is understood the State Bank would like to merge with the building society once the 1931 agreement is terminated, using the society as the basis of a savings bank. The State Bank has indicated a merger is an option, but this would need the approval of society members and the board.

Mr O'Neill said the immediate consideration after the agreement was terminated would be to expand its existing retail banking operation. He said the agreement prevented the State Bank from competing for funds because it could not offer higher deposit rates than the Commonwealth Bank.

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The Sydney Morning Herald

SIX-YEAR BATTLE OF TWO BANKS IS SETTLED

Author: By IAN VERRENDER
Date: 23/12/1987
Words: 544
Publication: Sydney Morning Herald
Section: Business
Page: 20

The Commonwealth Bank of Australia and the State Bank of NSW have terminated a 1931 agreement that prohibited the State Bank from operating as a savings bank.

The agreement had been the root of a six-year legal battle between the two organisations.

After several months of intense wrangling between the two banks and State and Commonwealth Government representatives, the two parties have agreed to an out-of-court settlement.

Although both parties yesterday refused to reveal the terms of the settlement, insiders believe the Commonwealth has made a sizable payment to the State Bank, which in May demanded a $200 million payment. The Commonwealth wanted the dispute settled for nothing.

The new arrangement will have significant benefits to both banks, as it will allow the State Bank to expand its retail operations and will remove legal obligations on the Commonwealth to pay half its NSW savings bank profits to the State Bank.

In a two-sentence statement yesterday, Commonwealth managing director Mr Don Sanders and State Bank managing-director Mr John O'Neill said all litigation between the parties over the 1931 agreement to amalgamate savings banks had been settled.

"We are pleased that this dispute has been resolved satisfactorily," they said.

The State Bank had the upper hand in the long and complex legal dispute, and earlier this year received awards totalling $129.6 million in interest and compensation for payments not received between the years 1981-82 and 1985-86.

The dispute in the Federal Court of Australia, the Supreme Court of NSW and the High Court of Australia are estimated to have cost both parties about $2 million in legal fees.

The feud erupted in 1981 when the Commonwealth Bank refused to honour the 1931 profit-sharing agreement because, it argued, the State Bank had been operating as a savings bank after it acquired the State Building Society.

With the agreement set aside, the State Bank is expected to expand its retail network of 270 branches, and may merge the State Building Society operations into its own network; a move that would require the approval of building society members and the board.

The State Bank was shackled by the 1931 agreement, instituted at the height of the Great Depression, because it was prevented from full access to a wide deposit base.

Trading banks are not allowed to offer low deposit rate savings bank facilities, which effectively eliminates them from the retail lending market.

The State Bank earned $52.2 million in the recent financial year, only a 1.1 per cent rise from the previous corresponding period, as a rise in bad debts and the rural crisis affected earnings.

The Commonwealth Bank posted a 32 per cent slump in net profit to $197.2 million in the June year, as increased competition, higher tax rates and a sharp rise in bad debt provisions hit earnings.

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The Sydney Morning Herald

STATE BUILDING SOCIETY IN CAPITAL CHASE

Author: By PAUL CLEARY
Date: 13/01/1988
Words: 630
Publication: Sydney Morning Herald
Section: Business
Page: 29

The State Building Society Ltd is expected to raise additional capital this year because its burgeoning balance sheet has increased commitments to a dangerous level in terms of prudential standards.

The society's general manager, Mr Denis Cleary, admits there is a gearing problem, and says the board of directors is considering several options.

But one option, an issue of shares to society members similar to St George Building Society's share issue last year, would be difficult given the bear market for new share issues after the stockmarket crash.

The building society's gearing problem stems from a 50 per cent growth in assets during its current financial year.

The society recently reported that assets had grown by $270 in the six months to November, an increase of 50 per cent yearly. Should this growth continue during the current six months, the society's assets will be 43 times capital. This compares with a conservative 15.25 ratio for new banks and 16.6 for established banks.

For example, to reduce the society's gearing to that required of new banks, the State Building Society would need an additional $70 million in capital.

"We are looking to the future, and we know we are highly geared. With our record growth, we are low on capital," Mr Cleary said.

"The board has a few options that they're looking into."

The State Building Society had $1.139 billion in assets at the end of May 1987, and this was supported by $39 million in capital, giving a gearing of 29.

But its growth in the six months to November 1987 will boost assets to$1.68 billion, severely overextending its gearing to 43.

Mr Cleary would not give details of the options available to the State Building Society.

But its options must include an issue of share capital to society members, or a public issue of share capital.

A raising of share capital, however, would need to be passed by a meeting of shareholders and the Registrar of Co-operative Societies.

The State Bank of NSW owns all of the society's fixed share capital, and it is possible that this could be sold or revalued at a higher price, but this would only partly resolve the society's capital problem.

When St George alleviated its gearing problem last year by raising share capital from its account holders, it acted when its gearing problem was much less severe that the State Building Society's.

St George had a gearing of 27 times capital, but reduced this to 19 after raising $51 million from its members. It had planned to raise $150 million in share capital, which would have reduced its gearing to a very conservative 13

The State Building Society's future, however, remains muddied by the State Bank's ownership of its fixed share capital.

The State Bank had wanted to merge the society into its savings bank arm, but these plans were thwarted last year when one of its candidates supported in the society's board election was defeated by an independent.

Further, it has been disclosed that the Premier, Mr Unsworth, said last year that he wanted both organisations to remain separate.

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The Sydney Morning Herald

NO 'SELL' LIST SAYS GREINER, BUT YOU CAN ASK

Author: By TRACEY AUBIN
Date: 04/05/1988
Words: 289
Publication: Sydney Morning Herald
Section: News and Features
Page: 2

The State Government would examine selling any of its assets if their sale were in the public interest, the Premier said yesterday, but he denied having a privatisation hit-list.

Mr Greiner's comments come amid criticism of his plans to sell the State Bank of NSW, or merge it with the State Building Society.

He said yesterday that both the State Bank and the State Building Society management had a positive interest in the possibility of being privately owned.

The managing director of the State Bank, Mr John O'Neill, said last night the proposed privatisation of the bank would make it far more competitive.

"We are encouraged by the comments made by the Premier (on Tuesday night)because they indicate that much more positive conditions should exist in the near future for the pursuit of the bank's growth plans," he said.

Mr Greiner pledged yesterday not to sell the State Bank to a foreign bank, and said he would protect the rights of the employees by ensuring they had an opportunity of buying shares.

Yesterday, the Opposition claimed the bank's sale would put at risk $1 billion in concessional loans to country people.

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The Sydney Morning Herald

STATE BANK, BUILDING SOCIETY MERGE

Date: 05/05/1988
Words: 248
Publication: Sydney Morning Herald
Section: News and Features
Page: 1

The State Bank of NSW is planning a $13.3 billion merger with the State Building Society.

The move follows a boardroom coup by the bank's managing director, Mr John O'Neill, which sparked the resignation of Mr Denis Cleary, the society's general manager and board member.

The merged group would have a home lending book of $1.4 billion and a network of some 380 branches.

The move apparently is intended to head off speculation, fuelled by NSW Premier, Mr Greiner's comments earlier in the week, that the Bank and/or the building society would be sold off by the State Government.

Mr O'Neill said it was decided to go ahead with the merger after an independent report commissioned by the society indicated: "the society cannot maintain its growth and efficiency without merging with the State Bank or with another large financial organisation."

Talks to bring an agreement between the bank and society would start "immediately", and it was hoped the merger would be effected within six months.

PAGE 25: Full report.

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The Sydney Morning Herald

STATE'S COUP SETS SCENE FOR UNION

Author: By CATHERINE ARMITAGE
Date: 05/05/1988
Words: 703
Publication: Sydney Morning Herald
Section: Business
Page: 25

The State Bank of NSW is planning a $13.3 billion merger with the State Building Society.

The move follows a sensational boardroom coup by the bank's managing director, Mr John O'Neill, which precipitated the resignation of Mr Denis Cleary, the society's general manager and board member.

The merged group would have a home-lending book of $1.4 billion and a network of some 380 branches.

The move apparently is intended to head off speculation, fueled by NSW Premier Mr Greiner's comments earlier in the week, that the bank and/or building society would be sold off by the NSW Government.

In a press conference called late yesterday afternoon, Mr O'Neill said the merger was decided on after an independent report commissioned by the society earlier this year. It indicated that "the society cannot maintain its growth and efficiency without merging with the State Bank or with another large financial organisation".

He said the bank's existing infrastructural links with the society would result in lower absorption costs, while the fact that their businesses were complementary, their marketing images similar, and they knew each other well, offered advantages over other alternatives.

Talks over an agreement between the bank and society would start "immediately", and it was hoped the merger would be effected within six months.

The bank had already "taken control" of the society, said Mr O'Neill, having yesterday appointed Mr Tony Howarth, 36, former assistant general manager of the bank's corporate and financial institutions division, in place of Mr Cleary.

Nevertheless, the merger is far from a foregone conclusion, since it requires approval from a full meeting of the society's 270,000 shareholders.

Also, an alternative bid for the bank or building society cannot be ruled out, and the ANZ bank, and other banks are indicating they are hungry for a branch network such as the bank or building society could provide.

Mr O'Neill said a price had not been discussed. He said the merger could be achieved "through various means", and said one of the options to be examined was an amalgamation between the two parties through legislative means such as was recently used to create the Tasmania Bank. "If we did it that way no dollars would actually change hands," he said.

The bank's long-range plan of merging with the society first came to light last year with a public fight for the society's board. The merger was previously precluded by an the amalgamation agreement with the Commonwealth Bank which prevented the State Bank from entering the retail market.

This agreement was challenged successfully in a long-running court case resolved late last year.

The bank's numbers problem on the society's board was solved yesterday with the resignation of both Mr Cleary and the society's former chairman, Mr Ken Dennewald, replaced by Mr O'Neill.

This left four representatives from each institution on the board, but Mr O'Neill has the casting vote.

On the privatisation issue, Mr O'Neill said: "I think that it (the merger) would strengthen the case against in any way diluting the income stream, tax stream and dividend stream that the Government receives from the bank ... I'm sure that as we develop a savings bank deposit base you will see a significant improvement in our performance".

Mr O'Neill said Mr Cleary had resigned "to pursue personal interests because he sees that as the best way to facilitate discussions between the bank and the building society".

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NO EXCUSES FOR POOR PERFORMANCE AFTER BANK-SOCIETY MERGER

Author: MARK WESTFIELD
Date: 05/05/1988
Words: 726

Publication: Sydney Morning Herald
Section: Business
Page: 25

State Bank of NSW managing director John O'Neill has taken an enormous risk in executing the boardroom coup at the State Building Society and setting the two institutions on course for an inevitable union.

The State has always been a poor performer, with the excuse offered by successive chief executives that the bank has been excluded from the savings bank field. Since the Federal Court dissolved in March the 56-year-old agreement with the Commonwealth Bank preventing the State competing in the savings bank arena, a full-service State Bank will be under pressure to lift its game.

Mr O'Neill's first year as chief executive since he followed Nicholas Whitlam into the job will result in a 50 per cent profit increase to about $80 million before tax. But the bank's earnings ratios will still be about half that of its private-sector rivals, and well behind the State banks of Victoria and South Australia.

For example, the bank earned 5 per cent on equity last financial year, compared with 14.3 per cent for the State Bank of Victoria and 9.3 per cent for the State Bank of South Australia.

Its after-tax return on assets of $10 billion was 0.27 per cent, compared with 0.48 per cent for Victoria and 0.64 per cent for South Australia.

The major trading banks typically return between 1.2 per cent and 1.5 per cent on assets. This is despite the fact that the State banks raise funds relatively cheaply because of the government guarantees they enjoy and that they operate outside the Reserve Bank's tough prudential guidelines. They don't have to lodge 7 per cent of their deposits, for instance, at the Reserve Bank at the punishing interest rate of only 5 per cent.

Because the State Bank now controls the State Building Society board, following the unexpected resignation yesterday of the society's managing director, Denis Cleary, the merger is a matter of course.

Meanwhile, the bank will pursue a partial privatisation, selling about 25 per cent to private-sector institutions through a sale of preference shares or an equity trust.

The Premier and Treasurer, Mr Greiner, could choose to sell the bank wholly. He must choose between taking a one-off gain of about $600 million from the sale, against the substantial tax and dividend payments the bank makes to the State Treasury each year. Last year the State Bank paid $35.5 million in tax and dividends to the State Government.

However, the merged bank's biggest challenge will be to extract a greatly improved performance.

It has been dependent to some extent on the old agreement with the Commonwealth Bank under which the Commonwealth paid the State one half of its savings bank profit earned in NSW since 1931 when the State nearly went under and quit savings banking.

The State Building Society has been destined to be merged with the State Bank since 1982, when the bank changed its name from the Rural Bank and assumed the now-familiar green livery.

At the same time, the bank's associated building society, the Tamworth Building and Investment Society, acquired the RSL-Premier Building Society and the two became the State Building Society.

The proposed merger is a blow to the building society, which entertained ambitions on parts of the bank in the event of a privatisation, and to the building society movement, in which it was the second largest with assets of$1.6 billion, behind the St George.

More generally, though, the merger also will raise questions over the long-term future of the state banks. Despite their advantages, they all underperform the private sector banks, and in the highly competitive environment can no longer afford to subsidise special interest clients, such as the farming community.

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BANK MERGER COMES UNSTUCK

Author: By PAUL CLEARY and LUIS M. GARCIA
Date: 06/05/1988
Words: 753
Publication: Sydney Morning Herald
Section: News and Features
Page: 1

The **State** Bank's plan to merge with the **State Building Society** came unstuck yesterday when the Minister for Business and Consumer Affairs, Mr Gerry Peacocke, raised serious doubts about the proposed takeover.

Mr Peacocke yesterday:

* Said the **society's** board had "no power" to direct a merger.

* Asked for minutes of Thursday's meeting of the **society's** board of directors, at which the chairman and the general manager stepped down.

* Questioned the bank's involvement with the **building society**, and said the bank's shareholding did not mean it could do "what it likes" with the **society**

* Suggested that there could be changes to the bank's involvement with the **building society** in the future, so that the **society** could buy back the bank's shareholding.

"The **State** Bank's shareholding in the **building society** amounts to 0.3 per cent of the **society's** total funds but gives the **State** Bank virtual control of the board," Mr Peacocke said.

"This does not mean, however, that the **State** Bank can do what it likes with the **society**. I am concerned at a possible conflict of interest in respect of **State** Bank-appointed directors and this must be resolved."

In reference to the bank's controlling stake in the **society**, Mr Peacocke said: "There may be some change in the relationship down the track".

Mr Peacocke stressed that the **society's** future lay with its 250,000 shareholders. He also said he would prevent "any action" he regarded as contrary to shareholders' interests.

He attacked comments by the **society's** chairman and managing director of the **State** Bank, Mr John O'Neill, which suggested that a merger decision had already been made.

"I think the statements already made (by John O'Neill) have caused some concern in the co-operative movement."

Mr Peacocke also expressed concern at the fact that any merger would leave NSW with only one large **building society** - St George.

The **State Building Society** is the second largest co-operative in NSW, and a merger with the **State** Bank would form a bank worth $13.3 billion, with the third largest share of the NSW market.

