Name of Entity	Auswide Bank Ltd
ABN	40 087 652 060
Year Ended	31 December 2019
Previous Corresponding Reporting Period	6 months to 31 December 2018

APPENDIX 4D
HALF-YEAR REPORT

PERIOD ENDING 31 DECEMBER 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

INCOME FROM OPERATIONS

↑ 9.48%

Income from operations up 9.48% to $39.520m

PROFIT FROM ORDINARY ACTIVITIES

↑ 9.32%

Profit from ordinary activities after tax attributable to shareholders up 9.32% to $9.256m

NET PROFIT

↑ 9.32%

Net profit for the period attributable to shareholders up 9.32% to $9.256m

Review and results of operations

Auswide Bank's statutory consolidated net profit after tax for the half-year ending 31 December 2019 was $9.256m, representing a 9.32% increase from $8.467m at the end of the prior corresponding period.

Auswide Bank's total operating income for the half-year to 31 December 2019 increased to $39.520m compared to $36.098m for the corresponding period, an increase of 9.48%.

Net interest revenue for the half-year increased from $31.109m to $34.516m, up 10.95% compared to the prior corresponding period.

The company's NIM for the half-year ended 31 December 2019 was 1.95% compared to the year ended 30 June 2019 of 1.87%. The strong NIM was driven by the normalisation of BBSW rates during the first half after a period of volatility, growth in customer deposits and proactive management of funding lines.

Financial Position

Auswide Bank's loan book (grossed up for Investments in Managed Investment Schemes reported in Other financial assets in the Statement of Financial Position) recorded growth on an annualised basis of 5.43% across the period, increasing from $3.131billion at 30 June 2019 to $3.216 billion at 31 December 2019.

Home loan settlements during the half-year totalled $333.836m, an increase of 10.82% compared to $301.244m at the end of the prior corresponding period.

Arrears continued to trend downwards, with total arrears past due 30 days decreasing from $14.302m at 30 June 2019 to $12.200m at 31 December 2019. Arrears past due 30 days represented 0.39% of total loans and advances at 31 December 2019 compared to 0.46% at 30 June 2019. The provision for doubtful debts (impairment losses on financial instruments) has increased in comparison to the prior corresponding period to ensure there is adequate allowance for loans which become impaired and require write-offs across the financial year.

Retail deposits recorded growth on an annualised basis of 12.64%, increasing from $2.373 billion at 30 June 2019 to $2.523 billion at 31 December 2019. This strong growth in retail deposits allowed for a reduction in the balance of securitised loans, one of the more expensive funding lines. Retail deposits continue to be Auswide Bank's largest source of funding.

Capital Management

Auswide Bank remains in a strong capital position with a consolidated capital ratio at the end of December 2019 of 13.03% and a Tier 1 capital ratio of 11.12%. The consolidated capital ratio has reduced from 13.79% at 30 June 2019, as a result of growth in the loan book and suspension of the Dividend Reinvestment Plan. The capital ratio remains comfortably in excess of the Board's target.

Outlook and Strategy

Auswide Bank's loan book growth has continued at above system across the first half of the financial year. The annualised rate has been 5.43% compared to system growth as per the RBA Financial Aggregates for the year to December 2019 of 2.4%. This increase includes the total loans portfolio grossed up for Investments in Managed Investment Schemes (peer to peer lenders) which are disclosed in the "Other financial assets" line item in the Statement of Financial Position. It is expected that growth will continue across the remainder of the financial year at a similar rate.

Funding from customer deposits has increased materially, now representing 72.90% of the total funding mix. Auswide Bank has continued to build partnerships to achieve growth in customer deposits and funding of the loan book.

Although BBSW rates were less volatile in the first half of the financial year there were two reductions in the RBA cash rate. This placed pressure on the return on assets and resulted in continuing marketplace competition for both front book lending and term deposit funding. Auswide Bank's strategic focus remains on building the customer deposit base and decreasing reliance on higher cost funding, facilitating a more efficient funding mix.

Auswide Bank's NIM has strengthened across the first half of the financial year with an average return on interest earning assets of 1.95% an increase of 8bps on the NIM of 1.87% for the year ended 30 June 2019. The expectation is that the NIM will be retained at this level across the second half with a strategic goal of matching any decrease in return on assets with more efficient funding lines.

Investment in technology continues as Auswide Bank looks to deliver real-time technologies that offer customers enhanced experiences and a personalised online offering. Auswide Bank will continue to look for collaborative opportunities that cater for a broad customer base, while also improving legacy platforms that meet regulatory mandates and boost operational efficiency. Auswide Bank will also continue to invest in training and development of people within the organisation to develop digital skills organically within the workplace.

Auswide Bank will also continue to review its brand messaging to ensure the brand remains relevant, consistent and aligned with Auswide Bank's current strategies. This includes a refresh of the website and improvement of the customer on-boarding and retention processes to promote advocacy and ensure a positive experience for new customers.

Further investment in the Customer Hub, Auswide Bank's Bundaberg based call centre, will enhance the Bank's Internet banking capabilities and improve the on-line Personal Loan application process. Enhanced eDM (direct mail marketing) solutions and a dedicated customer care program will support improved communication.

The Board constantly reviews opportunities to drive scale through acquisition and partnerships. The capital base remains strong and well in excess of the Board's target which will assist any planned loan book growth and provide opportunity for M&A opportunities and fintech partnering.

Subsequent Events

There has been no other matter since the end of the half-year that will significantly affect the results of the operations in future years or the state of affairs of the company.

Dividends

Dividends (distributions) – Ordinary shares	Amount per security	Franked amount per security
Final dividend (30 June 2019) – paid 20 September 2019	18.5c	18.5c
Interim dividend (31 December 2019) – to be paid 16 March 2020	17.0c	17.0c
The record date for determining entitlements to the dividends	**28 February 2020**	

	Amount per security	Franked amount per security	Amount per security of foreign source dividend
Interim dividend			
Current year	17.0c	17.0c	Nil
Previous year	16.0c	16.0c	Nil

Interim dividends on all securities	Current period $A'000	Previous corresponding period $A'000
Ordinary securities		
Interim dividend paid **16 March 2020** – previous period paid 25 March 2019	7,171	6,749

DIVIDEND REINVESTMENT PLAN

The Board of Directors resolved to activate the dividend reinvestment plan for the interim dividend for the half-year ended 31 December 2019.

The choices are for Full Participation where the dividend on all fully paid shares or contributing shares held is reinvested in new shares, or Partial Participation where the dividend on a specified number of shares is reinvested in new shares.

To participate in the plan, shareholders must complete the Application Form and lodge the form with the Company's Share Registry. Full terms and conditions of the dividend reinvestment plan and the application form will be forwarded to shareholders by the Company's Share Registry.

