

22 February 2016

## Underlying NPAT up 4.4% to \$6.8m

- **9.05% annualised growth in loan book to \$2.436b**
- **NIM expanded from 179 to 183 basis points over last 6 months**
- **Interim dividend 14 cents per share fully franked**

Auswide Bank Ltd (ASX: **ABA**) today announced underlying cash net profit after tax (NPAT) of \$6.782m for the six months to December 2015, an increase of 4.4% from the prior corresponding period (\$6.495m). The improved profit result was supported by the bank's continued focus on implementing the Strategic Plan to strengthen the business.

Statutory NPAT decreased 6.67% to \$6.063 million due to a number of non-recurring expenses in the reporting period relating to the branch rationalisation program, M&A projects and final re-branding costs.

### Summary of results

Details	H1 2015-16	H1 2014-15	Change
Net interest revenue (\$m)	26.542	25.856	2.65%
Consolidated underlying NPAT (\$m)	6.782	6.495	4.40%
Consolidated statutory NPAT (\$m)	6.063	6.495	(6.67%)
Earnings per share (cents)	16.36	17.74	(1.38c)
Underlying cash earnings per share (cents)	18.30	17.74	0.56c
Interim dividend per share, fully franked (cents)	14.0	14.0	-
Net interest margin (basis points)	183	181	2bps

Martin Barrett, Managing Director said, "Our continued focus on strengthening the business is sustaining improving operating performance and organic growth. We have also made significant step changes in our re-positioning of Auswide Bank with the recommended merger with Your

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Credit Union as a platform to expand our south-east Queensland presence and the equity stake in peer-to-peer lender, Money Place.”

### **Loan book growth and Net Interest Margin (NIM)**

Auswide Bank reported another improvement in loan book growth to \$2.436 billion at 31 December 2015, representing annualised growth of 9.05% from \$2.330 billion at 30 June 2015. Growth occurred as a result of continuing improved loan flow from the broker channel, progress in business banking performance and strong delivery from south-east Queensland market based lenders.

Net interest revenue for the period was \$26.542 million, up 2.65% from the six months to 31 December 2014 (\$25.856 million).

Despite continuing strong competition in the lending market, Auswide Bank's NIM rose four basis points in the reporting period to 1.83% from the reported 1.79% for the year ended 30 June 2015. The improvement resulted from turnover and an easing in rates for term deposits. A 17 point lift in rates for investor loans in September 2015 and a 15 point rate increase in variable rate loans in November 2015 also contributed to the increase in NIM.

### **Non-recurring expenses**

Total non-recurring expenses brought to account in the first half were \$1.027 million.

Under the branch rationalisation program, total costs of \$682,000 were incurred for lease pay-outs, premises make-good, asset write-offs and redundancies as six branches were closed and a further two consolidated into a single new outlet. It is estimated that the branch rationalisation will reduce overheads by \$525,000 in the second half of the financial year.

One-off expenses of \$267,000 were incurred on M&A projects including the recommended merger of Auswide Bank and Your Credit Union and the acquisition of an equity interest in peer-to-peer lender, MoneyPlace. The remaining non-recurring expenses of \$78,000 related to the final write-off of signage for the rebranding to Auswide Bank.

### **Dividend**

The Board of Auswide Bank has declared a fully franked interim dividend of 14 cents per share, payable on 30 March 2016. The Board has also resolved to reinstate the Dividend Reinvestment Plan for the interim dividend.

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## Mergers and acquisitions

On 16 December 2015, Auswide Bank announced it had entered into a strategic relationship and the acquisition of approximately 20% equity interest in Australia's second fully licenced peer-to-peer (P2P) lender, MoneyPlace. The long term relationship includes a conditional five year deal for Auswide Bank to fund up to \$60 million to invest in consumer loans. MoneyPlace launched in October 2015 after receiving its retail and wholesale Australian Financial Services licence. The relationship allows Auswide Bank to accelerate its ambitions in the national consumer finance market with MoneyPlace providing loans of \$5,000 to \$35,000 through its P2P platform. Since the MoneyPlace relationship settled on 4 January 2016, new loans have already commenced origination.

