Name of Entity	Auswide Bank Ltd
ABN	40 087 652 060
Year Ended	31 December 2021
Previous Corresponding Reporting Period	6 months to 31 December 2020

AUSWIDE BANK

APPENDIX 4D
INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR 31 DECEMBER 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

INCOME FROM OPERATIONS

10.61%

Income from operations up 10.61% to $48.089m

PROFIT FROM ORDINARY ACTIVITIES

19.44%

Profit from ordinary activities after tax attributable to shareholders up 19.44% to $13.702m

NET PROFIT

19.44%

Net profit for the period attributable to shareholders up 19.44% to $13.702m

Dividends (distributions) – Ordinary shares	Amount per security	Franked amount per security
Final dividend (30 June 2021) - paid 24 September 2021	21.0c	21.0c
Interim dividend (31 December 2021) - to be paid 18 March 2022	21.0c	21.0c
The record date for determining entitlements to the dividends	**4 March 2022**	

Amount per security	Amount per security	Franked amount per security	Amount per security of foreign source dividend
INTERIM DIVIDEND			
Current year	21.0c	21.0c	Nil
Previous year	19.0c	19.0c	Nil

Interim dividends on all securities	Current period A$'000	Previous corresponding period A$'000
Interim dividend payable **18 March 2022** - previous period paid 19 March 2021	9,096	8,116
Total	**9,096**	**8,116**

DIVIDEND REINVESTMENT PLAN

The Auswide Bank dividend reinvestment plan is operational for this interim dividend for the half year ended 31 December 2021.

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 interim 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 7 March 2022.

Net Tangible Assets Per Security	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	$5.12	$4.73

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

During the financial period the holding company Auswide Bank Limited gained control of the following entity: Nil

SUBSEQUENT EVENTS

The remainder of the information requiring disclosure to comply with Listing Rule 4.3A is contained in the attached copy of the Financial Statements and comments on performance of the Company included in the Media and ASX release dated 25th February 2022.

Further information regarding Auswide Bank Limited and its business activities can be obtained by visiting the Company's website at www.auswidebank.com.au.

Yours faithfully,

Bill Schafer

Bill Schafer
Company Secretary

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 2021 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 2021.

The Directors present this report on the company's consolidated accounts for the six-month period ended 31 December 2021, 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:

> **Ms Sandra C Birkensleigh BCom, CA, GAICD, ICCP (Fellow)** Independent non-executive Director since February 2015 / Chair since 1 January 2021

> **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 Jacqueline Korhonen BSc, BEng (Hon), GAICD** Independent non-executive Director since April 2021

> **Mr Grant B Murdoch MCom(Hons) FAICD, FCA** Independent non-executive Director since January 2021

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 Queensland, Sydney and Melbourne. The majority of the company's loan book is comprised of residential mortgage loans.

Auswide Bank also offers personal loans, credit cards and business banking products and services although these portfolios are not 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 2021 was $13.702m, representing a 19.44% increase from $11.472m at the end of the prior corresponding period.

Other non-interest income includes a one-off credit of $1.281m received as a result of tax credits which the Bank previously underclaimed. A corresponding debit of $384k for professional fees incurred has been included in Other expenses. After adjusting for these non-recurring items Auswide's underlying NPAT for the half-year ended 31 December 2021 was $13.074m, an increase of 13.97% on the $11.472m NPAT reported in the prior corresponding period.

Net interest revenue for the half-year increased from $38.262m to $41.313m, up 7.97% compared to the prior corresponding period.

The company's Net Interest Margin (NIM) for the half-year ended 31 December 2021 was 1.99% compared to the year ended 30 June 2021 of 2.00%. The strong NIM was driven by growth in customer deposits and proactive management of funding lines in the face of competitive home loan pricing.

Financial position

Auswide Bank's loan book (including Investments in Managed Investment Schemes reported in Other financial assets in the Statement of Financial Position) recorded growth on an annualised basis of 8.68% across the period, increasing from $3.592 billion at 30 June 2021 to $3.748 billion at 31 December 2021.

Home loan settlements during the half-year totalled $561.456m, an increase of 6.54% compared to $527.006m at the end of the prior corresponding period.

Arrears continued to trend downwards, with total arrears past due 30 days decreasing from $8.980m at 30 June 2021 to $7.389m at 31 December 2021. Arrears past due 30 days represented 0.20% of total loans and advances at 31 December 2021 compared to 0.25% at 30 June 2021.

Retail deposits recorded annualised growth of 7.90%, increasing from $2.933 billion at 30 June 2021 to $3.049 billion at 31 December 2021. 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

The consolidated capital position of Auswide Bank remains strong at 31 December 2021 with a capital adequacy ratio of 13.20% and a tier 1 capital ratio of 10.84%. The capital ratio was down marginally from 13.31% at 30 June 2021. This is due to an increase in the risk weighted assets as a result of growth in the loan book which has been supported by tier 1 capital flowing from retained earnings. The capital ratio remains comfortably in excess of the Board's target.