The Minister said there was a bigger role for **building** societies to play, and did not want to "stand back idly" and watch their demise.

Mr Peacocke's comments came when other public supporters of the **society's** independence were silent.

Mr Denis Cleary, former general manager of the **society**, would not comment.

The managing director of the Government Insurance Office, Mr Bill Jocelyn, was also silent. When the Herald revealed the **State** Bank's merger plans last July, Mr Jocelyn said that the GIO, the bank's biggest customer, would consider withdrawing its business from the bank if it moved on the **society**.

When the **State** Bank last moved on the RSL-Premier **Building Society** in 1982, the meeting of shareholders which changed the **society's** name to the **State Building Society** and gave the bank control of its board had only a handful of the **society's** 270,000 shareholders in attendance.

But the regulations now are much tougher. Under amendments to the Permanent **Building** Societies Act, the **State** Bank will have to send postal votes to all shareholders, and 20 per cent of shareholders must vote for the vote to be valid. To allow a merger, 75 per cent of those votes must be in favour.

Although the **State** Bank claimed that the **building society** could not maintain "growth and efficiency" without a merger, the **society** has in fact been growing much faster and is more efficient than the **State** Bank.

It has been rapidly increasing its market share, with total assets up 50 per cent at its last interim. This would have increased its total assets to$1.7 billion. It was expected to turn in a net $6 million profit in the year to May 31, giving a return on equity of almost 20 per cent, well ahead of the **State** Bank.

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GREINER BACKS STATE BANK MERGER WITH BUILDING SOCIETY

Author: By PAUL CLEARY, Banking Writer
Date: 08/05/1988
Words: 816
Publication: Sydney Morning Herald
Section: Business
Page: 33

The fate of the State Building Society has become entangled with the expected privatisation of the State Bank, with the Premier, Mr Greiner, supporting the merger to increase the bank's price tag.

Mr Greiner said yesterday that a merger was "desirable and probably inevitable". While he had no policy on the building society or the bank, he said: "If you put to me 'Does the merger of the two increase the value of the total?', I think the answer is obviously yes. Which is why I have said what I have said, which is that the merger is, in my view, desirable.

"My view is - and it is very likely to be the view of Government - (that) the merger is desirable and probably inevitable."

Mr Greiner's support for a merger came while investigations by Mr Gerry Peacocke, the minister responsible for co-operative societies, were still under way into the boardroom coup by the State Bank last Thursday, which led to the merger proposal.

Mr Peacocke has asked for minutes from last Thursday's board meeting, at which the resignation of the society's chairman and general manager preceded the board's merger invitation.

Mr Peacocke said the State Bank should not control the society, and that he was concerned about a possible conflict of interest among the State Bank-appointed directors.

Mr Greiner said that his and the Government's main consideration was "to maximise the value of the State Bank and the State Building Society to the shareholders - to the taxpayers".

Should the merger and sale of the State Bank go ahead, the State Government is likely to receive about $700 million, with the building society contributing about $60 million, according to analysts.

It stands as an attractive windfall gain, given the financial problems inherited by the present Government.

Mr Greiner's claim that NSW taxpayers are the main consideration in the merger is due to the State Government, via the State Bank, already owning all of the building society's fixed share capital.

The stake, with a book value of just more than $3 million, gives the bank control over the society's board. The bank has four of eight directors for its$3 million investment. The other shareholders in the society, the depositors, have about $1.5 billion in withdrawable shares, and also are represented by four directors.

The fairness of this arrangement is under investigation.

Mr Peacocke is not only investigating the merger plan, but also the ethics of the State Bank's involvement with the building society via its $3 million stake.

The State Bank acquired the fixed share capital in the building society in 1982 by buying the fixed shares of the Rural Building and Investment Society, a Tamworth-based co-operative with only a handful of branches. The RBIS merged with the RSL-Premier Building Society just after it had become the State Building Society.

The bank's controlling stake suggests that it could now sell these shares for as much as the society's market value, about $60 million.

The Australian Association of Permanent Building Societies yesterday renewed its attack on the proposed merger. Its executive director, Mr Jim Larkey, said there appeared to be a major conflict of interest in the actions initiated by State Bank directors on the society's board.

"I am both amazed and extremely disappointed that the new Premier, Mr Greiner, appears to have lent his support to a takeover of a private enterprise.

"In the course of one week the Premier has gone from floating the concept of privatising the State Bank to apparently supporting the 'nationalisation' of the State Building Society."

While Mr Greiner says that taxpayers' interests are the main consideration, Mr Peacocke is unhappy with the bank's involvement in the society. He says the bank cannot "do what it likes" with the society, the society's board had "no power" to direct a merger, and that there was a possible conflict of interest among the State Bank-appointed directors.

The Government is unlikely to throw away $60 million by preventing a merger, but Mr Peacocke's investigations could produce a strong case for changing the bank's relationship with the society.

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STATE BANK AIMS TO 'STRIP' BUILDING SOCIETY: DIRECTOR

Author: By PAUL CLEARY, Banking Writer
Date: 12/05/1988
Words: 544

Publication: Sydney Morning Herald
Section: Business
Page: 27

State Building Society independent director Mr Bruce Treloar has condemned the State Bank's takeover of the society, charging that the bank is using its 1 per cent shareholding to "asset strip" its target.

His comments, in a statement released yesterday, come as investigations by Mr Gerry Peacocke, the minister responsible for co-operative societies, continue into the takeover.

"The State Building Society is not a subsidiary of the State Bank, which holds less than 1 per cent of its shares," Mr Treloar said. "Ninety-nine per cent of the shares are held by the society's members."

He said also that the State Bank was interested in other building societies, including the Greater Newcastle, Newcastle and Illawarra Mutual societies. He said the bank appeared to be "pressing the Government to ease its path to allow it to gobble up all building societies in NSW".

Mr Peacocke is investigating the relationship between the bank and the building society, particularly a possible conflict of interest by the State Bank-appointed directors to the society.

The Premier, Mr Nick Greiner, however, is supporting the merger to increase the value of the bank ahead of its possible privatisation.

Mr Treloar said there was no consultation with shareholders because the bank wanted to "grab its (the society's) assets for the lowest possible price".

Mr Treloar, elected to the board last year on an independent ticket, is one of eight directors. While it is understood the three other independent directors are opposed to the takeover, Mr Treloar is the only one to have spoken out.

The State Bank controls the board with its four directors, including a chairman with the deciding vote.

Mr Treloar's links with the building society and the State Bank go back to 1976. He owned 51 per cent of the fixed shares in the Rural Building and Investment Society, and sold to the State Bank in 1982.

The origins of the State Bank's $3 million controlling stake in the society- the 1 per cent share Mr Treloar referred to - follow the bank's buying of all the fixed share capital in the Tamworth-based building society.

He said the Government should move immediately to remove all State Bank appointees from the board of the society and instruct the bank, which the Government controlled, to withdraw its bid.

"This is nationalisation of people's savings on a massive scale. If other bids are made for the society it will be impossible for the board to impartially advise shareholders on their benefits when the society's board is dominated by representatives of the State Bank, itself a bidder," he said.

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MARKETING PUSH MAY AID STATE BANK AIM

Author: By LEA WRIGHT, Marketing Writer
Date: 13/05/1988
Words: 440

Publication: Sydney Morning Herald
Section: Business
Page: 37

The State Bank of NSW will launch its new $1 million advertising campaign tomorrow night, just days after merger plans between it and State Building Society became public.

Not only will the campaign launch signal the start of a promotional push that may be seen as aiding the bank in achieving the merger, but it also is the start of a $12 million advertising battle between the two agencies handling the respective accounts.

For medium-sized advertising agency Connaghan and May Ayer, the campaign is the first work done for the bank since it gained the business in January.

The slogan, "We want to be all you need", will replace the long-running "We do more for you, personally" and will be launched with three television commercials and support from print advertising.

Agency spokesman Mr Glenn Roach said: "The campaign has been in the planning stage for the past few months.

"It would have gone ahead, despite any news or talk of mergers. We're still treating the bank as a stand-alone client. We haven't yet discussed the possibility of a merger and the affect on the account with the bank."

Each commercial will concentrate on a separate market - youth, small business and retirement - and will be followed by specific product advertising in the print media.

Meanwhile, rival advertising agency John Bevins is pushing ahead with its campaign for the State Building Society, which uses commercials with the theme"Greener pastures are calling me".

The advertising accounts are worth about $6 million each a year. When the merger eventually is completed, attention is expected to be turned towards merging the accounts into a single business.

Not only has the State Bank put its public campaign in motion, but the bank's managing director, Mr John O'Neill, yesterday showed the new commercials to 7,000 staff members at 200 locations through a satellite link-up.

Sydney rugby league player Wayne Pearce also was roped in to the intra-bank promotion, primarily to highlight the State Bank's sponsorship of rugby league.

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STATE BANK PLANS TO SIDESTEP TOUGH MERGER LEGISLATION

Author: By PAUL CLEARY, Banking Writer
Date: 15/05/1988
Words: 545
Publication: Sydney Morning Herald
Section: Business
Page: 33

In its merger with the State Building Society, the State Bank of NSW intends to sidestep tough legislative measures introduced in 1986 for the conversion and acquisition of building societies.

By avoiding the legislative guidelines, introduced after the United Permanent merger in 1986, it will be far easier for the bank to have the proposed merger approved by shareholders.

The proposal effectively could be passed by a handful of shareholders at a special general meeting, paying homage only to the society's articles of association.

The managing director of the State Bank and chairman of the society, Mr John O'Neill, told a press conference that he believed the bank would not need to follow the new measures, because it was a statutory authority.

Under present guidelines for mergers and conversions of building societies, approval from shareholders would be have to be sought by sending postal votes to all of the society's 250,000 shareholders. It would need a 20 per cent response for the vote to be valid, and 75 per cent approval by those who respond.

The tactic will surprise authorities overseeing the takeover, including the Registrar of Co-operative Societies, who had earlier said the bank would have to follow the new legislation.

The bank's intention to sidestep the legislation will not upset the NSW Government. Mr O'Neill said: "My conversations with the Premier (Mr Greiner) indicate no opposition by the Government to the proposals." He said that Mr Greiner believed the Government's support was "unanimous".

The State Bank generally follows the spirit of legislation, which it is not bound to follow.

A State Bank director of the society, Mr Paul Kearns, said at the press conference that while the bank had to "pay homage" to shareholders, the uncommon shareholding structure of the building society meant the society's shareholders were more like "depositors" in a bank.

The State Building Society is one of two which have fixed share capital in addition to withdrawable capital (ie: deposits). Other building societies have only withdrawable shares, so that the society is governed entirely by depositors.

The bank's $3 million investment in the $1.4 billion society, via its ownership of all its fixed share capital, gives it control over the society's board.

Mr O'Neill attacked comments by an independent director of the society, Mr Bruce Treloar, who has made a series of claims about the merger. Mr O'Neill said Mr Treloar "astounds me", adding that he voted in favour of the merger discussions at the last board meeting.

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STATE BANK PLAN NIPPED IN BUD

Author: By PAUL CLEARY, Banking Writer
Date: 16/05/1988
Words: 307
Publication: Sydney Morning Herald
Section: Business
Page: 27

The Registrar of Co-operative Societies, Mr Ron Baker, has nipped in the bud the State Bank's plan of not following tough legislative procedures in its merger with the State Building Society.

He was responding to a story yesterday in The Sydney Morning Herald, in which the managing director of the bank, Mr John O'Neill, said he believed the bank would not have to follow the regulations.

The bank's avoidance of the merger regulations would have meant effectively that approval would need to be sought from a meeting of shareholders.

Under the new measures, enacted in 1986 after the United Permanent merger, the bank needs to contact 20 per cent of the society's 250,000 shareholders, and 75 per cent of respondents must be in favour.

Yesterday, Mr Baker said a merger involving the State Building Society and the bank, which is a statutory authority, would still be subject to the Permanent Building Societies Act.

He reiterated the rules under the 1986 amendments, saying the bank had to follow these.

"There's no reference in the Building Societies Act to statutory authorities getting any special treatment and, as far as I'm aware, the State Bank would be as responsible under the provisions as any other organisation."

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ILLAWARRA SOCIETY IN RIVAL BID FOR STATE

Author: By PAUL CLEARY, Banking Writer
Date: 05/06/1988
Words: 604
Publication: Sydney Morning Herald
Section: Business
Page: 35

The Illawarra Mutual Building Society (IMB) has announced a rival bid for the State Building Society, capitalising on problems emanating from a merger between the State Bank of NSW and the State Building Society.

The proposal differs only from the State Bank's offer in that shareholders have the option of remaining members of a co-operative, maintaining their interest in the society's reserves, rather than becoming depositors in a bank

The bid would turn the Wollongong-based society with assets totalling $660 million into a $2.1 billion outfit spanning NSW.

The bid should please the Minister responsible for co-operative societies, Mr Gerry Peacocke, who has stated publicly, in reference to the State Bank's merger proposal, his support for co-operatives. He has also said he did not want to "stand back idly" and "watch their demise".

IMB's chief executive, Mr Peter Jack, said he had recently met Mr Peacocke, although he did not discuss the society's intention of making a bid. On Friday, he informed the Minister's office that he was announcing the bid. He also told the Registrar of Co-operative Societies, Mr Ron Baker.

IMB will put the offer to the society's board today. Mr Jack said it was possible the bid would not be assessed by the board, with the authorities intervening to put the bids to shareholders.

"I don't expect a great deal of support from the State Building Society's board," he said.

A spokesman for the society said last night it was up to society shareholders to decide on the bids, adding that the State Bank was a major shareholder.

Mr Jack said the choice for shareholders was simple: "As far as I am concerned, they (the shareholders) have had the opportunity to do business with the (State) bank for the last 100 years. They have chosen to do it with the building society; there must be reasons for it."

The merger between the two societies was "the perfect fit", since the two organisations had little geographic overlap, lessening the need to rationalise staff and branches.

He said the State Bank and the State Building Society have "tremendous overlap".

The IMB has $660 million in assets, compared with the State's $1.5 billion. But it rivals the State in terms of reserves, with $33.5 million against an estimated $40 million. (The State's financial year ended at May 31, and its results are not yet finalised.)

IMB has 39 branches, located mainly in the Illawarra region. The State has 100 branches, located all over NSW.

While the IMB's capitalisation is quite strong, with its reserves to total assets running at 5.36 per cent, (the major banks are a little higher at over 6 per cent), the merger would substantially dilute its capitalisation. The State Building Society is highly geared, and its new entity would be geared at about 3.5 per cent.

The State Bank's control over the State Building Society stems from the bank holding all the society's fixed shares, which have a book value of just over $3 million.

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THE MOUSE FROM THE SOUTH STIRS UP BIG PLAYERS

Author: By PAUL CLEARY, Banking Writer
Date: 06/06/1988
Words: 872
Publication: Sydney Morning Herald
Section: Business
Page: 33

The Wollongong-based Illawarra Mutual Building Society has stirred up some of NSW's toughest players in its bid for the State Building Society, with St George Building Society yesterday announcing a bid, while the State Bank threatened to end the building society's agency arrangement if IMB wins.

