Another impeccable result

ABA's FY22 result is hard to fault. Credit quality remains pristine, with the group again releasing loan loss provisions. The group is paying a 21c final dividend, and capital remains strong and will be strengthened further by the underwriting of the DRP, with this additional capital clearly earmarked for supporting its accelerated growth ambitions while NIM is favourable.

Growth now accelerating over the half

Mortgage book growth was slowed to protect margins later in 2H22 as mortgage competition increased ahead of RBA cash rate increases, allowing ABA to ease back and wait for the cash rate increase. This saw both its NIM and mortgage growth rate fall slightly. Now that interest rates are rapidly rising, so too is its NIM, and this has enabled it to resume its above system growth, with it targeting 1.5x to 2x system in the current half.

New growth strategy in development

Having successfully achieved all the targets in its 3-year growth strategy early, ABA is currently in the process of developing its next medium term growth strategy. We will look for it to build on the success of the initiatives in its current strategy, such as its Private Bank, which have delivered profitable growth.

While ABA hasn't executed on its desire for potential acquisitive growth, we regard this as being well disciplined and not overpaying at a time when markets were frothy, something that should be respected by investors. The credit cycle will turn, potentially soon given recent interest rate increases, and valuations will drop, which should deliver relative outperformance by ABA and allow it to have attractively priced script and funding capacity to acquire other smaller lenders. In terms of funding, the securitisation trusts are not as comparatively expensive now and could be utilised in the coming periods.

Still attractive on valuation and yield

We lower our estimates: FY22A: -3%, FY23E: -7%, FY24E:-6%. We now value ABA at A$7.95, taking the average of a range of 8 different valuation techniques. Full details are inside including outline of risks. At the current share price, we estimate ABA is trading on a FY23E PE of 10.8x, and a dividend yield of 6.8%, based upon our revised earnings forecasts detailed inside. This makes it a cheaper way to gain exposure to the Australian banking sector than most major and regional banks, given the low multiples the stock trades on; plus it offers a higher dividend yield, fully franked, than the major and most regional banks

Auswide Bank Ltd (ABA) is Australia's 24th largest bank, and 54th largest bank operating in the Australian market. It was established in 1966 in regional Queensland, listed on the ASX in 1994, and rebranded when converting into a bank in 2015.

ABA has established an Australia-wide lending presence supported through branches, business bankers, accredited mortgage brokers and online.

ABA has a strong presence in QLD and is growing across the rest of Australia. The Company boasts a high-quality loan book with over $4.0b in assets, representing a market share of around 11 basis points (0.11%).

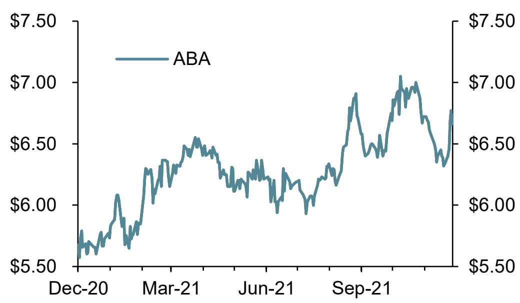
Stock	ABA.ASX
Market cap	A$288m
Price	A$6.62
Valuation	A$7.95 (was $9.60)

Company data	
Shares on issue	43.6m

Recent Events	
FY22 result	29 August 2022

Next steps	
Monthly APRA ADI statistics	Last business day of the following month
AGM	October 2022

ABA Share Price (A$)



Glen Wellham, Senior Analyst

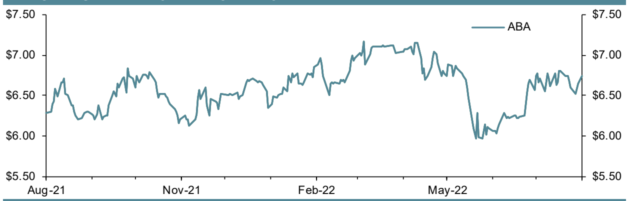
Financials

AUSWIDE BANK LTD — ABA-AX

Year end 30 June, A$

MARKET DATA		
Price	A$	$6.62
Valuation	A$	$7.95
52 week low - high	A$	5.70 - 7.20
Market capitalisation	A$m	289
Shares on issue (basic)	m	43.6
Options / rights (currently antidilutive)	m	
Other equity	m	
Shares on issue (fuly diluted)	m	43.6

