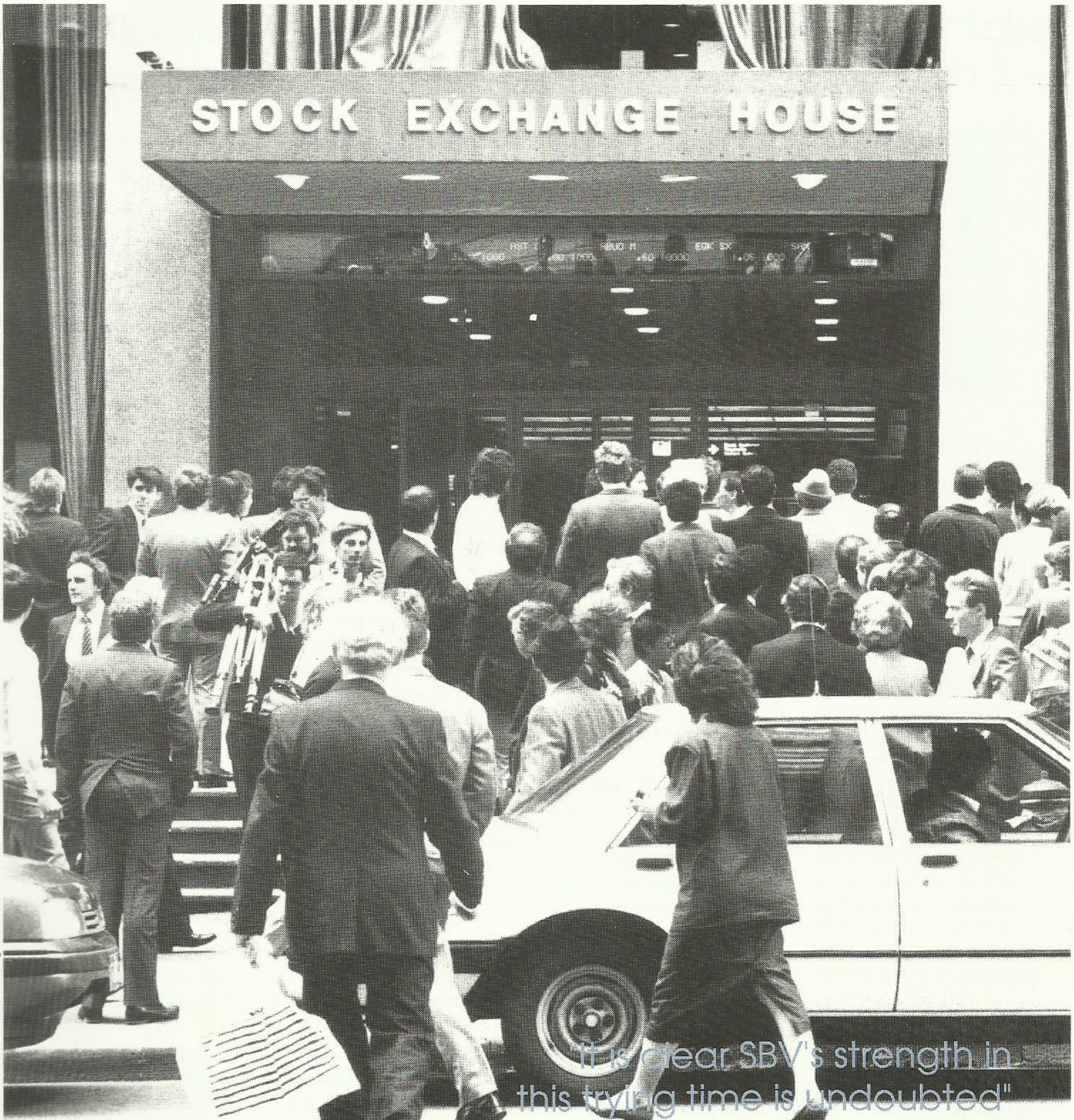
State Bank Victoria

Our Bank

THE CRASH OF '87

November 1987



Picture Cathryn Tremain, courtesy the Age

"It is clear SBV's strength in this trying time is undoubted"
Chief Executive Bill Moyle

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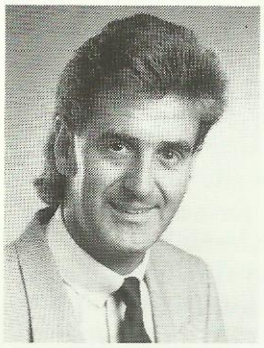
Bank changes its advertising agency

One of Australia's foremost advertising agencies, The Campaign Palace, has been appointed to handle all our advertising, ending a 31 year association with our previous main agency, Dalziel Harper and Grey.