At the centre of the storm, the IMB is a building society almost a third the size of its target, the State Building Society, with an asset base of just$660 million.

The State Bank is upset, fearing its long-held plan to merge the society could be thwarted. It said yesterday that should the IMB proposal go ahead, the bank would "re-assess" SBS's agency arrangement with the State Bank's 270 branches, from which came "much of the value" of the society.

St George also seems upset. It wants to remain a building society, and faces the loss of a future merger partner to a small southern rival. The society missed out on merging with the RSL-Premier in 1982, which was transfered to the State Bank and formed the backbone of SBS.

St George said it would bid for the society if "the State Building Society is on the market and if its future as a building society is threatened". It would buy the State Bank's fixed shares in the society, and then seek shareholder approval to merge the two entities.

IMB managing director Mr Peter Jack said the society has been on the acquisition trail for two years. Expanding via establishing new branches was expensive, while other building society's were "fiercely independent". SBS was once fiercely independent, but its future is now in limbo, as the State Bank's bid has put the society in play.

"(The State Bank) thought they could do a sweetheart deal, but having announced it was up for grabs, we thought we may as well toss our hat in the ring," said Mr Jack. The main selling point, according to Mr Jack, is that the two entities have little overlap, virtually eliminating the need for rationalisation. Others would counter this by saying that SBS is less-effective once its State Bank links are amputated.

Regardless of the economic arguments, the key to IMB's success will be support from authorities, particularly the minister responsible for co-operative societies Mr Gerry Peacocke. He has publicly stated his enthusiasm for the co-operative movement, and would like the SBS to remain a building society.

Further, the Registrar of Co-Operative Society's, Mr Ron Baker, said yesterday that IMB may not have to follow tough new regulations introduced in 1986 for the conversion and acquisition of building societies. The merger could be effected simply by a meeting of shareholders, since the new regulations were not intended for transactions between building societies.

Mr Jack met with Mr Peacocke recently, although he maintains this was in his capacity as a president of the State Association of Building Societies. He expects a good response from the Minister.

"The minister has said that his preferred option is for the State Building Society to remain a building society. Now he has said that publicly. So I can't see that he would be antagonistic towards our proposal, but I also suspect that he is not likely to support it openly just because I don't think he can afford to be seen to be taking sides."

Mr Jack said the final decision to approve any merger of the building society would ultimately end up on the "minister's desk".

IMB is considering advertising to win support for the merger, since its main problem is that very few depositors realise they are owners of the society.

"We are advertising on Sydney television at the moment, that's more of an a awareness campaign just so that when they read in the newspaper that IMB is making a takeover bid they have heard of IMB and they know we are a building society," Mr Jack said.

Further advertising would be to "demonstrate to people that they do own a building society, that they own those reserves, and they ought to come with us and maintain that ownership or at least get a fair price for it".

The IMB's bid has been presented to SBS's board. Assessing this will be difficult, since the board is controlled by the State Bank. It is likely, however, that the bids will be considered by the Takeover Review Committee.

The merger will undoubtedly mean that the State Bank sells its $3 million stake in the society.

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The Sydney Morning Herald

AAPBS HITS OUT AT STATE BANK DIRECTORS

Author: By PAUL CLEARY, Banking Writer
Date: 09/06/1988
Words: 533
Publication: Sydney Morning Herald
Section: Business
Page: 30

The conflict of interest among State Bank directors on the State Building Society's board has been brought into "sharp focus" by the appearance of three bids for the society, according to the Australian Association of Permanent Building Societies.

Executive director of the AAPBS, Mr Jim Larkey, called on the minister responsible for co-operatives, Mr Gerry Peacocke, to find a replacement for the society's general manager, Mr Tony Howarth, who formerly worked for the State Bank.

The association's statement followed what has become an entangled series of events, in which:

* the State Building Society announced that it had entered merger discussions with the State Bank, while the bank in turn controlled the society's board;

* a State Bank employee, Mr Tony Howarth, replaced the society's general manager, Mr Denis Cleary. The management changes followed a boardroom coup by the bank, after which the merger discussions were made public;

* the Illawarra Mutual Building Society put a bid to the society's board, while St George announced that it might bid.

"Proposals from other financial institutions, including Illawarra Mutual and St George, have brought into sharp focus the acute conflict of interest facing the State Bank in the actions it has already taken in attempting to force a takeover of the State Building Society," Mr Larkey said.

"The State Bank, through a series of pre-emptive actions, has already assumed de facto control of the society, despite controlling less than 1 per cent of the society's shares. In a move of unparalleled arrogance it has appointed a bank officer to manage the society."

He said these manoeuvres brought into "serious question" the ability of the"bank-dominated society board" to consider objectively the merger proposals, including its own.

Mr Larkey called on Mr Peacocke to replace the general manager as a"minimum step".

Mr John O'Neill, the State Bank's managing director and chairman of the building society, said the bank simply had offered the services of its employees because of the vacancy left by Mr Cleary. He said the bank had offered its staff for that position "on and off" over the past 12 years.

In order to deal with the difficult position of the society's board, bids for the society will be assessed by a takeover review committee, according to the Registrar of Co-operative Societies, Mr Ron Baker.

This committee will come into being once the State Bank makes a formal offer to shareholders of the society, and will review all proposals.

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The Sydney Morning Herald

REGULAR SHORTS

Date: 14/06/1988
Words: 1541

Publication: Sydney Morning Herald
Section: Business
Page: 47

JOHN MAY FIND THE SHOTGUN REVERSED

THE State Bank's takeover plans for the State Building Society may face an unexpected hitch, with the prospect that some obscure legislation may force the bank's youthful boss, John O'Neill, to relinquish his society board seat.

CBD understands the Permanent Building Societies Advisory Committee has asked John to explain why he should not step down, now that the bank has finally moved on the society.

It seems the committee, chaired by Ron Baker, the Registrar of Co-operative Societies, has the power under a dusty old 1924 statute to remove directors from building societies if they are directors of organisations "such that that person should not be a director of the society while he is a director of that corporation".

While there are four State Bank-appointed directors on the society's board, O'Neill is the only one who has a potential problem. The other three are not directors of the State Bank.

The committee is addressing the fact that State Bank directors control the society's board at a time when it is facing a shotgun wedding (also known as merger talks).

The decision of Peter Jack's Illawarra Mutual Building Society to make a bid, not to mention St George's emergence from a state of torpor to try to run second again, has put the State Bank's directors in a difficult position.

If the committee deems there is a conflict of interest, and forces O'Neill to step down, he can appeal to the Minister for Co-Operative Societies, Gerry Peacocke.

John's chances of survival should be considered in view of Peacocke's comments that he was looking into a possible conflict of interest among the State Bank contingent on the society's board.

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STATE SOCIETY IN $18M RETORT TO DETRACTORS

Author: By PAUL CLEARY, Banking Writer
Date: 21/06/1988
Words: 815

Publication: Sydney Morning Herald
Section: Business
Page: 41

The State Building Society has countered in the most tangible way a confidential report claiming it is unviable - by boosting pre-tax unaudited profit from $1.75 million to $18 million in its latest year.

The result comes on the heels of the State Bank of NSW's move to merge with the society, and the Macquarie Bank report's finding that the society ultimately is unviable in the long run.

The result is for the year to May 31, so the credit must go to the society's former general manager, Mr Denis Cleary, who was ousted on May 5 this year following a boardroom coup by the State Bank-appointed directors. He has since made no public statements, and it is understood the terms of his departure included an agreement not to speak publicly for a period.

While the confidential Macquarie Bank report, a copy of which is in the hands of The Sydney Morning Herald, concludes that the society is unviable, the financial results suggest otherwise. Key points include:

* the society's lending more than doubled on the previous year, up to $580 million, while total assets rose 42 per cent to $1.6 billion;

* outstanding housing loans were up 47 per cent to $770 million, well ahead of major lenders (Westpac rose 33 per cent, ANZ and NAB around 16 per cent and Commonwealth 11 per cent);

* half of the result came from its treasury, as a little less than a third of its assets are inliquid securities.

The society's new general manager, Mr Tony Howarth, was unavailable for comment yesterday, although he released a statement reviewing the year's operations. Mr Howarth was with the State Bank, and took over after Mr Cleary's resignation.

The report's conclusions, particularly its assertions of weak profitability, loss of market share and poor capital generation, run contrary to the performance over the year.

The society's board, controlled by State Bank-appointed directors, said the report was evidence that "the society cannot maintain its growth and efficiency without merging with the State Bank". (The State Bank has only 0.3 per cent of the society's shares, but controls the board because of a series of events five years ago.)

Other important findings in the report were not discussed by the directors, and the report was not made available to shareholders.

These findings include:

* the State Bank may have to rationalise 100 branches after the merger, the sum total of the society's network. The report finds 100 locations in which both entities overlap, and says: "Presumably a substantial number of these could be eliminated upon a merger";

* the society would have no difficulty in raising deposits "at competitive rates" if it lost its State Bank colours and "implicit" government guarantee. "Macquarie believes that public depositors see the society as secure and would continue to do so, even if its association with SBN (the State Bank) or the State ceased," says the report;

* the agency arrangement, promoted by the State Bank as an important asset"does not make a clear contribution to growth of the society's business and is even less likely to do so in the future".

The report also finds that raising between $15 million and $20 million in capital "would not be unreasonable". Capital is crucial for the society, and its need for capital is seen as the most pressing reason for a merger.

But capital raisings and improved profitability could solve this problem, which is vital forits longevity. Further, the Reserve Bank's new capital adequacy proposals will benefit the society. Loans secured by mortgage have a 50 per cent weighting so the society's risk-assessed capital position would improve, compared with present quantitative assessments.

The report also lists a number of pitfalls to a merger with the bank.

These include difficulties in merging the two independent management structures. It adds: "In the case of an 'unfriendly' merger, the pitfalls are likely to become more prominent. The struggle to obtain success may not only result in an increased outlay, but also destroy some of the value obtained by the surviving entity by the alienation of the target's management ... (and in) the debilitation of the target's business while the future is clouded."

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The Sydney Morning Herald

STATE BUYS 9.5PC OF ADVANCE

Author: By EMILIYA MYCHASUK and PAUL CLEARY
Date: 23/06/1988
Words: 491
Publication: Sydney Morning Herald
Section: Business
Page: 25

The State Bank of NSW has taken a strategic 9.5 per cent per cent holding in Advance Bank Australia Ltd as it jockeys for a bigger slice of the NSW retail market.

As well, its plans to merge with the State Building Society are still on the boil.

After the close of floor trading yesterday, 9.53 per cent of Advance's issued capital was dealt in special sales handled by broker Bain Securities.

The shares were put through in three separate parcels - one of 5.8 million shares and another two of 248,000 and 200,000 each - and will be included in today's trading figures.

It is understood the shares were the slice of Advance Bank bought by the State Bank Victoria through subsidiary Tricontinental Holdings earlier this year.

The State Bank has been hungry to expand its consumer base in NSW since late last year. The bank formerly was restricted from competing in the savings bank market because of a long-standing agreement with the Commonwealth Bank which was terminated in December.

While the State Bank has 270 branches, it is primarily a trading bank. Advance, on the other hand, is a savings bank, with a large slice of the NSW mortgage market, and more than $4 billion in assets. But the State would have to pay dearly for the bank, with a market capitalisation of $238 million. Advance shares already have a takeover premium of about 75c.

There are a number of hurdles to overcome. But a merger would be one way around Advance's articles of association.

The State Bank joins the Bank of New Zealand as a predator stalking Advance Bank. It was revealed recently that the BNZ had acquired Sir Ron Brierley's 9.6 per cent stake.

It also comes when the State Bank's move on the State Building Society has run into difficulty, particularly in getting the merger past authorities keen to prevent the demise of the building society.

The State Bank controls the society's board following a coup by the State Bank-appointed directors early in May. But this situation could come to a head today, when the building society regulatory body, the Permanent Building Societies Advisory Committee, will meet to consider whether the State Bank's managing director, Mr John O'Neill, should be allowed to be a director both of the State Building Society and of the bank.

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O'NEILL ASKED TO QUIT BOARD

Author: By PAUL CLEARY, Banking Writer
Date: 24/06/1988
Words: 395

Publication: Sydney Morning Herald
Section: Business
Page: 33

The managing director of the State Bank and chairman of the State Building Society, Mr John O'Neill, has been asked to step down from the society's board.

Mr O'Neill has been chairman of the society for less than two months, having moved from director to chairman after a boardroom coup in early May in which the State Bank took control of the board. The bank has since signalled its intention to merge with the society.

The decision came from the Permanent Building Society's Advisory Committee which, after a lengthy meeting yesterday, sent Mr O'Neill a letter asking for his resignation from the society's board. It has the power under State legislation to remove directors from a society if it decides that a director's *other board seats* create a conflict.

Mr O'Neill said last night that the committee's decision was difficult to understand in the circumstances and manner in which it was reached, and was contrary to natural law.

He had referred the matter to legal advisers and would stay on the board until they advised on his legal position. Mr O'Neill sought legal advice before yesterday's meeting and chose not to attend. His defence was that a sub-committee to conduct the merger discussions had been formed among three independent directors to oversee the merger.

There are three other State Bank-appointed directors on the society's board, *but they are all senior executives of the bank and are not covered by the legislation*.

Mr O'Neill has the right under the legislation to appeal to the Minister for Business and Consumer Affairs, Mr Peacocke.

However, in the minister's only public statement on the matter, he said he was looking into a possible conflict of interest among the State Bank-appointed directors.

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The Sydney Morning Herald

REGULAR SHORTS

Author: Edited by Glenn Burge
Date: 04/07/1988
Words: 1228

Publication: Sydney Morning Herald
Section: Business
Page: 25

A TALE OF LOOSE TALK AT WHITLAM SQUARE

NOT content to fight for the hearts and votes of State Building Society shareholders, State Bank supremo John O'Neill has been forced to guide his staffers to ensure they further the shotgun merger plans.

In a recent memo to various bank senior staffers, O'Neill indicates some of his loyal employees have not been following the party line on the merger, something he warned must stop.

"The bank's negotiating committee has received some general complaints about ill-informed comments made by State Bank officers in administration and branches," he alleged in the June 20 memo.

"Special attention needs to be paid in certain areas of the Whitlam Square building (for example, foyers and lifts) where loose comments can be overheard. This has to cease."

John, trying to open the doors for a merger, warned that building society customers coming into State Bank branches could be lost because of to ill-informed comments.

Ever helpful to assist, O'Neill remarks that some of the media coverage on the merger has been expressed "colourfully and even with emotion".

"I have attached a copy of a letter sent to all NSW parliamentarians in response to some of the public commentary. You should find this letter and the background history paper useful in your business and social discussions."

In the letter to parliamentarians, meanwhile, John claims the bank owns 14 per cent of the society's reserves.

This is quite an unusual claim, as interpretations of the society's rules by NSW Minister for Business and Consumer Affairs Gerry Peacocke suggest the bank is entitled to just 0.3 per cent.

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The Sydney Morning Herald

SOCIETY WITH A HEALTHY APPETITE

Author: PAUL CLEARY
Date: 01/08/1988
Words: 381
Publication: Sydney Morning Herald
Section: Business
Page: 25

St George may have proven that building societies are viable entities, but its road to being the largest society is paved with a long list of acquisitions.

