THE ACTIVITIES OF THE RESOURCES BANK

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INTRODUCTION.

To talk of the activities or role of an organisation after it has been in existance for many years is to speak with certainty. To use the same expression about something relatively new must include a strong element of hope and conjecture rather than fact. The Resources Bank having opened its doors for business early in 1968 is still only an infant and thus we can expect changes to occur in its relationship to the Australian economy and the other organisations.

If a new organisation commences, particularly within a restricted group such as the banks operating in Australia, one might well ask the question why? The need arose from the effect of the substantial mineral discoveries in Australia in the era commencing in the late 1950's. Because of the scale of the individual projects being commenced, financing methods previously used in Australia proved inadequate and it was necessary to utilise different methods of mobilising funds. The lead was given by overseas institutions, but it became apparent that Australian companies needed more assistance to enable them to participate to a reasonable extent in the ownership and control of these new ventures.

THE BASIC FINANCING PROBLEM.

Australia has embarked on an era of discovery and utilisation of its resources of minerals, oil and natural gas on a scale unprecedented in our history. Many exciting new mineral resources have been revealed and, undoubtedly, many others are awaiting discovery.

However, discovery is but the first stage in bringing the benefits of this vast store of wealth to our nation. Enormous sums are needed to unlock our minerals from the ground and to process and market them. Australia has derived great benefit from substantial foreign investment in these fields and we hope will continue to do so, but it is generally accepted as nationally desirable that Australian ownership in mining and associated ventures should be encouraged to the utmost and the means to achieve this provided.

This is not a simple task. Ore bodies, oil fields and natural gas deposits are mostly in remote or difficult places and require large sums for the building of extraction and processing plants, railways, pipelines, townships and other facilities. If Australian enterprises are to play a significant part in the development of the natural resources to which they may acquire rights, they will need to have ready access to very large sums of loan funds.

The raising of large scale finance for major projects by Australian enterprises has involved many problems. Finance for new mineral and related ventures has been found from a variety of sources, including overseas. At times it has proved a long and difficult process to arrange terms and conditions which suited both the needs of the venturer and of the different lending institutions. Moreover, in borrowing

from overseas banks or institutions, Australian companies tend to be at some disadvantage compared with companies which have direct links through their overseas parent companies with banks or lending institutions in their home countries.

It is therefore clear that special arrangements are needed, not only to mobilise the very large sums of money required to finance effective usage of our natural resources, but also to simplify the access of Australian ventures to this finance.

ESTABLISHMENT OF THE RESOURCES BANK.

The establishment of the Resources Bank, specially designed for this purpose by the trading banks in Australia in conjunction with the Reserve Bank, was a major step forward.

The Bank finances:-

* The extraction of raw materials from their natural sources;
* Primary processing of these basic materials into marketable consumptive form;
* Their transportation to markets.

An essential pre-requisite, in many cases, to the provision of credit by the Resources Bank is the existence of marketing arrangements with the intended buyers of the products.

The general objectives of the Resources Bank are to provide the means, within Australia, for Australian interests to participate, to a much greater extent than has been possible in the past, in large scale projects of national importance. To this end, the Bank's particular objectives are:-

* To mobilise financial resources at reasonable rates of interest from institutions and other investors in Australia;
* To borrow or raise overseas funds in the fixed interest category on the most favourable terms possible;
* To refinance loans made by trading banks for major developmental ventures;
* To provide loans direct and, in some cases, to subscribe equity funds to enterprises engaged in such ventures;

* To require a substantial Australian interest in ventures financed;

* To give special emphasis to the usage of natural resources, particularly of mineral ores, oil and natural gas.

The Bank offers to investors a range of deposits of various types and maturities to secure the funds to provide the multi-million dollar loans which are needed to carry out these objectives. This has resulted in an additional range of investments of trustee status being made available on the Australian capital market and has also introduced the concept of a publicly listed security which is a direct obligation of an Australian bank.

MANAGEMENT AND CAPITAL STRUCTURE.