Trevor Salmon

Campaign Palace, highly regarded for its creative advertising campaigns which include Ansett and the memorable No Knickers and Underdaks commercials, starts work on our account in January – the agreement with Dalziel Harper and Grey, formerly Hayes Cowcher Dailey, ends on December 31.

The switch to a new agency follows a six-month review of marketing and advertising strategy.

Senior advertising manager **Trevor Salmon** says the selection was not easy.

"After a great deal of consideration we reached a short list of five, including Dalziel Harper and Grey and Chandler Hambleton Mier, which has been handling advertising for State Banking System for the last four years.

"The short list reflected their creative expertise.

"We had a very difficult task evaluating the five but Campaign Palace's strategic response to our brief gave it the edge in the final analysis."

Diary notes: Christmas parties

Regional staff family Christmas parties planned are:

North-central: Morong football ground December 20

North-east: Merriwa Park, Wangaratta November 29

North-west: Swan Hill Golf Club December 6, Lake Boga December 13

Gippsland: Stratford Knob Reserve November 22, Mirboo North football oval December 6

Melbourne: Albert Park November 29.

New marketing chief takes over from Jack Roach

Marketing department has a new chief manager, **Terry Atkinson**.


Terry Atkinson

He replaces **Jack Roach** who retired on October 16 after a 40 year career. (see story page 3).

Terry, 33, joined SBV in February 1978, under the Bank's new graduate employment policy.

After a short time at Rosanna branch, he moved to head office where he worked in branch banking and housing loans.

He spent two years in corporate banking during the formative stages under Jack Ryan (former acting general manager), then moved to economics as research analyst.

In 1984, Terry moved to the newly created department of corporate planning and was appointed its chief manager in December 1985.

Terry is an Associate of the Australian Institute of Bankers, holds an honours degree in economics and a diploma in education.

This year he completed his Master of Business Administration Degree at Melbourne University.

Sydney office opens its doors

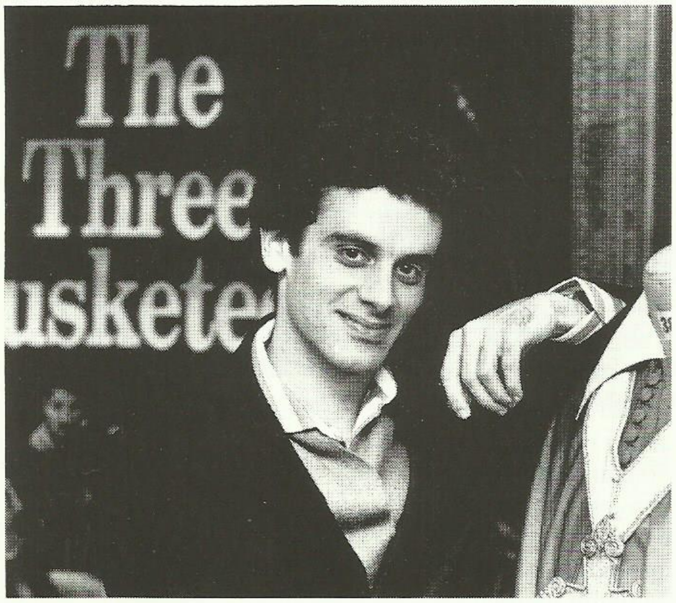
State Bank Victoria's first interstate office has opened at 10 Barrack Street, Sydney.

The office is led by general manager New South Wales **Ed Condran**, and assistant general manager NSW **Mick Leonard**.

Sydney has wholesale corporate and international services, foreign exchange and international money market dealing and a domestic money market operation.

Meanwhile...Heidelberg regional centre opened at Warringal Village shopping centre on November 11, headed by **Kevin Bowles** and regional manager **Lindsay Dunne**. ▼

Australian Ballet gets SBV backing



Fernando Bujones

As part of its community support programme for the Bicentenary, State Bank Victoria is providing $60,000 for a special programme featuring Australia's international ballet stars, some of whom are with companies overseas and have not been seen by Australian audiences in recent years.

This year's contribution of $40,000 goes towards the gala season of The Three Musketeers.