The State Building Society is its largest target yet; almost a third its size. While a number of its targets have been societies facing difficulties, its list of acquisitions tells a story of a sector facing turmoil. These acquisitions comprise:

* Northern Rivers Co-operative Building Society, 1978;

* Queanbeyan Permanent Building Society, 1979;

* Permanent of Australia, 1979;

* Canterbury Building Society, 1981;

* Hibernian Permanent Building Society, 1981;

* Pacific Savings Building Society, 1984;

* State Building Society, 1988?

The State Building Society was made up of at least four building societies. The RSL-Premier, which lasted until 1982, was spawned from a merger of three societies, and was then merged with a Tamworth-based building society, the Rural Building and Investment Society, in which the State Bank owned 100 per cent of its fixed shares.

The irony of St George's acquisition was that the Registrar of Co-operative Societies had offered the RSL-Premier to St George in 1982. But it was the State Bank which put up its hand and transferred the $400 million RSL-Premier into its $100 million Tamworth society.

Although building societies' share of total financial assets has diminished, the remaining players have kept up their chase for market share. St George grew by 24 per cent last year, while the State Building Society's assets were up by 42 per cent.

The Australian Association of Permanent Building Societies argues that building societies' market share has not fallen, after adjustment for societies which have become banks.

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BORROWERS WILL BE HAPPY

Author: By PETER FREEMAN
Date: 02/08/1988
Words: 342
Publication: Sydney Morning Herald
Section: Money
Page: 35

BORROWERS with the State Building Society are likely to be well pleased that control is likely to shift from the State Bank of NSW to the St George Building Society.

The reason for the displeasure with the State Bank stems from the fact that, under its rule, the State Building Society quickly became the most expensive home loan lender of all NSW societies.

Whereas the State Building Society initially had decided to hold its mortgage rate on existing loans at 13.5 per cent, this decision was suddenly reversed with its new State Bank masters apparently deciding that all borrowers should pay 14.5 per cent.

The State Building Society had earlier lifted its rate on new loans to 14.5 per cent.

Like the society's customers, the increase for existing borrowers caught me unawares and so was not included in last week's article on building societies.

While the State Bank no doubt will wash its hands of responsibility for the mortgage rate increase, the fact remains that it came after one of its own executives had been brought in to head the society, at least temporarily.

However, the likely success of St George's recent bid for the society means that borrowers with the State Building Society almost certainly will have their mortgage rate reduced to 13.5 per cent.

While the cut won't take place immediately, such a reduction in the rate was one of the promises made by St George at the time of announcing its bid.

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SBS BOARD PLUMPS FOR MERGER WITH THE DRAGON

Author: By PAUL CLEARY, Banking Writer
Date: 05/08/1988
Words: 523
Publication: Sydney Morning Herald
Section: Business
Page: 37

St George Building Society is just a step away from success in its bid for control of the State Building Society, with the SBS board yesterday voting unanimously for the merger.

The board's recommendation will be put to the society's members on August 22. SBS chairman Mr Paul Kearns said the board was now committed to the St George bid, and was unlikely to consider any other offers.

It was a "very happy conclusion for everybody involved.".

The only rights SBS members will have with St George, however, is that their $50 million in reserves will be kept "quarantined" and paid back to members in the event of St George's winding up.

He said St George would be a "colossus" in home lending, and the building society industry was happy to see one of its "favourite sons" had stayed with it.

The SBS board is controlled by the State Bank, so yesterday's decision follows the fact that St George's $75 million bid for the bank's shares is contingent on the board and members approving the merger. The Registrar of Co-operative Societies, Mr Ron Baker, also must approve the merger.

Mr Kearns said the bank was "now committed to St George", and doubted whether it would consider any other offer.

Mr Kearns said the bank had spent a lot of money on the society during their 12-year association. The agency arrangement, he said, gave the small society an additional 270 outlets, and "was like taking the kids to school in a Rolls-Royce".

The decision to transfer the society to St George brings to an end a 12-year association between the State Bank and SBS. The bank bought all of the society's fixed shares after 1982, and took control of its board three months ago.

The State Bank had bought all of the fixed shares in a small Tamworth-based society, and in 1982 transferred the $400 million RSL-Premier Building Society into its small subsidiary.

The bank took control of the society's board three months ago.

The bank did not make a formal offer to the society, and only entered into "merger discussions". Difficulties with the tough legislative measures for building society takeovers, as well as perceived hostility of SBS staff towards a merger, were the main reasons for aborting the bank's merger bid.

Mr Kearns said the board members of the RSL-Premier, including two members still with the board, Messrs Osmand and Thomas, had understood that the society eventually would become the bank's savings bank.

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STATE BANK TREASURER SLAMS SOCIETY OVER 'RISKS'

Author: PAUL CLEARY
Date: 15/08/1988
Words: 1389
Publication: Sydney Morning Herald
Section: Business
Page: 25

The State Building Society's treasury took "excessive" risks, was not fully cognisant of them, and carried an overnight exposure of half its capital base, according to a report by the treasurer of the State Bank of NSW, Mr Phil Gray.

The report was followed with another from the bank which said the society's 10-fold leap in pre-tax profit to $18 million last year had been because of "casino-like futures trading".

Mr Gray reported on trading by the society's treasury during March. The report obtained by The Sydney Morning Herald was addressed to the State Bank's managing director, Mr John O'Neill.

The society's high-risk treasury operation could put St George's $75 million payment for the society well above its true value. The State Bank at the time owned all the society's fixed shares and controlled its board. The bank has since sold them to St George, pending the outcome of a shareholders' meeting next Monday.

The State Building Society's results for the year to May 31 showed a huge leap in pre-tax profit - up from $1.75 million to more than $25 million. It is understood that the society's pre-tax profit was $25 million, and its announced profit "in excess of $18 million", was related to provisions.

A press statement on the results said that 50 per cent of its profit came from its treasury. While this followed the fact that a third of the society's assets were liquid securities, the proportionately larger contribution to profit must relate to the society's aggressive trading.

Some sources have said that the treasury contributed more than $20 million of the society's $25 million profit.

Had the society not enjoyed its 10-fold leap in profit, St George would have paid much less. Its $600,000 net profit in 1987 could have seen St George paying a price much more in line with the society's $50 million capital base. On an earnings multiple of 10 times net profit, the difference in price between the 1988 and 1987 earnings would have been $80 million versus $6 million.

The report, however, exonerates the society's treasury staff, saying that it always dealt within approved limits. Dealing limits normally are approved by the board of directors, although it refers to the limits being approved by "management".

Mr Gray's report said the society had an overnight risk of $10 million during the second week of March, and would have been "at least $20 million" had overnight movements been equal to the worst day in 1987. These risks represent half of the society's capital base.

The society's hedging activities were high, with its trading in forward bond contracts accounting for 3.8 per cent of total market turnover, while its bond options trading was "especially high", accounting for 10.7 per cent of market turnover. The society's asset base translates into less than 1 per cent of the financial sector.

Mr Gray says the society argued that its investment portfolio should be excluded from an assessment of risk, because it operated to earn "running yields", that is, continuous interest income on its securities. But Mr Gray said that this view was "inconsistent" with the society's "high turnover" of these securities.

He found there was "considerable evidence that management was fully informed of the positions held (ie, treasury fully disclosed its activities) and, in general, the quality of records and portfolio details was good, with most records correctly filed and retained".

Mr Gray said the fundamental point, however, was whether the society's potential risk was prudent, given its level of capital, and whether it was aware of these risks.

He said: "It is my considered view that the risks were excessive. It is conceded that this remains a subjective matter, and the final view must necessarily be left for the consideration of the bank's representative on the society's board."

"I am unable to come to any view (notwithstanding the attempt to monitor the risk) other than that the society was not fully cognisant of the risk attached."

He added that the society was able to monitor risks only after transactions were closed out.

"In the absence of a well-developed and installed options pricing and hedging model, it is difficult to justify the substantial positions and turnover in bond options which took place."

In his recommendations to the board, Mr Gray said there was no evidence of treasury staff dealing outside limits. "Whilst the trading positions were substantial, these were undertaken with the express approval of management."

"The determination of final trading limits requires resolution with urgency". Interim limits approved by management were "generous".

He recommended that the society withdraw from trading in "caps and floors"and similar instruments "in view of the known high risk and hedging difficulties associated with such instruments".

Mr Gray referred to limits being approved by management, and did not refer to the board of directors' approving dealing limits.

The chairman of the State Building Society, Mr Paul Kearns, said the treasury had moved into new areas which the board had not yet reviewed. He said the board had stopped the treasury from dealing in futures, but it had moved into forward rate agreements - "in practice the risk was the same".

He said the board was not aware of the risks the society was taking until the Mr Gray's report was made.

"The board wasn't aware of the extent of the risks that were taken until that report from Phil Gray brought that out into the open.

"That doesn't mean the board didn't authorise what was going on. As it turned out, there weren't any severe brakes applied to the treasury," Mr Kearns said.

Mr Gray's report was sent to Mr O'Neill on April 19. A few weeks later, the bank decided to put into play its long-held plan to merge the building society.

This was effected with the resignations of the society's general manager, Mr Denis Cleary and its chairman, Mr Ken Dennewald. Mr Cleary was strongly opposed to the merger.

The high risk-taking of the treasury could follow the fact that the society wanted a strong profit result as its best defence against the State Bank's taking it over. The State Bank had effectively controlled the society's board since 1982.

Over this period, the society had posted weak profits, and was likely to be taken over by the State Bank once a restrictive agreement with the Commonwealth Bank was terminated. This came to fruition in December last year, and in May the bank moved to control the board through the two resignations. But over the six years, the society had become fiercely independent, mainly related to Mr Cleary's influence.

Over the past financial year, a big rise in profit would have been a major concern for the society - a weapon to fight off the State Bank's inevitable push to merge the society.

The State Bank is a poor earner, with a 5 per cent return on equity, so its taking control of an organisation with a 25 per cent return weakened the bank's case for a merger. It was also in need of capital which was only 3 per cent of assets.

A strong earnings base could also be used to fight the long-standing argument that the society was a weak entity and needed to merge with a strong partner. The Macquarie Bank's report on the society's future, which was the chief source of independent advice used by the society, said that the society's weak earnings base and poor capital generation was a major problem.

Since May, the bank has given up its quest to merge the society, finding that opposition from within the NSW Government, pressure from the building society movement and antagonism from the society's staff all too hard to handle.

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The Sydney Morning Herald

WA RURAL BANK BIDS FOR STATE SOCIETY

Author: By PAUL CLEARY, Banking Writer
Date: 19/08/1988
Words: 485

Publication: Sydney Morning Herald
Section: Business
Page: 37

The Rural and Industries Bank of Western Australia, keen to acquire a ready-made network on the east coast, has made a last-minute bid for NSW's State Building Society,

The R and I is offering the State Bank the same price for its shares in the society as the St George Building Society, $75 million, but aims to woo shareholders and employees by promising to maintain the society's network.

State Building Society members will meet on Monday to vote on the St George bid. The State Bank has agreed to sell for $75 million, and the society's board unanimously has endorsed the offer.

R and I has adopted the strategy used by National Mutual Royal Bank in its takeover of the United Permanent Building Society, ie, to beat the rest by saying how valuable the network is, and that others will close branches.

The State Bank, in a statement last night, acknowledged the bid, but" rejected the offer as it feels bound to honour an agreement with St George". The bank also noted that the society's board had approved the merger, and that it had the "blessing" of the Registrar of Co-operative Societies.

The bid does not mention compensation to the withdrawable shareholders in the State Building Society and it seems they would become depositors with the bank. The St George offer would give shareholders continued rights to their $55 million in capital.

The State Bank's sale of its shares in the building society to St George, which ended the bank's bid for the society, was due partly to the hurdles in the takeover legislation for building societies.

St George, as a building society, needs only two-thirds of Monday's meeting to get control.

But R and I, because it is a bank, will have to send postal votes to all 250,000 shareholders, get returns from 20 per cent and have 75 per cent of those voters in favour of the takeover.

The R and I has $5.2 billion in assets, but has a capital-to-assets ratio of 5 per cent, 1 percentage point below the Reserve Bank minimum, giving it little room to pay for the society. On top of that, R and I would take on a highly geared society.

R and I chairman Dr Ross Garnaut said: "Unlike the St George Building Society, the R and I is not in direct competition with the State Building Society in NSW, so we would not need to undertake any heavy rationalisation."

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The Sydney Morning Herald

VOTE ON DRAGON'S BID FOR SOCIETY TO BE CLOSE

Author: By PAUL CLEARY, Banking Writer
Date: 21/08/1988
Words: 1442
Publication: Sydney Morning Herald
Section: Business
Page: 33

The St George Building Society's $75 million purchase of the State Building Society will be decided today by just a few hundred votes, leaving open the way for the Rural and Industries Bank of Western Australia to grab control.

Proxies received in the last few days indicate that it will take a only small number of the society's 250,000 shareholders to decide the vote.

The uncertainty surrounding the St George bid comes as the Rural and Industries Bank of Western Australia has entered a late challenge - and called for the meeting to be postponed. It will push ahead only if St George fails -but at the same price. The State Bank rejected its offer, as it felt bound to honour the St George agreement.

St George had been the sole bidder for the society, and looked certain to get members' support. But the R and I now hopes to woo shareholders and employees by promising not to close branches.

Should St George get the nod from SBS shareholders at the YWCA in Whitlam Square, it will have the onerous task of putting together the biggest banking merger seen in almost a decade.

Despite the size of its task and the money involved, St George has not yet worked out how much the merger will cost, how it will go about combining the two societies and how long this will take.

St George will be a colossus, with the largest share of housing loans in the State; housing portfolios that are bigger than those of the ANZ and National Australia banks; $6.2 billion in assets and 300 branches - all in NSW.

Its success today will be helped by support from the State Bank, which controls the SBS board. The State Bank's payment is contingent on the merger being approved today. The board approved the merger unanimously, and internal memos sent to SBS staff have encouraged them to support the merger.

One memo sent to SBS staff says in capital letters: "As the society's board has unanimously recommended acceptance of the transfer proposal, staff should encourage ticking the box in favour of the proposed resolution."

The State Bank's main concern is its payment, and selling to St George will mean that it gets its money quickly. For its bid, the R and I would face the arduous process of following the takeover legislation under the Permanent Building Societies Act.

This would keep the State Bank waiting for its money, and in the end, the R and I bid could founder, just as the State Bank's offer did.

St George is seen as the white knight for the society, even though it does not really see itself as a building society. It no longer has withdrawable shareholders, it has members and fixed shareholders.

In an exclusive interview with the Herald last week, St George's managing director, Mr Fred Shield, said the society was in the game of providing financial services - the building society "shingle" did not stand for much.

The State Bank came under a lot of pressure from the building society movement, which defended the society by saying that it was viable and should remain independent. But there has been silence on St George's bid, and in fact, the building society movement has welcomed the move.

Still, there is a rocky road ahead for the Friendly Dragon.

The biggest problem will be integrating the societies' information systems. The cost is unknown, as is the time this will take.

Until the systems are integrated, the societies will continue to operate independently, with customers from one society being precluded from using branches belonging to the other.