The Board of Directors consists of the chief executives of the seven trading banks, who have chosen Mr. H. McE. Scambler as Chairman and Sir Robert Norman as Deputy Chairman. The registered office of the Bank is 379 Collins Street, Melbourne.

Federal legislation conferring the status of a bank on the new company was enacted on November 8, 1967, to bring into being an entirely new bank with features novel to Australia.

In designing the form of its financial structure, it was necessary to ensure that money lodged with the new bank by depositors would be safe beyond all doubt.

It is necessary for the Bank to obtain a large part of its funds from borrowings which can be lent at a higher interest rate than it has to pay to depositors. The margin between the interest rates paid and received is necessarily narrow. In contrast with trading banks, the Resources Bank must pay interest on the whole of its deposits.

Authorised share capital of the Resources Bank is $10,000,000. The present paid-up capital is $3,000,000 subscribed in equal parts by each of the following major trading banks:-

Australia and New Zealand Banking Group Limited,
The Bank of Adelaide,
Bank of New South Wales,
The Commercial Bank of Australia Limited,
The Commercial Banking Company of Sydney Limited,
Commonwealth Trading Bank of Australia,
The National Bank of Australasia Limited.

In addition, loan capital has been subscribed by:-

Reserve Bank of Australia	$2,100,000
Rural Bank of New South Wales	100,000
The Rural and Industries Bank of Western Australia	50,000
	$2,250,000

In addition to share and loan capital, the participating banks and the Reserve Bank make loan funds available by joint contributions to the Resources Bank. For the initial period after the establishment of the Bank, the trading and state banks are providing 60% of any joint loan subscription made, up to a total of $27 million. The Reserve Bank will provide the remaining 40% up to a total of $18 million.

As the Bank grows, dependence on Reserve Bank funds, other than for short term purposes, will be progressively reduced. Eventually, all Reserve Bank loan subscriptions will be fully retired.

The aggregate of approximately $50 million in capital funds and loans provided by the trading banks and the Reserve Bank will establish a strong base for raising substantial additional funds, say, $200/$300 million from local and overseas sources.

Should the Resources Bank be called upon to meet lending commitments temporarily ahead of expected receipts of deposits from the Australian public or from overseas, temporary bridging finance is also provided by the participating banks and the Reserve Bank.

Resort to bridging finance is not expected to be of major significance, but this facility can provide the Resources Bank with greater flexibility in the management of its funds and its capacity to lend.

The Resources Bank pays agreed market rates of interest on loan funds from the banking system, and these funds are subordinate, in right of repayment, to deposits and other borrowed funds which the Resources Bank may obtain from Australian and overseas investors. The interest rates to be offered for these latter funds by the Bank are determined in accordance with prevailing market rates for different maturities as appropriate to the borrowing status of an Australian bank in local and overseas money markets.

FUND RAISING BY THE BANK.

The trading banks and the Reserve Bank have contributed substantial funds and will continue to do so, but the rate of growth of the Resources Bank will ultimately depend on the level of public funds which can be raised in Australia and overseas and on the opportunities which arise for their employment.

The first issue of Transferable Deposits was made in April, 1968, on the following terms:-

6 years	6.00%
8 years	6.25%
10 years	6.50%

and these securities are now quoted on the Australian Stock Exchanges.

A second issue was made in October, 1968. On this occasion the terms were:-

7 years	6.00%
10 years	6.25%

and the additional feature was added of an option to subscribe 10% at the time of application and the balance three months later. This issue was favourably received by the publi and closed heavily over-subscribed.

The third issue of Transferable Deposits in March, 1969, was payable 50% on application and 50% on June 2, 1969. Interest rates were:-

6 years	5.75%
10 years	6.00%.

Further issues of Transferable Deposits have been made periodically since that time and the current issue, which opened in March, 1971, reflected the substantial increase in interest rates which took place in 1970 and is still effective. The latest interest rates are:-

5 years	7.50%
10 years	7.75%.

Investors are also able, at any time, to lodge deposits with the Bank for fixed periods, generally within the range of three to five years. These deposits carry fixed rates of interest as determined by the Bank, relative to competitive market rates. They are similar to interest bearing term deposits as now accepted by the trading banks for similar periods. The present terms of issue are:-

4 years	6.50%
5 years	6.75%

for minimum deposits of $10,000, but these terms will be reviewed periodically.