The sponsorship package was announced by Chief Exective **Bill Moyle** at a news conference on November 4, attended by the Australian Ballet's administrator **Noel Pelly**, artistic director **Maina Gielgud** and marketing director **Roger Myers**.

The Three Musketeers, a three-act ballet, by **Andre Prokovsky**, runs to November 26 at the State Theatre. The Three Musketeers stars US-born **Fernando Bujones**, 32, of the American Ballet Theater, as D'Artagnan. Bujones was guest artist with the Australian company on its Japan tour this year and was last in Australia in 1979.

The Bank began its sponsorship of the Australian Ballet last year, contributing to the one-act ballet, Checkmate, starring the late **Sir Robert Helpmann**.

High level group forms to promote Melbourne

A high-powered group of some of Victoria's leading businessmen, politicians and unionists has been formed to promote Melbourne as one of the world's great cities and business centres.

Chief executive **Bill Moyle** is deputy chairman of The Committee for Melbourne which held its inaugural conference in the executive suite at State Bank Centre last month.

Nearly 200 people attended the meeting titled, Melbourne – leading the way.

In a keynote address, the committee chairman, Elders IXL chief **John Elliott** told the gathering the committee was capable of marshalling the most appropriate resources and most influential representatives in business, labour, government and academic circles to achieve its aim.

He said the committee was uniquely placed to encourage excellence in finance, industry and technology, tertiary education and research, the arts, tourism, the environment, sport and recreation.

The conference was opened by Premier **John Cain** and Mr Moyle, who heads the committee's task force on science and technology, was among a number of speakers; they included **Robert Fordham** Victoria's Industry, Technology and Resources Minister, **Jeff Kennett** Opposition Leader, **Simon Crean** ACTU president and **John D'Arcy** chairman of The Herald and Weekly Times Ltd.

The book of life opens a new chapter

The third edition of Ready, Set, Go!, the SBV- sponsored guide to life after school, has been launched by State Education Minister **Ian Cathie** at State Bank Centre.

Some 200,000 copies have been distributed to Victorian school leavers since the first edition was published for International Year of Youth in 1985.

Our Bank has paid the production costs of the book which includes advice on employment, money, education, leisure, health and the law; the Education Ministry is distributing it. ▼

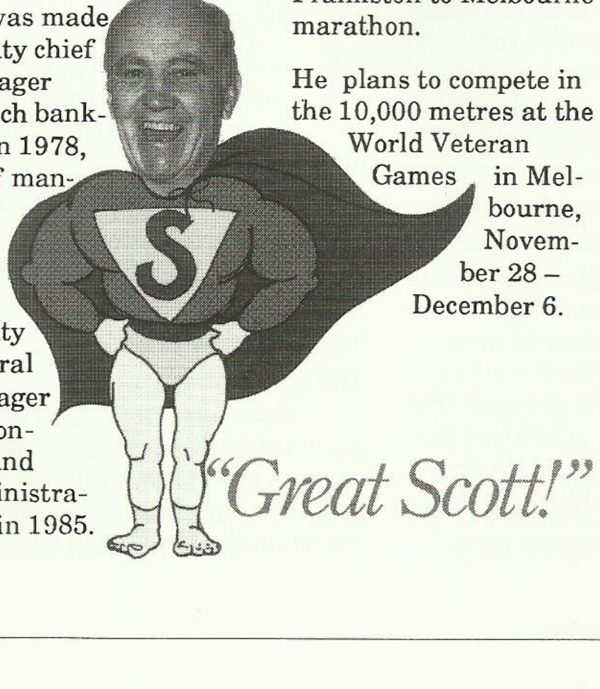
Executive retirements

Scott Walters, deputy general manager personnel and administration retired on November 13, after being farewelled by nearly 200 Bank friends and acquaintances at Chaucer's reception centre, Canterbury.

Scott, 57, joined at Horsham in January 1947; after 21 months, he was transferred to Melbourne, working in branches until 1956, when he moved to accountants' department. He spent 16 years in there, rising to his first managerial position as audit officer and then in charge of branch returns.

He became manager of Camberwell in 1972 and was a district inspector then secretary to the commissioners.

He was made deputy chief manager branch banking in 1978, chief manager in 1983 and deputy general manager personnel and administration in 1985.



Scott also has the distinction of being vice principal of BASC in 1977 (Sydney) and principal during its Silver Jubilee Year at our staff college.