Mr Shield sees bedding down the merger as a matter of "drawing up a list" of what to do. The society has been unable to work out a strategy, choosing to wait for shareholder approval before setting up a committee with SBS general managers.

The society has acquired seven other building societies: "Past experience has taught us that it (combining the societies) is going to be a reasonably lengthy period," Mr Shield said.

Its last merger was with Pacific Savings, which had only $60 million in assets, while Permanent of Australia, with which it merged in 1979, had $180 million in assets - about 23 per cent the size of St George at that time.

The SBS is the second-largest building society in NSW, and its $1.6 billion in assets makes it 35 per cent of the size of the $4.6 billion St George.

What will be the cost of fully integrating the two societies? "How long is a piece of string?" asks Mr Shield.

Until the systems are integrated, St George will be running two organisations, and will not get the "long-term benefits" of the merger.

As a result, St George's earnings will suffer, which is something that will not be welcomed, given its greater need to generate capital after the merger. The new society will have a weaker gearing, given that SBS is highly geared at 3.4 per cent compared with St George's 5 per cent capital to assets ratio.

St George will offer fixed shares to SBS shareholders, but this is regarded as only a gesture to give the new members the same rights as existing St George members. St George, unlike the SBS, no longer has withdrawable shareholders, just fixed shareholders and members. The society is not chasing any specific amount from the share issue.

According to St George's chief general manager and head of operations, Mr Jim Sweeney, the society is always looking for ways to raise more capital, and believes that it should be subject to the same prudential standards as savings banks.

Its $75 million payment for the State Bank's fixed shares also has come under scrutiny.

When it made the offer, St George did not have access to the society's latest accounts, but paid a price based on "industry knowledge", and details of its financial position published in newspapers.

Mr Shield says: "Other than industry knowledge, we obviously had some information. While at that stage, the accounts for their financial year hadn't been completed, we had a fair idea of developments. Some of it had been published in the newspapers.

"Nothing we have learned since has changed the criteria on which we based that."

Following the St George offer, it was revealed by the Herald that the society's 10-fold leap in pre-tax profit to $18 million was based on aggressive treasury dealing, which exposed the society to an overnight risk of half its capital base. One State Bank report attributed the profit leap to "casino-like futures trading".

Mr Shield said St George was aware that the society's earnings were influenced by "a number of factors". He says the important factors were the society's deposit base, rationalisation benefits and future earnings.

"In many of these instances what you are looking at is the depositor base and the mortgage portfolio, rather than what the earnings are, because what you are going to be doing in the future is quite different from what you were doing in the past," he said.

The merger may well be the biggest seen in this State for almost a decade -but rationalisation will not be the "name of the game".

St George sees advantages in having two premises in the same locality, even if this only means the society is keeping its options open.

Mr Sweeney argues this allows the society to, for example, keep one site as a transaction centre, and the other for "non-traditional" banking, such as financial planning and commercial business.

The State Bank's bid for the society failed, in part, because of antagonism among employees towards the bank. The bank had surveyed society staff, and found the results disappointing.

St George, on early indications, will not have these problems. The general managers in SBS are enthusiastic, and this is backed up by St George's contacts "at the coal face".

It has made a guarantee that no jobs will be lost upon the merger, and Mr Sweeney adds that there will not be any tricks like transferring city staff to country areas.

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The Sydney Morning Herald

SOCIETIES' MERGER GREETED WITH JEERS

Author: By PAUL CLEARY, Banking Writer
Date: 22/08/1988
Words: 1174
Publication: Sydney Morning Herald
Section: Business
Page: 29

A rowdy meeting of 300 State Building Society shareholders yesterday could not hold back sale of the society to St George Building Society, with a campaign for proxy votes supporting the merger winning the day.

In what were the dying moments of yet another building society, shareholders fought the board's unanimous decision to transfer the society to St George. In the end, the silence of proxy votes overcame the jeers.

The State Building Society is the last of the big societies to depart. St George will now be 10 times the size of the next-largest society in NSW, and will have $6.2 billion in assets, more than 300 branches and the largest share of housing loans in NSW. Its housing loan portfolio will be larger than that of the ANZ and National Australia banks.

As part of the October 1 merger, SBS owner-occupier home loan borrowers will have their rates reduced from the current 14.5 per cent to the existing St. George rate of 13.5 per cent.

All SBS outlets will operate under the red and white St. George banner.

In recommending the St George offer to State Building Society members, the chairman, Mr Paul Kearns, who is a general manager with the State Bank, told shareholders how the St George offer would maintain the same service to customers, and how it was the best alternative if shareholders wanted to remain part of a co-operative.

While the society's eight-man board is controlled by State Bank, independent directors made emotional pleas for members to support the merger with St George. One director, Mr Alwyn Thomas, said the independent directors were highly regarded businessmen, were acting in shareholders' interests and would not "sell you down the river".

State Bank owned all the fixed shares in the society, and had moved to merge it in May. Mr Kearns said "negative" reaction to the bank's proposal led to the $75 million sale to St George.

He said the St George bid had made the society happy, the Government happy, and the Registrar of Co-operative societies had gone "out of his way" to assist.

Opposition to the merger at the meeting was met with loud applause, suggesting that members who came to the meeting apposed the merger, and that support came from proxy votes.

The strength of proxy votes at the meeting followed directives sent to SBS branches which told staff to advise shareholders to support the St George bid

One memo to staff early this month said: "As the society's board has unanimously recommended acceptance of the transfer proposal, staff should encourage ticking the box in favour of the proposed resolution."

About 77 per cent of votes supported the resolution to merge with St George, a comfortable margin above the two-thirds minimum required under the society's rules. About 1,400 votes were lodged from the society's 250,000 members, so about 80 per cent of the votes were proxies.

The biggest question on the shareholders' minds was why their society could not remain independent.

One member asked why State Bank had not offered to sell back its fixed shares to the society.

He said the directors should give the society back to the members who had$1.6 billion invested, compared with State Bank's $3 million investment in fixed shares. (State Bank owns all the fixed shares in the society, bought in 1982 for $3 million. The shares give the bank control of the society's eight-man board.)

Mr Kearns said the bank would have liked the society to buy back its shares, but the amount of money involved made this an unviable alternative, given the society's earnings. He said the bank had closely looked at this alternative.

Ultimately, if the society wanted to remain a co-operative, St George was the only building society large enough to pay the $75 million demanded by the bank. In six years, the bank has made 25 times its original $3 million investment.

Another member asked why the shareholders were not compensated in the same way as were the directors. The third motion at the meeting authorised a $12,000 payment to each director to compensate loss of office.

Mr Kearns replied that members would get the same service as they did at the State Building Society.

Another told the meeting that the directors were giving St George a "carte blanche to play around with us", and this was also greeted with applause.

Mr Kearns replied that St George was a co-operative society, service to members would be "almost identical", that SBS staff would have a say in management of the society, and that he was "confident the directors of St George will look after your interests".

One member, speaking against the first resolution, tried to amend the resolution so that retained earnings of the society would be divided among withdrawable shareholders.

While this was greeted with applause, it was a futile effort, as Mr Kearns ruled that the meeting could only vote on the resolutions sent with the notice of meeting. The amendment, which Mr Kearns said was another motion, would have to be voted on at another special general meeting. This was supported by the society's rules.

Independent directors of the society were vocal in their support of the resolution.

The biggest surprise was Mr Bruce Treloar. He had attacked the State Bank's merger bid in May, saying the bank would "asset-strip" the society. Mr Treloar was once referred to by the State Bank as "notorious" and part of the "Tamworth mafia".

But yesterday he was in line with his colleagues on the board.

He was "terribly concerned about the SBS staff", and concluded that the St George offer was a practical solution.

Mr Alwyn Thomas, made a plea to shareholders to support the St George motion, saying their opposition was because of "fear of change".

As a chairman of the Premier Building Society, and then a director of the RSL-Premier Building Society (which became the SBS in 1982), he knew all about building society transfers, and said the Registrar of Co-operative Societies always had members' best interest in mind.

Members had nothing to fear, he said, as the four independent directors were there to look after withdrawable shareholders, and would not sell them out.

The independent directors include Mr Treloar, a Tamworth retailer and director of a regional television station, Mr Ross Cribb, chief general manager with TNT, and Mr Warren Osmond, secretary of the NSW branch of the RSL.

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The Sydney Morning Herald

REGULAR SHORTS

Author: EDITED BY ALEX POLLAK
Date: 23/08/1988
Words: 1381

Publication: Sydney Morning Herald
Section: Business
Page: 39

BOYISH BANKER RUBS HANDS WITH GLEE

JOHN O'NEILL must be rubbing his hands with glee. The boyish looking bank teller this week flogged the State Building Casino to St George for $75 million - $70 million more than the silver-tongued Nick Whitlam paid in 1982.

But the young head honcho really scored a bonanza with the settlement the State Bank received from the Commonwealth Bank late last year after its mammoth six-year court battle.

A close look at this year's State Bank balance sheet should reveal that about $330 million was deposited into the coffers of the marble mahal in January.

The figure comprises a $200 million settlement from the Commonwealth to tear up the 1931 agreement which prohibited the State Bank from operating a savings bank in return for a share of the Commonwealth's NSW savings bank profits.

Another $130 million in back payments, relating to profits that had not been paid during the dispute, also was forked out to the State.

It was Nick Whitlam who decided to take the Commonwealth to court over the matter rather than accept $40 million in an out-of-court settlement.

Only time will tell whether the final outcome was better than simply taking the $40 million and buying the State Building Society back in 1982 to build a substantial savings bank network.

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The Sydney Morning Herald

STATE BANK REPORTS RECORD $73.3M PROFIT

Author: By PAUL CLEARY, Banking Writer
Date: 13/09/1988
Words: 669

Publication: Sydney Morning Herald
Section: Business
Page: 46

The State Bank of NSW has reversed a four-year decline in key earnings ratios, reporting a 40 per cent lift in pre-tax profit to a record $73.3 million in the year to June 30.

It was a landmark year for the State Bank. The main highlight was the termination of the 57-year-old Amalgamation Agreement with the Commonwealth Bank. The bank claims the agreement had a big impact on its earnings, precluding access to low-interest deposits.

Managing director Mr John O'Neill, in his first full year at the helm, said financial ratios were not good, but the bank had turned the corner.

"Our ratios aren't anywhere as good as our competitors', but we have reversed the trend," he said.

"The trend is heading in the right direction and I want to emphasise the importance of the Amalgamation Agreement in freeing us to compete."

The year also saw the possibility of privatisation being raised, while the sale of the State Building Society brought a 12-year association to an end.

But the State Bank's change of strategy in selling the society came while another door opened through the acquisition of a 9.6 per cent stake in Advance Bank Australia.

Mr O'Neill said the stake was seen as a "defensive" interest, blocking others from taking control, and as an "offensive" holding for when opportunity arose.

He said the privatisation question had to be settled soon so the bank could "get on with the business of banking".

Pre-tax profit rose 40 per cent to $73.3 million. Net profit would be about$37.4 million, although the bank pays a relatively higher effective tax rate of 49 per cent to its shareholder, the NSW Government. It lost $12.9 million in bringing to market value securities and equities.

Its pre-tax return on assets, which had declined in the past four years, rose to 0.66 per cent from 0.53, although this was half that earned by the three major private banks and State Bank Victoria. After-tax return on capital, excluding quasi-capital, is less than 5 per cent.

Total assets rose 19 per cent to more than $12 billion, while a number of revaluations plus a $US250 million quasi-capital issue lifted its gearing to 8.8 per cent from 6. The bank's strong capital position is expected to allow asset growth of about 20 per cent this year.

More than 42 per cent of its earnings were non-interest, a high proportion in view of the favourable interest margins last year. The bank's move into funds management, stockbroking and other fee-based earners is expected to cement this position.

Its excuse for poor performance is the impact of the Amalgamation Agreement. The agreement had prevented it from competing with the Commonwealth Bank in raising deposits, so the Commonwealth's success in generating low-interest deposits prevented the State Bank's tapping of this market.

Exposure to a number of troubled companies forced the bank to make much higher debt provisions. It has a $15 million exposure to Materials Technology, which is in receivership, and what is believed to be a $17 million exposure to Network Media, also in receivership.

Provisions for bad and doubtful debts are high. A $117 million general provision was established during the year. It covers 1.79 per cent of gross loans, while its specific provision is 1.13 per cent of loans.

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The Sydney Morning Herald

DRAGON ROLLS OUT THE CARPET

Author: By LEA WRIGHT, Marketing Writer
Date: 28/09/1988
Words: 328

Publication: Sydney Morning Herald
Section: Business
Page: 32

After grabbing the assets of the State Building Society, the enlarged St George Building Society is determined to grab the hearts and minds of its customers.

This week, using a specially prepared television and print campaign, St George hopes to welcome across all State Building Society customers who will officially join St George on October 1.

And the campaign theme? It simply is "Welcome to St George".

The television commercial shows the transformation of a State staff member into a St George employee, where the green and white State uniform changes into the red and white St George outfit.

When the merger with the State Building Society becomes formal on Saturday, St George will be the largest home-mortgage lender in NSW with a portfolio of$4 billion and assets of more than $6.2 billion.

St George - with more than 300 retail branches - also will become 10 times larger than its next-largest rival.

The commercials will be backed by strong press and radio advertising.

Although the advertising budget was undisclosed, is it estimated to be more than $300,000.

The campaign is designed to reassure all State Building Society members that they can continue to use their current accounts in all St George outlets, despite the changeover in signage.

State Building Society Greencards can also be used in all the St George Cashcard Teller machines.

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The Sydney Morning Herald

GOVT SOON TO DECIDE STATE BANK'S FUTURE

Author: By PAUL CLEARY, Banking Writer
Date: 10/10/1988
Words: 614
Publication: Sydney Morning Herald
Section: Business
Page: 27

The ownership of the State Bank of NSW will be decided within three weeks, according to the bank's managing director, Mr John O'Neill, who said the NSW Government would hand down its decision by the end of this month on whether the bank should be privatised.

Mr O'Neill said yesterday he favoured a public float followed by a friendly merger with Advance Bank Australia Ltd.

Mr O'Neill outlined the timetable and options for the State Bank at the opening of the bank's new dealing room.

A merger between the State and Advance would yield the most powerful bank in NSW, with almost 500 branches and $17 billion in assets. Both operations are largely contained within NSW.

Management of both banks regard their operations as a good fit. Advance is a savings bank and State is a trading bank, which was precluded from savings bank business until December last year.

Mr O'Neill said he would like to see the State Bank floated with the State Government retaining a 25-30 per cent interest.

The bank had some "exciting expansion and acquisition plans", and he included Advance Bank as one of them.

As a Government-owned bank, the State could not proceed with acquisitions, Mr O'Neill said, citing criticism raised during the bank's failed merger of the State Building Society which questioned the bank's right to acquire a private organisation.

For this reason, it is understood formal discussions with Advance have not yet taken place.

State Bank holds just under 10 per cent of Advance Bank. Other major shareholders are Mr Larry Adler's FAI Insurances, the Bank of New Zealand and Mr Solomon Lew.