Ranking for dividend

Shares issued under the plan will rank equally in every respect with existing fully paid permanent ordinary shares and will participate in all cash dividends declared after the date of issue.

Issue price of the new shares

The shares issued under the Plan in respect of the final dividend for the current year will be issued at a discount of 2.5% on the weighted average sale price of the Company's shares sold through normal trade on the ASX during the five trading days immediately following the Record Date.

The final date for the receipt of the application form for participation in the dividend reinvestment plan is 2 March 2020.

Net Tangible Assets Per Security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	$4.54	$4.48

Details of Associates and Joint Venture Entities

		% Holding		Contribution to consolidated operating profit after income tax	
Controlled entities	Country of incorporation	Current period	Previous corresponding period	Current period $A'000	Previous corresponding period $A'000
Widcap Securities Pty Ltd	Australia	100	100	–	–
Auswide Performance Rights Pty Ltd	Australia	100	100	–	–

AUSWIDE BANK

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR 31 DECEMBER 2019

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Auswide Bank Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' statutory report

Auswide Bank's Directors present their report on the consolidated entity of Auswide Bank Ltd and the entities it controlled for the half-year ended 31 December 2019.

The Directors present this report on the company's consolidated accounts for the six-month period ended 31 December 2019, in accordance with the provisions of the Corporations Act 2001.

DIRECTORS

The names and credentials of the Directors of the company during or since the end of the period are:

- **Mr John S Humphrey LL.B**
  Independent non-executive Director since February 2008 / Chairman since November 2009
- **Mr Martin J Barrett BA(ECON), MBA**
  Managing Director since September 2013
- **Mr Barry Dangerfield**
  Independent non-executive Director since November 2011
- **Mr Gregory N Kenny GAICD, GradDipFin**
  Independent non-executive Director since November 2013
- **Ms Sandra C Birkensleigh BCom, CA, GAICD, ICCP (Fellow)**
  Independent non-executive Director since February 2015

The independent non-executive Directors of Auswide Bank have a broad and diverse set of skills which have been accumulated over a number of years working across a wide range of industries. Auswide Bank's Directors remain well positioned to continue to make an integral contribution to the ongoing development of the company.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Principal activities

Auswide Bank Ltd is an approved deposit-taking institution and licensed credit and financial services provider. Auswide Bank provides deposit, credit, insurance and banking services to personal and business customers across Australia, principally in regional and metropolitan Queensland, Sydney and Melbourne. The majority of the company's loan book is comprised of residential mortgage loans. Auswide Bank also offers personal loans and business banking products and services although these portfolios are not yet a material part of the loan book.

There were no significant changes during the period in the nature of the activities of the consolidated entity.

Profitability

Auswide Bank's statutory consolidated net profit after tax for the half-year ending 31 December 2019 was $9.256m, representing a 9.32**%** increase from $8.467m at the end of the prior corresponding period.

Auswide Bank’s total operating income for the half-year to 31 December 2019 increased to $39.520m compared to $36.098m for the corresponding period, an increase of 9.48%.

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REVIEW OF OPERATIONS AND FINANCIAL RESULTS (continued)

Financial position (continued)

Arrears continued to trend downwards, with total arrears past due 30 days decreasing from $14.302m at 30 June 2019 to $12.200m at 31 December 2019. Arrears past due 30 days represented 0.39% of total loans and advances at 31 December 2019 compared to 0.46% at 30 June 2019. The provision for doubtful debts (impairment losses on financial instruments) has increased in comparison to the prior corresponding period to ensure there is adequate allowance for loans which become impaired and require write-offs across the financial year.

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Directors' statutory report
31 December 2019
(continued)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS (continued)

Dividend

A final dividend in respect of the year ended 30 June 2019 of 18.5 cents per ordinary share (fully franked) was paid on 20 September 2019.

On 18 February 2020 the Directors of Auswide Bank Ltd declared an interim dividend of 17.0 cents per ordinary share (fully franked) in respect of the December 2019 half-year, payable on 16 March 2020. The amount estimated to be appropriated in relation to this dividend is $7.171m. The dividend has not been provided for in the 31 December 2019 half-year financial statements.

The Board has resolved to activate the Dividend Reinvestment Plan for the interim dividend payable on 16 March 2020.

Subsequent events

There has been no other matter since the end of the half-year that will significantly affect the results of the operations in future years or the state of affairs of the company.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the half year ended 31 December 2019 has been received and been included in this financial report.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

John Humphrey
Director

Brisbane
18 February 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Auswide Bank Ltd
PO Box 1063
BUNDABERG QLD 4670

18 February 2020

Dear Board Members

Auditor's Independence Declaration to Auswide Bank Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Auswide Bank Ltd.

As lead audit partner for the review of the half-year report of Auswide Bank Ltd for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019

	Notes	Consolidated 6 months to 31 Dec 19 $'000	6 months to 31 Dec 18 $'000
Interest revenue	2.1	**65,581**	67,644
Interest expense	2.1	**(31,065)**	(36,535)
Net interest revenue		**34,516**	31,109
Other non-interest income		**5,004**	4,989
Total operating income		**39,520**	36,098
Impairment losses on financial instruments	4.2.5	**(826)**	(384)
Other expenses		**(25,435)**	(23,587)
Profit before income tax expense		**13,259**	12,127
Income tax expense		**(4,003)**	(3,660)
Profit for the period		**9,256**	8,467
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Revaluation of FVTOCI investments to fair value		**(222)**	630
Income tax relating to these items		**53**	(189)
Other comprehensive income/ (loss) for the period; net of income tax		**(169)**	441
Total comprehensive income for the period		**9,087**	8,908
Profit for the period attributable to:			
Owners of the Company		**9,256**	8,467
Total comprehensive income attributable to:			
Owners of the Company		**9,087**	8,908
Earnings per share			
Basic (cents per share)		**21.95**	20.09
Diluted (cents per share)		**21.95**	20.09

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position
as at 31 December 2019

	Notes	Consolidated as at 31 Dec 19 $'000	as at 30 Jun 19 $'000
ASSETS			
Cash and cash equivalents		**108,411**	104,389
Due from other financial institutions		**20,994**	20,994
Other financial assets		**371,354**	317,059
Current income tax assets		**3,796**	1,575
Loans and advances		**3,148,302**	3,086,158
Other investments		**1,331**	1,321
Property, plant and equipment	3.1	**17,293**	14,363
Other intangible assets		**1,523**	1,763
Deferred tax assets		**5,246**	4,952
Other assets		**3,206**	4,465
Goodwill		**46,363**	46,363
Total assets		**3,727,819**	3,603,402
LIABILITIES			
Deposits and short term borrowings		**2,972,833**	2,802,605
Payables and other liabilities		**22,461**	39,093
Loans under management		**460,549**	490,412
Deferred tax liabilities		**1,698**	1,786
Provisions		**3,106**	3,009
Subordinated capital notes		**28,000**	28,000
Total liabilities		**3,488,647**	3,364,905
Net assets		**239,172**	238,497
EQUITY			
Contributed equity	3.2	**191,953**	191,936
Reserves		**14,964**	15,143
Retained profits		**32,255**	31,418
Total equity		**239,172**	238,497