Outlook and strategy

In accordance with Auswide's strategic targets, loan book growth has remained above system for the first half of FY22 with annualised growth of 8.68%. The annualised growth (including Investments in Managed Investment Schemes) compared to system growth (per RBA Financial Aggregates Dec 21) of 7.2%. The growth in the loan book has been supported by significant flows through the broker channel which continues to be a focus of the bank's strategic initiatives. In addition, Auswide's Private Bank continues to attract new customers to the service driven model with an increase of $72.409m in the Private Bank loan book to $291.919m at 31 December 2021. Approvals and settlements in the Private Bank exceeded $100m across the half year.

Funding from customer deposits has continued to grow, now representing 75.0% of the total funding mix. Branch deposit growth of $138.523m (13.02% annualised) since June 2021 has been a highlight. Auswide Bank has continued to build partnerships to achieve continued growth in customer deposits and funding of the loan book.

There was no change to the RBA cash rate in the six months to December 2021 remaining at 0.10% which has 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.

The bank has continued to implement strategic and digital initiatives across the first half of the financial year, bringing efficiencies and improved customer experience. A series of robotic processes has been successfully implemented in the operations and loan processing functions of the bank. Further automation processes are planned to enhance the timing and operational efficiencies being realised. Initiatives to further improve the third party lending are also being introduced to enhance the experience for the broker relationships and turnaround times for loan customers. Improvements in broker engagement, Verification of Identity (VOI) services, auto-decisioning and internal dashboards are in progress within the bank with delivery expected in the second half of the financial year.

Auswide Bank has established a leadership group to develop an ESG management framework and management committee. This committee will work to monitor and manage the organisation's ESG framework with the goal of establishing targets and measuring outcomes in line with our business objectives and ESG responsibilities.

The Bank continued to support customers during the COVID-19 pandemic by offering repayment deferrals and interest only conditions during the period of uncertainty and financial stress. While uncertainty remains the Board is satisfied that the provisions set aside adequately cover risks arising from current and future doubtful debts.

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 and fintech partnering.

Dividend

A final dividend in respect of the year ended 30 June 2021 of 21.0 cents per ordinary share (fully franked) was paid on 24 September 2021.

On 24 February 2022 the Directors of Auswide Bank Ltd declared an interim dividend of 21.0 cents per share (fully franked) in respect of the December 2021 half-year, payable on 18 March 2022, an increase of 2.0 cents per share on the prior comparative period. The amount estimated to be paid in relation to this dividend is $9.096m. The dividend has not been provided for in the 31 December 2021 half-year financial statements.

The Board has resolved to maintain the Dividend Reinvestment Plan for the interim dividend payable on 18 March 2022.

Going concern

The Board of Directors of Auswide Bank has assessed that the going concern basis of accounting remains appropriate.

The strength of the financial results across the first half of FY22 reflect robust operations.

The first half FY22 NPAT was $13.702m, up 19.44% on the $11.472m reported for the first half of FY21.

There are a significant number of indicators to support confidence in operations for the remainder of FY22, including improving financial metrics with underlying return on equity at 10.06%.

Liquidity also remains strong, with a number of various facilities available to be utilised if required. COVID-19 has not had an adverse impact on Auswide's ability to perform its banking activities, with branches remaining open and lending business continuing with no significant issues experienced.

Despite the economic and social impact of COVID-19, Auswide has performed well and expects that this will continue; the Board of Directors has therefore been able to assess that Auswide Bank remains a going concern.

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. However, the Board of Directors remains vigilant of any unforeseen risks which may arise as a result of rapidly evolving situations arising from the economic impact of COVID-19.

The Auditor's Independence Declaration for the half year ended 31 December 2021 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

Sandra Birkensleigh
Director

Brisbane | 24 February 2022

Deloitte.

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

24 February 2022

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 2021, 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 review; and

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Gareth Bird
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Notes	Consolidated 6 months to 31 Dec 21 $'000	6 months to 31 Dec 20 $'000
Interest revenue	2.1	**53,381**	57,043
Interest expense	2.1	**(12,068)**	(18,781)
Net interest revenue		**41,313**	38,262
Other non-interest income		**6,776**	5,214
Total operating income		**48,089**	43,476
Other expenses		**(28,831)**	(26,293)
Expected credit loss on financial assets at amortised cost	4.2.6	**400**	(699)
Profit before income tax expense		**19,658**	16,484
Income tax expense		**(5,956)**	(5,012)
Profit for the period		**13,702**	11,472
Profit for the period attributable to:			
Owners of the Company		**13,702**	11,472
Earnings per share			
Basic (cents per share)		**31.85**	26.97
Diluted (cents per share)		**31.85**	26.97