Mr O'Neill's preference for the bank was a "structured float", with 10 per cent sold to staff, 10 per cent to customers and the remainder held by the public and the State Government.

He said the other alternative was to sell to a major bank, and singled out the ANZ Banking Group Ltd as an interested party.

"The ANZ would be a quick fix, but there is much more mileage in a float of the bank which had some of the British flavour to it (similar to privatisation in that country)," Mr O'Neill said.

A float, he said, gave the bank the opportunity "to do something with Advance Bank". Sale of the State to a major bank would render a merger with Advance unpalatable, given the concentration that would follow the three banks' merging.

While Advance Bank has restrictive articles of association, principally a trustee with a 40 per cent blocking stake, Advance publicly has indicated interest in a merger - on its terms. Both the bank and the NSW Treasury are making submissions for the report.

While State Bank is a poor earner, the State Government has the incentive of receiving all the bank's taxation. Sale of the bank would see this revenue going to the Federal Government. In the year to June 30, State Bank paid about$38 million in tax, although its return on equity was less than 5 per cent.

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The Sydney Morning Herald

STRONG SUPPORT FOR ST GEORGE ISSUE

Author: By PAUL CLEARY, Banking Writer
Date: 18/10/1988
Words: 483
Publication: Sydney Morning Herald
Section: Business
Page: 49

A year after St George Building Society members shunned the society's first capital raising, they have given strong support to the group's latest rights issue.

Ironically, the popularity of the issue could prove worrying for management because the issue to former members of the State Building Society could raise up to 200 million shares - well above the society's forecast of 17 million shares.

St George's 1-for-2 $26.5 million rights issue has been finalised, with acceptance by 88.4 per cent of shareholders, while the issue to former withdrawable shareholders in the State Building Society is now under way.

Managing director Mr Fred Shield said the success of the rights issue proved the continuing support among members to strengthen the society's capital resources.

Brokers said the extremely favourable terms of the State offer could result in about 100 million shares being issued to the former State shareholders.

Former shareholders in the State Building Society, which St George acquired on October 1, have the option to convert their $1.048 billion in $1 withdrawable shares into fixed shares in St George.

The result for St George could be a significant reduction in asset backing and a much larger dividend payout by the society, as it has forecast it would issue only 17 million shares to State members.

St George's original offer of 100 million $1.50 shares a year ago only raised $53 million, due mainly to uncertainty over the society's first issue. But a year down the track, trading in St George shares via a private share registry has proved to be workable, further encouraging the one-off issue to State members.

With the offer heavily discounted at $1.50 and St George shares closing yesterday at $2.65, St George can expect a similar enthusiastic response as for the 1-for-2 rights issue. Letters are now going out to the State members.

The only condition for State shareholders is that they have at least $500 dollars in their account, and can buy 100 St George shares for every $500 invested.

St George will have only 54.8 million shares on issue after the rights issue and a placement of 1.7 million shares, so State members could end up dominating the society's share register.

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The Sydney Morning Herald

ST GEORGE TO CLOSE 16 COUNTRY BRANCHES

Author: By PAUL CLEARY, Banking Writer
Date: 02/11/1988
Words: 466

Publication: Sydney Morning Herald
Section: Business
Page: 47

Sixteen country branches are targeted for closure and senior staff defections are under way, just a month after St George took control of the$1.6 billion State Building Society.

Work on the merger, which took effect a month from yesterday, has identified 16 country towns where there are two State and St George branches. It is likely that a branch in each town will be closed, particularly when the population of each town cannot support two offices.

Meanwhile, two of the three assistant general managers in SBS, which formed the second tier of management, have resigned.

Mr Greg Bates, the assistant general manager of finance, left for the State Bank before the merger took effect, while Mr Terry Smith, the assistant general manager of operations, resigned last month. The SBS treasurer, Mr Ian Bleys, is on extended leave.

It is believed a number of other senior managers are planning to resign.

St George managing director Mr Fred Shield maintains that no management changes have taken place, and that the societies will continue to run independently until computer systems can be integrated fully. He denies that senior management in SBS had all been moved down a place from their previous positions.

He said the society had focused only on branches in country towns, and had not yet looked at city locations. Mr Shield said branches in the 16 country locations would be closed if it was determined that the population was not large enough to support two offices, although none had yet been closed.

St George guaranteed in its merger offer that salary and conditions would be maintained for 12 months.

Mr Shield, however, has made a new commitment, stating that all positions in the merged group would be declared vacant when the societies were fully integrated, allowing all staff from both organisations to bid for positions. He has written letters to management informing them of this.

As with the bank mergers earlier this decade, the dominant party faced a large number of resignations from the other bank. In the National Australia Bank's merger with the Commercial Banking Company, former employees of the CBC say that only a minority of senior management remained.

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The Sydney Morning Herald

REGULAR SHORTS

Author: Edited by Glenn Burge
Date: 29/11/1988
Words: 1204
Publication: Sydney Morning Herald
Section: Business
Page: 33

WILL THE HAPPY DRAGON SLAY THE INVESTORS?

AS THE closing date for St George's generous share offer to State Building Society shareholders moves closer, the Happy Dragon's share price appears to be coming under some pressure.

St George's share price closed yesterday at $2.35, but only after some brave investor suddenly entered the market late, undeterred by the shares touching a low of $2.10 during the day, or the recent trading history.

Last week, St George shares traded between $2.15 and $2.35. The shares were trading at between $2.55 and $2.65 in the week ended October 21. Happy Dragon shareholders are perhaps wondering why the share price has fallen in recent weeks.

The answer can be found in the decision of St George boss Fred Shield and his toiling executives generously to offer withdrawable shareholders in the State to swap their $1 shares for $1 fixed shares in St George at a 50c premium ($1.50), on the basis of 100 St George shares for every 500 State shares.

Given St George's current share price, State scrip holders may think that effectively paying $1.50 to take up shares selling for $2.35 was good business.

Analysts have, however, noted that the extremely favourable terms of the offer could result in around 100 million new St George shares being issued to State shareholders.

Assuming this figure when the offer closes early next month, they will outnumber St George's existing 55 million shares on issue (some may be tempted to call this a takeover).

While many St George shareholders may be new to the share issue game, when a company issues extra shares the share price often falls, if only temporarily, although the asset-backing is diluted - in this case rather heavily.

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The Sydney Morning Herald

ST GEORGE HALF-YEAR NET UP 25PC TO $15M

Author: KAREN MALEY
Date: 23/12/1988
Words: 328
Publication: Sydney Morning Herald
Section: Business
Page: 19

St George Building Society has announced a $15 million operating profit after tax for the six months to November 30, a jump of more than 25 per cent over the corresponding period last year.

Over the same period, however, St George's assets increased by 41 per cent, or $1.89 billion, of which $1.6 billion came from its acquisition of the State Building Society in August.

St George's recent rights issue, combined with the special placement and issue to former State Building Society members, increased St George's issued share capital to $77 million. Its share capital and reserves now total $306 million, representing 4.7 per cent of total assets.

An interim dividend payment of 6c for ordinary shares and 2c for the new shares allotted on October 1 has been credited to members' accounts.

During the six months, St George lent $825 million for housing, which the society claims makes it the largest home lender in NSW.

St George's managing director, Mr Fred Shield, said yesterday that he was expecting the level of home lending to drop back in the second half of the year because of higher interest rates.

He added that he was anticipating the profit result for the second half to be "at least as good as the first half of the year".

According to Mr Shield, the St George board was "very pleased" with the $75 million purchase of the State Building Society.

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The Sydney Morning Herald

ST GEORGE LIFTS TAKE 43PC TO $36M AFTER STATE BUY

Author: By KAREN MALEY Banking Writer
Date: 19/07/1989
Words: 427
Publication: Sydney Morning Herald
Section: Business
Page: 26

St George Building Society has lifted its net profit by 43.6 per cent to$36.48 million in the year to May 31.

Extraordinary items, arising from the sale of properties and Metway shares which were acquired with the purchase of the State Building Society, lifted profits a further $11.09 million.

Commenting on the performance, managing director Mr Fred Shield said it was a good result "given the economic climate and the effects of the transfer of engagements from the State Building Society".

He said that integrating SBS's operations had "consumed a lot of time and effort", but that the process had culminated with the joining of the two computer systems at the end of April.

St George paid $75 million to acquire the State Building Society, which became part of St George on October 1 last year.

In the long-run, Mr Shield said the acquisition of the SBS "will be of great advantage ... we believe it was important to us in that it gave us a greater share of the market in NSW".

Mr Shield said that lending for housing had been strong in the first six months, but had fallen off in the second half of the year in line with higher interest rates.

The group lifted total assets to $6.89 billion in the year (up 49 per cent), making St George Australia's eighth-largest financial institution.

St George lent $1.42 billion for housing during the year, up 39.7 per cent on the previous year, although 58 per cent of the lending was done in the first half.

St George also increased its permanent share capital to 85.2 million share, through a rights issue and special share placement, the issue of permanent shares to eligible former SBS members, and the society's first bonus share issue.

The society paid fully franked dividends of 42.9c per share, comprising 13c cash and 29.9c in bonus issues.

Shareholders' equity represents 4.94 per cent of total assets, and St George estimates that net tangible asset backing per share is $3.72.

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The Sun-Herald

CARR'S QUESTIONS

Date: 11/03/1990
Words: 183
Publication: Sun Herald
Section: Business
Page: 43

NSW Opposition leader Bob Carr has asked the Premier Nick Greiner:

* Has the State Bank of NSW made loans or other financial accommodation, either on its own or as part of a banking syndicate, to any major corporate group or company which is presently in financial difficulties?

* What is the total debt owed to the State Bank of NSW by these companies

* What are the names of these companies?

* What amounts are owing by each of the companies to the State Bank of NSW?

* What security has the State Bank of NSW over each of the debts of the companies?

* Where is the security for each debt domiciled?

* What provisions has the State Bank of NSW made for bad debts in the financial year 1989-90 and expects to make in each of the following five years?

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The Sydney Morning Herald

GREINER QUERIED ON BANK BAD DEBTS

Author: By JOHN LYONS and MARK SKULLEY
Date: 17/03/1990
Words: 608
Publication: Sydney Morning Herald
Section: News and Features
Page: 3

The State Bank of NSW is set to become embroiled in a political campaign, with the NSW Opposition pursuing the Government over the bank's lending to troubled companies.

The Opposition Leader, Mr Carr, has placed on notice a series of questions to the Premier, Mr Greiner, who is also the Treasurer, in an effort to establish the total debt owed to the State Bank by these companies and the security the State Bank has for the loans.

Mr Carr is seeking the names of the financially-strapped companies to which such loans have been made and what provision the bank has made for bad debts this year.

The Herald revealed yesterday that the State Bank of NSW had a total exposure of $710 million to collapsed and troubled companies such as Girvan($119million), Qintex ($195million), a Westmex subsidiary, Charterhall ($150million), Hooker ($120million), Chase ($52.5million), Equiticorp($35million) and the Goldberg group ($25million).

The acting chief executive of the State Bank of Victoria (SBV), Mr Jim McAnany, said yesterday the entire Australian banking sector had experienced a "hell of a time" and "the amount of potential blood out there is enormous".

The group managing director of the State Bank of South Australia, Mr Tim Marcus Clark, has predicted that the rest of 1990 and 1991 would be a "very difficult" period.

The managing director of the State Bank of NSW, Mr John O'Neill, admitted that the bank had up to $500 million in loans which were not earning interest

The State Bank of NSW - along with the State Banks of Victoria and South Australia - were stimulated by Labor's deregulation of banking to compete for the corporate dollar.

All three boosted the corporate side of business, from a low base, from about 1984 onwards and began competing against the "big four" private banks, which meant taking some of the more marginal cases.

The SBV has now provided for total bad and doubtful debt of $1.5 billion after exposures to companies such as the Qintex group, Duke Securities, Bond Corporation and Equiticorp.

Mr McAnany concedes that the SBV's merchant bank Tricontinental was a "disaster for a whole range of reasons", but says the damage has been stopped and the bank itself is strong.

The State Bank of South Australia has more than doubled its provision for doubtful debts at June 1989 to $108.3 million, up from $51.9 million. Its result for 1988-89, although profitable, also included a $17.5 million write-off of bad debts.

The secretary of the State Bank of NSW, Mr Rick Turner, said that during the past two weeks there had been attempts in the Victorian Parliament to paint the NSW State Bank "as being equally poorly managed" and with as many problems as the State Bank of Victoria.

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The Sydney Morning Herald

A TENDER MOMENT FOR THE HARDENED CYNICS

Author: MARK WESTFIELD
Date: 27/08/1990
Words: 988
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Section: Business
Page: 25

The Commonwealth bank's $1.6 billion purchase of the troubled State Bank Victoria bears the hallmarks of a dramatic, Reserve Bank-led rescue. It is reminiscent of ANZ's forced purchase of Bank of Adelaide in 1979 and, for students of history, Commonwealth bank's acquisition of the Government Savings Bank of NSW during bankrupt years of the Lang Government in 1931.

The sale was announced fortuitously at the weekend, in time to allow State Bank Victoria to release a result yesterday that excluded the mind-boggling $2.7 billion in bad and doubtful loans accumulated by its free-wheeling merchant bank, Tricontinental Corp.

Had the sale not gone ahead and SBV was still saddled with Trico, the bank would have been obliged to announce a loss of nearly $2 billion, wiping out its $1.6 billion in capital and plunging it deeply negative.

Such a scenario would have rocked the Victorian banking sector already reeling from the financial collapses and scandals confined largely to that State. It probably would have destabilised the national banking base. SBV is the country's fifth-largest bank and wary, shell-shocked Victorians no doubt would have rushed the $13 billion deposit base.

Trico has been excised from the sale, but remains a festering sore for the Victorian Government. Victoria's only consolation will be the $400 million Federal Treasury is paying in a lump sum to compensate Victoria for future income tax SBV would have paid the State.

There is no doubt now that SBV had to be absorbed into another bank, but which bank? The way the transaction was conducted will do little credit to the parties, although Commonwealth was the innocent beneficiary.

For a start, there should be no pretence that SBV was sold by a proper tender. Commonwealth had a good head-start on its bigger rivals, ANZ, National Australia and Westpac. As a result, it will vault over Westpac soon to become Australia's largest domestic bank and will dominate Victoria, moving to 37 per cent of deposits, double that of ANZ and NAB (about 18 per cent each).

The SBV information memorandum prepared by Merrill Lynch for the Victorian Government was delivered to Commonwealth on August 14, at least three days before it was sent to the other "tenderers". With the deadline for offers set at August 23, ANZ, for instance, believed it had insufficient time to prepare a well-considered offer and sent a polite letter declining to bid. NAB and Westpac lodged hurried offers.

Citibank and Chase AMP, which also received the documents, declined to take part in the "tender".

By the time the bids reached final form late on Saturday night, NAB had dropped out and Westpac lost the two-way race despite offering more money.

Commonwealth bank, its adviser Bankers Trust and the Federal Treasury had the race sewn up long before. Westpac will fall hungrily upon Bank of Melbourne as consolation prize, and ANZ and NAB will start chasing Advance Bank and/or State Bank of NSW.

