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AUSWIDE BANK

ASX ANNOUNCEMENT

17 November 2020

Auswide Bank Ltd (ABA) – 2020 Annual General Meeting Address to Shareholders by Chairman, MD and CFO

Auswide Bank Ltd's (ASX: ABA) 2020 Annual General Meeting will be held today at 11.00am Brisbane time. The meeting will be held online at https://web.lumiagm.com/325220196.

The addresses to shareholders from the Chairman, Managing Director and Chief Financial Officer which will be delivered at the Annual General Meeting are attached.

Authorised for lodgment by:

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About Auswide Bank Ltd

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

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

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

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Auswide Bank Limited
Annual General Meeting
17 November 2020

Chairman's Address - John Humphrey

The 2020 financial year has been another successful year for Auswide Bank with a strong performance across our key financial targets.

This reflected ongoing improvement in our customer attraction and service delivery which resulted in outstanding growth in lending and customer deposits as well as profitability.

Significantly, these outcomes were achieved despite a challenging macro environment, with record low interest rates and a second half that was marked by COVID-19.

I am very proud of how we responded to the pandemic, acting quickly to support our customers and staff, and ensure their wellbeing. Our branches remained open with the appropriate safety measures in place and our office staff worked remotely where possible.

We provided COVID-19 assistance packages to all customers who requested support without requiring further evidence and within three days in most cases. At 30 June, almost 9% of our loan book had been placed on assistance, which was slightly lower than the industry average reflecting the concentration of our portfolio in Queensland.

Since then, the majority of these customers have indicated that they have resumed or intend to resume repayments at the end of their referral period. As a result, at 31 October, just 1.5% of our loan book was still receiving assistance and these mainly related to home loans with an LVR of less than 80%.

During the year, we increased our collective provisioning by $2.3m to reflect possible future losses associated with the pandemic. We continue to monitor the situation closely and will provide further support to customers where appropriate.

In FY20, our team remained focused on the delivery of profitable loan book growth and we continued to shift our funding mix to customer deposits, further lowering our cost of funding.

Once again, we realised above system loan book growth which was driven by strong broker flows and our inclusion in the First Home Loan Deposit Scheme from February 2020. Our loan book increased by 4.3% to $3.27 billion which was 1.5 times system, in a highly competitive market.

I am pleased to report that Net Interest Revenue of $70.5 million was 11.6% higher year on year due to our strong loan book growth and a 10 basis point increase in Net Interest Margin to 1.97 per cent. Our Cost to Income ratio was 62.5%, down from 64.5% in FY19 and we are on track to reach our medium-term strategic target of 60%.

Statutory Net Profit After Tax increased by 7.6% to $18.5 million, and NPAT excluding the effects of COVID-19 was 16.9% higher at $20.1m.

The Board declared a fully franked final dividend of 10.75 cents per share which represented a payout ratio of 49.3% of our second half statutory NPAT.

The lower dividend in the context of a higher profit seeks to achieve the balance required to manage our capital prudently and operate within the guidelines announced by APRA in July in response to COVID-19.

The total dividend of 27.75 cents per share represented a payout ratio of 63.4% and a dividend yield of 5.8%.[1] The dividend was paid on 18 September 2020.

Auswide has an impressive track record of delivering consistent growth in its balance sheet and profitability over the past five years. This is due to the strategic focus by the Board and executive team on high quality loan book growth, efficient management of our funding lines and cost discipline.

We continue to manage risk well with prudent loan underwriting standards and sound controls in place that enable us to grow our loan book while maintaining total arrears at historic lows, excluding COVID-19 related assistance. As part of our risk management response to the pandemic, a strategic decision was made at the end of FY20 to pause new business lending.

Today is my final Annual General Meeting, because as foreshadowed at the previous AGM, I am retiring at the end of December.

It has been an honour to be part of and then to lead the Board of Auswide over the past decade. When I became chairman in 2009, we were in the immediate aftermath of the Global Financial Crisis and Auswide, then known as Wide Bay Australia, faced many challenges.

Much has happened since that time. Some of the more significant events included the retirement of founding Managing Director Ron Hancock and recruiting Martin Barrett to take over as Managing Director. Since then, a substantially new management team has been put in place.

As well, the Board has been completely renewed. And my retirement and the appointment of Grant Murdoch as a new director are part of the process of ongoing renewal.

Another significant achievement during that period was that we obtained our banking licence.

[1] Based on Auswide's share price of $4.81 on 27 August 2020, release date of FY20 result

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I am proud of the fact that during the period I have been on the Board, Auswide has conducted its business in a way that did not result in any difficulties of the type that caused other banks to be criticised during the Hayne Royal Commission.

I am also proud that I am leaving at a time when the bank is in a sound financial position as can be seen from the Quarterly update Auswide released recently.

I would like to thank all the other Board members who I served with during my time as a director, and in particular, I would like to thank Ron Hancock and Martin Barrett who have served as Managing Directors. I am conscious that a Board is a team and that any successes achieved in the governance of an entity like Auswide are the result of a team effort.