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY21A	FY22A	FY23E	FY24E	FY25E
EPS - diluted reported	cps	56.66	60.48	61.05	66.11	70.50
EPS - diluted cash	**cps**	**56.66**	**60.48**	**61.05**	**66.11**	**70.50**
EPS growth	%	29%	7%	1%	8%	0.0664
PE	x	11.7	10.9	10.8	10.0	9.4
DPS	A$	0.40	0.42	0.45	0.47	0.49
Franking	%	100%	100%	100%	100%	100%
Dividend yield	%	6.0%	6.3%	6.8%	7.1%	7.4%
Payout rato	%	71%	70%	74%	71%	70%
Operating cash flow per share	cps	260.7	99.7	335.8	367.0	395.1
Free cash flow to equity per share	cps	39.6	183.4	51.0	56.3	60.9
FCF yield	%	6.0%	27.7%	7.7%	8.5%	9.2%
Enterprise value	$m	4,165	4,470	4,886	5,276	5,826
EV/Total Revenue	x	47.4	47.0	46.9	46.1	47.3
NAV per share	A$	6.00	6.49	6.91	7.24	7.60
Price / NAV	x	1.10	1.02	0.96	0.91	0.87
NTA per share	A$	4.88	5.36	5.82	6.18	6.56
Price / NTA	x	1.36	1.23	1.14	1.07	1.01

KEY RATIOS		FY21A	FY22A	FY23E	FY24E	FY25E
CET1 ratio	%	10.84%	10.63%	10.68%	10.63%	10.52%
Capital ratio	%	13.31%	12.90%	12.56%	12.35%	12.08%
Leverage ratio	%	6.70%	6.57%	6.38%	6.24%	6.11%
Operating income growth	%	10.0%	6.7%	11.3%	9.9%	7.6%
Expense growth	%	6.2%	8.3%	12.8%	9.2%	6.9%
Jaws	%	3.8%	-1.6%	-1.5%	0.7%	0.7%
ROE - reported	%	9.7%	9.7%	9.2%	9.4%	9.5%
ROE - cash	%	9.7%	9.7%	9.2%	9.4%	9.5%
Net debt	**A$m**	**3,876**	**4,181**	**4,597**	**4,988**	**5,538**
Leverage (net debt / invested capital)	x	5.5	5.7	6.0	6.4	6.9

DUPONT ANALYSIS		FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit Margin	%	27%	27%	26%	26%	27%
Asset Turnover	%	2.2%	2.2%	2.2%	2.2%	2.2%
Return on Assets	%	0.6%	0.6%	0.6%	0.6%	0.6%
Financial Leverage	x	15.93	16.08	15.89	15.92	16.32
Return on Equity	%	9.7%	9.7%	9.2%	9.4%	9.5%

HALF YEARLY DATA		1H22A	2H22A	1H23E	2H23E	1H24E
Net Interest Income	A$m	41.3	40.7	46.3	47.1	51.0
Total Revenue	A$m	48.5	46.7	51.8	52.5	56.6
Profit before income tax	A$m	19.7	17.8	19.4	19.8	21.5
Reported NPAT	A$m	13.7	12.4	13.5	13.8	15.0
Cash NPAT	A$m	13.7	12.4	13.5	13.8	15.0
EPS - diluted cash	**A$**	**0.32**	**0.29**	**0.31**	**0.30**	**0.33**
EPS - diluted reported	A$	0.32	0.29	0.31	0.30	0.33
DPS	A$	0.21	0.21	0.22	0.23	0.24

KEY PERFORMANCE INDICATORS		FY21A	FY22A	FY23E	FY24E	FY25E
Average loans and advances	$m	3,438	3,739	4,154	4,614	5,074
Net Interest Margin	%	2.00%	1.94%	2.01%	2.03%	2.00%
Total Revenue / Average loans and advances	%	2.56%	2.54%	2.51%	2.48%	2.43%
Cost to income ratio	%	60.1%	61.1%	61.9%	61.5%	61.1%
ECL allowance as a % of gross loans	%	0.17%	0.13%	0.13%	0.13%	0.13%
Growth in loans and advances	%	10.9%	7.7%	14.9%	9.9%	10.0%