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity
For the half-year 31 December 2019

Consolidated entity	Share capital ordinary $'000	Retained profits $'000	Asset revaluation reserve $'000	General reserve $'000	Statutory reserve $'000	Doubtful debts reserve $'000	Available for sale reserve $'000	Investment revaluation reserve $'000	Cash flow hedging reserve $'000	Share-based payments $'000	Total equity $'000
	Attributable to owners of Auswide Bank Ltd										
Balance at 1 July 2018	191,612	29,898	4,357	5,834	2,676	2,388	102	-	(366)	241	236,742
Adjustment on adoption of AASB 9 (net of tax)	-	(896)	-	-	-	-	(102)	102	-	-	(896)
Restated total equity at the beginning of the financial period	191,612	29,002	4,357	5,834	2,676	2,388	-	102	(366)	241	235,846
Total comprehensive income for the year:											
Profit attributable to owners of parent company	-	8,467	-	-	-	-	-	-	-	-	8,467
Transfer to /from retained profits on consolidation	-	(461)	-	-	-	-	-	-	-	-	(461)
Share-based payments expensed during the year	-	-	-	-	-	-	-	-	-	(20)	(20)
Increase (decrease) due to revaluation of external RMBS investments to fair value	-	-	-	-	-	-	-	(2)	-	-	(2)
Deferred tax liability adjustment on revaluation of external RMBS investments	-	-	-	-	-	-	-	1	-	-	1
Increase (decrease) due to revaluation of cash flow hedge to fair value	-	-	-	-	-	-	-	-	632	-	632
Deferred tax liability adjustment on revaluation of cash flow hedge	-	-	-	-	-	-	-	-	(190)	-	(190)
Subtotal	-	8,006	-	-	-	-	-	(1)	442	(20)	8,427
Issue of share capital for staff share plan	275	-	-	-	-	-	-	-	-	-	275
Dividends provided for or paid	-	(7,575)	-	-	-	-	-	-	-	-	(7,575)
Gain/ (loss) in share capital due to employee incentive scheme	(29)	-	-	-	-	-	-	-	-	-	(29)
Movement in treasury shares	78	-	-	-	-	-	-	-	-	-	78
Subtotal	324	(7,575)	-	-	-	-	-	-	-	-	(7,251)
Balance at 31 December 2018	191,936	29,433	4,357	5,834	2,676	2,388	-	101	76	221	237,022

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity
For the half-year 31 December 2019
(continued)

	Attributable to owners of Auswide Bank Ltd										
Consolidated entity	**Share capital ordinary $'000**	**Retained profits $'000**	**Asset revaluation reserve $'000**	**General reserve $'000**	**Statutory reserve $'000**	**Doubtful debts reserve $'000**	**Available for sale reserve $'000**	**Investment revaluation reserve $'000**	**Cash flow hedging reserve $'000**	**Share-based payments $'000**	**Total equity $'000**
Balance at 1 July 2019	**191,936**	**31,418**	**4,357**	**5,834**	**2,676**	**2,388**	**-**	**101**	**(521)**	**308**	**238,497**
Adjustment on adoption of AASB 16 (net of tax)	-	(622)	-	-	-	-	-	-	-	-	(622)
Restated total equity at the beginning of the financial period	**191,936**	**30,796**	**4,357**	**5,834**	**2,676**	**2,388**	**-**	**101**	**(521)**	**308**	**237,875**
Total comprehensive income for the year:											
Profit attributable to owners of parent company	-	9,256	-	-	-	-	-	-	-	-	9,256
Share-based payments expensed during the year	-	-	-	-	-	-	-	-	-	119	119
Share-based payments vested during the year	-	-	-	-	-	-	-	-	-	(128)	(128)
Increase (decrease) due to revaluation of external RMBS investments to fair value	-	-	-	-	-	-	-	(1)	-	-	(1)
Increase (decrease) due to revaluation of cash flow hedge to fair value	-	-	-	-	-	-	-	-	(222)	-	(222)
Deferred tax liability adjustment on revaluation of cash flow hedge	-	-	-	-	-	-	-	-	53	-	53
Subtotal	**-**	**9,256**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(169)**	**(9)**	**9,077**
Dividends provided for or paid	-	(7,797)	-	-	-	-	-	-	-	-	(7,797)
Movement in treasury shares	29	-	-	-	-	-	-	-	-	-	29
Gain/ (loss) in share capital due to employee incentive scheme	(12)	-	-	-	-	-	-	-	-	-	(12)
Subtotal	**17**	**(7,797)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,780)**
Balance at 31 December 2019	**191,953**	**32,255**	**4,357**	**5,834**	**2,676**	**2,388**	**-**	**100**	**(690)**	**299**	**239,172**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows
For the half-year 31 December 2019

	Consolidated	
	6 months to 31 Dec 19 $'000	6 months to 31 Dec 18 $'000
Cash flows from operating activities		
Interest received	**65,502**	66,958
Other non-interest income received	**(3,304)**	(4,302)
Interest paid	**(31,865)**	(34,143)
Income tax paid	**(6,292)**	(4,262)
Cash paid to suppliers and employees (inclusive of goods and services tax)	**(42,938)**	(31,798)
Net cash used in operating activities	**(18,897)**	(7,547)
Cash flows from investing activities		
Net movement in investment securities	**(54,296)**	(11,464)
Net movement in amounts due from other financial institutions	**-**	(5,605)
Net movement in loans and advances	**(62,916)**	(72,495)
Net movement in other investments	**(10)**	(147)
Payments for non current assets	**(635)**	(357)
Net cash used in investing activities	**(117,857)**	(90,068)
Cash flows from financing activities		
Net movement in deposits and short term borrowings	**180,290**	163,135
Net movement in amounts due to other financial institutions and other liabilities	**(30,779)**	(48,057)
Principal payment of lease liabilities	**(957)**	-
Proceeds from share issue	**-**	275
Dividends paid	**(7,795)**	(7,575)
Movement in share capital due to employee incentive scheme	**17**	49
Net cash used in financing activities	**140,776**	107,827
Net movement in cash and cash equivalents	**4,022**	10,212
Cash and cash equivalents at the beginning of the financial year	**104,389**	86,361
Cash and cash equivalents at the end of the period	**108,411**	96,573

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements
31 December 2019

1. General information

1.1 Statement of compliance

The half year financial report for the period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These condensed consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Auswide Bank Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

1.2 Basis of preparation

These financial statements have been prepared on an accrual basis and are based on historical cost, except for land and buildings, hedging instruments, financial instruments held at fair value through profit or loss or other comprehensive income that have been measured at fair value.