He followed in the footsteps of his father, Harold, who joined the Bank in 1915 – together their relationship with the Bank spans more than 70 years.

Scott's sons are carrying on the family tradition – Craig is in overseas trade section and Grant is at Glen Waverley.

Scott (junior) is at State Bank Centre and Stephen is in business finance.

Scott is a dedicated athlete with a creditable 3 hours 3 minutes in the Frankston to Melbourne marathon.

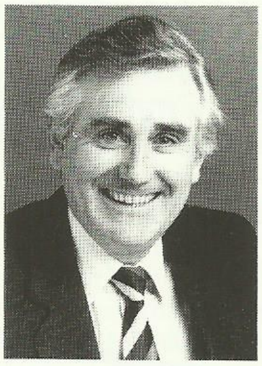
He plans to compete in the 10,000 metres at the World Veteran Games in Melbourne, November 28 – December 6.

Jack Horsley, who was project manager during construction of State Bank Centre during the late '70s, retired on September 30 after a career of nearly 46 years.

Jack, 61, joined in January 1942 and after service with the Royal Australian Air Force in World War II, rejoined as a clerk with relieving staff in October 1946.

His last appointments were as chief manager of the chief executive's division and acting chief manager of corporate planning.

Jack's career included time at Auburn branch and with the inspector's department and premises, secretary to the general manager, manager premises, secretary to the general manager's department, secretary and public officer.



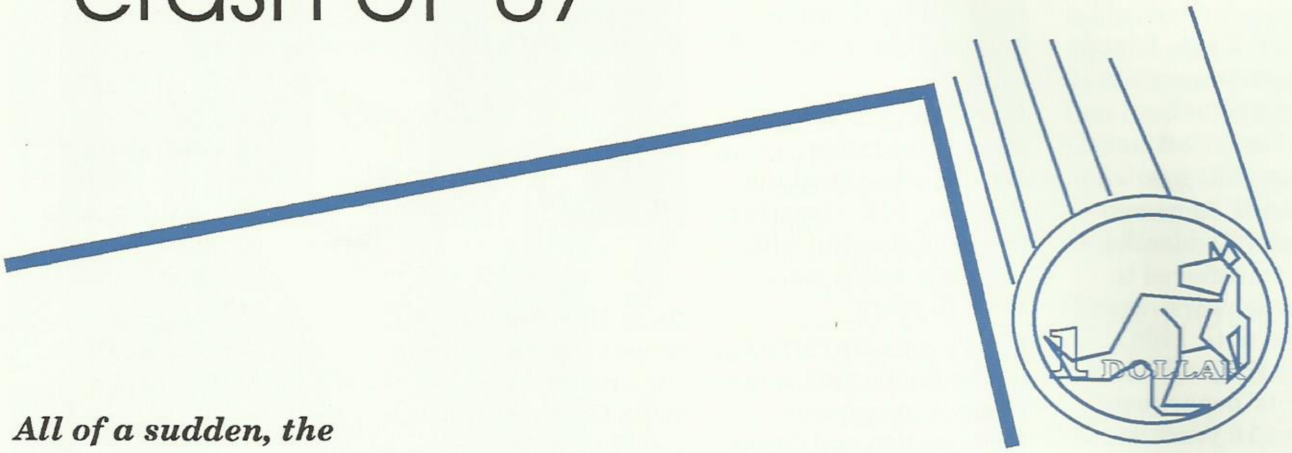
Jack Roach, 57, became chief manager marketing in 1983. After joining the Bank in 1947, Jack gained wide head office and branch experience, was on relieving staff and was manager at St James branch.

He was appointed a district manager in 1974 and secretary to the board of commissioners in 1978.

From late 1978 to 1980, Jack was principal of the staff college at Baxter and in 1980 he was appointed manager of State Bank Centre branch.

During Jack's time as chief manager, marketing, among other things, introduced State Bank Action Bank, the staff Collection, launched the new corporate image and successfully promoted State Banking System. ▼

Where *is* the bottom line? An analysis of the 'crash of '87'



All of a sudden, the markets crashed.

The first reaction was confusion as leaders of industry, 9–5 workers, housewives, unionists and pensioners wondered what it means to their businesses, investments and savings and employment.

People listened to radios and watched television as politicians, economists, brokers, investment managers, academics and commentators gave scores of reasons and instant predictions.

The million-dollar figures were in lolly form – hundreds and thousands lost, wiped off the board in one fell swoop.

