A better banking opportunity

At the current share price, we estimate ABA is trading on a FY22E PE of 10.9x, and a fully franked dividend yield of 6.4%. This makes it a cheaper way to gain exposure to the Australian banking sector than the major and regional banks, given the lower multiples the stock trades on; plus it offers a higher, fully franked, dividend yield than the major and regional banks.

Higher quality too

ABA offers ROE metrics that put the regional banks and some major banks to shame. It has stronger growth prospects than the major banks, with its small size providing an ability to grow home loans unimpeded at multiples of system when it is profitable to do so, while increasing operational efficiency through increased scale and digitisation. Furthermore, it has one of the highest quality loan books in the industry, reflected in its low asset impairment charges, complimented with a strong capital position (a FY21 CET1 ratio of 10.84%), which is set to be further enhanced with APRA's recently announced capital adequacy changes taking effect from 1 January 2023.

Building brand recognition

Auswide has strategically invested in marketing, sponsoring the Queensland Rugby League state of origin team, and providing the branding as an option on its debit cards. This has lifted its brand recognition within SE Queensland, benefiting its growth.

Potential Near-Term Catalysts

- Monthly in APRA ADI statistics.
- Its 1H22 result in February 2022
- Detail on the likely positive impact that APRA's recent changes to capital adequacy requirements will have
- Increasing its brand awareness
- Digital and data initiatives
- Non-organic growth including potential M&A and partnering opportunities.

Valuation

We value Auswide Bank at A$7.27. using a General Residual Income Model with a cost of equity of 8% referencing peer multiples to validate for reasonableness. Full details are within.

Glen Wellham, Senior Research Analyst

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%).

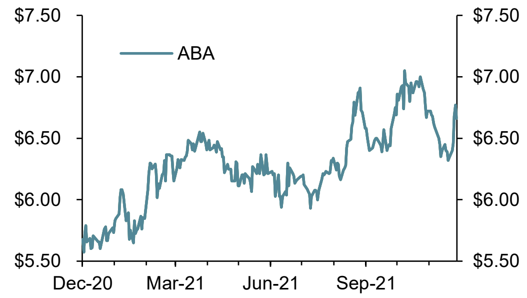
Stock	ABA.ASX
Price	A$6.58
Market cap	A$285m
Valuation	A$7.27

Company data	
Shares on issue:	43.3m

Recent Events	
FY21 result	27 August 2021
AGM	23 November 2021

Next steps	
Monthly APRA ADI statistics	Last business day of the following month
1H22 result	February 2022

ABA Share Price (ASX)



Financials

AUSWIDE BANK LTD — ABA-AX

Year end 30 June, A$

MARKET DATA		
Price	A$	$6.58
Valuation	A$	$7.27
52 week low - high	A$	0.00 - 7.20
Market capitalisation	A$m	285
Shares on issue (basic)	m	43.3
Options / rights (currently antidilutive)	m	
Other equity	m	
Shares on issue (fuly diluted)	m	43.3

INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22E	FY23E	FY24E
EPS - diluted reported	cps	43.80	56.66	60.38	62.67	63.14
EPS - diluted cash	**cps**	**43.80**	**56.66**	**60.38**	**62.67**	**63.14**
EPS growth	%	7%	29%	7%	4%	1%
PE	x	15.0	11.6	10.9	10.5	10.4
DPS	A$	0.28	0.40	0.42	0.45	0.46
Franking	%	100%	100%	100%	100%	100%
Dividend yield	%	4.2%	6.1%	6.4%	6.8%	7.0%
Payout rato	%	63%	71%	70%	72%	74%
Operating cash flow per share	cps	351.0	260.7	237.4	250.9	260.4
Free cash flow to equity per share	cps	37.2	39.6	50.3	53.0	53.9
FCF yield	%	5.7%	6.0%	7.6%	8.1%	8.2%
Enterprise value	$m	3,802	4,161	4,623	5,070	5,485
EV/Total Revenue	x	49.6	47.3	49.5	50.4	52.0
NAV per share	A$	5.71	6.03	6.12	6.30	6.51
Price / NAV	x	1.15	1.09	1.08	1.04	1.01
NTA per share	A$	4.59	4.91	5.04	5.28	5.53
Price / NTA	x	1.43	1.34	1.31	1.25	1.19

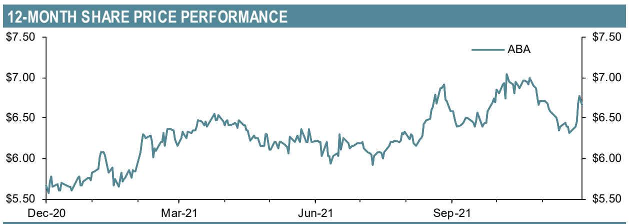
KEY RATIOS		FY20A	FY21A	FY22E	FY23E	FY24E
CET1 ratio	%	11.09%	10.84%	10.35%	10.45%	10.54%
Capital ratio	%	12.95%	13.31%	12.43%	12.34%	12.27%
Leverage ratio	%	6.58%	6.70%	6.23%	6.16%	6.10%
NII growth	%	11.6%	10.8%	6.0%	8.3%	4.9%
Expense growth	%	7.0%	6.2%	4.7%	7.1%	4.1%
Jaws	%	4.6%	4.7%	1.4%	1.2%	0.8%
ROE - reported	%	7.7%	9.7%	9.9%	10.1%	9.9%
ROE - cash	%	7.7%	9.7%	9.9%	10.1%	9.9%
Net debt	**A$m**	**3,517**	**3,876**	**4,338**	**4,785**	**5,200**
Leverage (net debt / invested capital)	x	5.1	5.5	6.0	6.5	6.8

DUPONT ANALYSIS		FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	24%	27%	28%	28%	29%
Asset Turnover	%	2.1%	2.2%	2.1%	2.1%	2.0%
Return on Assets	%	0.5%	0.6%	0.6%	0.6%	0.6%
Financial Leverage	x	15.38	15.93	16.65	17.24	17.40
Return on Equity	%	7.7%	9.7%	9.9%	10.1%	9.9%

HALF YEARLY DATA		2H20A	1H21A	2H21A	1H22E	2H22E
Net Interest Income	A$m	36.0	38.3	39.9	41.4	41.5
Total Revenue	A$m	37.9	42.8	45.1	46.7	46.7
Profit before income tax	A$m	13.2	16.5	18.2	18.8	18.9
Reported NPAT	A$m	9.2	11.5	12.7	13.1	13.2
Cash NPAT	A$m	9.2	11.5	12.7	13.1	13.2
EPS - diluted cash	**A$**	**0.22**	**0.27**	**0.30**	**0.30**	**0.30**
EPS - diluted reported	A$	0.22	0.27	0.30	0.30	0.30
DPS	A$	0.11	0.19	0.21	0.21	0.21

KEY PERFORMANCE INDICATORS		FY20A	FY21A	FY22E	FY23E	FY24E
Average loans and advances	$m	3,151	3,438	3,812	4,221	4,646
Total Revenue / Average loans and advances	%	2.43%	2.56%	2.45%	2.39%	2.27%
Cost to income ratio	%	62.3%	60.1%	59.5%	59.1%	58.7%
ECL allowance as a % of gross loans	%	0.21%	0.19%	0.19%	0.19%	0.20%
Growth in loans and advances	%	n.a.	10.9%	13.1%	10.1%	10.1%

12-MONTH SHARE PRICE PERFORMANCE



PROFIT AND LOSS		FY20A	FY21A	FY22E	FY23E	FY24E
Interest Revenues	A$m	126.3	111.0	117.8	134.7	157.3
Interest Expense	A$m	-55.7	-32.8	-34.9	-45.0	-63.1
Net Interest Income	**A$m**	**70.5**	**78.2**	**82.9**	**89.8**	**94.2**
Non-Interest Income	A$m	10.0	10.4	10.8	11.2	11.6
Total operating income	**A$m**	**80.5**	**88.5**	**93.6**	**101.0**	**105.8**
Provision For Loan Losses	A$m	-3.8	-0.6	-0.2	-0.3	-0.3
Total Revenue	**A$m**	**76.6**	**87.9**	**93.4**	**100.7**	**105.5**
Non-Interest Expense	A$m	-50.1	-53.2	-55.7	-59.7	-62.1
Profit before income tax	**A$m**	**26.5**	**34.7**	**37.7**	**41.0**	**43.4**
Income tax expense	A$m	-8.0	-10.5	-11.5	-12.5	-13.2
Reported NPAT	**A$m**	**18.5**	**24.2**	**26.2**	**28.6**	**30.2**
Cash NPAT	A$m	18.5	24.2	26.2	28.6	30.2
Weighted average diluted shares	m	42.2	42.6	43.4	45.6	47.9

BALANCE SHEET		FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	A$m	106.5	112.6	115.7	172.1	156.8
Loans and advances	A$m	3,205.8	3,555.0	4,020.7	4,425.6	4,872.0
Other financial assets	A$m	378.3	398.8	406.8	415.0	423.3
Property, plant and equipment	A$m	21.4	21.3	21.3	21.3	21.3
Goodwill and other intangibles	A$m	47.6	47.8	47.8	47.8	47.8
Other assets	A$m	28.6	20.1	20.1	20.1	20.1
Total Assets	**A$m**	**3,788.1**	**4,155.8**	**4,632.5**	**5,102.1**	**5,541.4**
Deposits and short term borrowings	A$m	3,018.5	3,349.3	3,811.4	4,458.4	4,974.1
Loans under management	A$m	420.7	333.7	333.7	183.7	183.7
Other borrowings	A$m	49.8	150.8	150.8	101.0	0.0
Subordinated capital notes	A$m	28.0	42.0	42.0	42.0	42.0
Other liabilities	A$m	29.0	23.4	23.4	23.4	23.4
Total Liabilities	**A$m**	**3,546.0**	**3,899.2**	**4,361.3**	**4,808.6**	**5,223.3**
Net assets	**A$m**	**242.0**	**256.5**	**271.2**	**293.5**	**318.1**
Net tangible assets	**A$m**	**194.5**	**208.7**	**223.3**	**245.7**	**270.3**
Invested capital	**A$m**	**690.3**	**704.8**	**719.4**	**741.7**	**766.4**
Tangible invested capital	**A$m**	**642.7**	**656.9**	**671.6**	**693.9**	**718.5**
Contributed equity	A$m	193.3	195.2	195.2	195.2	195.2
Treasury shares	A$m	0.0	0.0	0.0	0.0	0.0
Reserves	A$m	14.4	15.5	15.5	15.5	15.5
Retained earnings/accumulated losses	A$m	34.3	45.8	60.5	82.8	107.4
Non-controlling interests	A$m	0.0	0.0	0.0	0.0	0.0
Total equity	**A$m**	**242.0**	**256.5**	**271.2**	**293.5**	**318.1**
Basic shares on issue	m	42.4	42.5	44.3	46.6	48.9

CASH FLOW		FY20A	FY21A	FY22E	FY23E	FY24E
Operating						
Net operating cashflow	**A$m**	**148.3**	**111.2**	**103.1**	**114.3**	**124.6**
Investment						
Capital expenditure	A$m	-2.8	-1.9	-3.0	-3.0	-3.0
Acquisitions and divestments	A$m	-56.6	-17.2	0.0	0.0	0.0
Net investment cashflow	**A$m**	**-59.4**	**-19.1**	**-3.0**	**-3.0**	**-3.0**
Financing						
Equity	A$m	-13.6	-10.7	-18.0	-19.3	-22.2
Debt	A$m	-71.0	-73.7	-76.9	-85.8	-94.4
Leases	A$m	-2.2	-1.5	-1.4	-1.4	-1.4
Net financing cashflow	**A$m**	**-86.8**	**-85.9**	**-96.3**	**-106.5**	**-118.0**
Net cash flow	**A$m**	**2.1**	**6.1**	**3.8**	**4.9**	**3.7**
Free cash flow to equity	A$m	15.7	16.9	21.8	24.2	25.8

Source: ABA reports, MST Access estimates

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 FY21 CET1 ratio of 10.84%), which is set to be further enhanced with APRA's recently announced 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.

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 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%).

Despite the impacts of COVID-19, ABA has maintained its four main medium-term financial targets, namely:

- A cost to income ratio of 60%
- A stable net interest margin targeted at 200bps,
- Return on net tangible assets of 10%, and
- Above system loan growth.