Auswide Bank Ltd fulfils the requirements referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

These financial statements have been prepared in Australian Dollars (AUD) which is the functional and presentation currency of the Company.

The accounting policies and methods of computation in the preparation of these financial statements are consistent with those adopted and disclosed in the previous financial year and corresponding interim reporting period, unless otherwise stated.

1.3 Application of new and revised Australian Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2019.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

New and revised Standards and amendments thereof and interpretations effective for the current financial year, and which have been applied in the preparation of this half-year report, that are relevant to the Group include:

- AASB 16 *Leases*

AASB 16 Leases

The Group applied AASB 16 with a date of initial application of 1 July 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. The details of the changes in accounting policies are disclosed below.

Definition of lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under AASB 117. Under AASB 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 17 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

1. General information (continued)

Summary of key changes to the accounting policy

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases, as a result, these leases are now recognised on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of less than twelve months. For leases of other assets, which were classified as operating under AASB 17, the Group recognised right-of-use assets and lease liabilities.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at either:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; or
- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group has applied this approach to all leases.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117;

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

Impact on financial statements

On transition to AASB 16, the Group recognised an additional $4.043m of right-of-use assets and $4.928 of lease liabilities. The difference of $0.885m has been recognised against opening retained earnings, net of its related deferred tax impact of $0.263m resulting in a net decrease in retained earnings of $0.622m on 1 July 2019.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied to properties and vehicles on transition was 5.50% and 6.42% respectively.

	1 July 2019
	$'000
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	**5,585**
Discounted using the incremental borrowing rate at 1 July 2019	**5,256**
Recognition exemptions for:	
- Impact of GST and other outgoings	**(1,000)**
- Impact of increasing lease rentals	**210**
- Impact of options expected to be exercised	**423**
- Impact of rent discount in agreement	**(136)**
- Impact of leases not recognised as a commitment in PY	**175**
Lease liabilities recognised on 1 July 2019	**4,928**

1.4 Comparative figures

The adoption of AASB 16 Leases from 1 July 2019 resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 16, comparative figures have not been restated. A one off adjustment of $0.885m has been recognised against opening retained earnings, net of the related tax impact of $0.263m, resulting in a net decrease to retained earnings of $0.622m on 1 July 2019.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

2. Financial performance

2.1 Interest revenue and interest expense

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate from continuing operations. Month end averages are used as they are representative of the entity's operations during the period. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue December 2019			
Deposits with other financial institutions	**65,403**	**305**	**0.93**
Investment securities	**256,152**	**1,992**	**1.56**
Loans and advances	**3,117,973**	**60,883**	**3.91**
Other	**96,175**	**2,401**	**4.99**
	3,535,703	**65,581**	**3.71**
Interest expense December 2019			
Deposits from other financial institutions	**463,415**	**6,297**	**2.72**
Customer deposits	**2,430,096**	**20,332**	**1.67**
Negotiable certificates of deposit (NCDs)	**309,699**	**2,374**	**1.53**
Floating rate notes (FRNs)	**116,357**	**1,223**	**2.10**
Subordinated capital notes	**28,000**	**717**	**5.12**
Lease liabilities	**3,771**	**122**	**6.46**
	3,351,338	**31,065**	**1.85**
Net interest revenue December 2019		**34,516**	

Consolidated entity	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue December 2018			
Deposits with other financial institutions	53,988	452	1.67
Investment securities	211,013	2,660	2.52
Loans and advances	2,977,514	63,023	4.23
Other	69,808	1,509	4.32
	3,312,323	67,644	4.08
Interest expense December 2018			
Deposits from other financial institutions	559,429	9,399	3.36
Customer deposits	2,143,567	21,318	1.99
Negotiable certificates of deposit (NCDs)	282,977	3,469	2.45
Floating rate notes (FRNs)	96,571	1,437	2.98
Subordinated capital notes	28,000	912	6.51
	3,110,544	36,535	2.35
Net interest revenue December 2018		31,109	

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

2. Financial performance (continued)

2.1 Interest revenue and interest expense (continued)

The following tables show the net interest margin, and are derived by dividing the difference between interest revenue and interest expenditure by the average balance of interest earning assets.

Interest margin & interest spread December 2019			
Interest revenue	**3,535,703**	**65,581**	**3.71**
Interest expense	**3,351,338**	**31,065**	**1.85**
Net interest spread			**1.86**
Benefit of net interest-free assets, liabilities and equity			**0.09**
Net interest margin - on average interest earning assets	**3,535,703**	**34,516**	**1.95**
Interest margin & interest spread December 2018			
Interest revenue	3,312,323	67,644	4.08
Interest expense	3,110,544	36,535	2.35
Net interest spread			1.73
Benefit of net interest-free assets, liabilities and equity			0.15
Net interest margin - on average interest earning assets	3,312,323	31,109	1.88

2.2 Business and geographical segment information

The Group only has one major business and operating segment being 'Retail Banking'. The principal activities of the Group are confined to the raising of funds and the provision of finance for housing, consumer lending and business banking. For the purpose of performance evaluation, risk management and resource allocation, the decisions are based predominantly on the key performance indicators at the Group level.

The Group operates in one geographical segment which is the Commonwealth of Australia.