PROFIT AND LOSS		FY21A	FY22A	FY23E	FY24E	FY25E
Interest Revenues	A$m	111.0	106.0	193.0	230.6	252.4
Interest Expense	A$m	-32.8	-23.9	-99.7	-127.3	-140.9
Net Interest Income	**A$m**	**78.2**	**82.0**	**93.3**	**103.3**	**111.5**
Non-Interest Income	A$m	10.4	12.4	11.7	12.2	12.7
Total operating income	**A$m**	**88.5**	**94.4**	**105.1**	**115.5**	**124.2**
Provision For Loan Losses	A$m	-0.6	0.7	-0.9	-0.9	-1.0
Total Revenue	**A$m**	**87.9**	**95.1**	**104.2**	**114.5**	**123.2**
Non-Interest Expense	A$m	-53.2	-57.7	-65.1	-71.0	-75.9
Profit before income tax	**A$m**	**34.7**	**37.5**	**39.2**	**43.5**	**47.3**
Income tax expense	A$m	-10.5	-11.4	-11.9	-13.2	-14.3
Reported NPAT	**A$m**	**24.2**	**26.1**	**27.3**	**30.3**	**33.0**
Cash NPAT	A$m	24.2	26.1	27.3	30.3	33.0
Weighted average diluted shares	m	42.6	43.2	44.7	45.9	46.7

BALANCE SHEET		FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	A$m	112.6	178.5	45.4	12.4	58.2
Loans and advances	A$m	3,555.0	3,827.6	4,399.6	4,836.3	5,319.9
Other financial assets	A$m	398.8	412.1	420.3	428.8	472.7
Property, plant and equipment	A$m	21.3	20.6	20.6	20.6	20.6
Goodwill and other intangibles	A$m	47.8	49.2	49.2	49.2	49.2
Other assets	A$m	20.1	16.6	16.6	16.6	16.6
Total Assets	**A$m**	4,155.8	4,504.6	4,951.8	5,363.9	5,937.2
Deposits and short term borrowings	A$m	3,349.3	3,617.3	4,233.2	4,724.7	5,275.0
Loans under management	A$m	333.7	370.8	220.8	220.8	220.8
Other borrowings	A$m	150.8	150.8	101.0	0.0	0.0
Subordinated capital notes	A$m	42.0	42.0	42.0	42.0	42.0
Other liabilities	A$m	23.4	41.6	41.6	41.6	41.6
Total Liabilities	**A$m**	3,899.2	4,222.5	4,638.6	5,029.1	5,579.4
Net assets	**A$m**	**256.5**	**282.1**	**313.2**	**334.8**	**357.9**
Net tangible assets	**A$m**	**208.7**	**232.9**	**264.0**	**285.6**	**308.7**
Invested capital	**A$m**	**704.8**	**730.3**	**761.4**	**783.0**	**806.1**
Tangible invested capital	**A$m**	**656.9**	**681.1**	**712.2**	**733.8**	**756.9**
Contributed equity	A$m	195.2	199.8	211.9	218.3	224.8
Treasury shares	A$m	0.0	0.0	0.0	0.0	0.0
Reserves	A$m	15.5	28.4	28.4	28.4	28.4
Retained earnings/accumulated losses	A$m	45.8	53.8	72.9	88.1	104.6
Non-controlling interests	A$m	0.0	0.0	0.0	0.0	0.0
Total equity	**A$m**	**256.5**	**282.1**	**313.2**	**334.8**	**357.9**
Basic shares on issue	m	42.8	43.4	45.3	46.2	47.1