Company History

Established in 1966, Auswide's origins run deep through the local communities of Queensland's Wide Bay Burnett region. Following a merger in 1979, Wide Bay Capricorn Building Society was formed. Wide Bay Capricorn Building Society listed on the ASX in 1994. The financial year of 2000/01 was a milestone for the Company as it exceeded $1 billion in assets and loans under management. Following strong national expansion, the Company changed its name to Wide Bay Australia Ltd in late 2003. Five years after the Company's 2008 merger with Mackay Permanent Building Society the board decided to transition to a bank. In 2015 Auswide Bank was launched, providing a range of personal and business banking products to customers across Australia. Since inception, Auswide has proven a pioneer in the banking space, forming a unique partnership with peer-to-peer lender MoneyPlace in 2015. The partnership featured both a 20% equity stake and a commitment to fund consumer lending. This partnership ended when Auswide divested its stake in MoneyPlace in January 2018. In December 2015, Auswide merged with the Brisbane based Queensland Professional Credit Union (trading as Your Credit Union). Following the merger, Auswide Bank's assets exceeded $3 billion.

Significant Dates

- **1966:** Burnett Permanent Building Society formed
- **1979:** Burnett Permanent and Maryborough Permanent Building Societies merge to form Wide Bay Capricorn Building Society
- **1979:** Wide Bay Capricorn Society formed
- **1981:** Merger with Gympie and North Coast Building Society
- **1983:** Merger with Port Curtis Permanent Building Society
- **1985:** $100 million in assets
- **1993:** Exempt Stock Market formed - $250 million in assets
- **1994:** Listing on ASX
- **1997:** $500 million in assets first securitisation programme
- **1998:** Expansion of lending activities interstate
- **1999:** $750 million in assets
- **2001:** $1 billion in assets and loans under management
- **2003:**
    - Name change to Wide Bay Australia Ltd
    - Australian Financial Services Licence obtained
- **2005:**
    - $1.5 billion in assets and loans under management
    - WBA assigned an investment grade credit rating by ratings agency and Standard & Poor's
    - Acquisition of 25% interest in Financial Technology Securities Pty Ltd
- **2008:**
    - Takeover of ASX-listed Mackay Permanent Building Society Limited
    - $2 billion in assets and loans under management
- **2010:**
    - WBA Customers now able to access an Australia-wide ATM network
    - Australian Credit Licence obtained
- **2013:**
    - Foundation Managing Director Ron Hancock retired
    - Martin Barrett is appointed as Managing Director
- **2015:**
    - Wide Bay Australia Ltd becomes Auswide Bank Ltd – Queensland's 3rd and Australia's 10th ASX listed bank
    - 20% equity stake acquired in peer-to-peer lender MoneyPlace
- **2016:**
    - Merger with Queensland Professional Credit Union (trading as Your Credit Union)
    - $3 billion in assets and loans under management

Recent Events

23-Nov-21	2021 Annual General Meeting
27-Aug-21	Auswide Bank FY21 Full Year Result
18-May-21	Auswide Bank Prices Tier 2 Subordinated Debt FRN Issuance
16-Mar-21	ASX Small and Mid-cap Conference Presentation
12-Mar-21	Director Appointment/Resignation
24-Feb-21	Auswide Bank 1H21 Interim Results

Potential near-term catalysts

There are several upcoming catalysts for Auswide Bank's stock, as well as a range of additional potential catalysts:

- Continued above system loan growth revealed monthly in APRA ADI statistics, including continued material growth in its private bank offering.
- Its 1H22 result in February, which is set to show continued execution on its 3-year (FY19-22) strategic plan as well as provide detail on the likely positive impact that APRA's recent capital adequacy rules will have once effective from 1 January 2023.
- Increasing its brand awareness, which has made substantial gains through its sponsorship of the Queensland rugby league state of origin team.
- Digital and data initiatives to position for a substantial 2023 growth trajectory
- Out of cycle interest rate rises by competitors, as it is likely to promote increased shopping by customers of competitors and re-broking by mortgage brokers. With improved brand recognition, improved IT, and competitively priced products, Auswide is in a good position to continue to pick up business at the super-prime end of the market.
- Non-organic growth including potential M&A and partnering opportunities.

Valuation summary

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

- intrinsic valuation 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 1 –MST Access General Residual Income Model (GRIM) valuation of Auswide Bank Limited

Current date		15-Dec-21										
Last balance date		30-Jun-21										
		Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Book value per share	A$	6.03	6.03	6.12	6.21	6.30	6.40	6.51	6.62	6.73	6.84	6.97
Equity charge	A$		-0.24	-0.24	-0.24	-0.25	-0.25	-0.26	-0.26	-0.26	-0.27	-0.27
Cash EPS	A$	0.30	0.30	0.30	0.31	0.31	0.32	0.31	0.30	0.28	0.31	0.30
Residual income	A$	**0.30**	**0.06**	**0.06**	**0.07**	**0.06**	**0.07**	**0.05**	**0.04**	**0.02**	**0.04**	**0.03**
Discounted cash flow	A$	**0.00**	**0.06**	**0.06**	**0.06**	**0.06**	**0.06**	**0.04**	**0.03**	**0.01**	**0.03**	**0.02**
Sum of discount streams	A$	0.44	**CAPM**									
Future value into perpetuity	A$	1.13	Risk free rate				2.00%					
NPV of terminal value	A$	0.80	Equity beta				1.2					
add net assets	A$	6.03	Equity risk premium				5.00%					
Residual income value per share	**A$**	**7.27**	Cost of equity				8.0%					
P/B multiple implied by GRIM valuation	x	1.20	Terminal growth				2.0%					
Upside/downside	%	10%										

Source: Company reports, MST Access estimates

Many analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation;

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 2.0% and equity risk premium of 5.0%. We estimate

ABA's equity beta to be 1.2. We estimate ABA's cost of equity to be 8.0% and terminal growth of 2.0%. This produces a valuation of A$7.27 per share.

Inside, we also present valuations using a dividend discount model and a theoretical book value multiple.

Figure 2 –Peer comparative multiples for Auswide Bank

Identifier (RIC)	Company Name	Price / EPS	Price / BVPS	Price / NTA	Dividend Yield %	ROE - Mean
AFG.AX	Australian Finance Group Ltd	12.00	3.18	3.02	6.1%	27.9%
ANZ.AX	Australia and New Zealand Banking Group Ltd	12.74	1.19	1.28	5.3%	9.7%
BEN.AX	Bendigo and Adelaide Bank Ltd	11.60	0.74	0.97	6.2%	7.1%
BOQ.AX	Bank of Queensland Ltd	11.27	0.84	1.04	5.9%	8.3%
CBA.AX	Commonwealth Bank of Australia	19.40	2.22	2.42	4.0%	11.7%
JDO.AX	Judo Capital Holdings Ltd	1,055.49	1.70	1.72	0.0%	0.4%
MYS.AX	MyState Ltd	12.96	n.a.	n.a.	n.a.	9.0%
NAB.AX	National Australia Bank Ltd	14.55	1.45	1.59	4.9%	10.5%
WBC.AX	Westpac Banking Corp	13.19	1.06	1.25	5.8%	8.2%
ABA.AX	Auswide Bank Ltd	10.90	1.08	1.31	6.4%	9.9%

Source: IBES FY1 (i.e. FY22) mean consensus, Refinitiv, MST Access estimates for ABA

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

Risks and sensitivities

We elaborate on Auswide Bank's risks and sensitivities later in this report. In summary, they can be categorised under strategic, financial and operational risks summarised as:

Strategic

Auswide Bank operates in a dynamic and changing market, which sees competitors providing new and innovative offerings in a bid to capture market share.

Furthermore, there is 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;
- Privacy requirements administered by the Privacy Commissioner;
- Prudential regulation administered 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.

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
- Liquidity and funding risks

- Credit risk
- Fraud
- Compliance risks

Operational

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

- Governance
- Key personnel
- Information technology
- Cybersecurity and data protection
- Force majeure events
- Litigation, claims and disputes

Contents

The big picture

The competitive landscape in which Auswide Bank operates is the Australia-wide market for banking services, predominantly residential lending.

Demand for housing, and hence home lending, is influenced by :

- demographics,
- macroeconomics, and
- microeconomics.

The demographic driver is net new household formation, which is driven by life events including relationship formation, births, deaths, and downsizing (such as from due to children leaving home).

Macroeconomics impacts affordability. Drivers include the real interest rate and inflation which can influence access to finance. To this we also add macroprudential regulations, which seek to alter macroeconomic impacts to maintain systemic stability. There is likely to be further macroprudential regulatory actions in the not-too-distant future.

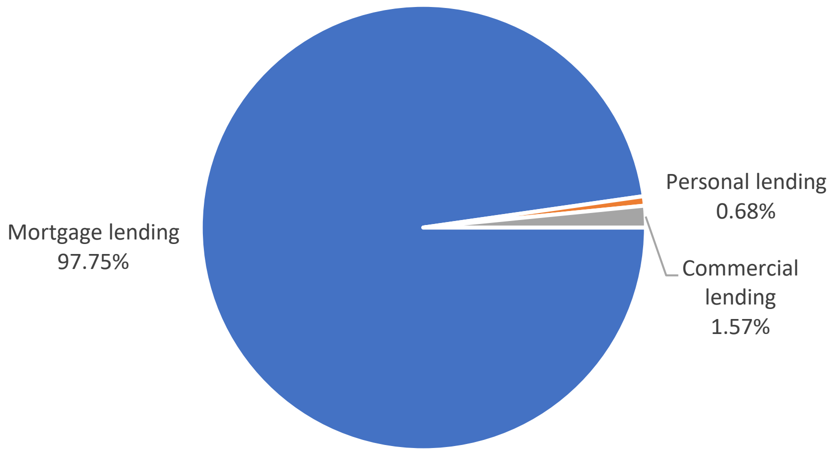
Microeconomic influences are the supply and demand of housing. Australia has been underbuilding houses for many years, with builders finding greater profitability in supplying units. This is leading to a considerable mismatch in demand, which has resulted in very strong house price growth.

We consider each of these influences in a little more detail.

Competitive landscape

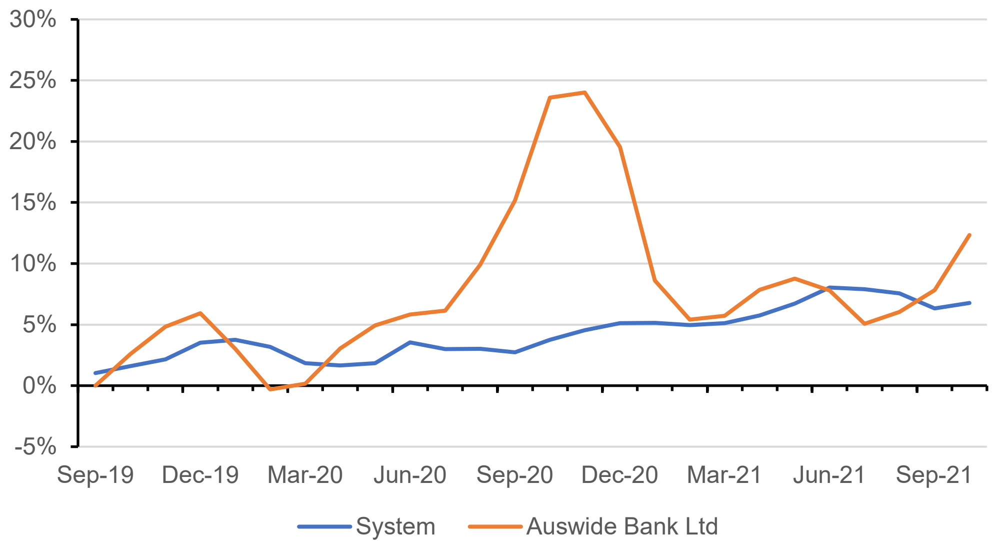
While ABA undertakes both personal and commercial lending in addition to mortgage lending, mortgage lending is its main business, accounting for all but 2.25% of its lending by value.

Figure 3 – Auswide Bank mix of lending business, at FY21, 30 June 2011



Source: Company reports, MST Access estimates

Figure 4 – Auswide Bank annualised rolling quarterly growth in mortgages vs system



Source: APRA Monthly ADI Statistics database, MST Access estimates

The bank has taken full advantage of the RBA's term funding facility in order to grow its mortgage lending book, achieving extremely strong growth during its 1H21 to grow at over 10x system at the start of FY21, leading to a very noticeable gap from system when calculated on a rolling quarterly basis and annualised.