Small-time investors were scared of losing their savings, corporate giants were losing millions by the day.

Around the world, the questions were the same.

Will it stop? When will it stop and what will be the aftermath? Where will it stop?

Newspapers carried banner headlines with words such as tumble, panic, upswing, blood letting, crash, collapse and wild swings.

The bull was gone. The bear had taken its place.

Each morning, people would scan newspapers and listen to radio news, hungry for more updates.

People talked of the depression and the stories they had heard about from their parents and grandparents and wondered if it would happen again.

The words from September econostate, in a report on Project LINK where more than 65 economists met at State Bank Centre, loomed prophetic: "It is frequently suggested that the patterns of the late 1920s are being recreated. Could there be another 1929?"

And each day, there were more predictions as the situation in Australia and around the world kept changing.

Australians awaited news from Tokyo, New York and London.

The situation changed daily, hourly and experts appeared to say they had known it would happen.

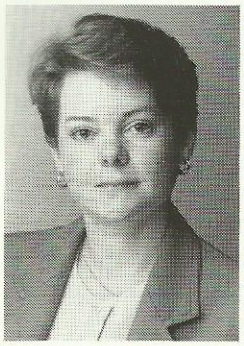
The dollar dropped.

Do we face a recession or depression? Will unemployment jump?

No one has all the answers, some have no answers.

The situation is still changing daily but to get some insight, Our Bank asked State Bank Victoria experts, soon after the crash, to give their opinions in a special report on the Crash of '87.

Bulls stopped dead by bears



Jane Nash
B. Comm
(Hons.)
Economics
Department

On Monday, October 19, the five-year-old 'bull run' on world stock markets came to an abrupt halt.

On Wall Street, the Dow Jones Index, America's share market barometer, plummeted by more than 20 per cent compared with the Friday's close as shareholders engaged in a massive sell-off which spread almost instantly to stock exchanges around the world.

In Australia, the All Ordinaries Index closed on Tuesday, October 20, 25 per cent lower than the previous day.

Since then, the All Ordinaries Index has fallen further and it is still virtually impossible to predict with any certainty where the Index will find a floor.

What caused the crash on world stock markets?

Basically, it was a reaction to underlying economic problems, particularly the emergence of severe trade imbalances between the US, Japan and Germany.

The past few years have seen substantial and unsustainable growth in US debt. Through an expansion of the US budget deficit and ready availability of credit, spending in the US has grown more rapidly than income.

In contrast, Japan and Germany both have large surpluses on their trade accounts. That is, they are net creditors with the rest of the world.

US authorities relied largely upon the depreciation of the US dollar (USD) against other major currencies to turn around their debt position. But, the inroads made on the current account problem have been relatively small. Even less progress appears to have been made in reigning in the budget deficit.

One consequence of the trade imbalance has been a fear of rising inflation. Depreciation provided an impetus to inflation in America. Japan and Germany recently raised their interest rates to prevent a re-emergence of inflation in their own economies. These rises were not well received in the US which needs to maintain its attractiveness to foreign investors. America's Secretary of Treasury, James Baker, in return indicated there would be further depreciations of the USD.

Fear of a 'free fall' of the US currency grew.

As the gap between US bond rates and yields on share markets widened, it became increasingly apparent the stock market was out of line with the underlying economic situation.

The result was a severe loss of confidence in the stock market.

Failure of the US to adjust quickly enough to its problems and an apparent breakdown in economic cooperation between major Western nations saw the market impose its own solution.

The stock market crash has dampened world growth prospects.

Consumer spending and business investment will be lower than they would otherwise have been. Wealth holdings have been drastically reduced and, in a climate of heightened uncertainty, consumer and business confidence have suffered a major blow.

It is too early to make judgments about how severe the slowdown in world growth is likely to be.

Much depends on the policy response of major overseas economies. For example, will the steps taken by US authorities to tackle their debt problem be sufficient to restore confidence to financial markets? Will Japan and Germany cushion the effects of economic adjustment in the US by reflating the economies?

The likelihood of world-wide depression of the scale that followed the 1929 crash on Wall Street seems, fortunately, fairly remote.

While there are some parallels to be drawn between 1929 and 1987, the differences are more important. A series of bank failures in the US from 1930 to 1933 played a key role in making the downturn in activity that followed the crash deeper and more protracted than might otherwise have occurred. In 1930 alone, 608 US banks failed.