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

3. Investments and financing

3.1 Property and equipment

Consolidated entity	Notes	31 Dec 19 $'000	30 Jun 19 $'000
Property and equipment owned		13,913	14,363
Right-of-use assets	3.1.1	3,380	-
		17,293	14,363

3.1.1 Right-of-use assets

Consolidated entity	Property $'000	Vehicles $'000	Total $'000
Right-of-use assets at cost			
Balance as at 1 July 2019	3,924	119	4,043
Additions during the year	-	101	101
Balance as at 31 Dec 19	3,924	220	4,144
Accumulated depreciation			
Balance as at 1 July 2019	-	-	-
Depreciation charge for the year	(711)	(53)	(764)
Right-of-use assets as 31 Dec 19	3,213	167	3,380

3.1.2 Lease liabilities

Details of associated lease liabilities recognised in respect of the right-of-use assets are presented below:

Consolidated entity	31 Dec 19 $'000
Maturity analysis - contractual undiscounted cash flows	
Less than one year	1,534
One to five years	2,998
More than five years	67
Total undiscounted lease liabilities	4,599
Lease liabilities included in statement of financial position	
Current	1,500
Non-current	2,687
	4,187
Amounts recognised in statement of comprehensive income	
Interest on lease liabilities	122
	122
Amounts recognised in statement of cash flows	
Total cash outflow for leases	1,079
	1,079

3. Investments and financing (continued)

3.2 Contributed equity

Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity	**31 Dec 19 Shares No.**	**31 Dec 19 $'000**	30 Jun 19 Shares No.	30 Jun 19 $'000
Fully paid ordinary shares				
Balance at beginning of year - 1 July	**42,172,922**	**191,936**	42,108,972	191,612
Issued during the year				
Staff share plan	**-**	**-**	53,745	275
Gain/ (loss) in share capital on disposal of treasury shares	**-**	**(12)**	-	(29)
Treasury shares				
Movement in treasury shares	**4,685**	**29**	10,205	78
Balance at end of the period - 31 December	**42,177,607**	**191,953**	42,172,922	191,936

As at the reporting date Auswide Performance Rights Pty Ltd holds 4,878 shares, $27,147 (Jun 19: 9,563 shares, $55,942) for the purpose of facilitating the Executive LTI scheme.

3.3 Dividends

A final fully franked dividend in respect of the year ended 30 June 2019 of 18.5 cents per ordinary share ($7.804m) was paid on 20 September 2019.

The Board declared a fully franked dividend of 17.0 cents per ordinary share ($7.171m), for the six months to 31 December 2019, payable on 16 March 2020. In accordance with Accounting Standards, dividends are only provided for as declared or paid, therefore this dividend has not been provided for in the interim financial statements.

The Board of Directors resolved to re-instate the Dividend Reinvestment Plan (DRP) for the interim dividend for the 2019/20 financial year.

4. Financial assets, liabilities and related financial risk management

4.1 Capital risk management

Consistent with Basel III, the approach to capital assessment provides for a quantitative measure of the capital adequacy and focuses on:

- credit risk arising from on-balance sheet and off-balance sheet exposures;
- market risk arising from trading activities;
- operational risk associated with banking activities;
- securitisation risks; and
- the amount, form and quality of capital held to act as a buffer against these and other exposures.

Details of the capital adequacy ratio are set out in the following table.

Consolidated entity	31 Dec 19 $'000	30 Jun 19 $'000
Total risk weighted assets	**1,592,893**	1,498,370
Capital base	**207,518**	206,639
Risk-based capital ratio	**13.03%**	13.79%

4.2 Credit risk management

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers, debt investments, contract assets, loan commitments and financial guarantees. The Group considers all elements of credit risk exposure such a counterparty default risk, geographical risk and sector risk for risk management purposes.

Under the direction of the Board of Directors, management has developed risk management policies and procedures to establish and monitor the credit risk of the Company. The risk management procedures define the credit principles, lending policies and decision making processes which control the credit risk of the Company.

Credit risk exists predominantly on the Group's loan portfolio. Other assets that are subject to credit risk include cash and cash equivalents, amounts due from other institutions, receivables, certificates of deposit, securitisation notes and deposits, loan commitments and bank guarantees.

The loan portfolio consists of mortgage lending, personal lending and commercial lending. Loan commitments and bank guarantees are off balance sheet exposures of the loan portfolio, which are also subject to credit risk. These groupings, by product type, have been assessed as reflecting similar performance behaviours, based on the Group's analysis of its loan portfolio.

Credit risk on mortgage lending is minimised by the availability and application of insurances including lenders' mortgage insurance, property insurance and mortgage protection insurance. Credit risk in the mortgage loan portfolio is managed by generally protecting all loans in excess of 80% LVR with one of the recognised mortgage insurers and securing the loans by first mortgages on residential property.

The company has a diversified branch network consisting of 18 branches and agencies across Queensland, and a business centre in Brisbane city. The company also employs Business Development Managers in Sydney and Melbourne to conduct interstate business. All regional loan staff and panel valuers are locally based ensuring an in depth knowledge of the local economy and developments in the real estate market.

The Board of Directors and management receive reports on a monthly basis to monitor and supervise the past due loans in the portfolio, as well as economic forecasts, and ensures credit procedures are adhered to on a timely and accurate basis.

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

The Group's maximum exposure to credit risk at balance date in relation to each class of financial asset is the carrying amount of those assets as recognised on the balance sheet. In relation to off balance sheet loan commitments, the maximum exposure to credit risk is the maximum committed amount as per terms of the agreement. The maximum credit risk exposure does not take into account the value of any security held or the value of any mortgage or other insurance to mitigate the risk exposure.

The Group minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of customers principally within the states of Queensland, New South Wales and Victoria. Diversification of the mortgage portfolio assists in minimising credit risk by reducing security concentrations in particular geographic locations.

Credit risk on personal lending is minimised by the availability of consumer credit insurance, as well as the lending policies and processes in place.

Commercial lending credit risk is minimised requiring collateral as security, which is mostly residential property, in addition to the use of bank guarantees in some circumstances. The risk management policies and decision making procedures also aid in minimising credit risk on commercial exposures.

Off balance sheet loan commitments and bank guarantees are also subject to credit risk, which is minimised by following credit guidelines for issuing credit, as well as monitoring and following review processes for exposures in relation to bank guarantees and undrawn credit.

Credit risk on cash, cash equivalents and amounts due from other institutions have been assessed as low risk with a negligible probability of default, due to amounts being invested with investment grade credit institutions with a no loss history.

Credit risk on certificates of deposit is assessed as low and probability of default negligible. Risk is minimised by using clearly defined policies for investment grade rated credit institutions, combined with the current economic outlook and on the basis of no prior losses in the Group's history on these investments.

External securitised notes are subject to low credit risk and negligible probability of default due to securitisation trusts having a structure that utilises an excess income reserve to absorb any losses, reducing the risk of note balances being affected. The securitisation deposits are made with investment grade rated credit institutions.

4.2.1 Sources of credit risk

Key sources of credit risk for the Group predominantly emanate from its business activities including loans and advances to customers, debt investments, loan commitments etc. The Group monitors and manages credit risk by class of financial instrument. The table below outlines such classes of financial instruments identified, their relevant financial statement line item, maximum exposure to credit risk at the reporting date and expected credit loss recognised.