Despite this strong growth, it has a relatively small market share of around 11 basis points (0.11%), so large changes in its growth are a rounding error in the context of the total market. This is a two-edged sword – it can operate aggressively on its own terms, without attracting the competitive focus of larger institutions; but can also be caught in the cross-fire between large institutions competing between each other. Its small market share also allows it to be particularly selective about the profile of the customers it seeks to bank.

The Australian banking market is dominated by the major banks, namely:

- Commonwealth Bank of Australia (CBA)
- Westpac Banking Corporation (WBC)
- National Australia Bank (NAB)
- Australia and New Zealand Banking Corporation (ANZ)

Combined, these four banks represent 72% of resident banking assets at 30 June 2021 according to APRA's Monthly ADI Statistics.

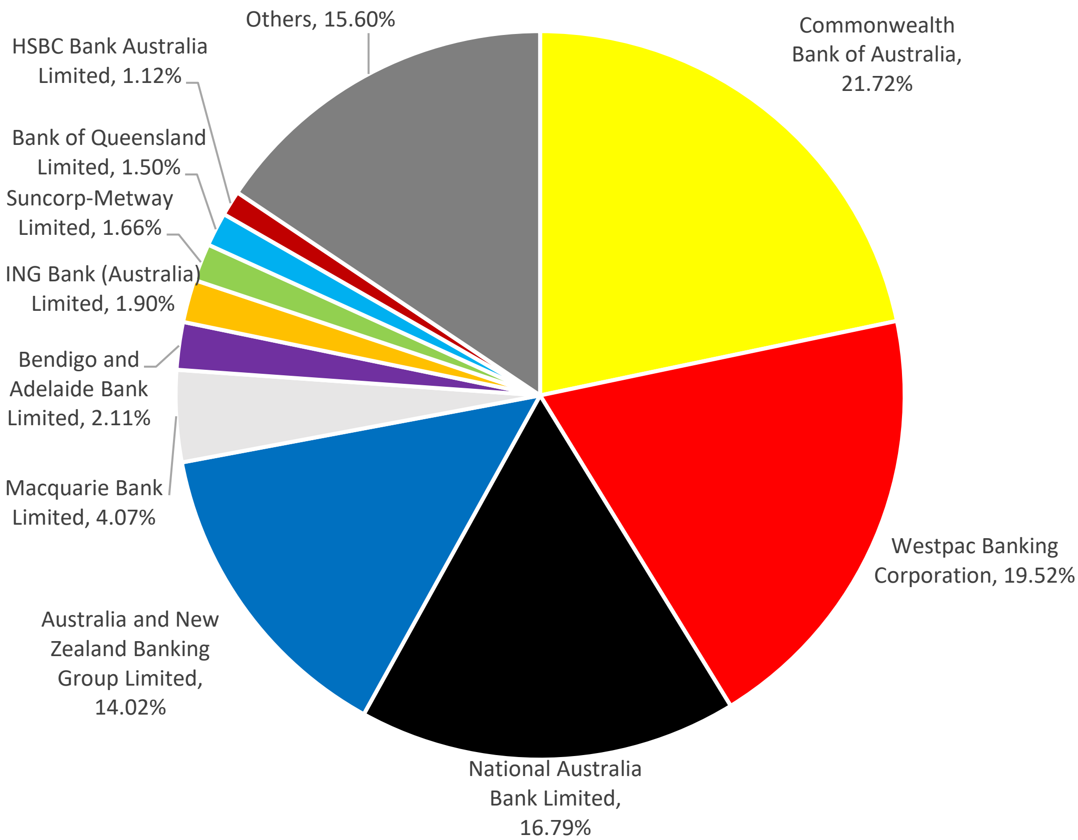
The top 10 banks by resident banking assets – which includes the majors, "regionals", and some large foreign banks who have built sizeable retail banking operations - have 84.4% market share.

There are 7 banks which have between 0.5% and 1% of market share each, accounting for a cumulative 4.3% of market share of resident assets.

The remaining 11.3% of the market is represented by over 100 banks which have less than 0.5% market share each. Austwide is one of the larger banks in this group of small banks with 0.11% market share. 69 banks have less than 0.1% market share.

Auswide Bank's closest listed peers by relative size of resident banking assets are MyState and Judo Bank, both of which are larger than Auswide Bank by resident assets.

Figure 5 – Market shares of major banking institutions in Australia at 30 June 2021 by resident assets



Source: APRA Monthly ADI Statistics

Demographics

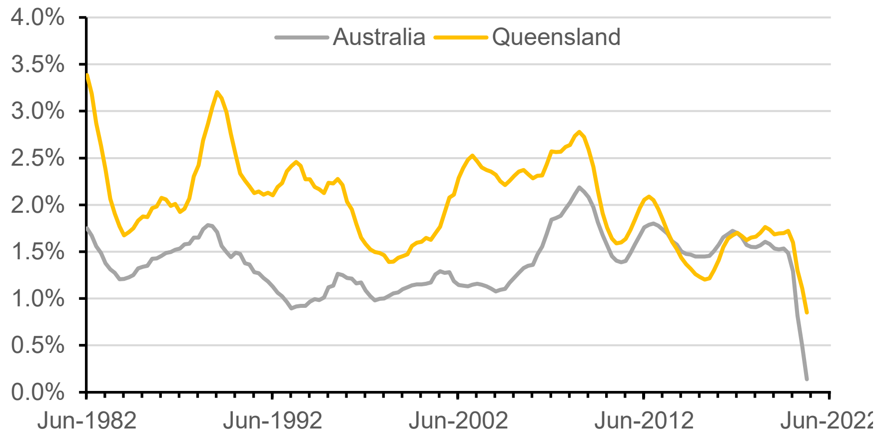
Population growth is one of the components influencing our assessment of the reasonableness of our terminal growth assumptions. Queensland has achieved faster population growth over the past 40 years than Australia in total; however the past decade has seen Queensland's growth slow to be much closer to the overall Australian population growth experience.

Australia's and Queensland's rapid population growth over the past decade of ~1.5%, attributable to strong levels of both international and interstate immigration, has significantly assisted many companies across a wide range of sectors growing, including the banking industry, which has benefited from elevated levels of household formation. This should accelerate as household formation amongst the large millennial generation increases.

The closure of borders last year has certainly been a shock to demographic growth, and Australia is expected to suffer a second consecutive year of population shrinkage, an unprecedented event for modern (post World War II) Australia. However, the picture is stronger in Queensland, which continues to benefit from interstate immigration, perhaps assisted by the prolonged lockdowns in south eastern states.

With significant pressure from many businesses facing skill shortages to restart immigration, and Australia remaining a desirable country for migrants being highly successful in minimising COVID and being one of the few countries to see life expectancy improve over the pandemic, it seems reasonable to expect demographic growth will return towards is pre-pandemic levels.

Figure 6 – Estimated resident population growth on pcp in Australia and Queensland



Source: Australian Bureau of Statistics 3101.0 Table 4 Estimated Resident Population, States and Territories

Macroeconomic outlook

The COVID wildcard

COVID has resulted in a fluid macroeconomic situation. Virus suppression improves, the macroeconomic outlook brightens, and then virus levels increase, perhaps due to a new variant, reducing the near-term macroeconomic outlook. While the outlook in Australia has been improving following the wave in south-east states of Australia over the winter of 2021, overseas experience in Europe and the North-East United States combined with the recently identified omicron variant as we head into Christmas 2021 suggests that there is an elevated risk of COVID again staging a resurgence, which could again lead to health restrictions constraining the economy, potentially next winter in Australia as vaccine efficacy wanes and a portion of the population is less than diligent in obtaining their booster shots. As such, there seems to be a real and present catalyst for downside risk to the following economic forecasts, in our view resulting in significantly greater uncertainty around economic forecasts than usual.

Risk sustained inflation leads to higher interest rates long-term

COVID has caused worldwide supply and logistics disruptions, which combined with various governments' pandemic assistance is leading to increased inflation in many products. Should this inflation not be transitory, but sticky and become incorporated into expectations, it could set the scene for a markedly higher long-term interest rate environment, which would have implications for housing affordability.

This would likely lead to an increase in refinancing activity, while it would act as a break on new loans to first and subsequent home buyers. As such, it would have a mixed effect on ABA. While higher interest rates could lead to falling home values, ABA's prudent book would likely avoid issues around negative equity which could plague other lenders and potentially even lead to a systemic banking crisis as seen in the early 1990's in Australia.

We are already starting to see higher yields on longer-term debt. This has the impact of increasing bank funding costs, and has already led to several major banks raising fixed term mortgage interest rates. Counter-intuitively, the rise in bank interest rates may cool the economy slightly and offset the need for the RBA to raise the official cash rate, thus supporting the RBA in achieving its stated goal of keeping the cash rate steady.

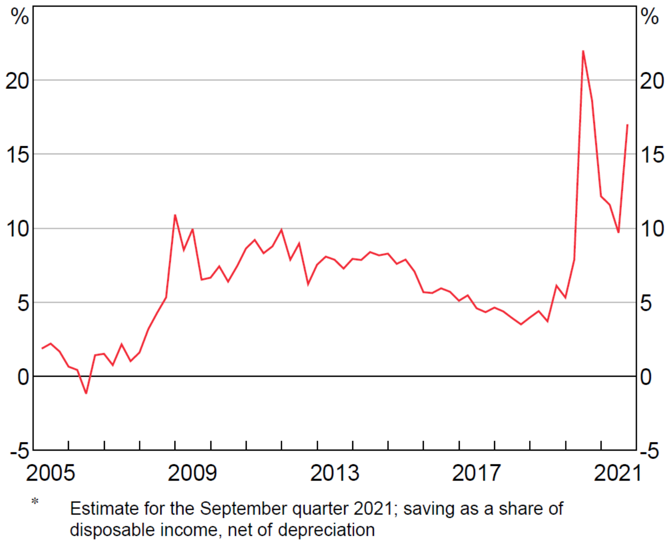
The latest RBA statement of monetary policy

The RBA in early November 2021 updated its economic forecasts, releasing them in its statement on monetary policy.

This statement incorporated the prolonged lockdowns in south-east Australia and the border closures that exist in other states, with the RBA noting the adverse impact expected on the September 2021 quarter GDP, which is yet to be released.

One outcome of lockdowns, limiting people's ability to spend money, combined with elevated levels of government income assistance, has been a substantial rise in the household saving ratio, which should provide an increased number of mortgage deposits, thus supporting new mortgage demand, as well as increasing post-lockdown demand for other goods and services.

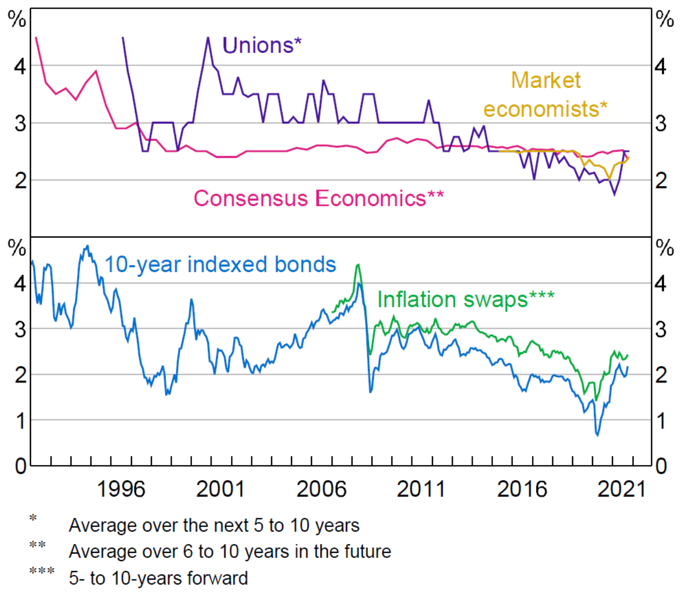
Figure 7 – Household saving ratio, quarterly



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021 Graph 2.12

Despite some commentators voicing loud concerns about inflation in patches of the economy, the RBA maintains a relatively sanguine view on inflation expectations, noting that inflation was stronger than expected in the September quarter, driven by new dwelling inflation, and implied inflation expectation in bond yields have risen, but long term inflation expectations are just returning to the levels experienced within the past decade.