CASH FLOW		FY21A	FY22A	FY23E	FY24E	FY25E
Operating						
Net operating cashflow	**A$m**	**111.2**	**43.1**	**150.2**	**168.3**	**184.7**
Investment						
Capital expenditure	A$m	-1.9	-2.7	-3.0	-3.0	-3.0
Acquisitions and divestments	A$m	-17.2	4.1	0.0	0.0	0.0
Net investment cashflow	**A$m**	**-19.1**	**1.4**	**-3.0**	**-3.0**	**-3.0**
Financing						
Equity	A$m	-10.7	-13.3	-19.0	-21.4	-21.8
Debt	A$m	-73.7	36.3	-122.9	-138.0	-151.8
Leases	A$m	-1.5	-1.5	-1.5	-1.5	-1.5
Net financing cashflow	**A$m**	**-85.9**	**21.5**	**-143.4**	**-160.9**	**-175.1**
Net cash flow	**A$m**	**6.1**	**65.9**	**3.8**	**4.4**	**6.6**
Free cash flow to equity	A$m	16.9	79.3	22.8	25.8	28.5

Source: ABA reports, MST Access estimates

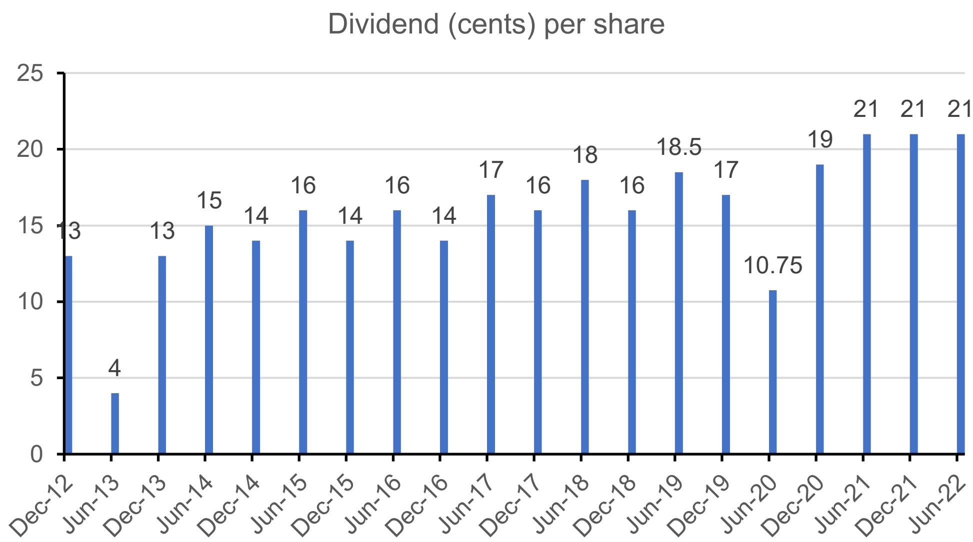
Result Analysis

Outlook commentary

Figure 1 – Auswide Bank FY23 outlook

Source: Company reports, MST Access estimates

Figure 2 – Dividends per share of 21cps the equal highest since 1H13



Source: Company reports, MST Access estimates

Actual result vs prior estimates

Figure 3 –Actual result vs prior estimates – full year

PROFIT AND LOSS		FY21A	FY22E	FY22A	$ Difference	% Difference	% change
Interest Revenues	A$m	111.0	113.2	106.0	-7.3	-6%	-5%
Interest Expense	A$m	-32.8	-29.5	-23.9	5.6	19%	27%
Net Interest Income	**A$m**	78.2	83.7	82.0	-1.7	-2%	5%
Non-Interest Income	A$m	10.4	12.2	12.4	0.2	2%	20%
Total operating income	**A$m**	88.5	95.9	94.4	-1.5	-2%	7%
Provision For Loan Losses	A$m	-0.6	0.2	0.7	0.5	249%	221%
Total Revenue	**A$m**	87.9	96.1	95.1	-1.0	-1%	8%
Non-Interest Expense	A$m	-53.2	-57.4	-57.7	-0.3	0%	-8%
Profit before income tax	**A$m**	34.7	38.7	37.5	-1.2	-3%	8%
Income tax expense	A$m	-10.5	-11.7	-11.4	0.4	3%	-8%
Reported NPAT	**A$m**	24.2	27.0	26.1	-0.8	-3%	8%
Weighted average diluted shares on issue	m	42.6	43.3	43.2	-0.1	0%	1%
EPS - diluted reported	A$	0.57	0.62	0.60	0.0	-3%	7%
DPS	A$	0.40	0.42	0.42	0.0	0%	5%