On 22 December 2015, Auswide Bank announced it had entered into a proposed merger with Queensland Professional Credit Union (trading as YCU – Your Credit Union) which has the unanimous endorsement of the boards of both companies.

The merger is expected to be accretive to cash earnings per share on a normalised basis in 2017. It would give Auswide Bank access to a Brisbane CBD branch and a platform to expand its presence in south-east Queensland. The merged business would also benefit from cost synergies from consolidating technology platforms and back office functions, as well as revenue expansion through cross-selling opportunities.

The merger is subject to approval of YCU members as well as customary regulatory and Court approvals, and is to be executed through a Scheme of Arrangement which is expected to be implemented in May 2016.

## Loan book strength

Loan approvals during the reporting period totalled \$325.512 million, an increase of 37% on the prior corresponding period. This organic growth resulted from Auswide Bank's continued focus on building sales momentum through its branch network, third parties and business banking.

Arrears continue to trend downwards as a result of the bank's focus on enhancing the culture and systems of risk management. Arrears 30 days past due (excluding hardship accounts) decreased to \$20.271 million at 31 December 2015, from \$22.307 million at 30 June 2015.

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## Strong capital and funding position

Auswide Bank maintained a strong capital position, reporting a consolidated capital adequacy ratio of 14.89% at 31 December 2015, with Tier 1 capital accounting for 12.24%. This represents a marginal decrease from 15.15% at 30 June 2015.

Auswide Bank's captive lenders mortgage insurer, Mortgage Risk Management Pty Ltd (MRM) was wound up with revocation of the licence in December 2015. \$10 million in Tier 1 capital was returned to the parent entity, significantly strengthening the bank's regulatory capital position.

Auswide Bank expanded its range of funding sources during the half year, launching its debut Senior Unsecured Floating Rate Note on 19 August 2015. The issue was strongly supported by investors and was oversubscribed, raising \$25 million in cost-effective growth funding for the bank's lending portfolio.

## Outlook

Competition in the lending market from major and regional banks continues to be intense, and interest rates remain at historic lows. These factors continue to create challenging market conditions across the banking sector, and particularly for Auswide Bank in its traditional markets of central and northern Queensland.

Auswide Bank's efforts to implement the three-year Strategic Plan have strengthened our competitive position and supported the business to restore operating performance and organic growth. We continue to focus on improving underlying operating performance through ongoing investment in IT, sales and personnel; further advances in operating efficiency and productivity; and broadening our distribution capabilities through our branches, third parties and online channels.

Regulatory requirements are being well managed across the bank's investor lending and capital requirements. Future loan book growth, M&A activity and ongoing investment in the business will determine ongoing capital requirements.

Funding markets have shown some degree of volatility in the first half. This may put some pressure on funding costs in the second half of the financial year. However, this is expected to be modest against revenue improvements.

With improving business fundamentals in place and a clear strategic outlook, Auswide Bank has been able to move quickly to lead consolidation in the regional banking sector. The proposed merger with Your Credit Union will create a step change in our presence in the south-east

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Queensland market, and the Money Place relationship will boost our consumer finance market position. We are focused on maximising the cost and revenue benefits of these transactions and the Board will consider other suitable consolidation opportunities as they arise.

Auswide's financial results for the second half of the financial year will benefit from cost cutting and branch rationalisation as well as synergies extracted from the proposed merger activity. The revenue improvements expected from the merger and continuing loan book growth combined with NIM management are expected to increase net interest revenue.

Auswide will continue to invest in technology and innovation to enhance revenues and control expenses with a target of 10% Return on Equity by June 2018.



**John Humphrey LLB**  
**Chairman**



**Martin Barrett BA(ECON) MBA**  
**Managing Director**

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## About Auswide Bank Ltd

Auswide Bank became Australia's tenth and Queensland's third Australian owned bank, listed and trading on the ASX, on April 1, 2015. The company had operated as a building society since 1966.

Auswide Bank has an Australian Credit Licence and an Australian Financial Services Licence issued by ASIC and is an Authorised Deposit-taking Institution prudentially supervised by the Australian Prudential Regulation Authority.

Auswide Bank offers Australians an extensive range of personal and business banking products & services issued directly or in partnership with leading service providers via an omni-channel distribution strategy which includes branches, strategic relationships and online & digital channels.

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