Figure 8 – Long term inflation expectations



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021 Graph 4.13

A potential outbreak in inflation provides a couple of key benefits to lenders:

- It allows net interest margins to expand.
- It assists in deleveraging borrowers due to rising security values .

However, as we have seen in the past, if higher real interest rates are required to again contain inflation, affordability of mortgage repayments can become an issue, and this can also reduce demand for new loans.

Demand for new loans remains strong, with owner-occupier housing credit growing at a relatively steady clip of around 10% annualised when measured over the past 3 or 6 months. We believe this could ease slightly in coming months with expectations of interest rate rises leading to banks to raise fixed term mortgage rates, slightly cooling demand.

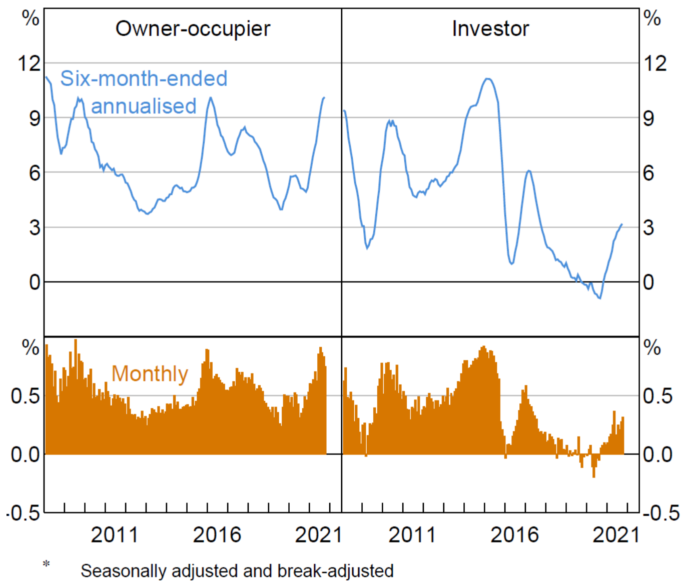
Figure 9 – Growth in financial aggregates, percentage change

	Three-month annualised		Six-month annualised	
	June 21	Sept 21	Mar 21	Sept 21
Total credit	**6.9**	**7.9**	**3.2**	**7.4**
Household	6.9	6.7	4.4	6.8
– Housing	7.6	7.8	5.2	7.7
– Owner-occupier	10.0	10.2	7.3	10.1
– Investor	3.1	3.2	1.7	3.2
– Personal	–2.0	–8.7	–5.2	–5.4
Business	7.0	10.4	0.7	8.7
Broad money	**8.9**	**10.5**	**6.1**	**9.7**

(a) Figures are break-adjusted and seasonally-adjusted

Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Table 3.2

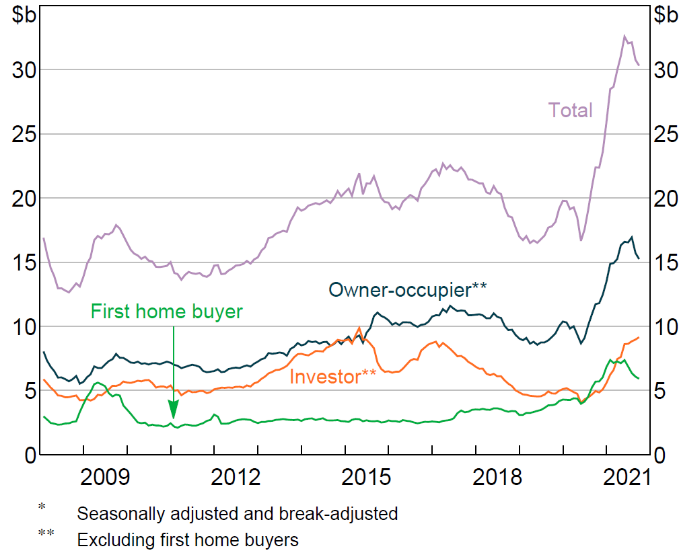
Figure 10 – Housing credit growth



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 3.26

Housing loan commitments have grown extremely strongly over the past couple of years, in our view due at least in part to the emergency level interest rate settings. As these emergency settings are removed, it seems reasonable to expect some moderation and stabilisation in these commitments.

Figure 11 – Housing loan commitments, monthly; excluding refinancing



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 3.27

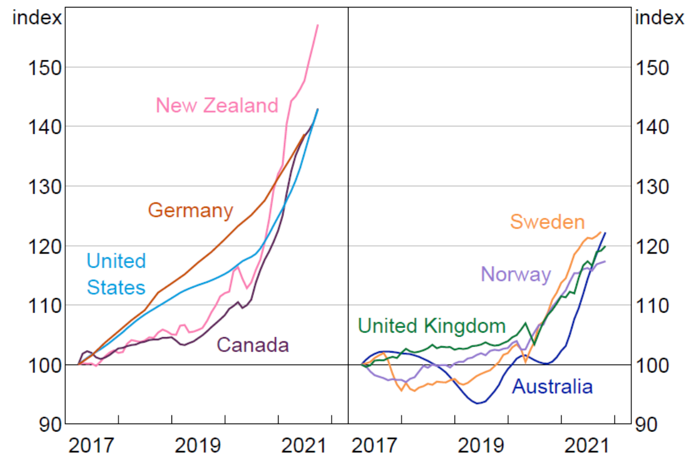
Macro prudential regulations

The responsibilities for macroprudential regulations in Australia are shared between several regulators who are members of the Council of Financial Regulators (CFR), namely the Reserve Bank of Australia (RBA) and the Australian Prudential Regulatory Authority (APRA), along with the Australian Securities and Investments Commission (ASIC), and overseen by the Australian Treasury which also sits on the CFR.

Four main indicators are used to identify emerging threats to financial stability:

- Credit growth and leverage
- Growth in asset prices
- Lending conditions
- Financial resilience

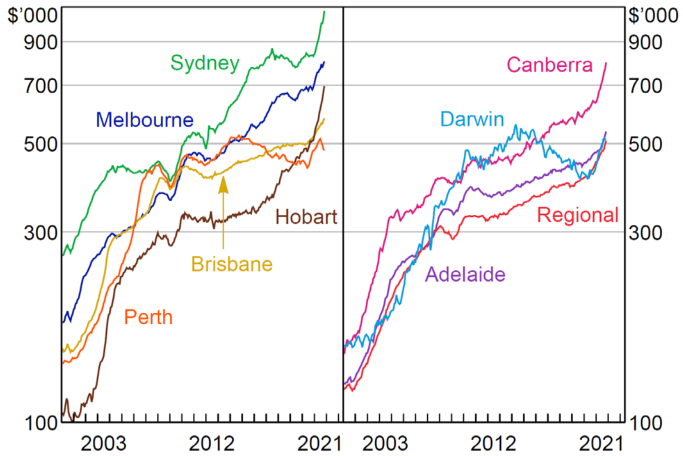
Figure 12 – Housing Price Indices (March 2017=100)



Source: Reserve Bank of Australia Statement on Monetary Policy November 2021, Graph 1.5

Given the recent strong rise in house prices during the COVID-19 pandemic in many developed countries (refer Figure 12), including Australia (refer capital city breakdown in Figure 13), combined with stimulatory lending conditions to ease the economic shock of the pandemic, to protect financial stability additional macroprudential regulations are currently being discussed and consulted upon. APRA is suggesting that it will finalise its consultation in the first half of 2022, with the new macroprudential requirements to come into effect shortly after. We interpret this as potentially as soon as 1 July 2022 (the start of FY23 for ABA), or 1 October 2022 (the start of FY23 for several major banks).

Figure 13 – Median Housing Prices, seasonally adjusted, log scale



Source: Reserve Bank of Australia Statement on Monetary Policy November 2021, Graph 2.18

Macroprudential measures and categories

While different countries use different macroprudential controls, they can be categorised into three categories and ten measures:

Lending standards:

- **Interest rate buffers** (currently in place in Australia under the term "serviceability buffer", and recently increased from 2.5% to 3%).
- **Debt payment to income limits**, limiting the proportion of income that can be used to repay debts.
- **Amortisation requirements** (principal payments as a proportion of the loan value) – in the Australian context this captures interest only loans.
- **Loan purpose,** such as investment, owner occupied (first or secondary home) or construction, acquisition, or refinancing.

Lending limits

- **Loan to valuation ratio limits**, limiting leverage on individual properties.
- **Loan to income ratio limits**, limiting the multiple of income that a borrower can borrow.
- **Debt to income ratio limits,** limiting the credit limit of all debts held by the borrower to a multiple of income.

Capital requirements

- **Countercyclical capital buffer**
- **Dynamic provisioning**
- **Capital distribution constraints**, something APRA implemented in 2020 at the start of the COVID-19 pandemic.

Additionally, some of these restrictions can be partially enforced through a concept of "speed limits", allowing a portion of loans to exceed the specified macroprudential controls, providing banks with some flexibility to continue to meet the needs of customers who may have a valid reason as to why a certain macroprudential regulation should not apply.

RBA's views as detailed in its Financial Stability Review

The RBA in its October 2021 Financial Stability Review examined the various macroprudential regulations currently used in selected other developed countries. While other countries, such as China, extensively use macroprudential settings, the RBA has selected small open developed economies like Australia's for comparison, reproduced in Figure 14.

The countries in the RBA's study may use one or more of these macroprudential controls, with several countries using multiple controls simultaneously.

Figure 14 – Mortgage Macroprudential Policies in Selected Economies

Country	Measure	Date	Details
Canada[b]	Interest rate buffer	2018	2 percentage points above mortgage contract rate (or reference rate), subject to a floor of 5.25%[c]
Ireland	LTI limits	2015	3.5 for first home buyers (20% speed limit) 3.5 for other owner-occupiers (10% speed limit)
	LVR limits	2015	90% for first home buyers (5% speed limit) 80% for other owner-occupiers (20% speed limit) 70% for investors (10% speed limit)
Israel	LVR limits	2012	75% for first home buyers 70% for other owner-occupiers 50% for investors
	Debt payment to income limit	2013	50% for investors and owner-occupiers
New Zealand	LVR limits	2013	60% for investors (5% speed limit) 80% for owner-occupiers (20% speed limit)[d]
Norway[e]	Interest rate buffer	2015	5 percentage points above prevailing interest rate
	DTI limit	2017	5 for investors and owner-occupiers
	LVR limit	2015	60% for interest only loans 60% for secondary dwellings in Oslo 85% for other principal and interest loans
	Amortisation	2015	Annual repayments must not be less than 2.5% of the loan value or the payments that would be required on a 30-year annuity loan if the LVR is above 60%
Sweden	LVR limit	2010	85% for owner-occupiers and investors
	Amortisation	2016	Linked to a borrower's LVR and LTI ratio (e.g. borrowers with an LVR of 50–70% and an LTI less than 4.5 must amortise 1% of their loan)
United Kingdom[f]	LTI limit	2014	4.5 for owner-occupiers (15% speed limit)
	Interest rate buffer	2014	3 percentage points above the reversion rate for owner-occupiers

(a) Speed limits allow for a certain proportion of new loans to be exempt from a particular measure; excludes capital-based measures

(b) Mortgages with an LVR greater than 80% require mortgage insurance, which carry conditions including: maximum purchase prices; minimum deposits; debt servicing limits; and minimum credit scores

(c) This floor currently corresponds to a buffer of around 3 percentage points above the lowest available mortgage contract rates

(d) From 1 November 2021, the speed limit for owner-occupiers will be 10%

(e) At most 10% of mortgages may breach one or more of these rules; this limit is 8% for Oslo properties

(f) Expectations for minimum underwriting standards for investor loans are set out in a supervisory statement. These standards include a serviceability test and an interest coverage ratio test

Sources: National authorities; RBA

Source: Reserve Bank of Australia Financial Stability Review October 2021

APRA's views as detailed in its policy consultation

APRA, to better implement macroprudential regulations, is proposing to revise its Prudential Standard APS220 Credit Risk Management enabling it to implement macroprudential policy credit measures requiring ADIs to:

- Ensure they have the ability to limit growth in particular forms of lending (we suggest such as to investors, first home buyers and secondary dwelling buyers, or interest only and amortising loans);
- Moderate higher risk lending during periods of heightened systemic risk or meet particular lending standards, at levels determined by APRA; and
- Ensure that there would be adequate reporting in place to monitor against limits.