Source: Company reports, MST Access estimates

Figure 4 –Actual result vs prior estimates – half year

PROFIT AND LOSS		2H21A	1H22A	2H22E	2H22A	$ Difference	% Difference	% change on 1H22
Interest Revenues	A$m	54.0	53.4	59.9	52.6	-7.3	-12%	-1%
Interest Expense	A$m	-14.1	-12.1	-17.5	-11.9	5.6	32%	2%
Net Interest Income	**A$m**	39.9	41.3	42.4	40.7	-1.7	-4%	-1%
Non-Interest Income	A$m	5.1	6.8	5.4	5.6	0.2	4%	-17%
Total operating income	**A$m**	45.0	48.1	47.8	46.3	-1.5	-3%	-4%
Provision For Loan Losses	A$m	0.1	0.4	-0.2	0.3	0.5	261%	-22%
Total Revenue	**A$m**	45.1	48.5	47.6	46.7	-1.0	-2%	-4%
Non-Interest Expense	A$m	-26.9	-28.8	-28.6	-28.8	-0.3	-1%	0%
Profit before income tax	**A$m**	18.2	19.7	19.1	17.8	-1.2	-6%	-9%
Income tax expense	A$m	-5.5	-6.0	-5.8	-5.4	0.4	7%	9%
Reported NPAT	**A$m**	12.7	13.7	13.3	12.4	-0.8	-6%	-9%
Weighted average diluted shares on issue	m	42.7	43.1	43.5	43.2	-0.3	-1%	0%
EPS - diluted reported	A$	0.297	0.318	0.31	0.29	0.0	-6%	-9%
DPS	A$	0.210	0.210	0.21	0.21	0.0	0%	0%

Source: Company reports, MST Access estimates

Earnings revisions

Following today's announcement, we make the following changes to our earnings estimates for ABA:

Figure 5 –Earnings estimates for Auswide Bank

		FY22A			FY23E			FY24E			FY25E		
		Old	Actual	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net Interest Income	A$m	83.7	82.0	-2%	92.1	93.3	1%	100.2	103.3	3%	109.2	111.5	2%
Non-Interest Income	A$m	12.2	12.4	2%	11.3	11.7	4%	11.8	12.2	4%	12.2	12.7	4%
Total operating income	A$m	95.9	94.4	-2%	103.4	105.1	2%	111.9	115.5	3%	121.4	124.2	2%
Provision For Loan Losses	A$m	0.2	0.7	249%	(0.4)	(0.9)	-105%	(0.5)	(0.9)	-105%	(0.5)	(1.0)	-105%
Total Revenue	**A$m**	**96.1**	**95.1**	**-1%**	**103.0**	**104.2**	**1%**	**111.5**	**114.5**	**3%**	**120.9**	**123.2**	**2%**
Non-Interest Expense	A$m	(57.4)	(57.7)	0%	(61.5)	(65.1)	-6%	(66.1)	(71.0)	-7%	(71.2)	(75.9)	-7%
Profit before income tax	A$m	38.7	37.5	-3%	41.5	39.2	-6%	45.4	43.5	-4%	49.7	47.3	-5%
Reported NPAT	**A$m**	**27.0**	**26.1**	**-3%**	**28.9**	**27.3**	**-6%**	**31.6**	**30.3**	**-4%**	**34.6**	**33.0**	**-5%**
Cash NPAT	A$m	27.0	26.1	-3%	28.9	27.3	-6%	31.6	30.3	-4%	34.6	33.0	-5%
EPS diluted reported	cps	62.3	60.5	-3%	65.7	61.1	-7%	70.5	66.2	-6%	76.0	70.6	-7%
EPS diluted cash	cps	62.3	60.5	-3%	65.7	61.1	-7%	70.5	66.2	-6%	76.0	70.6	-7%
DPS	cps	42.0	42.0	0%	45.0	45.0	0%	45.0	45.0	0%	53.0	50.0	-6%