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity **Class of financial instrument**	**Financial statement line**	**Maximum exposure to credit risk 31 Dec 19 $'000**	**Expected credit loss 31 Dec 19 $'000**	Maximum exposure to credit risk 30 Jun 19 $'000	Expected credit loss 30 Jun 19 $'000
Cash and cash equivalents	Cash and cash equivalents	**108,411**	**-**	104,389	-
Due from other financial institutions	Due from other financial institutions	**20,994**	**-**	20,994	-
Certificates of deposit	Other financial assets	**289,178**	**-**	256,156	-
External RMBS investments	Other financial assets	**486**	**-**	533	-
Notes – securitisation program and other	Other financial assets	**13,664**	**-**	14,624	-
Interest receivable	Other financial assets	**394**	**-**	588	-
Loans and advances	Loans and advances	**3,392,706**	**4,580**	3,315,110	4,437
Total		**3,825,833**	**4,580**	3,712,394	4,437
Off-balance sheet exposures					
Loans approved not advanced (LANA)		**83,260**	**74**	66,874	54
Bank guarantees		**1,202**	**-**	1,405	-
Total		**84,462**	**74**	68,279	54

4.2.2 Measurement of expected credit loss (ECL)

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information, using methodology and inputs similar to those disclosed in the Annual Report for the year ended 30 June 2019.

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the expected loss allowance based on lifetime rather than 12-month ECL.

The Group has used the assumption that 30 days past due represents significant increase in credit risk. The Bank considers 90 days past due as representative of a default having occurred and a loan being credit impaired.

The Group has identified the following three stages in which financial instruments have been classified in regards to credit risk;

- stage 1 - performing exposure on which loss allowance is recognised as 12 month expected credit loss;
- stage 2 - where credit risk has increased significantly and impairment loss is recognised as lifetime expected credit loss; and
- stage 3 - assets are credit impaired and impairment loss is recognised as lifetime expected credit loss. Interest is accrued on a net basis, on the amortised cost of the loans after the ECL is deducted.

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

The table below shows an analysis of each class of financial asset subject to impairment requirements by stage at the reporting date. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

	Maximum exposure to credit risk				Expected credit loss			
Consolidated entity Balance at 31 December 2019	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Class of financial instrument								
Cash and cash equivalents	108,411	-	-	108,411	-	-	-	-
Due from other financial institutions	20,994	-	-	20,994	-	-	-	-
Certificate of deposit	289,178	-	-	289,178	-	-	-	-
External RMBS investments	486	-	-	486	-	-	-	-
Notes – securitisation program and other	13,664	-	-	13,664	-	-	-	-
Total	432,733	-	-	432,733	-	-	-	-
Loans and advances*								
- Mortgage lending	3,264,433	10,243	13,569	3,288,245	1,897	323	1,222	3,442
- Personal lending	23,016	64	48	23,128	150	13	34	197
- Commercial lending	79,649	-	1,684	81,333	465	-	476	941
Total	3,367,098	10,307	15,301	3,392,706	2,512	336	1,732	4,580
Off-balance sheet exposures								
Loans approved not advanced (LANA)	83,260	-	-	83,260	74	-	-	74
Bank guarantees	1,202	-	-	1,202	-	-	-	-
Total	84,462	-	-	84,462	74	-	-	74

** Maximum exposure to credit risk includes undrawn credit limits and uses scheduled balances. Carrying amount as at 31 December 2019 is $3.148b (Jun $3.086b).*

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

	Maximum exposure to credit risk				Expected credit loss			
Consolidated entity **Balance at 30 June 2019**	**Stage 1** **$'000**	**Stage 2** **$'000**	**Stage 3** **$'000**	**Total** **$'000**	**Stage 1** **$'000**	**Stage 2** **$'000**	**Stage 3** **$'000**	**Total** **$'000**
Class of financial instrument								
Cash and cash equivalents	104,389	-	-	104,389	-	-	-	-
Due from other financial institutions	20,994	-	-	20,994	-	-	-	-
Certificate of deposit	256,156	-	-	256,156	-	-	-	-
External RMBS investments	533	-	-	533	-	-	-	-
Notes – securitisation program and other	14,624	-	-	14,624	-	-	-	-
Total	396,696	-	-	396,696	-	-	-	-
Loans and advances*								
- Mortgage lending	3,191,334	15,611	12,638	3,219,583	2,036	595	1,479	4,110
- Personal lending	20,434	63	28	20,525	23	15	2	40
- Commercial lending	72,982	1,617	403	75,002	174	113	-	287
Total	3,284,750	17,291	13,069	3,315,110	2,233	723	1,481	4,437
Off-balance sheet exposures								
Loans approved not advanced (LANA)	66,874	-	-	66,874	54	-	-	54
Bank guarantees	1,405	-	-	1,405	-	-	-	-
Total	68,279	-	-	68,279	54	-	-	54

** Maximum exposure to credit risk includes undrawn credit limits and uses scheduled balances.*

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

4.2.3 Movement in gross carrying amounts

The following tables show movements in gross carrying amounts of financial assets subject to impairment requirements. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity 31 December 2019	**Stage 1 12-month ECL $'000**	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
Loans and advances at amortised cost*				
Gross carrying amount at beginning of year	**3,050,753**	**17,257**	**13,082**	**3,081,092**
Transfer to stage 1	**23,368**	**(18,395)**	**(4,973)**	**-**
Transfer to stage 2	**(23,125)**	**27,027**	**(3,902)**	**-**
Transfer to stage 3	**(579)**	**(12,249)**	**12,828**	**-**
Financial assets that have been derecognised during the period including write-offs	**(184,508)**	**(3,340)**	**(1,702)**	**(189,550)**
New financial assets originated	**310,223**	**-**	**-**	**310,223**
Adjustments for repayments and interest	**(58,795)**	**1**	**3**	**(58,791)**
Net carrying amount as at 31 December 2019	**3,117,337**	**10,301**	**15,336**	**3,142,974**

Consolidated entity 30 June 2019	**Stage 1 12-month ECL $'000**	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
Loans and advances at amortised cost*				
Gross carrying amount at beginning of year	2,822,007	73,538	18,499	2,914,044
Transfer to stage 1	134,593	(133,250)	(1,343)	-
Transfer to stage 2	(180,769)	199,788	(19,019)	-
Transfer to stage 3	(16,153)	(10,115)	26,268	-
Financial assets that have been derecognised during the period including write-offs	(357,587)	(4,138)	(5,716)	(367,441)
New financial assets originated	579,400	-	-	579,400
Adjustments for repayments and interest	69,262	(108,566)	(5,607)	(44,911)
Net carrying amount as at 30 June 2019	3,050,753	17,257	13,082	3,081,092

** Excludes interest receivable and deferred mortgage brokers commissions.*

There has been no significant movement in carrying amount of other financial assets the general business operations of the Group and therefore the movement has not been disclosed.