The successive waves of bank failures sharply depressed supply of and demand for money and spending on both consumption and investment.

These failures were largely a reflection of the inherent weakness of the US banking system. The modern banking system, though not immune to runs on funds, is considerably less fragile and the degree of cooperation between central banks much greater than in the past.

Nevertheless, at least a slowing in world growth and perhaps recession is unavoidable.

What are the implications of this for Australia?

Australia's policy imperatives are basically the same as before the stock market crash. **Growing debt remains our most pressing economic problem.**

Unfortunately, the prospect of a world recession does nothing to ease the burden of adjustment required by our trade account deficit. The source of risk to the gains that have been made so far in turning around the current account has shifted from a resurgence in domestic demand and consequent growth in imports to renewed deterioration in Australia's terms of trade.

Slower world growth and containment of inflationary pressures can only dampen the prices Australia receives for its commodity exports on world markets. Gold is, perhaps, the exception. Export volumes, too, are likely to be adversely affected.

Overall, the chance of a worsening on current account in 1988-89, if not sooner, has increased.

Recognition of this by overseas investors will make Australian assets less attractive and cause the AUD to be marked down against the major currencies. In recent days, following the stock market crash, the AUD has already fallen from around USD 72 cents to USD 67 cents. On a trade-weighted basis, the AUD has slipped from around 55 to around 52.

A lower AUD may be welcomed by Australian manufacturing industry, but stability is also required. The need for a stable currency and to prevent large scale net capital outflow has already led to some increase in short-term interest rates.

At the other end of the scale, long-term interest rates have also risen, reflecting the uncertainty created by events on stock exchanges.

The effect of higher interest rates on the Australian economy will be to constrain economic growth. Again, how severe this constraint will be is dependent upon growth in major overseas economies which, in turn, hinges upon policy response in these countries to the present situation.

What are the implications for State Bank Victoria?

As we have already noted, the stock market crash has increased uncertainty about the future and the level of market volatility. Banks stand to benefit from this as funds are switched into assets where returns are guaranteed, such as bank deposits.

SBV, being a large bank offering Government guarantee, is particularly well placed in this regard.

Jim McAnany
Chief General Manager
Corporate and International Division

The first few weeks following the October 19 stock market collapse were specially demanding for the Bank's corporate and international banking operations.

Liquidity in foreign currrency funds, concomitant volatility in US interest rates, major downward pressure on the Australian dollar were areas that required close attention, particularly from the viewpoint of risk aversion.

More critical, however, was an urgent assessment of the Bank's corporate and international loan portfolio and outstanding commitments to ensure that unnecessary additional risks were not taken to sectors of the market likely to suffer most from the stock market collapse. Naturally, particular attention was focused on potential problems that might be apparent within the existing loan portfolio. Fortunately, because of the Bank's emphasis on the quality of credit risks of corporate customers and our cautious approach to the basis on which corporate accommodations are extended, the Bank is quite happy with the standing of its corporate and international loan portfolio, with relatively few potential problems involved.

Obviously, the prospects of further deterioration in the stock market will require a continuation of a close monitoring of the Bank's corporate and international loan facilities.

In terms of the future, it is becoming clear that, at least over the next few months, there is likely to be a much reduced demand for new borrowing by the corporate sector. Also, banks generally (including SBV) will be taking an even more conservative approach in evaluating new loan proposals. There will, however, continue to be good opportunities for the Bank to continue its drive to win a larger share of corporate banking business in Australia.

Mike Griffin
Assistant General Manager
Investment Management Department

The sheer magnitude of the recent collapses of world stock markets triggered by the massive fall in the Dow Jones Index were not anticipated by fund managers around the world.

The fall in the Dow began with the announcement of a further set of disappointing US trade figures.

The downward momentum of the market was savagely accentuated by computer-programmed selling of US securities by the major US institutions.

These falls were probably also exacerbated by remarks by the US Trade Secretary inferring a breakdown in the G7 Accord and the prospect of rising world interest rates.

The falls on Wall Street were reflected on all major world stock markets and Australia was no exception to this trend, having lost 25 per cent in share values in one day.

World markets have since recovered between a third and a half of the one–day fall.

At the same time, the US bond market has staged a major recovery triggered by speedy assurances from the authorities that financial accommodation will be available to support those institutions suffering severe liquidity problems.

The outlook for financial markets remains unclear.