These reforms would allow APRA to implement macroprudential regulations without raising capital requirements, compared to its current approach which involves raising capital requirements where needed.

Future macroprudential regulatory options

Some of the proposed requirements for ADI systems identify the macroprudential levers which APRA may look to adjust for residential housing:

- Lending with a debt to income ratio greater than or equal to four times or six times.
- Lending with a loan to valuation ratio greater than 80% or 90%.
- Lending for the purpose of investment
- Lending on an interest only basis
- Lending with a combination of any two of the above types specified.

In addition, APRA is looking to be able to set its loan serviceability buffer anywhere between 2% and 5% on top of the interest rate paid by the borrower, ignoring introductory discounted teaser rates.

Since 2018 APRA can now apply these macroprudential measures to non-APRA regulated lenders, such as finance companies operating as shadow banks, where these lenders are materially contributing to financial stability risks. Given some such finance companies are potentially listed peers for Auswide Bank this is noteworthy, given the last time that APRA implemented macroprudential measures in 2015 and 2017 non-bank lenders were not captured by these regulations, and as such were able to benefit attracting customers with lending requirements banks were unable to meet.

Implications for Auswide Bank

Certain lending ration requirements may limit some borrowers, and possibly reduce demand at the margin; however most of the areas being targeted by these macroprudential restrictions are largely outside Auswide Bank's risk appetite and target market, given its conservative lending settings.

The greater risk would appear to be restrictions lead to Auswide's larger competitors seeking to attract more business matching its risk appetite, thus increasing competition and reducing its growth.

Auswide is well capitalised, so that should limit the impact of any additional macroprudential capital requirements imposed.

However, implementing the changes may require some project capex for Auswide to update its systems to meet new requirements.

Microeconomic outlook

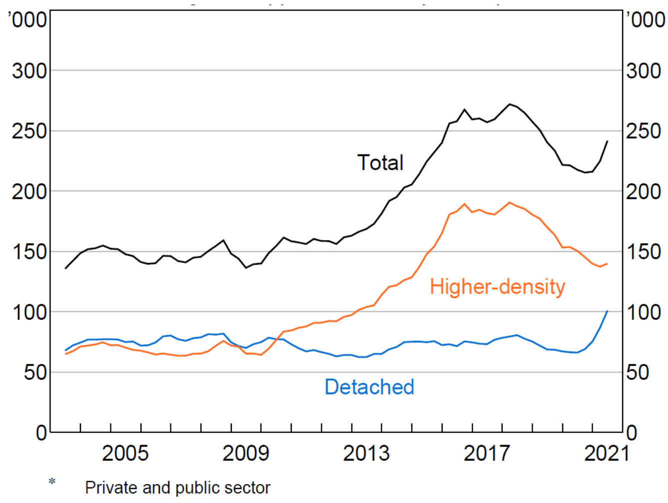
Higher prices for new homes, driven by capacity constraints and building materials cost inflation lifting input costs, will support higher prices for existing homes; which in turn will support new mortgage loan sizes.

Most of the increase in residential dwelling pipeline over the past decade has been in higher density apartments, rather than attached housing. This is leading to an increasing divergence between the prices of higher-density units and detached houses.

The construction sector cannot build much faster, with capacity utilisation sitting around the highs over the past decade, at a time when input cost inflation has popped to levels not seen in a decade.

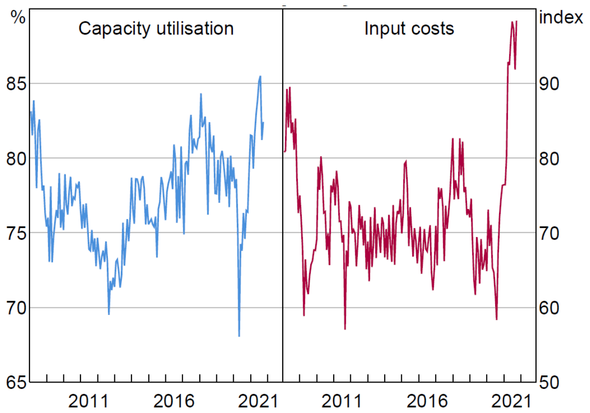
These higher costs and high-capacity utilisation is leading to a rapid rise in the base prices for new dwellings. It seems likely that base prices will continue to rise given the strong rise in building commencements accompanied by the strong rise in building material prices, which hasn't occurred so strongly together since the early 1990's.

Figure 15 – Residential pipeline, dwelling units approved but not yet completed



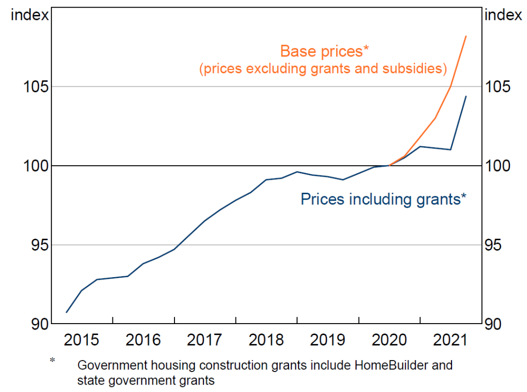
Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 2.16

Figure 16 – Construction capacity indicators



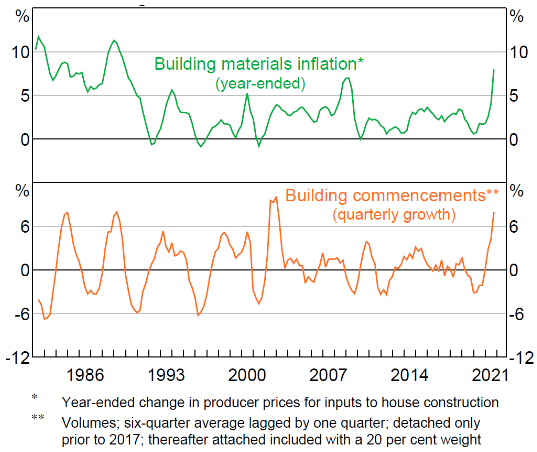
Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 2.17

Figure 17 – New dwelling prices, June quarter 2020=100



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 4.4

Figure 18 – Building costs and commencements



Source: Reserve Bank of Australia Statement of Monetary Policy November 2021, Graph 4.5

Auswide Bank's advantages

A focused strategic plan

Figure 19 – Auswide Bank's FY22 Strategic Outlook

FY22 Outlook

Looking ahead, the Board has reviewed Auswide Bank's strategy and will focus on delivering the company's growth aspirations by driving digital integration across the business. We have developed a digital framework that will continue to support our focus on customer experience, partners, processes, and people, recognising that digital integration underpins risk management, improves efficiency and manages costs.

Source: Company reports, MST Access estimates

Auswide Bank's strategy is detailed in its FY21 annual report. With the bank achieving its 3 year strategic targets in 1H21, after only 18 months, it has not set revised stretch targets.

Figure 20 –Auswide's FY22 outlook

Source: Company reports, MST Access estimates

Hence we believe investors should focus on the bank's strategic pillars which are unlikely to change and will underpin its next set of strategic targets.

- Simplicity and being nimble
- Products and services that meet customers' needs and are good value
- Distribution and access channels allow convenient and easy access.

Clearly the digitisation of its processes are a key focus, and an area where the bank continues to invest to improve its offerings and efficiency.

Competitively priced products

Auswide Bank offers much better interest rates than major banks to its customers, with modest fees. For example:

- Its basic home loan features a variable interest rate of 2.29%; which is the same as its fixed 1,2 and 3 year rates.

- Its low-rate credit card currently has a purchase and cash advance annual percentage rate of just 8.05%, which features a 'rate tracker', moving the interest rate up and down with the RBA's cash rate.
- It is offering 0.5% p.a. interest on 12-month term deposits over $5000, interest paid on maturity, well above the current RBA cash rate

Furthermore, being a licenced Authorised Deposit Institution, depositors receive the Australian Government deposit guarantee on their first $250,000 deposited with ABA.

"Shareholder advantage" shareholder loyalty scheme

ABA's shareholder loyalty scheme is available to shareholders owning more than 1000 shares in ABA.

Offers include

- Freedom Package, which provides an interest rate discount off the standard mortgage interest rate
- No account fee on Everyday access account (normally $5 per month)
- No establishment fee on personal loans (normally $175)
- No annual fee on credit cards (both the low rate Visa, normally $50, and Platinum Rewards Mastercard, normally $120)
- 10bps p.a. additional interest on standard term deposit rates

While company shareholders are not eligible for these offers, other entities including partnerships, trusts and SMSFs, are, in addition to individuals.

Deposit mix

Figure 21 – Auswide Bank Deposit mix at 30 June 2021

	30-Jun-21	
	A$m	**%**
Call deposits	1,440.0	43.0%
Term deposits	1,492.6	44.6%
Negotiable certificates of deposit	251.7	7.5%
Floating rate notes	165.0	4.9%
Total deposits and short term borrowings	**3,349.3**	**100.0%**

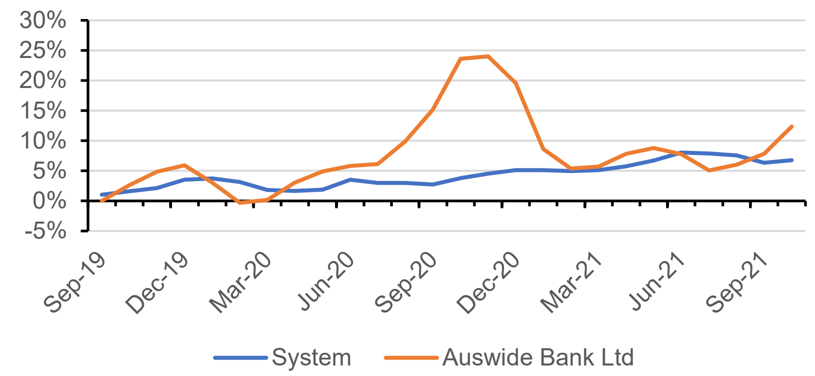
Source: Company reports, MST Access estimates

Auswide Bank's deposit mix is split fairly evenly between call deposits and term deposits, having grown its call deposits significantly over the past year.

While ABA has historically attracted term deposits with attractive pricing, the growth in call deposits perhaps enabled by its solid internet banking experience as well as low interest rates, combined with the RBA's term funding facility have allowed ABA to keep its term deposit book largely static, while improving its cost of funding.

Lending book

Figure 22 – Auswide Bank annualised rolling quarterly growth in mortgages vs system



Source: APRA Monthly ADI Statistics database, MST Access estimates

ABA has taken full advantage of the RBA's term funding facility in order to grow its mortgage lending book, achieving extremely strong growth during its 1H21 to grow at over 10x system at the start of FY21, leading to a very noticeable gap from system when calculated on a rolling quarterly basis and annualised.

Despite this strong growth, it has a relatively small market share of around 11 basis points (0.11%), so large changes in its growth are a rounding error in the context of the total market. This is a two-edged sword – it can operate aggressively on its own terms, without attracting the competitive focus of larger institutions; but can also be caught in the cross-fire between large institutions competing between each other. Its small market share also allows it to be particularly selective about the profile of the customers it seeks to bank.

Credit quality

Auswide Bank has impressive credit quality, with loss allowances of just 20bps of gross loans, which we believe is attributable to a few different factors:

- Part of this superior credit quality is due to the bank's focus on lending to professionals through its "private bank", strengthened from its 2016 acquisition of the Queensland Professional Credit Union, lending to people who have strong incomes and are purchasing property in metro areas, predominantly in south-east Queensland; while other home loans have relatively low LVRs or other measures of loan risk.
- While ABA lends to first home buyers, it benefits from being a participant in the Commonwealth's First Home Loan Deposit Scheme, which provides guarantees for any loan moneys above an 80% LVR, reducing potential loss allowances and improving credit quality. The bank also obtains mortgage insurance for other loans which have LVRs in excess of 80%.

Expenses

Auswide Bank has been improving its efficiency in recent years, a combination of strong revenue growth and exemplary cost control, resulting in its cost to income ratio once again falling below 60% in 2H21. With continued strong growth in its mortgage book, ABA may be able to sustain its cost to income ratio below 60%, something it last achieved over a decade earlier up to 2H11.