Source: Company reports, MST Access estimates

These changes reflect:

- Incorporating the FY22 result into our model.
- Lifting our NIM margin assumptions, given the company's guidance of a NIM above 200bps, benefiting from the more rapid repricing on its loans than its deposit products.
- Non-interest income rises slightly given higher assumed growth in loan book.
- Allowing for a reversion to very modest loan losses of 1bp (from loss reserve releases) given the potential shocks to borrowers from rapidly rising interest rates and the potential impact these rate raises have on borrower credit quality.
- Higher expenses reflecting the higher (mortgage book) asset base.
- EPS growth is lowered due to the fully underwritten DRP and ongoing dilutionary impact of the regular DRP in later periods.

Full details of our revised earnings appear in the financial summary on page 2.

Valuation

We consider a range of valuation approaches to estimate Auswide Bank's valuation, including:

- Multiple intrinsic valuation methods and scenarios of its potential future growth profiles.
- peer multiples and growth rates.

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company.

Figure 6 –MST Access valuation of Auswide Bank Limited

Method	Metric A$	Multiple x	per share A$	Comments
FY23 earnings	0.611	13	7.94	
Midcycle ROE earnings	0.611	13	7.94	Estimated 9.8% midcycle ROE multiplied by current book value
FY23 dividend yield	0.450	5%	9.00	
Dividend Discount Model			9.38	DDM with a cost of equity of 9.5% and terminal growth of 3.0%
General Residual Income Model			5.82	GRIM with a cost of equity of 9.5% and terminal growth of 3.0%
Theoretical book	6.49	1.1	6.99	assumes 10.0% ROE, 9.5% COE, 70% dividend payout
FY22 book	6.49	1.2	7.79	
FY22 tangible book	5.36	1.5	8.04	
Composite			**7.95**	**Range of A$5.82 - A$9.38**

Source: Company reports, MST Access estimates

For our intrinsic valuation models, including our dividend discount model and general residual income model, we use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We assume a risk free rate of 3.5% (was 3.0%) and equity risk premium of 5.0%. We estimate ABA's equity beta to be 1.2 (was 1.0), and have lifted our terminal growth assumption from 2% to 3%. This leads us to estimate ABA's cost of equity at 9.5% (up from 8.0%). We present our dividend discount model below.

Figure 7 –MST Access dividend discount model valuation of Auswide Bank Limited

Current date		30-Aug-22									
Next balance date		31-Dec-22									
		54	55	56	57	58	59	60	61	62	63
		Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26	Jun-27
		1H23	**2H23**	**1H24**	**2H24**	**1H25**	**2H25**	**1H26**	**2H26**	**1H27**	**2H27**
Dividends	A$	0.22	0.23	0.24	0.23	0.25	0.25	0.25	0.25	0.24	0.23
Tax at standard rate	%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Franking scalar	x	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43
Franking rate	%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Franking credits	A$	0.09	0.10	0.10	0.10	0.11	0.11	0.11	0.11	0.10	0.10
Total dividend value	**A$**	**0.31**	**0.33**	**0.34**	**0.33**	**0.36**	**0.36**	**0.36**	**0.36**	**0.34**	**0.33**
Discount coefficient	years	0.3	0.8	1.3	1.8	2.3	2.8	3.3	3.8	4.3	4.8
Discounted cash flow	**A$**	**0.30**	**0.30**	**0.30**	**0.28**	**0.29**	**0.28**	**0.26**	**0.25**	**0.23**	**0.21**

Sum of discount streams	A$	2.72	**CAPM**	
Future value into perpetuity	A$	10.33	Risk free rate	3.50%
NPV of terminal value	A$	6.66	Equity beta	1.2
Equity value	**A$**	**9.38**	Equity risk premium	5.00%
			Cost of equity	9.5%
Upside/downside	%	38%	Terminal growth	3.0%

Source: Company reports, MST Access estimates

Auswide Bank's listed Australian banking peers range from one of the largest listed companies on the ASX (CBA), to some of the smallest. The multiples it trades on likely reflect its relative profitability – and we think as the bank's ROE continues to improve, the multiples it trades on should continue to re-rate higher.