All this will come as no surprise to hardened cynics, who would believe that a Victorian Government led by left-wing Premier Joan Kirner would not have entertained a bid from a private sector bank. The Government, Labor dogma says, is not supposed even to be selling the bank in the first place.

Now Commonwealth has SBV to itself, the $1.6 billion price tag is subject to any adjustments downwards that the buyer may impose arising from the due diligence examination that began yesterday.

A senior Commonwealth executive said the State Government had promised to hand over a "clean" bank, which suggests Commonwealth will be going through SBV's books with a fine-toothed comb. The sale also will be subject to continuing indemnities offered by the State, mainly in relation to any backwash from the Trico debacle.

Now that the Treasurer, Paul Keating, has presented Labor with a fait accompli in the purchase of SBV, his next task is to soften up the party for the 30 per cent float of the Commonwealth.

Pricing will be based on a mixture of dividend yield, capitalised earnings and net assets, and pro forma profit estimates showing the impact of the SBV merger. The float will raise up to $1.5 billion and will be the largest in Australian Stockmarket history. As already foreshadowed by the Treasurer, the superannuation funds as custodians of the billions flowing from the industry super awards are expected to be the float's main subscribers.

Keating now faces a hostile Left Wing at the special September 24 conference on the future of Commonwealth bank, Qantas, Australian Airlines, and Telecom. Keating has rendered irrelevant any decision other than whole-hearted endorsement of privatisation.

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The Sun-Herald

LENDING ORGY 'SUPERVISED'

Author: By ROGER SCOTT
Date: 01/09/1990
Words: 1307
Publication: Sun Herald
Section: Business
Page: 49

STATE Bank Victoria's $3,800 million orgy of entrepreneurial lending was conducted under the supervision of the Reserve Bank of Australia.

The Reserve Bank supervision of SBV revealed by the former Victorian Treasurer Rob Jolly, came in the wake of a trail-blazing agreement in 1965 with the State Bank of NSW and flies in the face of comments by the Treasurer Paul Keating.

The full extent of SBV's $2,700 million losses - the biggest in Australian history and due largely to its merchant bank Tricontinental - were revealed last weekend ahead of Tuesday's Victorian Budget.

Their disclosure climaxed frantic negotiations that followed an approach to the Treasurer on June 19 by the Victorian Government, which had by then become aware of the "likelihood" of SBV-Trico losses of the order of $2.7 billion.

Mr Keating described his personal involvement in detail on Tuesday after it was announced SBV would be sold to the soon-to-be privatised Commonwealth Bank for $1,600 million.

The Treasurer, explaining how he had averted "a major crisis" in the Australian financial system, attributed to SBV's losses - and the potential financial crisis - to SBV's lack of Reserve Bank supervision.

But the supervisory role of the Reserve Bank was detailed in the back pages of a statement issued on February 23 by Mr Jolly, announcing then that SBV's losses had blown out to a record $1.3 billion.

In his statement, Mr Jolly said: "In recent years the (Victorian) Government has placed some reliance on an informal agreement between the State Bank and the Reserve Bank for the Reserve Bank to supervise the Bank and for the State Bank to meet the prudential guidelines of the Reserve Bank.

"Under these arrangements the bank and its auditors have reported regularly to the Reserve Bank, met its capital adequacy requirements and, in virtually all respects, the State Bank has had a relationship with the central bank which has been identical to that between the Reserve Bank and the private banks authorised under the Banking Act."

While Mr Jolly did not quantify "recent years", he admitted the arrangements had never been publicly acknowledged nor formalised.

Also, the Reserve Bank's 1990 annual report, released last week, said: "Banks owned by State governments are not subject to the Banking Act. However, they comply voluntarily with Reserve Bank requirements."

Nevertheless, Mr Keating unleashed an unprecedented attack on Australia's State and private banks, demanding they cut interest rates and threatening"retribution" if they did not narrow lending margins.

He cited the Reserve Bank's supervisory role as the "reason we don't have any Federally supervised banks in difficulties".

Mr Keating said every major bank entry was looked at (by the Reserve Bank)as part of a weekly process.

"No Federally supervised bank is in difficulties whatsoever. The only things in difficulties are ones which have had inadequate supervision," he said.

Mr Keating said SBV's Trico arm had a "book" of $3.8 billion "of which it's got losses of $2.2 billion".

"It's an unbelievable level of failure. I mean, if one just took a pin and ran it across the equity pages of our newspapers and invested the money in the stocks of any of the companies I doubt you could have lost $2.2 billion worth of the $3.8 billion, but that's what managed to happen."

Mr Keating said the SBV-Trico problem was that of trying to run a commercial bank from basically a housing institution without "adequate supervision".

"The view by State governments that they should not surrender control, if you like, or supervision of their banks, to the Federal authorities is a very naive one and a very costly one as it turns out," Mr Keating said.

"State banks today are an anachronism in the Australian financial system".

Mr Keating said the SBV-Trico kind of occurrence could be diminished if State banks were properly supervised "and that means looking at their book on a sort of weekly basis, or monthly basis".

The Treasurer said State banks did not have the expertise for aggressive commercial lending and those seeking growth tended "to pick up business they might not otherwise pick up".

But the State Bank of NSW, as also implied by Mr Jolly with SBV, has long been committed to complying with the Reserve Bank's prudential guidelines.

State Bank of NSW secretary Rick Turner yesterday explained that this first took the form of an exchange of letters initiated by "Nugget" Coombes, Governor of the Reserve Bank in 1965, and acknowledged by successive governors, "which obliges the bank to comply with the risk-weighted capital adequacy guidelines, the prime assets ratio, and other prudential guidelines"

"Further, this bank submits statistical reports weekly, monthly, quarterly, six-monthly and annually and has regular consultations with the Reserve Bank about the conduct of its activities; all on exactly the same basis as its nationally operating bank competitors," Mr Turner said.

This, he said, was mandatory for a bank which wished to be regarded as a full service commercial bank, but he could not say whether the State Bank of Victoria had also adopted this procedure.

"The crux of all the prudential regulation in place now is that the Reserve Bank does not supervise you in terms of: you ought or ought not make a loan; it does not supervise you in terms of you ought or ought not have subsidiaries; it doesn't supervise you in the sense that you ought or ought not run your liabilities short, long or medium term," he said.

"All these things, the Reserve Bank says, are decisions for management 'but if you get yourselves into trouble don't think we are going to save the shareholder or management, all we are interested in is protecting the depositor'," Mr Turner said.

The Reserve Bank, Mr Turner believes, sees its role as only stepping in when depositors are going to lose as was the case with the collapse of the Bank of Adelaide and its subsequent merger with the ANZ.

He said Mr Keating's claim that the State Bank of NSW was not Federally supervised was "false".

"It's a mistake on his part. I don't know if he's being deliberately false, he's just being a bit too loose with his words," he said.

"The other thing we take a bit of umbrage with is his suggestion that we have no competence in making commercial loans.

"The cynical reaction to that is to say: 'OK, I suppose we ought to go across to Westpac and ask them how to avoid loans to Hooker or Northern Star, and are we supposed to run down to the Commonwealth Bank and ask them how to avoid loans to Qintex, or down to the National Bank and ask them how to avoid loans to Bond Corp'," he said.

"The key with the problem loans that this bank has is we are members of syndicates which are led by, or contain, any of the four nationally operated Banks."

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The Sydney Morning Herald

THE LESSONS TO BE LEARNT FROM THE FAILURE OF A GREAT BANK

Author: GERALD HARVEY
Date: 21/04/1991
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Page: 11

SIXTY years ago today the Government Savings Bank (GSB) of NSW closed its doors in what was one of the great tragedies in Australian banking history. Students of the Great Depression years, as well as the staff of the bank itself, have argued over the intervening years the reasons for the bank's closure, over who was to blame and who was responsible for its subsequent rehabilitation.

The staff largely blamed the Commonwealth Bank for not supporting the GSB to meet the "run" on its funds. The Commonwealth Bank refused unless the NSW Government would agree to an amalgamation, which Jack Lang, the then State Premier, dogmatically refused to consider. There were, however, more involved reasons for the "run," details of which have only emerged in recent times.

There had never been any suggestion that the GSB was not in a sound financial position. It was the second largest savings bank in the then British Empire with 90 million pounds invested in both State and Federal Government securities. It was also six times the size of the Commonwealth Bank. Its collapse was a result of political intrigue and intervention which was never fully disclosed to the public.

State politics leading up to the elections to be held in October 1930 were being played as hard and ruthlessly as they are today. The then Premier was T.R. Bavin, of the Nationalists, with Jack Lang as his Labor opponent. Insidious rumours were flying about that, if Lang was elected, he would seize depositors funds of the GSB to help finance a number of radical schemes which formed part of his election platform.

Lang won the election and, in February 1931, put forward a three-point plan for economic recovery. He proposed to reduce interest on all Government borrowings to 3 per cent, refuse to pay interest to his Government's British bondholders and to abandon the gold standard.

In early 1931 the NSW Government failed to meet an interest payment of 432,515 pounds due on loans from the GSB. Earlier, it had also failed to meet a request by the bank for repayment of the principal amount of 250,000 pounds of Government stock which had become due but had not been paid to the bank on maturity.

These defaults by the Government were hidden from the public by the bank's commissioners for some time but, when they became known and received wide publicity, the public were, understandably, concerned and confused. They were then reminded of earlier suggestions that Lang would seize their money and they feared that this had come to pass.

Lang expected to obtain federal funds from the Loan Council to meet these commitments but the Federal Government, alarmed by Lang's extremist policies and in particular his default in payments to overseas bondholders, refused him the funds for this purpose.

Withdrawals from the bank began to mount. Mr H. D. Hall, the president of the GSB, sought unsuccessfully to meet Lang to discuss the mounting crisis. On March 5, Hall asked Lang for 100,000 pounds as part payment on the amount owing to the bank by the Government to help meet these withdrawals. Lang informed him that the Treasury was unable to make this payment.

On March 9, Hall informed Lang that, without assistance, the bank could not continue to meet its obligations. Lang agreed that Hall should approach the Commonwealth Bank for assistance but was adamant that he would not agree to an amalgamation of the two banks.

The then governor of the Commonwealth Bank, E. C. Riddle, would give no guarantee of assistance without amalgamation, while Lang remained convinced that Canberra would eventually help out.

The stand-off continued until April 21, when the NSW Cabinet finally bit the bullet and decided to negotiate an amalgamation in a belated effort to stem the tide. It was too late. The GSB closed the next day.

Who then was blame for this disaster which saw an otherwise solid, well-managed institution brought to its knees?

* Premier Bavin's scare tactics certainly sowed the first seeds of doubt about the bank's stability.

* Jack Lang, as Bavin's successor, was determined that under no circumstances would the Commonwealth Bank ever gain control of the State Savings Bank, as it was generally known at the time. His own treasury funds had, by early in 1931, become seriously depleted by what was considered at the time to be his radical welfare and financial reforms.

These reforms had left him with little funds with which to honour his obligations to the GSB, but he nevertheless remained steadfast in his conviction that the bank should remain firmly in the State's hands.

* The then Federal Treasurer, E. G. Theodore, stated frequently at the time that he would not extend federal funds to support a State bank which was subject to the whims of a radical State premier.

* E. C. Riddle's role was relatively minor as he handed over responsibility for negotiations on the Commonwealth Bank's behalf to its chairman, Sir Robert Gibson, whose conduct should be seen against the background of his strongly anti-Labor beliefs. He was as dogmatic in his ideas as Lang.

The Premier flatly refused to see either Gibson or Riddle, and all discussions were carried out on the Government's side by the GSB's Hall.

When the Commonwealth Bank was constituted in 1911, it was intended that it would take over the savings banks operated by each State. Lang had frustrated these plans in NSW and Gibson, understandably, saw the negotiations as the means of finally achieving this aim. The GSB was a coveted prize to be won and Gibson pursued the matter with almost ruthless zeal.

Hall, on the other hand, was placed in the frustrating position of having to handle all of the negotiations with virtually no authority from Lang to agree to any option which might become available.

Following the closure of the bank, negotiations were again entered into which finally brought about an amalgamation agreement which provided for the taking over of all buildings of the GSB at book value, the savings bank deposits and the majority of the GSB staff by the Commonwealth Bank. Some functions pertaining to rural clients eventually formed the nucleus of what became the Rural Bank, now the State Bank of NSW.

In the final analysis, there were but two victors who emerged from the conflict - the critics and enemies of Jack Lang who saw his defeat at the next elections, and the Commonwealth Bank which won the GSB, thus fulfilling its aim of 20 years to gain control of all States' savings deposits.

The question which always comes to mind when reviewing the events of the time is: could history repeat itself?

The power of unfounded public rumour should never be underestimated. Although the Government Savings Bank of NSW has been the only casualty of such rumours in this State, runs on financial institutions always shake public confidence and the effects are almost invariably felt by all financial bodies. And once a run gathers pace, it is a most difficult, and can prove a most costly, exercise to stop.

Gerald Harvey was formerly the archivist and historian for the State Bank of NSW, the successor to the Government Savings Bank.

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The Sydney Morning Herald

O'Neill: 'It's time to move on'

Author: By KAREN MALEY
Date: 04/03/1995
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Section: BUSINESS
Page: 39

State Bank of NSW chief executive Mr John O'Neill yesterday informed the bank's staff that he was resigning, only a few months after the big, Melbourne-based insurance company, Colonial Mutual bought the bank from the State Government for $576 million.

Mr O'Neill yesterday told the Herald he was "very, very content and very comfortable with the decision".

"It's a decision that I took on a very personal level. I went away over the Christmas holidays after a very hard couple of years. I've been here for 24 years, I joined here when I was at university when I was 19.

"I'm 43 now, and I've been chief executive for eight years. I always said that 10 years would be a maximum."

He added: "I had an open conversation with Peter Smedley (Colonial's chief executive) a few weeks ago saying I thought it was time for me to move on ... we have a very good relationship."

Mr O'Neill's time at the head of the bank covered the great lending spree of the late-1980s, followed by the recession, which forced provisions for loan losses to soar, and forced many State banks out of business. State Bank of NSW itself suffered heavy losses as a result of the corporate collapses.

Mr O'Neill lists his biggest achievements at the bank as "a combination of surviving the recession and restructuring the balance sheet, so it's now truly a proper regional bank and it's got a good future now it's got a proper owner".

"The fact that we're now a major player in housing lending and deposit raising. We do vanilla banking quite well now and we're out of all the things we shouldn't have been."

He says his biggest regret is that "I didn't move more quickly on getting out of things in 1988 and 1989. I wish with the benefit of hindsight that I'd read the signals earlier and wound back corporate lending and international activities.

"I knew that was what I wanted to do from the time I came in. It's always the real test of a chief executive officer. It is not so much in developing the strategy, that's the easy part, the hard part is the execution."

Mr O'Neill says he will initially take a holiday for a couple of months. But he rejected the suggestion that he would join the ranks of consultants, saying "I'm more inclined to stay in banking in one form or another".

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Copies of actual SMH Newspapers clippings::

State to sell society – now eyes Advance

By PAUL CLEARY, Banking Writer

The State Bank of NSW is aiming to sell its holding of fixed shares in the State Building Society to the St George Building Society – allowing the two societies to merge – and has set its sights on Advance Bank, which has "more attractions" than the society.