At Auswide, I have been fortunate to be part of, and then to lead, a good team.

I wish Auswide all the best for the future and I am sure, that with Sandra and the other Board members, it is in good hands going forward.

Chief Financial Officer's Address – Bill Schafer

Good morning, ladies and gentlemen, I am pleased to provide you with a more in-depth overview of what was a very successful year for Auswide Bank.

FY20 Financial Overview

Auswide was proud to announce a 7.6% increase in statutory net profit after tax (NPAT) to $18.5m in FY20, compared to $17.2m in the prior financial year. The NPAT (excluding the effects of COVID-19) was up from $17.2m to $20.1m, an increase of 16.9%.

The positive result for the year was based on profitable growth with the loan book up 4.3% to $3.27 billion. This was achieved in conjunction with a 10 bps increase in the net interest margin, up to 197 bps from 187 bps in FY19. On the basis of loan book growth and the significant increase in NIM, the net interest revenue increased 11.6% to $70.5m.

The Board declared a 10.75c final dividend, accompanied by a Dividend Reinvestment Plan, carefully balancing capital conservation with reward for shareholders who have supported the company. APRA guidance on capital conservation was considered with a payout ratio of 49.3% for H2 of the financial year. The total FY20 payout ratio was 63.4%.

Earnings per share on a statutory basis were up 3.0 cents to 43.8 cents.

The return on Net Tangible Assets was up to 9.7% from 9.1% in the prior year. After adjusting for the effects of COVID-19, the return on Net Tangible Assets for FY20 was 10.6%, which reflects positively on the target of 10% which has been a strategic medium-term objective of the company.

In addition, the management of expenses resulted in a cost to income ratio of 62.5%, down from 64.5% in the prior corresponding period.

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Capital remains strong with a capital adequacy ratio of 12.95% at 30 June 2020, in excess of the board target of 12.5%. The Tier 1 capital ratio was 11.09%.

The capital ratio has reduced from 13.79% at 30 June 2019 as a result of loan book growth and suspension of the FY19 final dividend DRP.

Loan Book

Our loan book achieved growth for the financial year of 4.3% which was 1.5 times system.

Housing loans were up 3.5% to 3.05 billion - over 93% of the total book. Consumer lending, including the peer-to-peer funding, materially increased and totalled $80m at the end of the financial year, up from $62m at June 19.

Business lending, including residential lending to the business customers, was up to $136m for FY20, although a strategic decision has been made to pause new business lending due to COVID-19.

The historically low arrears confirm the bank's commitment to quality lending and risk management with loan arrears at $12.6m at June 2020, representing 39 bps of the total loan book. This figure excludes COVID-19 related assistance in accordance with APRA guidelines. This compares to arrears at a level of 46 bps of total loans at June 2019.

FY21 Trading Update

We are pleased to report and update shareholders on a strong start to the 2021 FY. The NPAT for the 4 months to October 2020 (based on unaudited management accounts) is $7.4m, compared to $5.6m for the corresponding period in FY19. This is an increase of 33.7%.

The total loan book of $3.43 billion is up 7.9% on the $3.18 billion at October 2019. In line with the objective to maintain a stable NIM across the FY, the NIM at the end of October is 199 bps YTD, up marginally from the 197 bps reported for FY19. As a result of the loan book growth and NIM result, the net interest revenue is up 11.7% on the pcp.

Customer deposits continue to be a strong source of funding for the bank, up 15.2% to $2.82 billion YOY.

COVID-19 Support for Customers

At the commencement of the COVID-19 pandemic, Auswide announced support packages providing customers with options to defer payments, reduce repayments or change to interest only.

At 30 June 2020, a total of 1,014 loans were receiving assistance, making up $288m or approximately 9% of loans.

An additional $2.3m was included in the Provision for doubtful debts to account for the effects of COVID-19, including a $1m overlay to provide for uncertainty going forward.

Total provisions of $7.1m and the GRCL of $2.4m have strengthened amounts set aside for coverage of risk and uncertainty to $9.5m.

This represents 65 bps of total credit RWAs and 30 bps of the total loan book.

At 31 October, the value of loans receiving COVID-19 assistance had fallen to $50.4m which represents just 1.5% of the total loan book.

92% of customers have now been contacted and have recommenced payments or will be recommencing payments after the 6-month assistance period concludes.

Due to the remaining economic uncertainty the additional overlay in the provision for doubtful debts has been retained on the balance sheet.

Track record of delivering profitable growth

During a period of unprecedented volatility, Auswide has continued to deliver quality loan book growth and an increased NIM, while carefully managing funding costs and operational expenses. Slide 10 shows that we have been doing this consistently over the past five years, with incremental increases in net profit and earnings per share.

Managing Director's Address – Martin Barrett

Good morning ladies and gentlemen, I would also like to add my welcome to this year's AGM.

As both John and Bill have spoken in detail about FY20, which was an excellent year by any measure, I would like to focus on the current macro environment and our strategic priorities for the year ahead.