No specific charge over the Bank's assets attaches to Transferable Deposits or Term Deposits, but these obligations enjoy the priority granted to bank deposits in accordance with the Banking Act of the Commonwealth of Australia. They rank in priority to subordinated bank loans and loan/share capital. This gives undoubted protection to investors. Further, the Bank holds a substantial amount of risk-free assets in the form of refinance loans to the trading banks, because the liability for the repayment of these loans by the borrower rests with the banks.

Trading banks act as agents for acceptance of Term Deposits and subscriptions to Transferable Deposits through their wide network of branches throughout Australia, for transfer to the Resources Bank. This not only facilitates the task of raising the large sums required, but also provides investors with readily available means of lodging deposits or making subscriptions.

During 1968 and 1969 the Bank was able to raise sufficient money in Australia to meet the rate at which funds were being drawn down under its loan commitments. However in the early part of 1970, it was decided that overseas borrowings would be sought to supplement local funds in accordance with one of the original objectives of the Bank.

This decision also coincided with a marked downturn in the level of interest rates ruling in the Euro-dollar market, the principal source of funds available in recent times for international lending.

At May, 1971, the Bank's overseas borrowings exceeded $69 million and included both United States dollars and Swiss francs. These sums were all borrowed from overseas banks and are in the form of short term revolving loans at the minimum rates of interest available to first-class banks.

In due course it is intended to borrow on a long term basis from the public in overseas countries, in a manner similar to the acceptance of Transferable Deposits in Australia.

INVESTING THE BANK'S FUNDS.

The Bank makes loans for purposes consistent with its objectives. Broadly defined, the purpose of the loans is to enable Australian enterprises to undertake, or participate, if necessary with overseas entities, in major projects in Australia. The intention is to enhance Australian ownership and control of national resources. Exploitation of these resources may call for finance not only for extraction plants, but also for some degree of processing to upgrade products to a stage required by export and domestic markets. In addition, finance may be needed for transportation facilities such as railways and pipelines, townships for the work force, and other ancillary installations essential for the development plans.

The necessity for recently established mining enterprises to provide infrastructure facilities, which one would normally expect to be provided from government sources, has been a cause of some disquiet. However I feel this has been a consequence of the very rapid advances made in previously unsettled parts of Australia and in the future we may anticipate considerable easing of this pressure on the mining companies. Subsequent development in the same areas will be able to employ the facilities already installed, if necessary with modifications and additions, rather than a complete duplication. In the long run it should be possible for smaller deposits and also lower grade ore deposits to be opened without any necessity for the companies to provide additional infrastructure.

Loans are made generally for periods between five and ten years, with progressive repayments during the duration. Depending on the particular circumstances, some loans may be approved for periods longer than ten years. It is envisaged that, in most circumstances, there will be no repayments during the "take-down" period of the loan, i.e. during the early stages, if no income is being earned.

The Bank is empowered to lend and/or invest directly in undertakings being financed, or to refinance loans made by the trading banks, individually or in consortium, for purposes approved by the Bank. Direct lending may well be appropriate in cases where joint ventures involving customers of different banks are concerned or where the circumstances call for investment participation by the Bank. Direct investment by the Bank may take the form of an equity holding or rights to an equity in the venture, the subscription to fixed interest loans issued by the undertaking or a loan-equity combination. Investment by the Bank could be useful in assisting the underwriting of capital or security issues required by the venture.

In refinance operations, customers are required to negotiate only with their own banks. In turn, the Resources Bank lends up to the corresponding amounts involved to the trading banks concerned. From the trading banks' point of view, access to the refinance facilities of the Resources Bank enables them to make an increased number of relatively long term advances without unduly affecting their normal liquidity positions. The Bank thus makes a substantial contribution to the capacity of the trading banks to make large project loans.

The interest charged on all loans made by the Bank is at commercial rates and is based on the cost of funds acquired by the Bank, plus a margin to cover risk factors, management and other cost elements.