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Notes	Consolidated 6 months to 31 Dec 21 $'000	6 months to 31 Dec 20 $'000
Profit for the period		**13,702**	11,472
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit or loss:			
Cash flow hedges:			
Fair Value Gain/(loss) arising on hedging instruments during the period		**6,872**	(1,351)
Less: cumulative (gain)/loss arising on hedging instruments reclassified to profit or loss		**784**	1,340
Income tax relating to items that may be reclassified subsequently to profit or loss		**(2,297)**	3
Total cash flow hedge		**5,359**	(8)
FVTOCI investments:			
Revaluation of FVTOCI investments to fair value		**-**	(144)
Income tax relating to this item		**-**	43
Total FVTOCI investments		-	(101)
Total comprehensive income for the period		**19,061**	11,363
Total comprehensive income attributable to:			
Other comprehensive income		**19,061**	11,363

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	Consolidated as at 31 Dec 21 $'000	as at 30 Jun 21 $'000
ASSETS			
Cash and cash equivalents		**170,622**	112,627
Due from other financial institutions		**12,790**	12,790
Other financial assets		**378,931**	398,812
Loans and advances		**3,718,337**	3,555,043
Other investments		**1,374**	1,396
Property, plant and equipment	3.1	**22,183**	21,315
Other intangible assets		**1,561**	1,483
Deferred tax assets - net	5.1	**-**	2,834
Other assets		**5,286**	3,122
Goodwill		**46,363**	46,363
Total assets		**4,357,447**	4,155,785
LIABILITIES			
Deposits and short term borrowings		**3,567,754**	3,349,289
Other borrowings		**150,806**	150,806
Payables and other liabilities		**16,013**	18,654
Loans under management		**306,251**	333,714
Current tax liabilities		**1,560**	1,230
Deferred tax liabilities - net		**132**	-
Provisions		**3,665**	3,555
Subordinated capital notes		**42,000**	42,000
Total liabilities		**4,088,181**	3,899,248
Net assets		**269,266**	256,537
EQUITY			
Contributed equity	3.2	**197,862**	195,218
Reserves		**20,895**	15,496
Retained profits		**50,509**	45,823
Total equity		**269,266**	256,537

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

AUSWIDE BANK

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Consolidated entity	Share capital ordinary $'000	Retained profits $'000	Asset revaluation reserve $'000	General reserve $'000	Statutory reserve $'000	Doubtful debts 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 2020	193,261	34,346	4,357	5,834	2,676	2,388	101	(1,343)	418	242,038
Restated total equity at the beginning of the financial period	193,261	34,346	4,357	5,834	2,676	2,388	101	(1,343)	418	242,038
Total comprehensive income for the year:										
Profit attributable to owners of parent company	-	11,472	-	-	-	-	-	-	-	11,472
Share-based payments expensed during the year	-	-	-	-	-	-	-	-	83	83
Share-based payments vested during the year	-	-	-	-	-	-	-	-	(140)	(140)
Increase (decrease) due to maturity of external RMBS investments	-	-	-	-	-	-	(144)	-	-	(144)
Deferred tax liability adjustment on maturity of external RMBS investments	-	-	-	-	-	-	43	-	-	43
Increase (decrease) due to revaluation of cash flow hedge to fair value	-	-	-	-	-	-	-	(11)	-	(11)
Deferred tax liability adjustment on revaluation of cash flow hedge	-	-	-	-	-	-	-	3	-	3
Subtotal	-	11,472	-	-	-	-	(101)	(8)	(57)	11,306
Issue of share capital for staff share plan	652	-	-	-	-	-	-	-	-	652
Issue of share capital for dividend reinvestment plan	662	-	-	-	-	-	-	-	-	662
Dividends provided for or paid	-	(4,560)	-	-	-	-	-	-	-	(4,560)
Gain/ (loss) in share capital due to employee incentive scheme	(25)	-	-	-	-	-	-	-	-	(25)
Movement in treasury shares	(204)	-	-	-	-	-	-	-	-	(204)
Subtotal	1,085	(4,560)	-	-	-	-	-	-	-	(3,475)
Balance at 31 December 2020	194,346	41,258	4,357	5,834	2,676	2,388	-	(1,351)	361	249,869

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 ENDED 31 DECEMBER 2021

Consolidated entity	Share capital ordinary $'000	Retained profits $'000	Asset revaluation reserve $'000	General reserve $'000	Statutory reserve $'000	Doubtful debts 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 2021	195,218	45,823	5,944	5,834	2,676	2,388	-	(1,828)	482	256,537
Total comprehensive income for the year:										
Profit attributable to owners of parent company	-	13,702	-	-	-	-	-	-	-	13,702
Share-based payments expensed during the year	-	-	-	-	-	-	-	-	163	163
Share-based payments vested during the year	-	-	-	-	-	-	-	-	(123)	(123)
Increase (decrease) due to revaluation of cash flow hedge to fair value	-	-	-	-	-	-	-	7,656	-	7,656
Deferred tax liability adjustment on revaluation of cash flow hedge	-	-	-	-	-	-	-	(2,297)	-	(2,297)
Subtotal	-	13,702	-	-	-	-	-	5,359	40	19,101
Issue of share capital for dividend reinvestment plan	548	-	-	-	-	-	-	-	-	548
Dividends provided for or paid	1,796	(9,016)	-	-	-	-	-	-	-	(7,220)
Movement in treasury shares	255	-	-	-	-	-	-	-	-	255
Gain/ (loss) in share capital due to employee incentive scheme	45	-	-	-	-	-	-	-	-	45
Subtotal	2,644	(9,016)	-	-	-	-	-	-	-	(6,372)
Balance at 31 December 2021	197,862	50,509	5,944	5,834	2,676	2,388	-	3,531	522	269,266