Figure 23 – Auswide Bank's FY21 non-interest expenses

	A$m	%
Employee Benefit Expense	-22.487	42.2%
Occupancy Expense	-1.450	2.7%
Fees and Commissions	-12.946	24.3%
General and Administration Expenses	-11.501	21.6%
Other Expenses	-1.013	1.9%
Depreciation Expense	-3.169	6.0%
Amortization Expenses	-0.664	1.2%
Non-Interest Expense	**-53.230**	**100.0%**

Source: Company reports, MST Access estimates

After interest expenses, ABA's largest expense is its staff, followed by fees and commissions, then general and administrative expenses.

Figure 24 – APRA Points of Presence for ABA

	2017	2018	2019	2020	2021
Branch	23	23	21	18	18
Other face-to-face	3	4	4	3	2
Grand Total	**26**	**27**	**25**	**21**	**20**

Source: APRA ADI points of presence database

Auswide Bank has a relatively modest branch network, which has been slowly contracting in recent years. With the COVID-19 pandemic leading to a drop in the use of cash and branch activity, there may be further branch consolidation in the years to come. However, its occupancy hosts which were A$1.45m in FY21 are not a material contribution to expenses; so the company might look to adjust staff numbers in branches instead.

ABA leverages broker distribution heavily, and accounts for deferred broker commissions as part of its gross loan portfolio. Strong broker relationships are facilitating the strong, high quality, growth that Auswide is achieving.

Strongly capitalised with significant surplus regulatory capital

Figure 25 – Prudential Capital Ratios

		30-Jun-21
Risk weighted assets as a % of gross loans	%	50.33%
Total risk weighted assets	A$m	1792.5
Common Equity Tier 1 Capital	A$m	194.4
CET1 ratio	**%**	**11.48%**
Capital base	A$m	238.7
Risk based capital ratio	**%**	**13.31%**

Source: Company reports, MST Access estimates

The simplicity of ABA's operations has the benefit of also keeping its capital ratio calculations simple.

While APRA's recently revised November 2021 capital adequacy and credit risk capital requirements (increasing the capital conservation buffer) which come into effect from 1 January 2023 and forthcoming macroprudential regulations may tweak ABA's capital requirements, the bank is strongly capitalised, and should be able to easily manage any increase in capital requirements.

We believe that ABA will qualify for APRA's simplified framework (as its total assets are well below A$20bn, and it does not have a trading book, offshore businesses or international funding sources, reducing its regulatory requirements. ABA's conservative lending book, featuring a high proportion of owner-occupied loans and low LVRs, plus LMI on the small proportion of higher LVR loans, should also deliver a reduction in risk weights consistent with APRA's stated goal to support competition, potentially significantly boosting ABA's capital position, given risk weights for mortgages at LVRs <50% fall from 35% to 20%.

We estimate that the bank at 30 June 2021 held $15.1m, or ~35cps, in common equity over what was required for a CET1 ratio of 10% under existing capital requirements. We believe 10% is an appropriate benchmark, given it is 25% over the 8% of risk weighted assets required from 1 January 2023.

Our forecasts of ABA's capital ratios are detailed in our financial summary on page 2 of this report.

External credit rating agency ratings

ASIC requires that credit rating agencies, which hold wholesale only AFSLs, specify that the disclosure of credit ratings are strictly for the information of institutional & 'wholesale' clients/shareholders/investors, international clients/shareholders/investors and equity analysts (why we mention them in this report). Credit ratings should not be disclosed for use by 'retail' clients/shareholders/investors and therefore should not be considered by or distributed to 'retail' clients/shareholders/investors when making a decision in relation to any 'financial product' issued by Auswide Bank or its subsidiaries.

ABA benefits from being rated investment grade by both Fitch and Moodys, holding BBB+ and Baa2 ratings respectively. Holding these ratings is beneficial for the bank when it seeks to make RMBS issuances, which are purchased by institutional and wholesale investors.

Despite ASIC's boilerplate text issued by the rating agencies, by being a licenced Authorised Deposit Institution, retail depositors receive the Australian Government deposit guarantee (which is in effect a AAA credit wrap) on their first $250,000 deposited with Auswide Bank.

Minimal Risk of Further Capital Raising

While we are not forecasting further capital raisings by Auswide Bank, we cannot rule them out, as a variety of factors could lead to a need to raise capital:

- The company's strategy includes non-organic growth, so acquisitions are more likely than not. Should a strategic opportunity arise, the firm might also raise capital to undertake such an acquisition. An example of one potential acquisition could be BNK Banking Corporation, which is currently undertaking a strategic review.
- Should a sudden unexpected substantial rise in bad debts occur, Auswide Bank may need to raise capital to strengthen its provisions and fund impaired loans provisions. This might only occur in extreme cases, such as the unexpected onset of a financial crisis, such as what occurred in the US in 2008, or in Australia's recession in the early 1990's. It is worth noting that Auswide Bank's capital levels are currently well above the level those of financial services organisations which needed to raise capital in these historic economic downturns.

We also see the theoretical potential (although very unlikely) for Auswide to end up as part of a reverse acquisition of Suncorp Bank. Similar to how BHP sold its oil and gas assets to Woodside for script, which it is distributing to shareholders upon completion, Auswide Bank could acquire Suncorp (Metway) Bank from Suncorp for ABA script, which Suncorp then distributes to its shareholders. The appeal of such a transaction is that it would facilitate the separation of Suncorp Bank from Suncorp's general insurance businesses in a way that would not raise any regulatory issues regarding Queensland's Metway Act, or any competition concentration issues with the ACCC.

Key valuation considerations

Key modelling assumptions

Our key assumptions underlying the growth in ABA's income over the next few years are listed below. We believe that, on balance these assumptions are on the conservative side of potential growth outcomes.

Figure 26 – Key modelling assumptions

Component	Details
Lending volumes	• We are currently forecasting mortgage lending growth of 5% per half, after an elevated 8% growth in 1H22E. • Other lending, including personal lending is forecast to grow at a more sedate 1% per half, given the increased competition these categories are now experiencing. • We assume mortgage broker commissions are a blended 22bps (driving our deferred mortgage broker commission line).
Deposit volumes	• We assume a gradual improvement in the bank's deposit book aided by its branch network and growing customer base. • We assume high single digit growth in call deposits each half. • We assume 4% growth in term deposits each half. • We assume 1% growth in negotiable certificates of deposit and floating rate notes each half.
Net interest expenses	• We assume that ABA reprices to target a net interest margin of 200bps. In coming years with rising interest rates, this is likely to see its NIM fall slightly below 200bps, depending on the speed it is able to re-price its book.
Non-interest income	• We assume growth decelerates from its current growth rate by 20bps pa, with 2H typically 1% weaker than 1H.
Credit expenses	• We assume an expected credit loss of 20bps of gross loans, with a loss of 0.3bps recognised each half.
Cash operating expenses	• We assume cash operating expenses are driven by ABA's cost to income ratio, which was 59.8% in 2H21 and is assumed to decrease by 20bps each half as the bank grows.
Depreciation and amortisation	• Run at around A$3m-A$4m a year, broadly consistent with the PPE and software capex undertaken by the bank.
Tax	• We assume an effective tax rate of 30.4%, slightly above the statutory 30% rate due to accounting mismatches and non-deductable expenses.
Share capital	• We allow for the shares issued to executives in 1H22 to date, and no further growth given ABA's strong capital position, which while on our forecasts weakens slightly into the future, does not include the benefits expected to arise from APRA's revised capital requirements effective 1 January 2023. • Should further capital be required, we suspect that ABA would strengthen its capital through a dividend reinvestment scheme.
Investing cashflows	• Net advances to customers are funded purely through additional debt financing cashflows via Auswide Bank's warehouse facilities. • Modest (A$3m p.a.) ongoing capex for PPE and software

Source: Company reports, MST Access estimates

Income statement

Figure 27 – Income statement

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		**FY20A**	**FY21A**	**FY22E**	**FY23E**	**FY24E**	**FY25E**
Interest Revenues	A$m	126.3	111.0	117.8	134.7	157.3	197.5
Interest Expense	A$m	-55.7	-32.8	-34.9	-45.0	-63.1	-108.0
Net Interest Income	**A$m**	**70.5**	**78.2**	**82.9**	**89.8**	**94.2**	**89.5**
Non-Interest Income	A$m	10.0	10.4	10.8	11.2	11.6	12.1
Total operating income	**A$m**	**80.5**	**88.5**	**93.6**	**101.0**	**105.8**	**101.6**
Provision For Loan Losses	A$m	-3.8	-0.6	-0.2	-0.3	-0.3	-0.3
Total Revenue	**A$m**	**76.6**	**87.9**	**93.4**	**100.7**	**105.5**	**101.2**
Non-Interest Expense	**A$m**	**-50.1**	**-53.2**	**-55.7**	**-59.7**	**-62.1**	**-59.2**
Profit before income tax	**A$m**	**26.5**	**34.7**	**37.7**	**41.0**	**43.4**	**42.0**
Income tax expense	A$m	-8.0	-10.5	-11.5	-12.5	-13.2	-12.8
NPAT	**A$m**	**18.5**	**24.2**	**26.2**	**28.6**	**30.2**	**29.3**
Closing basic shares on issue	m	42.395	42.521	44.319	46.560	48.894	50.926
Weighted average diluted shares on issue	m	42.249	42.633	43.433	45.564	47.853	50.060
Per Share							
Diluted EPS	**A$**	**0.4380**	**0.5666**	**0.6038**	**0.6267**	**0.6314**	**0.5844**
EPS growth	%	7.3%	29.4%	6.6%	3.8%	0.7%	-7.4%
PE ratio	x	15.0	11.6	10.9	10.5	10.4	11.3
Dividends							
Ordinary 1H	A$	0.17	0.19	0.21	0.22	0.24	0.21
Ordinary 2H	A$	0.11	0.21	0.21	0.23	0.22	0.20
Special	A$	0.00	0.00	0.00	0.00	0.00	0.00
Total	**A$**	**0.28**	**0.40**	**0.42**	**0.45**	**0.46**	**0.41**
Franking	%	100%	100%	100%	100%	100%	100%
Yield	%	4.2%	6.1%	6.4%	6.8%	7.0%	6.2%
Growth on pcp	%	-20%	44%	5%	7%	2%	-11%
Dividend paid	A$m	11.7	17.0	18.4	20.7	22.2	20.7
Earnings retained	A$m	6.8	7.1	7.9	7.9	8.0	8.6
Payout ratio on reported profit	%	63%	71%	70%	72%	74%	71%
1H:2H Split (% 1H)	%	61%	48%	50%	49%	52%	51%
Return Ratios							
Reported							
Return on average assets	%	0.5%	0.6%	0.6%	0.6%	0.6%	0.5%
Return on average equity	%	7.7%	9.7%	9.9%	10.1%	9.9%	8.9%
Return on tangible equity	%	9.6%	12.0%	12.1%	12.2%	11.7%	10.4%
Dupont Analysis							
Profit margin (net income / revenue)	%	24%	27%	28%	28%	29%	29%
Asset turnover (revenue / average assets)	x	0.02	0.02	0.02	0.02	0.02	0.02
Return on average assets (income/assets)	%	0.5%	0.6%	0.6%	0.6%	0.6%	0.5%
Financial leverage (assets/equity)	x	15.38	15.93	16.65	17.24	17.40	17.51
Return on average equity (income/equity)	%	7.7%	9.7%	9.9%	10.1%	9.9%	8.9%