Figure 8 –Peer comparative multiples for Auswide Bank, sorted by ROE

Identifier (RIC)	Company Name	P/B	P/NTA	P/E	P/CF	Dividend Yield %	ROE %
CBA.AX	Commonwealth Bank of Australia	2.1	2.4	16.8	20.5	4.5%	13.4%
NAB.AX	National Australia Bank Ltd	1.5	1.7	13.6	9.3	5.1%	11.4%
ANZ.AX	Australia and New Zealand Banking Group Ltd	1.0	1.1	10.6	n.a.	6.4%	9.7%
BOQ.AX	Bank of Queensland Ltd	0.7	0.9	9.4	4.9	6.6%	8.1%
MYS.AX	MyState Ltd	n.a.	n.a.	12.2	n.a.	n.a.	8.0%
WBC.AX	Westpac Banking Corp	1.1	1.2	14.1	8.3	5.7%	7.7%
BEN.AX	Bendigo and Adelaide Bank Ltd	0.7	1.0	11.1	14.0	6.1%	7.1%
JDO.AX	Judo Capital Holdings Ltd	0.9	0.9	20.9	15.6	0.0%	4.7%
ABA.AX	**Auswide Bank Ltd**	**1.0**	**1.1**	**10.8**	**2.0**	**6.8%**	**9.2%**

Source: IBES FY1 (i.e. a mix of FY22 and FY23) mean consensus, Refinitiv, MST Access FY23 estimates for ABA

Investment Thesis

Auswide Bank offers a variety of attractions to investors:

- Stronger growth prospects than the major banks, with an ability to grow home loans unimpeded at multiples of system when it is profitable to do so, and increasing operational efficiency.
- One of the highest quality loan books in the industry, reflected in its low asset impairment charges.
- Return on equity metrics that put the regional banks and some major banks to shame.
- Cheaper exposure to the Australian banking sector than the major banks, given the lower multiples (both PE and P/B) the stock trades on.
- A higher, fully franked, dividend yield than the major and regional banks.
- A strong capital position (a FY22 CET1 ratio of 10.63%), which may be set to be further enhanced with APRA's capital adequacy changes taking effect from 1 January 2023.

Auswide Bank have realised that scale and complexity in today's banking environment is not the advantage it once was. Simplicity and nimbleness backed by good value products that are distributed efficiently via multiple channels (proprietary and partner) has been identified by management as Auswide Bank's opportunity.

Risks and sensitivities

Auswide Bank's risks and sensitivities can be categorised under the categories of strategic, financial and operational risks and sensitivities:

Strategic

Auswide Bank is subject to a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac as well as the recently introduced autonomous (Magnitsky style) sanctions administered by the Department of Foreign Affairs and Trade;
- Privacy requirements administered by the Privacy Commissioner;
- Prudential regulations administer by the Australian Prudential Regulatory Authority;

- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law

Similar requirements apply in other jurisdictions where Auswide Bank or its customers may have counterparties.

The personal lending sector is becoming increasingly crowded, with banks and specialist lenders all targeting a shrinking market. Auswide Bank operates in a competitive environment in which systems and practices are subject to continual development and improvement and new or rival offerings emerge periodically. At some stage consolidation is likely to occur, which could lead to changes the scale required to be profitable. This could present itself to investors in the form of both strategic M&A risks and general market risks.

Any strategic initiative from Auswide Bank may lead to a competitive response by traditional credit providers such as banks, credit card providers and personal loan providers, while Auswide Bank may itself need to deliver a competitive response to its competitors strategic initiatives. There is a risk that the growing number of fintechs or existing competitors may deliver a superior proposition and customer experience offering to that currently offered by Auswide Bank.

Combined, these market dynamics create dynamic brand strategy risks (as well as the operational equivalent of this risk, marketing execution).