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 ENDED 31 DECEMBER 2021

	Consolidated 6 months to 31 Dec 21 $'000	6 months to 31 Dec 20 $'000
Cash flows from operating activities		
Interest received	**53,038**	56,553
Other non-interest income received	**6,240**	5,470
Interest paid	**(13,210)**	(19,724)
Net movement in loans and advances	**(162,010)**	(233,157)
Net movement in deposits and short term borrowings	**218,464**	282,620
Income tax paid	**(4,958)**	(3,549)
Cash paid to suppliers and employees (inclusive of goods and services tax)	**(30,364)**	(24,157)
Net cash used in operating activities	**67,200**	64,056
Cash flows from investing activities		
Net movement in investment securities	**19,881**	30,747
Net movement in other investments	**23**	23
Payments for non current assets	**(1,355)**	(959)
Net cash used in investing activities	**18,549**	29,811
Cash flows from financing activities		
Net movement in amounts due to other financial institutions and other liabilities	**(20,529)**	(62,337)
Principal payment of lease liabilities	**(893)**	(863)
Net movement in subordinated capital notes	**-**	12,000
Proceeds from share issue	**548**	652
Dividends paid	**(7,220)**	(3,898)
Treasury shares	**340**	(286)
Net cash used in financing activities	**(27,754)**	(54,732)
Net movement in cash and cash equivalents	**57,995**	39,135
Cash and cash equivalents at the beginning of the financial year	**112,627**	106,478
Cash and cash equivalents at the end of the period	**170,622**	145,613

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

1. General information

1.1 Statement of compliance

The half year financial report for the period ended 31 December 2021 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 2021 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 2021.

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.

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

1.4 Comparative figures

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

1.5 Going concern

The financial statements are prepared on a going concern basis. The group has net assets of $269.266m, recorded positive operating and total cash flows and has a liquidity risk management policy, as disclosed in section 4.4 of the financial statements for year ended 30 June 2021. As a consequence of this, the Directors are of the view that the group is well placed to manage its business risks successfully despite the current economic climate. Accordingly, they believe the going concern basis is appropriate.

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

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.

Consolidated entity	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue December 2021			
Deposits with other financial institutions	**89,149**	**13**	**0.03**
Investment securities	**333,230**	**727**	**0.44**
Loans and advances	**3,665,991**	**51,434**	**2.81**
Other	**72,398**	**1,207**	**3.33**
	4,160,768	**53,381**	**2.57**
Interest expense December 2021			
Deposits from other financial institutions	**325,657**	**3,065**	**1.88**
Customer deposits	**3,147,735**	**7,085**	**0.45**
Negotiable certificates of deposit (NCDs)	**284,563**	**220**	**0.15**
Floating rate notes (FRNs)	**166,429**	**730**	**0.88**
RBA term funding facility	**150,806**	**144**	**0.19**
Subordinated capital notes	**42,000**	**702**	**3.34**
Lease liabilities	**5,196**	**122**	**4.71**
	4,122,386	**12,068**	**0.59**
Net interest revenue December 2021		**41,313**	

Consolidated entity	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue December 2020			
Deposits with other financial institutions	79,043	43	0.11
Investment securities	282,439	772	0.55
Loans and advances	3,353,011	54,085	3.23
Other	85,853	2,143	4.99
	3,800,346	57,043	3.00
Interest expense December 2020			
Deposits from other financial institutions	386,605	3,879	2.01
Customer deposits	2,801,270	12,880	0.92
Negotiable certificates of deposit (NCDs)	261,364	386	0.30
Floating rate notes (FRNs)	125,857	661	1.05
RBA term funding facility	84,067	103	0.24
Lease liabilities	6,594	156	4.73
Subordinated capital notes	34,857	716	4.11
	3,700,614	18,781	1.02
Net interest revenue December 2020		38,262	

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

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 2021			
Interest revenue	**4,160,768**	**53,381**	**2.57**
Interest expense	**4,122,386**	**12,068**	**0.59**
Net interest spread			**1.98**
Benefit of net interest-free assets, liabilities and equity			**0.01**
Net interest margin - on average interest earning assets	**4,160,768**	**41,313**	**1.99**

Interest margin & interest spread December 2020			
Interest revenue	3,800,346	57,043	3.00
Interest expense	3,700,614	18,781	1.02
Net interest spread			1.98
Benefit of net interest-free assets, liabilities and equity			0.03
Net interest margin - on average interest earning assets	3,800,346	38,262	2.01

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.