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

4.2.4 Movement in expected credit losses

The following tables show movements in expected credit loss for financial assets subject to impairment requirements. Disclosures on a Company basis have not been separately disclosed as the amounts do not materially differ from those of the Consolidated entity.

Consolidated entity 31 December 2019	**Stage 1 12-month ECL $'000**	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
Loans and advances at amortised cost*				
Loss allowance at beginning of year	**2,232**	**734**	**1,525**	**4,491**
Transfer to stage 1	**1,341**	**(775)**	**(566)**	**-**
Transfer to stage 2	**(224)**	**316**	**(92)**	**-**
Transfer to stage 3	**(11)**	**(437)**	**448**	**-**
Financial assets derecognised during the period including write-offs	**(93)**	**(167)**	**(890)**	**(1,150)**
New financial assets originated	**232**	**-**	**-**	**232**
Changes in model risk assessment	**(889)**	**665**	**1,305**	**1,081**
Loss allowance as at 31 December 2019	**2,588**	**336**	**1,730**	**4,654**

Consolidated entity 30 June 2019	**Stage 1 12-month ECL $'000**	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
Loans and advances at amortised cost*				
Loss allowance at beginning of year	1,940	619	1,873	4,432
Transfer to stage 1	1,043	(903)	(140)	-
Transfer to stage 2	(2,877)	3,844	(967)	-
Transfer to stage 3	(675)	(926)	1,601	-
Financial assets derecognised during the period including write-offs	(488)	(188)	(943)	(1,619)
New financial assets originated	376	-	-	376
Changes in model risk assessment	2,913	(1,712)	101	1,302
Loss allowance as at 30 June 2019	2,232	734	1,525	4,491

** Excludes interest receivable and deferred mortgage brokers commissions.*

No ECL is recognised on any other financial asset, as this has been assessed as immaterial in both the current and comparative periods.

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

4.2.5 Summary of movements in expected credit loss by financial instrument

The following table summarises the movement in expected credit loss by financial instruments for the reporting period. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity 31 December 2019	**Loans and advances $'000**	**LANA $'000**	**Total $'000**
Expected credit loss			
Loss allowance at beginning of year	**4,437**	**54**	**4,491**
Loss allowance recognised/ (reversed) during the year	**806**	**20**	**826**
Bad debts written off	**(663)**	**-**	**(663)**
Loss allowance as at 31 December 2019	**4,580**	**74**	**4,654**

Consolidated entity 30 June 2019	Loans and advances $'000	LANA $'000	Total $'000
Expected credit loss			
Loss allowance at beginning of year	3,197	-	3,197
Adjustment on adoption of AASB 9	1,210	70	1,280
Loss allowance recognised/ (reversed) during the year	1,159	(16)	1,143
Bad debts written off	(1,129)	-	(1,129)
Loss allowance as at 30 June 2019	4,437	54	4,491

4.2.6 Credit risk concentrations

An analysis of the Group's credit risk concentrations on loans and advances is provided in the following table. The amounts in the table represent gross carrying amounts, with the exception of loan commitments, which are recorded as the amount committed. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

Consolidated entity

Loans and advances at amortised cost*	**31 Dec 19 $'000**	30 Jun 19 $'000
Concentration by sector		
Mortgage lending	**3,051,104**	2,996,371
Personal lending	**21,587**	17,536
Commercial lending	**70,283**	67,185
Total	**3,142,974**	3,081,092
Concentration by region		
Queensland	**2,362,146**	2,342,240
New South Wales	**376,237**	351,170
Victoria	**259,280**	245,124
South Australia	**28,221**	29,342
Western Australia	**80,206**	77,708
Tasmania	**11,154**	9,603
Northern Territory	**25,730**	25,905
Total	**3,142,974**	3,081,092

** Excludes interest receivable and deferred mortgage brokers commissions.*

LANA of $83.260m (Jun 19: $66.874m) is an additional exposure under AASB 9 not recognised on the balance sheet, but is immaterial to the concentrations in the above table.

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

4.2.7 Specific provision

The Group has complied with the provisioning requirements under the APRA prudential standard APS220 Credit Quality and includes a specific provision amounting to $2.832m (Jun 19: $2.012m) determined in accordance with the aforementioned prudential standard.

4.2.8 Financial instruments classified at FVTPL

The maximum exposure to credit risk of the notes held in MISs designated at FVTPL is their carrying invested amount, which was $67.526m at 31 December 2019 (Jun 19: $44.569m). The change in fair value due to credit risk for the MISs designated at FVTPL is a decrease of $0.017m for the year (Jun 19: $0.588m) and $0.571m on a cumulative basis as at 31 December 2019 (Jun 19: $0.558m). The Group uses the performance of the portfolio to determine the change in fair value attributable to changes in credit risk of its MISs designated at FVTPL.

4.2.9 Analysis of financial instruments by past due status

Under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances (excluding effects of hardship accounts) by past due status, that are over 30 days past due.

Consolidated entity	31 Dec 19 $'000	30 Jun 19 $'000
30 days and less than 60 days	**3,788**	4,638
60 days and less than 90 days	**888**	3,229
90 days and less than 182 days	**1,682**	2,175
182 days and less than 273 days	**2,446**	1,941
273 days and less than 365 days	**1,259**	718
365 days and over	**2,137**	1,601
	12,200	14,302

4.2.10 Collateral held as security and other credit enhancements

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LVR (loan to value ratio), which is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination. For credit-impaired loans the value of collateral is based on the most recent appraisals. Subsequent appraisals are performed on securities held for credit-impaired loans, to more closely monitor the Group's exposure. The Group will take possession of security property in line with its MIP (mortgagee in possession) policy and any loss resulting from subsequent sale will be recorded as an expense, resulting in a reduction in any provision that was held for that exposure. There are also procedures in place for the recovery of bad debts written off; debt recovery processes are performed internally as well as through the use of third parties. The table below shows the exposures from mortgage loans by ranges of LVR. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

	Gross carrying amount		**Expected credit loss**	
Consolidated entity	**31 Dec 19 $'000**	30 Jun 19 $'000	**31 Dec 19 $'000**	30 Jun 19 $'000
Mortgage lending LVR ratio				
Less than 50%	**422,261**	401,837	**817**	795
51-70%	**904,599**	861,832	**558**	820
71-90%	**1,458,859**	1,472,048	**948**	969
91-100%	**233,195**	227,859	**301**	78
More than 100%	**32,190**	32,795	**821**	1,448
Total	**3,051,104**	2,996,371	**3,445**	4,110

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

4. Financial assets, liabilities and related financial risk management (continued)

4.2 Credit risk management (continued)

Personal lending

The Group's personal lending portfolio consists of secured and unsecured term loans and unsecured credit cards. For loans with the purpose of purchasing vehicles and the like, the vehicle can be used as security for a secured personal loan, if acceptable under the applicable lending policy. The personal lending portfolio exhibits similar traits and behaviours regardless of whether the loan is secured or unsecured.