Economic and Regulatory Outlook

The regulatory landscape remains complex and we continue to work hard to ensure that we are compliant across the broad range of obligations and expectations.

Over the course of calendar 2020, regulators responded decisively to the pandemic with the cash rate falling twice in March and again in early November to 0.1%. APRA provided ADIs with capital relief on COVID-19 hardships and also put in place a cap on dividend payments to ensure conservation of bank capital during highly uncertain times.

We moved quickly to reduce rates on selected home loans, personal loans and credit cards to support our customers. We also need to remain competitive to attract new customers. Competition is fierce and such unprecedented low interest rates create challenges that we continue to respond to.

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The RBA also put a Term Funding Facility in place for banks which has provided an attractive and very cost-effective funding line for Auswide.

The economic outlook, although uncertain, has continued to improve in regional Queensland with the level of building activity stronger than it has been for some time. More broadly, we are yet to see a material impact on housing markets and prices in Queensland and NSW where 88% of our loan book is located.

In fact, we have seen forecasters moderate their bearish expectations. The combination of very low and well managed COVID-19 risk along with significant interest rate reductions and Government stimulus are driving improved activity. This is certainly evident in the very active first home-owner market. A market in which we are strongly placed.

John and Bill have both discussed the impact of COVID-19 on our business. I would like to add that we have benefited from a simpler banking model which is concentrated on residential rather than business lending, and from our limited exposure to Victoria.

Strategic Opportunities

Our vision and strategic priorities reflect a changing banking landscape, and leverages our partnerships to build brand awareness, improve our tech capacity and realise significant operational efficiencies.

This is an exciting time to be a regional bank. In the past, smaller banks faced a number of competitive disadvantages relative to the majors in terms of scale, distribution, funding costs and reputation.

Whilst challenges still exist, in recent years, these dynamics have been fundamentally challenged as APRA has continued to increase the capital requirements of the big banks so that the gap between them and the regionals has reduced.

At the same time, the scale of the majors has proved to be problematic with the Royal Commission and other regulatory issues highlighting the difficulty of maintaining oversight of large and complex operations. This has been expensive for shareholders and highly damaging for these banks from a reputation and brand perspective.

As we are seeing across other industries, shifts in distribution are changing the face of banking. Historically large branch networks were among the majors' greatest assets, but it is no longer about having a branch on every corner or even the best proprietary technology.

That is why a key element of our strategy has been to develop partnerships that have enabled us to put effective distribution channels in place and access technology that supports our capabilities while meeting appropriate ROI benchmarks. From a funding and lending perspective, we have also established a range of partnerships that have allowed us to broaden our customer base and reduce our cost of funds.

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We also understand that many of our customers value easy access to our people whether via our branches, customer hub or other customer teams. We are dedicated to continuing to provide the services our customers want whether via our people or via improving services delivered on-line.

So, scale and complexity are not the advantages they once were, which creates opportunities for regional banks like Auswide.

One of our better-known partnerships is with the Queensland Rugby League. This began in 2019 when we became sponsors of the Queensland Maroons and the under 18s Mal Meninga Cup.

Although the 2020 season has been disrupted by COVID-19, this relationship has become a valuable reference point in lifting Auswide's profile with brokers and consumers and building brand awareness, especially across Queensland and NSW.

It is also opening up new deposit and lending opportunities as our positive difference continues to be better known and experienced.

Our Broker Network

Brokers represent a significant growth opportunity for Auswide as third-party loans account for a larger portion of the home loan market each year.

We continue to expand our broker network reflecting the work we have done to improve our service. Central to this has been the realisation of significant back office efficiencies that have allowed us to reduce loan processing times and support substantially higher volumes through tech initiatives and a more flexible workforce.

The First Home Loan Deposit Scheme has also been important, introducing us not only to a younger customer base but to a wider group of brokers located across Australia as well.

Slide 14 shows some of the positive feedback that our team has received from brokers recently.

FY2021 Outlook

Turning to the FY2021 outlook, our objectives for the remainder of the year are;

- To continue our progress as one of the best operators for the end-to-end processing of loans
- Ensure that we earn as much of our customers' business as we can
- Rollout digital offerings that improve the customer experience and drive efficiency across the business and;
- Continue to grow while keeping costs under control yet improving our service delivery to customers.

Slide 15 provides a list of four medium term targets that form part of our three-year strategy. As Bill highlighted, three of these have already been achieved in just 18 months.

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We have continued our strong performance demonstrated now over several years. We are proving to be a positive outlier in a challenged industry. Whilst there are numerous challenges, we have managed these methodically and positively. We have had a very strong start to this financial year, and we expect the loan book growth experienced in the first quarter to continue through the half year.

I have been extremely proud of all that our team has achieved this year despite the challenges created by the pandemic. Our strong results are a testament to their hard work and dedication.

I would also like to thank the Board for their guidance during the year, and as John retires as Chairman, I would like to acknowledge the invaluable contribution he has made over many years of service.

Many thanks also to our customers, and to you, our shareholders for your ongoing support.