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

3. Investments and financing

3.1 Property and equipment

Consolidated entity	Notes	31 Dec 21 $'000	30 Jun 21 $'000
Property and equipment owned		**17,095**	16,787
Right-of-use assets	3.1.1	**5,086**	4,528
		22,181	21,315

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 2021	**4,436**	**92**	**4,528**
Additions during the year	**1,363**	**-**	**1,363**
Modification to lease terms	**-**	**19**	**19**
Variable lease payment adjustments	**(15)**	**(2)**	**(17)**
	5,784	**109**	**5,893**
Accumulated depreciation			
Depreciation charge for the year	**(761)**	**(46)**	**(807)**
Balance as at 31 Dec 21	**5,023**	**63**	**5,086**

Consolidated entity	Property $'000	Vehicles $'000	Total $'000
Right-of-use assets at cost			
Balance as at 1 July 2020	6,088	171	6,259
Modification to lease terms	(51)	17	(34)
Variable lease payment adjustments	(92)	-	(92)
	5,945	188	6,133
Accumulated depreciation			
Depreciation charge for the year	(1,509)	(96)	(1,605)
Right-of-use assets as 30 Jun 21	4,436	92	4,528

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

3. Investments and financing (continued)

3.1 Property and equipment (continued)

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 21 $'000	30 Jun 21 $'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	**1,840**	1,653
One to five years	**4,410**	4,132
Total undiscounted lease liabilities	**6,250**	5,785
Lease liabilities included in statement of financial position		
Current	**1,801**	1,619
Non-current	**3,979**	3,647
	5,780	5,266
Amounts recognised in statement of comprehensive income		
Interest on lease liabilities	**123**	290
	123	290
Amounts recognised in statement of cash flows		
Total cash outflow for leases	**1,016**	1,828
	1,016	1,828

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

3. Investments and financing (continued)

3.2 Contributed equity

Consolidated entity	31 Dec 21 Shares No.	31 Dec 21 $'000	30 Jun 21 Shares No.	30 Jun 21 $'000
Fully paid ordinary shares				
Balance at beginning of year June 2021	**42,793,034**	**195,218**	42,409,838	193,261
Issued during the year				
Dividend reinvestment plan	**289,593**	**1,796**	354,012	2,036
Staff share plan	**93,345**	**548**	144,641	652
Gain/ (loss) in share capital on disposal of treasury shares	**-**	**45**	-	(25)
Treasury shares				
Movement in treasury shares	**50,845**	**255**	(115,457)	(706)
Balance at end of period - 31 December 2021	**43,226,817**	**197,862**	42,793,034	195,218

As at the reporting date Auswide Performance Rights Pty Ltd holds 89,490 shares, $582,405 (Jun 21: 140,335 shares, $837,303) 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 2021 of 21.0 cents per ordinary share ($9.016m) was paid on 24 September 2021.

The Board declared a fully franked dividend of 21.0 cents per ordinary share ($9.096m), for the six months to 31 December 2021, payable on 18 March 2022. 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 maintain the Dividend Reinvestment Plan (DRP) for the interim dividend for the 2021/22 financial year.

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

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 21 $'000**	30 Jun 21 $'000
Total risk weighted assets	**1,878,808**	1,792,514
Capital base	**248,080**	238,662
Risk-based capital ratio	**13.20%**	13.31%

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 as 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 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 17 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.

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

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.

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.

4.2 Credit risk management (continued)

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.

The Group has provision for $1,000,000 to account for macroeconomic and potential impacts of COVID-19 on the lending portfolio taking into account latest economic forecasts and uncertainty in the economy as well as repayment deferral arrangements that remain due to COVID-19.

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.

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

4.2 Credit risk management (continued)

Consolidated entity Class of financial instrument	Financial statement line	**Maximum exposure to credit risk 31 Dec 21 $'000**	**Expected credit loss 31 Dec 21 $'000**	Maximum exposure to credit risk 30 Jun 21 $'000	Expected credit loss 30 Jun 21 $'000
Cash and cash equivalents	Cash and cash equivalents	**170,622**	**-**	112,627	-
Due from other financial institutions	Due from other financial institutions	**12,790**	**-**	12,790	-
Certificates of deposit	Other financial assets	**326,002**	**-**	341,025	-
Notes – securitisation program and other	Other financial assets	**17,888**	**-**	20,126	-
Interest receivable	Other financial assets	**200**	**-**	188	-
Loans and advances	Loans and advances	**3,997,733**	**5,171**	3,822,764	5,999
Total		**4,525,235**	**5,171**	4,309,520	5,999
Off-balance sheet exposures					
Loans approved not advanced (LANA)		**165,380**	**102**	159,053	140
Bank guarantees		**1,243**	**-**	1,763	-
Total		**166,623**	**102**	160,816	140

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 2021.

4.2.3 Sensitivity analysis and forward looking information

The following table shows the reported ECL based on the probability weighting of scenarios, with the sensitivity range reflecting the ECL impacts assuming a 100% weighting is applied to the base case scenario, the downside scenario or the severe downside scenario (with all other assumptions held constant). As at 31 December 2021, the probability weighted ECL is a blended outcome taking into consideration the respective scenarios.