The State Bank's managing director, Mr John O'Neill, yesterday said the bank was prepared to sell its stake in the building society to St George if a good offer was made. When asked what this meant for its recent acquisition of a 9.6 per cent stake in Advance Bank Australia, he said:

"Advance has more attractions – John Thame [Advance's managing director] and I admitted recently that the two banks fit very well together."

Advance, Mr O'Neill said, was the best fit among "any other financial institution in the State". There had not yet been any negotiations between the parties.

St George's entry into the fray comes in a letter from St George's managing director, Mr Fred Shield, to the State Building Society's chairman, Mr Paul Kearns, detailing the terms of its bid.

The letter says St George is prepared to buy the bank's fixed shares and then merge the society. Unlike the bid from the Illawarra Mutual Building Society, in which IMB offered only $5 million for the bank's shares, St George is prepared to pay a market price.

The merged group would give St George $6 billion in assets, and would cement its position as biggest lender for housing in the State.

As the largest building society, it would be almost three times the size of its next rival. The State society has 250,000 customers and 100 branches, while St George has more than 200 branches and 1.6 million accounts.

Mr Shield said St George wanted to obtain the society's latest accounts before coming up with a price.

Mr O'Neill said he hoped to meet Mr Shield within the next few weeks and was "interested" in what he had to say about the shares, and would "listen to worthwhile offers".

Mr Shield ... a merger would give St George $6 billion in assets.

EXCLUSIVE

Mr Shield said he had thought the society was not for sale, given the response to the IMB bid. Mr O'Neill said: "We have never said they [the shares] are not for sale", and added that the IMB offer was "ridiculous".

Mr Shield said his offer was serious, and would only be thwarted if the State Government did not put the society on the market.

The State Bank's acquisition of shares in Advance was a clear move away from its bid to take control of the State society. Mr O'Neill's comments yesterday confirm this shift.

In a report to the State Government on the IMB bid, a copy of which has been obtained by the *Herald*, the bank says the shares are worth as much as the market value of the society.

It says that IMB put its value at $48 million, and that it should offer this amount for the shares. The society's strong performance over the year could up this figure.

The report says the society's recent profit surge "is mainly due to casino-like futures trading".

An eight-point list of assurances sent to Mr Kearns by Mr Shield included that:

- existing reserves of the society will be transfered into a special account, giving shareholders "special rights" in the merged entity;
- withdrawable shareholders in the society will be offered fixed shares in St George;
- owner-occupied borrowers in the society on higher rates will be offered the same rates as St George borrowers;
- all employees, except those seconded from the State Bank, will be guaranteed employment; and
- the agency arrangement between the bank and the society would cease.

Bid ensures St George of longevity

The tumultuous first five years of the unregulated financial sector has seen the number of building societies halved to 60 in the wake of mergers and rationalisations.

The nation's biggest society, St George, has been busy in that time ensuring it does not become a dinosaur. Its bid for the State Building Society may well be the key to its longevity.

While the largest may survive, St George has watched rivals merge, convert to banks, or be swallowed in a wave of financial change.

Building societies' share of assets in the financial sector has halved since 1980, from 10.9 per cent to 5.8 per cent in May last year, according to Reserve Bank figures. Total assets have risen from $10.4 billion in 1980 to $17.6 last year, which is down from the 1986 peak of $20 billion.

And there has been a complete change in their way of doing business. Loans to individuals for housing fell from 75 per cent in the early 1980s to 58 per cent last year, as societies moved into commercial and personal loans, which offer better lending margins. Loans to commercial firms rose from 10 per cent to 26 per cent over this period.

They thrived under regulation because savings banks' mortgage rates were controlled by the government, which also made them uncompetitive in raising deposits.

Building Societies could offer higher rates, enticing funds away from banks, and had no trouble lending at about a percentage point above savings bank loan rates.

Societies such as St George had only $100 million in assets in the early 1970s. Over this decade, regulation in the housing market allowed spectacular growth, but it was short-lived. The entry of foreign banks and the de-regulation of housing has made this growth look like an historical accident.

The 1980s became a decade of demise, and St George stood by as the Untied Permanent went to the National Mutual Royal Bank, NSW Building Society became Advance Bank, and in turn, Advance swallowed the Canberra-based Civic Co-operative Permanent Building Society. The small players have quietly suffered the same fate. – PAUL CLEARY

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BUSINESS

CBD

EDITED BY GLENN BUR

You can't bank on gentility at the State

THOSE who thought that the behaviour of banks was more genteel than elsewhere in the corporate sector would be shocked with the State Bank of NSW's rather terse comments on the Illawarra Mutual Building Society's offer for the State Building Society.

A copy of a report on the IMB submission to the Government provides interesting reading, with bank boss John O'Neill's team appearing quite nasty to both the SBS and IMB.

Among the comments, the tome says that the State Building Society's "profit improvement is mainly due to casino-like futures trading," (perhaps an attempt to talk the society's value down?).

However, the real sting was reserved for IMB, the first financial institution to make an offer for the SBS.

The report says: "There is not much to say about IMB. It is a nice little building society. SBS has been its banker for many years. It has not taken the world by storm and its claimed growth rate is very modest.

"All of the alleged advantages [of the IMB takeover offer] are merely specious verbiage. Detailed comment on the annexures would be a waste of time."

Meanwhile, the State Bank has decided to answer those critics constantly chortling about its lousy return on equity.

As just one example, the recent Peat Marwick Hungerfords 1988 Survey of Financial Institutions states that the bank's return on equity is a paltry 5 per cent.

However, the report on the IMB's submission differs, stating: "The track record of SBN in terms of return on assets and equity is misleading to the uninitiated. Adjusted accounts, to reflect different accounting practices of other financial institutions, disclose that the bank's performance is very competitive and on some bases superior."

John O'Neill ... the real sting was reserved for IMB.

The bank states the return is a healthy 16.5 per cent, while its figures on competitors reveal: Westpac (15.5), ANZ (13.3), NAB (13.8). With these figures, Premier Nick Greiner would probably be eager to flog the bank.

Gold float tarnished?

ALTHOUGH BIG Al Bond's float of his motley gold assets has finally made its bourse debut, the effort was apparently at a considerably higher cost than his Dallhold Investments would have expected.

One rumour, emanating from the New York bourse, is that the underwriters, which included Goldman Sachs, slightly had to increase the underwriting charges – that is, double them.

An underwriter normally would charge about 1.5 per cent, a big whack on a $330 million raising. However, it has been suggested that the figure required to flog the float to sceptical investors was closer to 3.5 per cent ($2.20 for each $US63 unit), or a total of around $US10 million ($A12.46 million), for reasons related to the "degree of difficulty".

The helpful chaps at Goldman denied this, saying: "How could
the fee have been doubled
was never formally set?"

The underwriters also
out that it was unfair to
the underwriting fees wer
million, since a portion of
related to "flotation expen

This included costs fro
around the world and st
top hotels to wine an
institutions and get them
up for some scrip, plu
marketing expenses in con
investors they were re
value for their cash.

Barging into a bo

WHILE the oil in
focus in Papu
Guinea has shift
shore to the Pandora I wel
interested in explorer
Petroleum's drilling plan
been moved to tears
company's hard luck story.

Kundu, an offshoot of
Industries, joined the bours
months back after an $18
float. It planned to drill t
South well last month,
plans have been thwarted b
transport problems.

The company decide
rather than adopt the
method of flying in d
equipment by helicopter, it
send a drilling rig up a ri
barge and then transport
road. This was eminently
able, since unlike wells like
the terrain in its permit is
rugged.

But as the barge chugged
waterway under the watchf
of its crew, the depth sou
devices suddenly gave a r
of mud. To the horror
captain, this unfortunate
culation about the water de
the river's upper reaches h
the barge stranded.

Each day, the crew has
looking skyward hoping fo
(or perhaps scouring the
bank seeking some PNG me
man to act as a consultan
find ways for the journ
continue).

Kundu hopes the well c

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CBD

ITED BY GLENN BURGE

lliott ... his African
greeted with horror.

llout from a contaminat-
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NSW Rental Property
st, which was flogged to
estors in March this
adopted some unusual
payment policies that
many unitholders.
rs scouring their letter-
last week were stunned
interest payments were
as at July 1 – a full
fore they received the

complaints with the trust, which they reckon will provide a guaranteed income stream, adjusted for inflation.

You can't say that

ALTHOUGH Illawarra Mutual Building Society boss Peter Jack has accepted running second to St George Building Society in the quest for the State Building Society, some rather pointed comments made by John O'Neill's State Bank about his offer have raised his blood-pressure.

Indeed, the heavy-smoking Jack is contemplating legal action over one particular comment made in the State Bank's report on Illawarra's offer for the State Building Society.

Readers will recall the report made comments including: "There is not much to say about IMB. It is a nice little building society. It has not taken the world by storm and its claimed growth rate is very modest."

However, Peter confided to *CBD* that one comment made about him personally could see some work for the legal fraternity.

Without giving too much away, it can be said that it relates to the fact IMB made its $5 million offer direct to the State Government, and not the State Bank, which owns the fixed shares in the society and whose representatives sit on its board.

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know all the elements of this transaction".

Society took risks: State Bank report

know all the elements of this transaction".

Society took risks: State Bank report

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appoint and remove directors, but one can have control of a company notwithstanding the possibility that another person could, by exercising rights, override that control by appointing or removing directors.

Counsel for BIL, Mr Murray should be excluded from an assessment of risk, because it operated to earn "running yields", that is, continuous interest income on its securities. But Mr Gray said that this view was "inconsistent" with the society's "high turnover" of these securities.

He found there was "considerable evidence that management was fully informed of the positions held (ie, treasury fully disclosed its activities) and, in general, the quality of records and portfolio details was good, with most records correctly filed and retained".

Mr Gray said the fundamental point, however, was whether the society's potential risk was prudent, given its level of capital, and whether it was aware of these risks.

He said: "It is my considered view that the risks were excessive. It is conceded that this remains a subjective matter, and the final view must necessarily be left for the consideration of the bank's representative on the society's board."

"I am unable to come to any view (notwithstanding the attempt to monitor the risk) other than that the society was not fully cognisant of the risk attached."

He added that the society was able to monitor risks only after transactions were closed out.

"In the absence of a well-developed and installed options pricing and hedging model, it is difficult to justify the substantial positions and turnover in bond options which took place."

In his recommendations to the board, Mr Gray said there was no evidence of treasury staff dealing outside limits. "Whilst the trading positions were substantial, these were undertaken with the express approval of management."

"The determination of final trading limits requires resolution with urgency". Interim limits approved by management were "generous".

He recommended that the society withdraw from trading in "caps and floors" and similar instruments "in view of the known high risk and hedging difficulties associated with such instruments".

Mr Gray referred to limits being approved by management, and did not refer to the board of directors' approving dealing limits.

The chairman of the State Building Society, Mr Paul Kearns, said the treasury had moved into new areas which the board had not yet reviewed. He said the board had stopped the treasury from dealing in futures, but it had moved into forward rate agreements – "in practice the risk was the same".

He said the board was not aware of the risks the society was taking until the Mr Gray's report was made.

"The board wasn't aware of the extent of the risks that were taken until that report from Phil Gray brought that out into the open.

"That doesn't mean the board didn't authorise what was going on. As it turned out, there weren't any severe brakes applied to the treasury," Mr Kearns said.

Mr Gray's report was sent to Mr O'Neill on April 19. A few weeks later, the bank decided to put into play its long-held plan to merge the building society.

This was effected with the resignations of the society's general manager, Mr Denis Cleary and its chairman, Mr Ken Dennewald. Mr Cleary was strongly opposed to the merger.

The high risk-taking of the treasury could follow the fact that the society wanted a strong profit result as its best defence against the State Bank's taking it over. The State Bank had effectively controlled the society's board since 1982.

Over this period, the society had posted weak profits, and was likely to be taken over by the State Bank once a restrictive agreement with the Commonwealth Bank was terminated. This came to fruition in December last year, and in May the bank moved to control the board through the two resignations. But over the six years, the society had become fiercely independent, mainly related to Mr Cleary's influence.

Over the past financial year, a big rise in profit would have been a major concern for the society – a weapon to fight off the State Bank's inevitable push to merge the society.

The State Bank is a poor earner, with a 5 per cent return on equity, so its taking control of an organisation with a 25 per cent return weakened the bank's case for a merger. It was also in need of capital which was only 3 per cent of assets.

A strong earnings base could also be used to fight the long-standing argument that the society was a weak entity and needed to merge with a strong partner. The Macquarie Bank's report on the society's future, which was the chief source of independent advice used by the society, said that the society's weak earnings base and poor capital generation was a major problem.

Since May, the bank has given up its quest to merge the society, finding that opposition from within the NSW Government, pressure from the building society movement and antagonism from the society's staff all too hard to handle.

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BUSINESS

TUESDAY, AUGUST 16, 1988 The Sydney Morning Herald

State Bank treasurer slams society over 'risks'

If, as the contemporary quote goes, money is applause, then the State Building Society has got a very big hand indeed for some risky high-wire financial work. PAUL CLEARY looks at a critical review.

: State Building Society's ıry took "excessive" risks, ıot fully cognisant of them, arried an overnight exposure f its capital base, according eport by the treasurer of the Bank of NSW, Mr Phil

report was followed with er from the bank which said ociety's 10-fold leap in x profit to $18 million last ıad been because of "casi- e futures trading".

Gray reported on trading by ociety's treasury during . The report obtained by ydney *Morning Herald* was addressed to the State Bank's managing director, Mr John O'Neill.

The society's high-risk treasury operation could put St George's $75 million payment for the society well above its true value. The State Bank at the time owned all the society's fixed shares and controlled its board. The bank has since sold them to St George, pending the outcome of a shareholders' meeting next Monday.

The State Building Society's results for the year to May 31 showed a huge leap in pre-tax profit – up from $1.75 million to more than $25 million. It is understood that the society's pre-tax profit was $25 million, and its announced profit "in excess of $18 million", was related to provisions.

A press statement on the results said that 50 per cent of its profit came from its treasury. While this followed the fact that a third of the society's assets were liquid securities, the proportionately larger contribution to profit must relate to the society's aggressive trading.

Some sources have said that the treasury contributed more than $20 million of the society's $25 million profit.

Had the society not enjoyed its 10-fold leap in profit, St George would have paid much less. Its $600,000 net profit in 1987 could have seen St George paying a price much more in line with the society's $50 million capital base.

On an earnings multiple of 10 times net profit, the difference in price between the 1988 and 1987 earnings would have been $80 million versus $6 million.

The report, however, exonerates the society's treasury staff, saying that it always dealt within approved limits. Dealing limits normally are approved by the board of directors, although it refers to the limits being approved by "management".

Mr Gray's report said the society had an overnight risk of $10 million during the second week of March, and would have been "at least $20 million" had overnight movements been equal to the worst day in 1987. These risks represent half of the society's capital base.

The society's hedging activities were high, with its trading in forward bond contracts accounting for 3.8 per cent of total market turnover, while its bond options trading was "especially high", accounting for 10.7 per cent of market turnover. The society's asset base translates into less than 1 per cent of the financial sector.

Mr Gray says the society argued that its investment portfolio

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