Commercial lending

The Group requests collateral, which is usually in the form of residential property, as security for corporate lending. Bank guarantees are also used at times, which utilise cash, residential or commercial mortgages as security. The table below shows the exposures from commercial loans by ranges of LVR. Disclosures on a Company basis have not been separately disclosed as the amounts do not differ materially from those of the Consolidated entity.

	Gross carrying amount		Expected credit loss	
Consolidated entity	**31 Dec 19 $'000**	30 Jun 19 $'000	**31 Dec 19 $'000**	30 Jun 19 $'000
Commercial lending LVR ratio				
Less than 50%	**22,265**	17,366	**53**	43
51-70%	**22,026**	24,108	**32**	91
71-90%	**14,233**	12,910	**29**	46
91-100%	**4,472**	4,003	**301**	90
More than 100%	**7,287**	8,798	**526**	17
Total	**70,283**	67,185	**941**	287

Other financial assets

The Group holds other financial assets at amortised cost with a carrying amount of $432.641m (Jun 2019: $396.751m) and at FVTOCI with a carrying amount of $1.404m (Jun 19: $1.451m). These are high quality investments and as per policy the Group only invests in certain types of financial assets which are investment grade and of lower credit risk.

4.3 Fair value measurements

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

4.3.1 Financial instruments measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped by fair value hierarchy level.

Consolidated entity 31 December 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets mandatorily measured at FVTPL				
Investments in Managed investment schemes	-	-	67,268	67,268
Derivative assets	-	364	-	364
Investments at FVTOCI (debt and equity instruments)				
External RMBS investments	-	486	-	486
Equity instruments designated at FVTOCI				
Unlisted shares	-	-	918	918
Total assets	-	850	68,186	69,036
Financial liabilities mandatorily measured at FVTPL				
Derivative liabilities	-	1,352	-	1,352
Total liabilities	-	1,352	-	1,352

Notes to the condensed consolidated financial statements
31 December 2019
(continued)

4. Financial assets, liabilities and related financial risk management (continued)

4.3 Fair value measurements (continued)

Consolidated entity 30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets mandatorily measured at FVTPL				
Investments in Managed investment schemes	-	-	44,569	44,569
Derivative assets	-	589	-	589
Investment at FVTOCI (debt and equity instruments)				
External RMBS investments	-	533	-	533
Equity instruments designated at FVTOCI				
Unlisted shares	-	-	918	918
Total assets	-	1,122	45,487	46,609
Financial liabilities mandatorily measured at FVTPL				
Derivative liabilities	-	1,332	-	1,332
Total liabilities	-	1,332	-	1,332

There have been no transfers between the level 1 and level 2 categories of financial instruments.

4.3.2 Financial instruments not measured at fair value

The following table provides an analysis of financial assets and liabilities that are not measured at fair value.

Consolidated entity 31 December 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total fair value $'000**	**Total carrying amount $'000**
Financial assets					
Cash and cash equivalents	**108,411**	**-**	**-**	**108,411**	**108,411**
Due from other financial institutions	**20,994**	**-**	**-**	**20,994**	**20,994**
Other financial assets	**324,563**	**-**	**-**	**324,563**	**303,236**
Loans and advances	**-**	**-**	**3,155,554**	**3,155,554**	**3,142,973**
Total financial assets	**453,968**	**-**	**3,155,554**	**3,609,522**	**3,575,614**
Financial liabilities					
Deposits and short-term borrowings	**-**	**2,963,333**	**-**	**2,963,333**	**2,972,833**
Payables and other liabilities	**-**	**-**	**21,110**	**21,110**	**21,110**
Loans under management	**-**	**458,708**	**-**	**458,708**	**460,549**
Subordinated capital notes	**-**	**28,000**	**-**	**28,000**	**28,000**
Total financial liabilities	**-**	**3,450,041**	**21,110**	**3,471,151**	**3,482,492**

4. Financial assets, liabilities and related financial risk management (continued)

4.3 Fair value measurements (continued)

Consolidated entity **30 June 2019**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000	Total carrying amount $'000
Financial assets					
Cash and cash equivalents	104,389	-	-	104,389	104,389
Due from other financial institutions	20,994	-	-	20,994	20,994
Other financial assets	271,368	-	-	271,368	271,368
Loans and advances	-	-	3,093,625	3,093,625	3,086,158
Total financial assets	396,751	-	3,093,625	3,490,376	3,482,909
Financial liabilities					
Deposits and short-term borrowings	-	2,794,520	-	2,794,520	2,802,605
Payables and other liabilities	-	-	37,761	37,761	37,761
Loans under management	-	490,412	-	490,412	490,412
Subordinated capital notes	-	28,000	-	28,000	28,000
Total financial liabilities	-	3,312,932	37,761	3,350,693	3,358,778

4.3.3 Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

Consolidated entity	**FVTOCI Unlisted shares**		**FVTPL Managed investment schemes**	
	31 Dec 2019 $'000	30 Jun 2019 $'000	**31 Dec 2019 $'000**	30 Jun 2019 $'000
Balance at beginning of year	**918**	793	**44,569**	25,886
Total gains or losses:				
- in profit or loss	**-**	-	**1,916**	2,320
- in other comprehensive income	**-**	-	-	-
Purchases	**-**	125	**24,750**	27,150
Disposals	**-**	-	**(3,967)**	(10,787)
Balance at end of period	**918**	918	**67,268**	44,569

5. Other financial information

5.1 Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting date.

5.2 Events subsequent to balance date

There have been no other events subsequent to balance date of a nature which require reporting.

Directors' declaration
31 December 2019

In accordance with a resolution of the Directors of Auswide Bank Ltd, we declare that:
In the opinion of the Directors:

(a) the interim financial statements comprising of the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001*, and:

   (i) give a true and fair view of the financial position of the Group as at 31 December 2019 and of the performance for the half-year on that date; and

   (ii) comply with Australian Accounting Standards (including the Australia Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial report complies with International Financial Reporting Standards (IFRS) as disclosed in Section 1; and

(c) there are reasonable grounds to believe that Auswide Bank Ltd will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the *Corporations Act 2001*, and is signed for and on behalf of the Directors by:

John Humphrey
Director

Brisbane
18 February 2020

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Independent Auditor's Review Report to the Members of Auswide Bank Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Auswide Bank Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year, as set out on pages 5 to 29.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Auswide Bank Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Auswide Bank Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Auswide Bank Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001.*

DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Brisbane, 18 February 2020