The base case scenario incorporates a reasonable level of portfolio stress driven by forecast macro-economic factors, including potential impacts of the COVID-19 pandemic, additional funding opportunities with the RBA and the government's commitment to supporting jobs, incomes and businesses as Australia responds to COVID-19.

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

4.2 Credit risk management (continued)

Scenario	ECL	Macroeconomic forecast
	Dec 21 $m	
Reported ECL	5,273	
100% base case	5,263	Includes a reasonable level of portfolio stress. Unemployment figures have largely remained stable as expected; however some Incremental improvements have been observed. GDP has decreased compared to previous half year, continued recovery is expected to be slow.
100% downside	5,263	Assumes a moderate but reasonable level of portfolio stress.
100% severe downside	5,343	Assumes a more severe level of portfolio stress where unexpected pandemic-driven economic factors may adversely impact anticipated recovery.

Assumptions

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

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.

	Maximum exposure to credit risk				Expected credit loss			
Consolidated entity Balance at 31 December 2021	**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	170,622	-	-	170,622	-	-	-	-
Due from other financial institutions	12,790	-	-	12,790	-	-	-	-
Certificate of deposit	326,002	-	-	326,002	-	-	-	-
Notes – securitisation program and other	17,888	-	-	17,888	-	-	-	-
Total	527,302	-	-	527,302	-	-	-	-
Loans and advances*								
- Mortgage lending	3,888,722	5,714	6,788	3,901,224	3,303	144	903	4,350
- Personal lending	30,485	15	10	30,510	144	4	10	158
- Commercial lending	64,657	-	1,342	65,999	54	-	609	663
Total	3,983,864	5,729	8,140	3,997,733	3,501	148	1,522	5,171
Off-balance sheet exposures								
Loans approved not advanced (LANA)	165,380	-	-	165,380	102	-	-	102
Bank guarantees	1,243	-	-	1,243	-	-	-	-
Total	166,623	-	-	166,623	102	-	-	102

* Maximum exposure to credit risk includes undrawn credit limits and uses scheduled balances. Carrying amount as at 31 December 2021 is $3.711b (Jun 21 $3.549b).

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 2021	**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	112,627	-	-	112,627	-	-	-	-
Due from other financial institutions	12,790	-	-	12,790	-	-	-	-
Certificate of deposit	341,025	-	-	341,025	-	-	-	-
Notes – securitisation program and other	20,126	-	-	20,126	-	-	-	-
Total	486,568	-	-	486,568	-	-	-	-
Loans and advances*								
- Mortgage lending	3,708,130	6,868	8,862	3,723,860	2,465	289	2,342	5,096
- Personal lending	28,636	43	19	28,698	172	12	15	199
- Commercial lending	68,896	-	1,310	70,206	98	-	606	704
Total	3,805,662	6,911	10,191	3,822,764	2,735	301	2,963	5,999
Off-balance sheet exposures								
Loans approved not advanced (LANA)	159,053	-	-	159,053	140	-	-	140
Bank guarantees	1,763	-	-	1,763	-	-	-	-
Total	160,816	-	-	160,816	140	-	-	140

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

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

4.2 Credit risk management (continued)

4.2.4 Movement in gross carrying amounts

The following tables show movements in gross carrying amounts of financial assets subject to impairment requirements.

Consolidated entity 31 December 2021	**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	**3,532,324**	**6,907**	**10,234**	**3,549,465**
Transfer to stage 1	**3,985**	**(2,880)**	**(1,105)**	**-**
Transfer to stage 2	**(3,436)**	**3,954**	**(518)**	**-**
Transfer to stage 3	**(2,064)**	**(542)**	**2,606**	**-**
Financial assets that have been derecognised during the period including write-offs	**(285,529)**	**(1,259)**	**(3,434)**	**(290,222)**
New financial assets originated	**494,247**	**-**	**-**	**494,247**
Adjustments for repayments and interest	**(42,625)**	**(454)**	**411**	**(42,668)**
Net carrying amount as at 31 December 2021	**3,696,902**	**5,726**	**8,194**	**3,710,822**

Consolidated entity 30 June 2021	**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	3,181,902	7,520	13,473	3,202,895
Transfer to stage 1	6,958	(4,018)	(2,940)	-
Transfer to stage 2	(4,882)	5,382	(500)	-
Transfer to stage 3	(4,091)	(892)	4,983	-
Financial assets that have been derecognised during the period including write-offs	(483,268)	(970)	(4,422)	(488,660)
New financial assets originated	963,367	-	-	963,367
Adjustments for repayments and interest	(127,662)	(115)	(360)	(128,137)
Net carrying amount as at 30 June 2021	3,532,324	6,907	10,234	3,549,465

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

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

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

4.2 Credit risk management (continued)

4.2.5 Movement in expected credit losses

The following tables show movements in expected credit loss for financial assets subject to impairment requirements.