Source: Company reports, MST Access estimates

Balance sheet

Figure 28 – Balance sheet

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		**FY20A**	**FY21A**	**FY22E**	**FY23E**	**FY24E**	**FY25E**
Assets							
Cash and cash equivalents	A$m	106.5	112.6	115.7	172.1	156.8	144.1
Current Income Tax Assets	A$m	3.3	0.0	0.0	0.0	0.0	0.0
Accrued Receivables	A$m	0.0	0.0	0.0	0.0	0.0	0.0
Receivables Due from Other Financial Institutions	A$m	16.3	12.8	12.8	12.8	12.8	12.8
Other Investments	A$m	1.4	1.4	1.4	1.4	1.4	1.4
Other Financial Assets	A$m	378.3	398.8	406.8	415.0	423.3	431.9
Loans and Advances	A$m	3,205.8	3,555.0	4,020.7	4,425.6	4,872.0	5,364.0
Property, Plant and Equipment	A$m	21.4	21.3	21.3	21.3	21.3	21.3
Goodwill	A$m	46.4	46.4	46.4	46.4	46.4	46.4
Other Intangible Assets	A$m	1.2	1.5	1.5	1.5	1.5	1.5
Deferred Income Tax Asset	A$m	4.3	2.8	2.8	2.8	2.8	2.8
Other Assets	A$m	3.3	3.1	3.1	3.1	3.1	3.1
Total Assets	**A$m**	**3,788.1**	**4,155.8**	**4,632.5**	**5,102.1**	**5,541.4**	**6,029.2**
Liabilities							
Deposits and Short-term Borrowings	A$m	3,018.5	3,349.3	3,811.4	4,458.4	4,974.1	5,437.4
Current Tax Liabilities	A$m	0.0	1.2	1.2	1.2	1.2	1.2
Other Borrowings	A$m	49.8	150.8	150.8	101.0	0.0	0.0
Subordinated Capital Note	A$m	28.0	42.0	42.0	42.0	42.0	42.0
Loans Under Management	A$m	420.7	333.7	333.7	183.7	183.7	183.7
Deferred Tax Liabilities	A$m	0.0	0.0	0.0	0.0	0.0	0.0
Payable and Other Liabilities	A$m	25.6	18.7	18.7	18.7	18.7	18.7
Provisions	A$m	3.3	3.6	3.6	3.6	3.6	3.6
Total Liabilities	**A$m**	**3,546.0**	**3,899.2**	**4,361.3**	**4,808.6**	**5,223.3**	**5,686.6**
Net assets	**A$m**	**242.0**	**256.5**	**271.2**	**293.5**	**318.1**	**342.7**
Net tangible assets	**A$m**	**194.5**	**208.7**	**223.3**	**245.7**	**270.3**	**294.8**
Net capital	A$m	690.3	704.8	719.4	741.7	766.4	790.9
Net tangible capital	A$m	642.7	656.9	671.6	693.9	718.5	743.0
Net debt	A$m	**3,517.0**	**3,875.8**	**4,337.9**	**4,785.1**	**5,199.8**	**5,663.1**
Shareholder funds							
Contributed equity	A$m	193.3	195.2	195.2	195.2	195.2	195.2
Reserves	A$m	14.4	15.5	15.5	15.5	15.5	15.5
Retained earnings/accumulated losses	A$m	34.3	45.8	60.5	82.8	107.4	131.9
Total equity	**A$m**	**242.0**	**256.5**	**271.2**	**293.5**	**318.1**	**342.7**
Basic shares on issue	m	42.4	42.5	44.3	46.6	48.9	50.9
Diluted shares on issue	m	42.4	42.7	44.4	46.7	49.0	51.1
Basic BVPS aka NAV	A$	5.71	6.03	6.12	6.30	6.51	6.73
Basic TBVPS aka NTA	A$	4.59	4.91	5.04	5.28	5.53	5.79
Average assets	A$m	3,695.7	3,971.9	4,394.2	4,867.3	5,321.7	5,785.3
Average equity	A$m	240.3	249.3	263.9	282.4	305.8	330.4
Average tangible equity	A$m	192.4	201.6	216.0	234.5	258.0	282.6

Source: Company reports, MST Access estimates

Valuation

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

- intrinsic valuation 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.

General Residual Income Model

Figure 29 –MST Access General Residual Income Model (GRIM) valuation of Auswide Bank Limited

Current date		15-Dec-21										
Last balance date		30-Jun-21										
		Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Book value per share	A$	6.03	6.03	6.12	6.21	6.30	6.40	6.51	6.62	6.73	6.84	6.97
Equity charge	A$		-0.24	-0.24	-0.24	-0.25	-0.25	-0.26	-0.26	-0.26	-0.27	-0.27
Cash EPS	A$	0.30	0.30	0.30	0.31	0.31	0.32	0.31	0.30	0.28	0.31	0.30
Residual income	A$	**0.30**	**0.06**	**0.06**	**0.07**	**0.06**	**0.07**	**0.05**	**0.04**	**0.02**	**0.04**	**0.03**
Discounted cash flow	A$	**0.00**	**0.06**	**0.06**	**0.06**	**0.06**	**0.06**	**0.04**	**0.03**	**0.01**	**0.03**	**0.02**

Sum of discount streams	A$	0.44	**CAPM**	
Future value into perpetuity	A$	1.13	Risk free rate	2.00%
NPV of terminal value	A$	0.80	Equity beta	1.2
add net assets	A$	6.03	Equity risk premium	5.00%
Residual income value per share	**A$**	**7.27**	Cost of equity	8.0%
P/B multiple implied by GRIM valuation	x	1.20	Terminal growth	2.0%
Upside/downside	%	10%		

Source: Company reports, MST Access estimates

Many analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation.
- uses profit, rather than cashflow, forecasts.

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 2.0% and equity risk premium of 5.0%. We estimate ABA's equity beta to be 1.2. We estimate ABA's cost of equity to be 8.0% and terminal growth of 2.0%. This produces a valuation of A$7.27 per share.

Theoretical Book Multiple

Figure 30 –MST Access theoretical book multiple valuation of Auswide Bank Limited

Target ROE	%	10.0%
Cost of equity	%	8.0%
Dividend pay-out ratio	%	70%
Theoretical book multiple	**x**	**1.40**
Current book value per share	A$	6.03
Implied valuation	**A$**	**8.45**
Implied upside	%	26.6%

Source: Company reports, MST Access estimates

We also consider the theoretical book multiple on which ABA should trade, given its target level of profitability (ROE), dividend settings, and current book value. Assuming a 10% ROE, 70% dividend payout ratio, and an 8% cost of equity delivers a theoretical multiple of 1.4x book, which suggests a valuation of A$8.45. This is also considerably above the multiple that ABA currently trades, and well within the book value multiple range that its peers trade at.

Peer comparatives multiples

Figure 31 –Peer comparative multiples for Auswide Bank

Identifier (RIC)	Company Name	Price / EPS	Price / BVPS	Price / NTA	Dividend Yield %	ROE - Mean
AFG.AX	Australian Finance Group Ltd	12.00	3.18	3.02	6.1%	27.9%
ANZ.AX	Australia and New Zealand Banking Group Ltd	12.74	1.19	1.28	5.3%	9.7%
BEN.AX	Bendigo and Adelaide Bank Ltd	11.60	0.74	0.97	6.2%	7.1%
BOQ.AX	Bank of Queensland Ltd	11.27	0.84	1.04	5.9%	8.3%
CBA.AX	Commonwealth Bank of Australia	19.40	2.22	2.42	4.0%	11.7%
JDO.AX	Judo Capital Holdings Ltd	1,055.49	1.70	1.72	0.0%	0.4%
MYS.AX	MyState Ltd	12.96	n.a.	n.a.	n.a.	9.0%
NAB.AX	National Australia Bank Ltd	14.55	1.45	1.59	4.9%	10.5%
WBC.AX	Westpac Banking Corp	13.19	1.06	1.25	5.8%	8.2%
ABA.AX	Auswide Bank Ltd	10.90	1.08	1.31	6.4%	9.9%

Source: IBES FY1 (i.e. FY22) mean consensus, Refinitiv, MST Access estimates for ABA

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

Governance Considerations

Board reasonably well aligned with shareholders

Figure 32 – Board Composition

	# shares	$ value shares	Total FY21 remuneration	Value of shares > FY21 remuneration
Sandra Birkensleigh	0	0	133,325	FALSE
Martin J Barrett	229762	1,456,691	794,590	TRUE
Barry Dangerfield	43291	274,465	103,650	TRUE
Greg Kenny	15000	95,100	103,650	FALSE
Grant Murdoch	14000	88,760	49,400	TRUE
Jacqueline Korhonen	0	0	22,275	FALSE

Source: Company reports, MST Access estimates

Auswide Bank's board is reasonably well aligned with shareholders, with half of its board members holding meaningful shareholdings worth more than their annual board fees. However, there are two directors who do not currently have a shareholding in the company.

Background on the board of directors

Figure 33 – Board of directors

Sandra Birkensleigh	Independent Non-Executive Chairman
Martin J Barrett	Managing Director & Executive Director
Barry Dangerfield	Independent Non-Executive Director
Greg Kenny	Independent Non-Executive Director
Grant Murdoch	Non-Executive Director
Jacqueline Korhonen	Independent Non-Executive Director

Source: Company reports, MST Access estimates

Sandra Birkensleigh BCom, C.A., GAICD, ICCP (Fellow), Independent Non-Executive Chairman

Ms. Sandra C. Birkensleigh, BCom, CA, GAICD, ICCP (Fellow), is a Non-Executive Director at Adore Beauty Group Limited since October 06, 2020. She has been an Independent Non-Executive Director at Collection House Limited since September 17, 2018. She was a Senior Partner of PwC until February 2013 and was the Global Head of Governance Risk and Compliance Services for PwC for five years. Ms. Birkensleigh is Independent Non-Executive Director of MLC Limited since February 27, 2012, and Auswide Bank Ltd. since February 2, 2015. She is Independent Non-Executive Chairman of Auswide Bank Ltd since December 31, 2020. She was previously a Partner at PricewaterhouseCoopers until 2013. Financial Services (Banking and Wealth Management) have been a primary focus of Ms Birkensleigh's career, and she has advised on risk management across multiple sectors, including retail and consumer goods, education, resources and retail and wholesale electricity. She is a Non-Executive Director of MLC Insurance Limited. She serves as Non-Executive Director at National Disability Insurance Agency. She serves as a Non-Executive Director of 7-11 Holdings. She has been Non-Executive Independent Director of Horizon Oil Limited since February 2, 2016. She served as Director of National Wealth Management Holdings Limited from February 27, 2012, to July 7, 2014, and Plum Financial Services Limited from July 7, 2014 to October 3, 2016. She was a board member and Treasurer of the Board of The Children's Therapy Centre until November 22, 2021. She was an Independent Non-Executive Director of Queensland Railways since September 1, 2017, until August 31, 2020. She is a Member of the Investment Board for the Public Trustee of Queensland. She serves as an Independent Director of Tasmanian Public Finance Corp. since September 2017. She has a Bachelor of Commerce from University of New South Wales, is a Member of the Chartered Accountants of Australia & New Zealand, Graduate of the Australian Institute of Company Directors and a Certified Compliance Professional (Fellow).

Martin J Barret, BA(ECON), MBA, MD & Executive Director

Mr. Martin John Barrett, BA(ECON), MBA, has served as Managing Director and Director of Auswide Bank Ltd. since September 19, 2013, and served as its Chief Executive Officer since February 04, 2013, until September 19, 2013. Mr. Barrett has extensive experience in the banking sector, having previously held the positions of Managing Director (Queensland, Western Australia and National Motor Finance Business) and General Manager NSW/ACT Corporate & Business Bank at St George Bank Ltd. Prior to working at St George Bank, Mr. Barrett held senior roles at regional financial institutions in the United Kingdom and at National Australia Bank. Mr. Barrett served as a Director of MoneyPlace Holdings Ltd until January 2018. Mr. Barrett serves as Non-Executive Director of Impact Community Services.

Barry Dangerfield, Independent Non-Executive Director

Mr Dangerfield was appointed to the Board on 22 November 2011. Mr Dangerfield has had a successful 39 year banking career with Westpac Banking Corporation having held positions across Queensland and the Northern Territory of Regional Manager Business Banking, Head of Commercial and Agribusiness and Regional General Manager Retail Banking. Mr Dangerfield is currently a independent Director of the Bundaberg Friendly Society Medical Institute which operates the Friendly Society Private Hospital and Pharmacies in Bundaberg for which he is Chairman of the Institutes Audit and Risk Committee and the Remuneration Committee. Mr Dangerfield served as a Director of Money Place Holdings Pty Ltd until January 2018. Mr Dangerfield is the Chairman of the Board Remuneration Committee, the Board Credit Committee, a member of the Board Audit Committee, a member of the Board Risk Committee and is an independent Director.