Financial

Being a finance company, Auswide Bank has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- **Macroeconomic conditions** – many of the following risks vary through the economic cycle. Loose monetary conditions, such as those currently being experienced, supress many of these risks which can them emerge suddenly as macroeconomic policy tightens, and conditions deteriorate. COVID-19 variants have caused rapid swings in macroeconomic conditions, restricting supply and demand at various times.
- **Liquidity and funding risks** – As a payment or finance provider, Auswide Bank is subject to a range of liquidity and funding risks. It can only extend funding to customers if it has the capacity to do so, which means having sufficient deposit funding and liquidity buffers.
- **Credit risk** – For organisations providing loans, advances or instalments, credit risk is usually thought of in terms of customer delinquencies or bad and doubtful debts which need to be impaired. However, there is also credit risk on the funding side, where the cost of debt funding could rapidly increase or become unavailable should lenders become uncomfortable with Auswide Bank's counterparty risk – something that might happen should there be a large rise in customer delinquencies. For banks, this is typically expressed as a "depositor run on the bank". This impact led to several banks overseas failing during the global financial crisis.
- **Fraud** – Any payments or credit provider can also be defrauded by customers, staff or third parties.
- **Compliance risks** – There are many regulations that companies in the finance sector need to follow, outlined above in strategic risks, including anti-money laundering and counter terrorist financing know your customer requirements, where failure to comply with the regulatory requirements can lead to material financial penalties or litigation.

Operational

Most companies, including Auswide Bank, have a range of operational risks. These include:

- **Governance** – Increasingly an investment focus as part of ESG, governance risks include all matters of agency costs within the business, including delegated responsibilities and authorisations, internal controls and how conflicts of interest are addressed.

- **Key personnel** – Auswide Bank's ability to scale its business assumes availability of suitably qualified staff and a reliance on key personnel.
- **Information technology** - Should Auswide Bank's key technology infrastructure become corrupted such as from hardware failure or malware it would be highly disruptive to Auswide Bank's operations. Furthermore IT hardware and software becomes obsolete after a few years and requires capital investments to be updated, otherwise the company is at high risk of becoming inefficient relative to the market and being superseded by its competitors.
- **Cybersecurity and data protection** – Like any other business providing ongoing services to customers, Auswide Bank collects a substantial amount of customer data that is classified as personal information and thus obtains certain confidentiality protections under the Privacy Act. Human or system errors exposing this data could breach these confidentiality requirements, and could expose Auswide Bank to penalties. Similarly, Auswide Bank is a digital business reliant on its IT systems. A cyberattack could disable these systems, inconveniencing merchants or customers, or result in the loss of customer data – and creating substantial damage to the firm's reputation.
- **Force majeure events** – Events such as system failures, disruptions to utilities, natural perils (both environmental and human health) and warlike hostilities which prevent Auswide Bank from operating have a severe impact on its overall business, which grows exponentially the longer the system failure lasts for. For an example of how severe system failures can impact a finance business vaguely related to Auswide Bank, investors could study Tyro issues in early 2021, which led to a drop in transaction volumes and an attack on the company by a short seller. As Tyro has experienced, a prolonged outage can lead to damaged relationships leading to a loss of merchant contracts.
- **Litigation, claims and disputes** - Like any business, Auswide Bank could be subject to disputes and claims, which may end up being litigated, as well as litigation brought by regulators or class action funders. Such disputes tend to be expensive to resolve, can also result in substantial brand damage, and usually follow the realisation of another risk event. Catalysts can be contractual disputes, intellectual property infringement claims, employment disputes or indemnity claims. Auswide Bank is a member of the AFCA, which goes some way towards minimising some of the costs of some of these risks.

Company Description

Auswide Bank Ltd (ABA) is Australia's 24th largest bank, and 54th largest bank operating in the Australian market. It was established in 1966 in regional Queensland, listed on the ASX in 1994, and rebranded in 2015 shortly after converting into a bank.

ABA has established an Australia-wide lending presence supported through branches, business bankers, accredited mortgage brokers and online. ABA has a strong presence in QLD and is growing across the rest of Australia.

The bank boasts a high-quality loan book with over $4.0b in assets, representing a market share of around 11 basis points (0.11%).

Despite the impacts of COVID-19, ABA has maintained its four main medium-term financial targets, namely (1) a cost to income ratio of 60%; (2) a stable net interest margin targeted at 200bps; (3) return on net tangible assets of 10%, and (4) above system loan growth.

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