Consolidated entity 31 December 2021	**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	**2,735**	**301**	**2,963**	**5,999**
Transfer to stage 1	**635**	**(129)**	**(506)**	**-**
Transfer to stage 2	**(22)**	**95**	**(73)**	**-**
Transfer to stage 3	**-**	**(12)**	**12**	**-**
Financial assets derecognised during the period including write-offs	**(463)**	**(133)**	**(1,398)**	**(1,994)**
New financial assets originated	**3,502**	**147**	**1,521**	**5,170**
Changes in model risk assessment	**(2,783)**	**(120)**	**(999)**	**(3,902)**
Loss allowance as at 31 December 2021	**3,604**	**149**	**1,520**	**5,273**

Consolidated entity 30 June 2021	**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	3,062	263	3,267	6,592
Transfer to stage 1	628	(118)	(510)	-
Transfer to stage 2	(10)	47	(37)	-
Transfer to stage 3	(2)	(40)	42	-
Financial assets derecognised during the period including write-offs	(599)	(90)	(938)	(1,627)
New financial assets originated	637	-	-	637
Changes in model risk assessment	(981)	239	1,139	397
Loss allowance as at 30 June 2021	2,735	301	2,963	5,999

** 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)

4.2.6 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.

Consolidated entity 31 December 2021	**Loans and advances $'000**	**LANA $'000**	**Total $'000**
Expected credit loss			
Loss allowance at beginning of year	**5,999**	**140**	**6,139**
Loss allowance recognised/ (reversed) during the year	**(362)**	**(38)**	**(400)**
Bad debts written off	**(466)**	**-**	**(466)**
Loss allowance as at 31 December 2021	**5,171**	**102**	**5,273**

Consolidated entity 30 June 2021	Loans and advances $'000	LANA $'000	Total $'000
Expected credit loss			
Loss allowance at beginning of year	6,592	197	6,789
Loss allowance recognised/ (reversed) during the year	646	(57)	589
Bad debts written off	(1,239)	-	(1,239)
Loss allowance as at 30 June 2021	5,999	140	6,139

4.2.7 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.

Consolidated entity

Loans and advances at amortised cost*	**31 Dec 21 $'000**	30 Jun 21 $'000
Concentration by sector		
Mortgage lending	**3,639,380**	3,469,468
Personal lending	**24,250**	24,271
Commercial lending	**47,192**	55,726
Total	**3,710,822**	3,549,465
Concentration by region		
Queensland	**2,599,437**	2,527,350
New South Wales	**485,959**	445,274
Australian Capital Territory	**57,161**	53,291
Victoria	**386,194**	355,108
South Australia	**34,273**	31,753
Western Australia	**114,344**	100,623
Tasmania	**13,382**	13,494
Northern Territory	**20,072**	22,572
Total	**3,710,822**	3,549,465

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

LANA of $165.380m (Jun 21: $159.053m) 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)

4.2.8 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 $3.180m (Jun 21: $3.668m) determined in accordance with the aforementioned prudential standard.

4.2.9 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 $29.811m at 31 December 2021 (Jun 21: $37.424m). The change in fair value due to credit risk for the MISs designated at FVTPL is a decrease of $0.505m for the period (Jun 21: $1.013m). 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.

4.2.10 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 21 $'000**	30 Jun 21 $'000
30 days and less than 60 days	**3,335**	3,047
60 days and less than 90 days	**541**	735
90 days and less than 182 days	**686**	862
182 days and less than 273 days	**5**	431
365 days and over	**2,822**	3,905
	7,389	8,980

4.2.11 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.

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

4.2 Credit risk management (continued)

4.2.11 Collateral held as security and other credit enhancements

The table below shows the exposures from mortgage loans by ranges of LVR and those generated through the FHLDS (First Home Loan Deposit Scheme). Under the FHLDS, a government guarantee for loan monies above 80% of the value of the property purchased is provided, effectively reducing credit risk exposure.

Consolidated entity	Gross carrying amount **31 Dec 21 $'000**	 30 Jun 21 $'000	Expected credit loss **31 Dec 21 $'000**	 30 Jun 21 $'000
Mortgage lending LVR ratio				
Less than 50%	**488,938**	450,012	**372**	269
51-70%	**981,757**	920,479	**864**	1,096
71-90%	**1,292,830**	1,326,451	**1,427**	1,523
91-100%	**155,813**	195,072	**414**	325
More than 100%	**21,257**	23,595	**834**	1,482
FHLDS	**698,785**	553,859	**439**	401
Total	**3,639,380**	3,469,468	**4,350**	5,096

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.