Greg Kenny, GAICD, GradDipFin, Independent Non-Executive Director

Mr. Gregory Noel Kenny, also known as Greg, GAICD, GradDipFin, served as General Manager of Sales & Distribution at St.George Bank Limited. Mr. Kenny had a long and successful career with Westpac Banking Corporation and St George Bank Ltd, and prior to that with Bank of New York and Bank of America in Australia. Mr. Kenny served as Program Director of the Best Business Bank implementation program at St. George Bank Ltd. since March 2005. Mr. Kenny served as a Director of MoneyPlace Holdings Pty Ltd until January 2018. He served as General Manager of Group Treasury & Capital Markets at St. George Bank Ltd. He has been an Independent Non-Executive Director of Auswide Bank Ltd since November 19, 2013.

Grant Murdoch, FAICD, FCA, M COM (Hons), Non-Executive Director

Mr. Grant Bruce Murdoch, M.Com (Hons), FAICD, CAANZ, FCA, has been Non-Executive Director of Auswide Bank Ltd. since January 1, 2021. Mr. Murdoch serves as a Senator of the University of Queensland. He has chartered accounting and corporate finance experience. Mr. Murdoch is an Adjunct Professor of the University of Queensland Business School. From 2004 to 2011, he served as Head of Corporate Finance at Ernst & Young Queensland and was an audit and corporate finance partner with Deloitte from 1980 to 2000. He previously served as a partner with Ernst & Young. He is also a past member of the Queensland State Council of the AICD. He has been a Non-Executive Director of OFX Group Limited since September 19, 2013. He has been a Non-Executive Director of Lynas Rare Earths Limited (formerly known as Lynas Corporation Limited) since October 30, 2017. He served as a Non-Executive Director of QIC Limited since November 2011 until September 2017. Mr. Murdoch was the Independent Non-Executive Director of ALS Limited since September 1, 2011, until July 29, 2020. He serves as a Director of Murdoch Corporate Finance Pty Ltd and OFX. He had been Independent Non-Executive Director of Redbubble Limited since December 2016 until November 23, 2019. He served as Non-Executive Director of Cardno Limited from January 2013 to November 2015. He serves as Director at UQ Holdings Limited. He has extensive experience in providing advice in relation to mergers, acquisitions, takeovers, corporate restructures, share issues, pre-acquisition pricing due diligence advice, expert reports for capital raisings and initial public offerings. Mr. Murdoch was the Chair of the Endeavour Foundation since September 2007 until November 2015. He was a Trustee of the Endeavour Foundation Disability Research Fund. He is a fellow of both the Institute of Chartered Accountants in Australia and New Zealand and of the Australian Institute of Company Directors. He holds a Master of Commerce (Honours) from the University of Canterbury, New Zealand and is also a graduate of the Kellogg Advanced Executive Program at the North-western University, Chicago, USA.

Jacqueline Korhonen, Independent Non-Executive Director

Jacqueline has over 30 years' experience in the Information Technology, Telecommunications and Financial Services sectors, where she built her career around transformation, P&L management, complex negotiations, project delivery, operations, strategy development and risk management. She started her career as an engineer in IBM where she spent 23 years living and working across Australia, New Zealand, ASEAN, India and China. After leaving IBM, Jacqueline was appointed CEO of Infosys Australia and New Zealand, a position she held for six years. In the later years of her Executive career Jacqueline was the CEO of SMS Management &Technologies, an ASX listed IT Services company and subsequently returned to IBM as the Vice President of Cognitive Transformation Services across the Asia Pacific Region. Jacqueline is now a non-executive director (NED) and board advisor. She was a NED of NetComm Wireless (ASX: NTC) until 2019. She is currently a NED of MLC Insurance, .au Domain Administration and recently joined the board of Nuix Ltd (ASX:NXL) In addition, Jacqueline is a member of the Board of Chief Executive Women. Jacqueline holds a Bachelor of Science and Bachelor of Engineering with Honours from the University of Sydney, is a Graduate of the Australian Institute of Company Directors and has participated in Executive and Leadership programs at Harvard Business school member of the Advisory Board for the NSW Government Data and Analytics Centre. Ms Korhonen holds Bachelor of Science and Bachelor of Engineering (First Class Honours) degrees from the University of Sydney. She is a graduate of the Australian Institute of Company Directors and has participated in executive programs at Harvard Business School.

Senior Management

Figure 34 – Senior management

Martin Barrett	Managing Director
Bill Schafer	Chief Financial Officer & Company Secretary

Dale Hancock	Group Treasurer
Damian Hearne	Chief Customer Officer
Ray Linderberg	General Manager – Customer Experience
Scott Johnson	Chief Information Officer
Mark Rasmussen	Chief Operating Officer
Gayle Job	Chief People & Property Officer
Craig Lonergan	Chief Risk Officer
Rebecca Stephens	Chief Transformation Officer

Source: Company reports, MST Access estimates

Martin Barret, BA(ECON), MBA, MD & Executive Director

See above.

Bill Schafer, B.Com., C.A., Chief Financial Officer & Company Secretary

Mr. William R. Schafer, also known as Bill, BCom, CA, serves as Company Secretary and Chief Financial Officer of Auswide Bank Ltd since August 2001. He joined Wide Bay Capricorn Building Society Ltd in 2001 after gaining significant experience in Brisbane. He graduated from the University of Queensland with a Bachelor of Commerce in 1980 and completed further studies with the Institute of Chartered Accountants and Financial Planning Association of Australia. He then worked in audit and business services in an accountancy practice before taking up management roles in professional accountancy and law firms. Mr. Schafer's professional experience includes lecturing on accounting subjects for the Department of Law at the University of Queensland and committee roles with the Institute of Chartered Accountants and Queensland Law Society.

Dale Hancock, B.Bus., SA, FIN, Group Treasurer

Mr. Dale A. Hancock, B.Bus. SA, FIN has been Group Treasurer of Auswide Bank Ltd since 2013. Mr. Hancock served as Manager of Structured Finance Products & Interstate Operations at Auswide Bank Ltd., since May 28, 2007. He served as Manager of Securitisation & Interstate Operations of Auswide Bank Ltd. He graduated with a Bachelor of Business at the University of Central Queensland in 1993.

Damian Hearne, BEd, MBA, Chief Customer Officer

Mr. Damian Hearne, BEd, MBA, has been the Chief Customer Officer at Auswide Bank Ltd. since June 20, 2016. Mr. Hearne has the necessary experience and skills to holistically coordinate these efforts boasting significant experience in financial services. He has led teams at both of Queensland's larger banks across retail and business banking channels. In addition, his background in rugby union at a professional level, means he understands the value of teamwork and culture in achieving goals.

Ray Linderberg, B. Bus(Comn), General Manager – Customer Experience

Mr Ray Linderberg has been an integral part of the Auswide Bank success story since 1986, witnessing growth in company assets from $100million to over $3billion, an evolving brand story and the expansion of services, capability and reach into new markets. Ray's role principally involves oversight of Auswide Bank's brand, marketing, products and partnerships strategy relevant to an omni-channel banking environment and is responsible for managing associated people and functions.

Scott Johnson, B. AppliedScience (Mathematics). GradDipCompStudies – Chief Information Officer

Mr. Scott Johnson, B. AppliedScience (Mathematics), GradDipCompStudies, has been Chief Information Officer of Auswide Bank Ltd since April 2020.

His roles within Auswide Bank have ranged from Assistant Operations Manager through to the CIO role.

Mr. Johnson has worked in the Finance industry for some 40 years commencing in the Federal Department of Finance in Canberra, with the majority of his working career has been within the banking industry.

Mr. Johnson has also spent some 6 years as the owner operator of an IT consulting firm working through out regional Queensland meeting the needs of organisations from the horticulture, manufacturing through to telecommunications industries.

Mark Rasmussen, MBA, Chief Operating Officer

Mark S. Rasmussen was appointed in early 2014 as the General Manager for Business Banking and Operations, and has more than 25 years' experience in the financial services sector. He has held senior roles in corporate and business banking, property, product development and strategy, product sales and people management, planning and operations, and compliance in both retail and commercial/corporate environments.

Gayle Job, Chief People & Property Officer

Ms Gayle M. Job was appointed in 2013 to the position of General Manager – Human Resources, Chief People Officer in 2016 and in 2018 to her current role as Chief People & Property Officer. Gayle has a career with the Bank spanning 45 years where she has gained significant management and leadership experience in all aspects of human resources, learning and development, property portfolio management, implementation of major IT system upgrades, branch operations, product and partnership development and regulatory licencing and compliance.

Craig Lonergan, MBA, GAICD – Chief Risk Officer

Mr. Craig A. Lonergan, MBA, AMIIA, F Fin, has been the Chief Risk Officer at Auswide Bank since 2014 and has more than 30 years in the financial services sector holding senior roles within Australia and the Pacific.

Rebecca Stephens BEcon, BCom, GAICD Chief Transformation Officer

Ms Rebecca Stephens has been the Chief Transformation Officer at Auswide Bank Ltd since Jan 2021. Rebecca is a financial services industry expert with over 20 years' experience in the industry both in Australia & the UK. She has held a variety of senior executive roles with experience in strategy & business design, analytics, shared services & innovation. She most recently worked as a Principal in Monitor Deloitte's strategy practice and has worked with both ASX listed and Fintech organisations in senior roles. Professionally she most recently acquired a post graduate certification in Innovation & Entrepreneurship with Stanford University. She also serves as a Director on a local community NFP.

Substantial shareholders

Figure 35 – Substantial shareholders

Name	No. of shares	% of total
National Nominees Ltd ACF Australian Ethical Investments Limited[1]	2,906,102	6.91
RE Hancock (associated entities + associates)[2]	2,182,863	5.42

[1] Substantial shareholder notice dated 06/10/2017.
[2] Substantial shareholder notice dated 19/05/2016.

Source: Company reports, MST Access estimates

Auswide Bank has two longstanding significant shareholders; one a well-known fund manager and the other held directly and indirectly by Ronald Earnest Hancock (a former MD of the bank) and his wife. Both of these groups have held their substantial positions for over four years.

According to ABA's latest annual report, as at 15 September 2021, the top 20 shareholders hold approximately 26% of the company's shares on issue; where in total there are 7200 different shareholders in the company.

No short interest year to date

Auswide Bank has zero short selling activity occur in its stock year to date, with the stock not appearing in ASIC's latest short position reports. With no shares on issue short sold year to date a short squeeze in the stock is currently very unlikely.

Sustainability considerations

ABA is based in Bundaberg, which is a regional city in Queensland, and could present challenges in attracting highly qualified and experienced staff from other banks which are predominantly based in major capital cities.

The collapse of Greensill capital, originally based in Bundaberg, has also potentially tarnished financial institutions based in the region. However, we do not believe ABA is deserving of such tarnish, as it is a very conservatively run company with very high credit quality.

The Honourable Keith Pitt, the Federal MP for Bundaberg, and Australian Government Minister for Resources, does not believe in a net zero target for carbon dioxide emissions and is on record as being one of the minority of MPs against such as policy.

As recently highlighted by the Australian Treasurer, not having a net zero CO2 emissions target is a risk to being able to access the global financial system, and would directly impact ABA if it prevented the bank from being able to issue RMBS to global investors, thus pushing up the cost of mortgages for Mr Pitt's constituents.

Similarly, each 1 degree of warming increases the amount of water contained in air by 7%. In a warmer world, which would be even warmer without net zero CO2 targets, this would lead to more severe storms, and increased risk of cyclones in Bundaberg, which would lift insurance costs and potentially make many properties uninsurable, and thus unmortgageable, creating significant adverse property price risks for existing owners.

The increase in the frequency of tornados, the size of hailstones and frequency of hailstorms experienced in the current storm season following the global warming which has happened over the past decade while the current Australian government has been in power, again highlights the increasing risks from climate change to lenders such as ABA which hold caveats over assets as security against their loans. Loans may become impaired following catastrophic asset damage, with the security also becoming impaired.

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;
- 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 which Auswide Bank currently operates (such as New Zealand) or potential future markets.

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 is likely to lead to a competitive response by traditional unsecured personal 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 personal lending competitors strategic initiatives. There is a risk that the growing number of high value, long term BNPL providers (including retailers with white-labelled products) 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 economic stimulus appears to have had a positive impact on consumers' debt servicing capabilities, while merchants using Auswide Bank's services may also find their business viability challenged following the end of COVID-19 economic stimulus measures.
- **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.
- **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. This impact led to several finance firms 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 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.

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