The major concern has been that the financial loss suffered as a result of the stock market collapses will flow into economies and create a recessionary cycle, although the market recoveries have somewhat reduced that risk.

It is nevertheless too early to make meaningful assessments at this point.

However, whatever the outcome, share markets will be more volatile in the coming months and share market investment will be perceived to be a riskier process.

We anticipate the man in the street, directly and through mutual funds, unit trusts and similar investment vehicles, will express a greater preference for security than has been the case.

This may well result in a reduction in equity demand and a commensurate increase in fixed-interest investment.

It is worthwhile pointing out that our balanced approach to portfolio investment, giving a spread of investments over asset types, has provided some protection from the worst effects of the stock market crash.

John Rawlins
Chief General Manager
Treasury Division

In the space of a week, the share market suffered the most severe fall in living memory.

It is still too early to be confident as to where these events will lead.

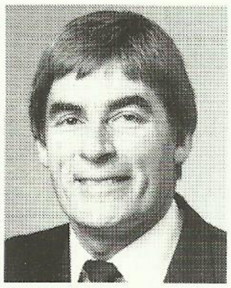
However, there is little doubt that there will be a slow-down in consumer spending and economic activity.

The most immediate effect on the Bank, bolstered by its leading position in Victoria and its government guarantee, has been the benefit from the so–called "flight to quality," whereby lenders have been willing to give up interest returns to ensure the safety of their funds.

As a result, the Bank has attracted substantial funds at reduced rates and, as the market settles down, it is probable that the Bank will continue to gain benefits in this area.

Its position against weaker competitors will be greatly strengthened and opportunities to improve the Bank's business and margins should also develop.

Although the unprecedented events will undoubtedly cause many problems in the commercial and personal sectors of the economy, the Bank will tend to benefit because the community will increasingly focus on the strengths of the Bank and its ability to deliver its commitments.



Jack Sennitt

Assistant General Manager Financial Planning Services

Only future historians will be able to judge accurately how severe the stockmarket crash of October 1987 will be to the world economy.

Australia is vulnerable to any slowdown in the world economy due to our level of indebtedness and dependence on commodity exports.

In the short term, we will see overseas investors leave the country, higher interest rates and increasing pressure on the Australian dollar.

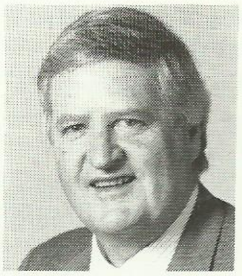
The stockmarkets have given a clear message to the Western nations' leaders, especially those of the United States and Japan, that they are not in full command of their respective economies and are unable to accept all the responsibilities of their place in the world.

This message can be interpreted in many ways – fear of a recession, of rising interest rates and inflation, world trade imbalance, a revival of protectionism, defaults by Third World countries, the level of debt in the United States and numerous political flashpoints around the world.

Clearly, the internationalisation of markets, computer-supervised trading programmes and portfolio insurance have caused the loss of confidence in world stockmarkets which has been compounded by the redemption of unit trusts and a degree of panic by some investors, particularly those who have borrowed heavily.

In this difficult environment, the fundamental value approach employed by Financial Planning Services and the rigid discipline and application of the basic rules of investment – diversification, liquidity, security, yield and market timing – to our clients' portfolios have ensured that people advised by us have their assets well structured to minimise risk and provide an appropriate return.

What does the crash mean for the Bank?



Bill Moyle

Chief Executive

In times of economic difficulty, three tests are usually applied to banks. How well does SBV stand up to these tests?

•Liquidity: This is the acid test. Because of the Government guarantee of our deposits, there is no more secure deposit than SBV. There has been a flight to quality so we have benefited from increased deposits. We are liquid and plan to remain so.

•Quality of Assets: Our assets are of a high quality because we have adopted a properly conservative approach to lending. Evidence of this is the extremely low bad debt write-offs by this Bank compared with others.

•Financial Structure: The third test of a bank's strength is its financial structure. How strong is its capital base, in relation to its deposits and other liabilities? In SBV's case, we more than doubled our capital base in the year just ended from $438 million to nearly $900 million.

This is an achievement few banks, anywhere in the world could match.

While I'm not exactly unbiased, it is clear SBV's strength in this trying time is undoubted.

When linked with the Government guarantee, we rank as the highest quality and least risk investment available to investors today.

This is an excellent basis for us to consolidate our position as Victoria's dominant retail bank.

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