Consolidated entity	Gross carrying amount **31 Dec 21 $'000**	 30 Jun 21 $'000	Expected credit loss **31 Dec 21 $'000**	 30 Jun 21 $'000
Commercial lending LVR ratio				
Less than 50%	**9,845**	15,212	**21**	35
51-70%	**20,238**	18,117	**19**	33
71-90%	**12,442**	17,018	**11**	24
91-100%	**821**	308	**1**	-
More than 100%	**3,846**	5,071	**611**	612
Total	**47,192**	55,726	**663**	704

Other financial assets

The Group holds other financial assets at amortised cost with a carrying amount of $398.375m (Jun 2021: $486.756m) and at FVTOCI with a carrying amount of $0.918m (Jun 21: $0.918m). 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. Financial assets, liabilities and related financial risk management (continued)

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 2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets mandatorily measured at FVTPL				
Investments in Managed investment schemes	**-**	**-**	**29,604**	**29,604**
Derivative assets	**-**	**5,237**	**-**	**5,237**
Equity instruments designated at FVTOCI				
Unlisted shares	**-**	**-**	**918**	**918**
Total assets	**-**	**5,237**	**30,522**	**35,759**
Financial liabilities mandatorily measured at FVTPL				
Derivative liabilities	**-**	**193**	**-**	**193**
Total liabilities	**-**	**193**	**-**	**193**

Consolidated entity 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets mandatorily measured at FVTPL				
Investments in Managed investment schemes	-	-	37,424	37,424
Derivative assets	-	49	-	49
Investment at FVTOCI (debt and equity instruments)				
Equity instruments designated at FVTOCI				
Unlisted shares	-	-	918	918
Total assets	-	49	38,342	38,391
Financial liabilities mandatorily measured at FVTPL				
Derivative liabilities	-	2,661	-	2,661
Total liabilities	-	2,661	-	2,661

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

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

Consolidated entity	**FVTOCI Unlisted shares**		**FVTPL Managed investment schemes**	
	31 Dec 2021 $'000	30 Jun 2021 $'000	**31 Dec 2021 $'000**	30 Jun 2021 $'000
Balance at beginning of year	**918**	918	**37,424**	60,613
Total gains or losses:				
- in profit or loss	**-**	-	**920**	2,789
- in other comprehensive income	**-**	-	-	-
Purchases	**-**	-	**2,500**	2,000
Disposals	**-**	-	**(11,240)**	(27,978)
Balance at end of period	**918**	918	**29,604**	37,424

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

4.3 Fair value measurements (continued)

4.3.3 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 2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total fair value $'000**	**Total carrying amount $'000**
Financial assets					
Cash and cash equivalents	**170,622**	**-**	**-**	**170,622**	**170,622**
Due from other financial institutions	**12,790**	**-**	**-**	**12,790**	**12,790**
Other financial assets	**344,483**	**-**	**-**	**344,483**	**344,090**
Loans and advances	**-**	**-**	**3,740,585**	**3,740,585**	**3,718,337**
Total financial assets	**527,895**	**-**	**3,740,585**	**4,268,480**	**4,245,839**
Financial liabilities					
Deposits and short-term borrowings	**-**	**3,556,353**	**-**	**3,556,353**	**3,567,754**
Other borrowings	**-**	**147,978**	**-**	**147,978**	**150,806**
Payables and other liabilities	**-**	**-**	**15,820**	**15,820**	**15,820**
Loans under management	**-**	**308,704**	**-**	**308,704**	**306,251**
Subordinated capital notes	**-**	**42,000**	**-**	**42,000**	**42,000**
Total financial liabilities	**-**	**4,055,035**	**15,820**	**4,070,855**	**4,082,631**

Consolidated entity 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000	Total carrying amount $'000
Financial assets					
Cash and cash equivalents	112,627	-	-	112,627	112,627
Due from other financial institutions	12,790	-	-	12,790	12,790
Other financial assets	361,719	-	-	361,719	361,340
Loans and advances	-	-	3,574,708	3,574,708	3,555,043
Total financial assets	487,136	-	3,574,708	4,061,844	4,041,800
Financial liabilities					
Deposits and short-term borrowings	-	3,337,996	-	3,337,996	3,349,289
Other borrowings	-	147,978	-	147,978	150,806
Payables and other liabilities	-	-	15,993	15,993	15,993
Loans under management	-	336,084	-	336,084	333,715
Subordinated capital notes	-	42,000	-	42,000	42,000
Total financial liabilities	-	3,864,058	15,993	3,880,051	3,891,803

5. Other financial information

5.1 Deferred tax assets

	Consolidated as at 31 Dec 21 $'000	as at 30 Jun 21 $'000
Deferred tax assets		
Employee leave provisions	**1,057**	1,032
Expected credit losses	**1,581**	1,841
Property, plant and equipment	**-**	204
Capital losses available	**966**	1,026
Premium on loans purchased	**105**	108
Subordinated capital notes prepaid expenses	**17**	47
Lease liabilities net of right of use assets	**208**	218
Cash flow hedging reserve	**-**	783
Other items	**178**	315
	4,112	5,574

Deferred tax assets in relation to capital losses available have decreased due to management's judgement, given uncertainty in the timing of recognition of future capital gains.

5.2 Contingent liabilities

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

5.3 Events subsequent to balance date

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

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 2021 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:

Sandra Birkensleigh
Director

Brisbane
24 February 2022

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Auswide Bank Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2021, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on page 36.

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 Group's financial position as at 31 December 2021 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.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities 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 Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Group's financial position as at 31 December 2021 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*.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Gareth Bird
Partner
Chartered Accountants
Brisbane, 24 February 2022

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