A substantial number of loans has already been completed by the Bank and progressive payments are being made on a number of others. Many other proposals, both for refinance and direct loans, are in the process of being studied.

In order to put these operations into scale, the total of loans approved by the Resources Bank to May, 1971, was $385 million and the loans outstanding at that date amounted to $260 million.

Part of the loan funds required by ventures may be for extended periods more appropriate to financial institutions which are able to gear their lending to periods of longer term than, say, ten years. If so, the Bank will take the initiative in organising arrangements for other financial institutions and the Bank to join in consortia lending arrangements.

When a loan for a substantial amount is being considered, particularly when the returns from the project will not commence for some years, it is vital to determine in advance that the project is feasible. A full feasibility study calls for considerable technical competence and experience, and may involve the consideration of a large number of different factors each of which may vary between rather wide limits depending on the assumptions taken. There will also be involved a number of different professional skills, for example engineering, accounting, marketing.

In the assumptions of cash flow involved in the project a number of variables must be taken into account, for example the costs of development and production, the volume of production to be attained at different points of time, the degree of processing which will be involved to produce the optimum return for the product, and the level of likely prices to be received. In order to reduce this mass of data to a form from which sensible numerical results can be obtained and the profitability assessed against some objective measures, it would be necessary to perform discounted cash flow or similar analyses involving the concepts of both time and money.

Given that the results of the feasibility study are encouraging, the venture then needs an assured market for its products, at least for the period necessary to repay the borrowed funds to be employed in the venture.

While it is customary for the potential borrowers to be carrying out these studies, it is also necessary for the Bank to apply independent checks on both the validity of the assumptions involved and the accuracy of the calculations based on these assumptions. On occasions the Bank has employed outside consultants to carry out these checks, and at the same time it is building up its own staff and will continue to do so as the demand for its services increases.

RESULTS OF THE BANK'S OPERATIONS.

Access to the large scale funds marshalled by the Bank in Australia and also from overseas has proved to be a significant factor in encouraging Australian enterprises to take part in major risk ventures. The Bank's lending policies have also helped to encourage the growing trend for overseas interests to offer participation to Australians in development projects in this country. These participations have not only provided funds for the ventures concerned through capital raising but also enabled these projects to qualify for Resources Bank loans at a lower cost than obtainable from other sources.

Through its lending operations, the Bank has not only provided access to finance for large scale development projects, but also has continued to augment the capacity of the banking system without disturbing the normal flow of bank finance to other business and individual borrowers.

One subject which has raised some comment is the extent to which the Resources Bank is drawing resources away from other sectors of the economy. While there is little need for any real worries on this score, it needs to be recognised and accepted that the magnitude of individual development projects is such that some change in the allocation of financial resources within Australia is inevitable if the nation is to retain ownership of a larger share of its natural resources, particularly in the field of mineral, oil and natural gas developments. This will certainly not be caused by the Resources Bank alone.

In achieving the objectives for which it was established, the Bank has broadened and developed its facilities and techniques to meet the needs of both investors and borrowers. The growing number of smaller investors lodging deposits with the Bank is a significant trend of considerable future importance to the Bank. The development of consortium lending, backed by the substantial loan funds provided by the Resources Bank, has enabled the banking system to accommodate the largest borrowers and assisted them to become partners in some of Australia's major projects. At the same time, the needs of medium-size and smaller ventures have not been ignored and the Bank has assisted a considerable number of these, both in the development of minerals and other types of natural resources.

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NOTES ON THE FULFILMENT OF A.A.S.E. OFFICIAL LIST REQUIREMENTS BY MINING COMPANIES

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The principal source of information about mining companies available to security analysts is that information which is provided in conformity with the A.A.S.E. Official List Requirements. This data comprises the annual reports, preliminary profit and interim report announcements, the quarterly exploration reports and occasional news releases.

Section 3 of the A.A.S.E. Listing Manual "Requirements for Retention of Membership of the Official List and Official Quotation of Securities" provides for mandatory reporting by mining companies of certain information, including the following: