

Auswide Bank Ltd

Update

Key Rating Drivers

IDR Driven by VR: The Long-Term Issuer Default Rating (IDR) of Auswide Bank Ltd is driven by its Viability Rating (VR), which is in line with the implied VR under Fitch Ratings' Bank Rating Criteria. The IDR reflects a business model and risk profile that focuses on low-risk residential mortgages, resulting in relatively stable asset quality and earnings over a sustained period. These factors are offset by the bank's small franchise and market share.

Economic Growth to Slow: We expect the high inflation and rapid interest-rate hikes in 2022 and 2023 to result in subdued economic growth and higher unemployment in Australia through 2025. However, the weakening should be manageable and not result in sharp asset-quality deterioration. We factor in high household leverage into our operating environment assessment to reflect households' susceptibility to sharp interest-rate hikes, resulting in a score at the lower end of the 'aa' category.

Concentrated but Stable Business Model: Auswide's national market share of below 0.5% for mortgages and household deposits remains a weakness for the VR. The small market position means it has limited competitive advantages and generally acts as a price taker. Auswide's size and earnings would imply a 'bb' category score for the business profile. However, we believe the bank's low-risk and stable business model, which focuses on traditional banking activities, offsets the weaker market position and supports the business profile score of 'bbb'.

Residential Mortgage Focus: Auswide's risk profile score is above the business profile score, reflecting the simple and low-risk nature of its operations and focus on residential mortgages. We consider its underwriting and mortgage portfolio to be of low risk, offsetting some of the weaknesses in its business model, namely its modest franchise.

Modest Weakening in Asset Quality: We expect the impaired loan/gross loan ratio to peak in 2025, as borrowers feel the full impact of higher interest rates along with a modest rise in unemployment. Thereafter, asset quality should modestly improve from lower rates and better economic conditions. The 'a-' factor score is lower than the implied 'aa' category score to reflect geographic and product concentration in the loan portfolio.

Moderation in Earnings: We expect earnings in the financial year ending June 2025 (FY25) to remain under pressure from intense sector competition and high investment requirements. The earnings and profitability factor score of 'bbb+' is below the implied 'a' category score. This reflects Auswide's low revenue diversification that stems from a heavy focus on home loans.

Adequate Capitalisation: We regard Auswide's capital buffers as adequate for its ratings and believe it will eventually manage down the common equity Tier 1 (CET1) ratio - 12.1% at FYE24 - closer to management's operating targets over the next few years. The capitalisation and leverage score of 'bbb+' is lower than the implied 'a' category score, as we adjust down for Auswide's small absolute size.

Modest Wholesale Funding Reliance: The core metric, loans/customer deposits (FYE24: 120%), is likely to stay steady in 2025. We expect loan growth to remain positive, but still below system levels in FY25, with retail deposits continuing to be primary funding source, with wholesale funding providing some diversification. Management of wholesale funding appears sound. The 'bbb' funding and liquidity score is lower than the implied 'a' category score, due to the bank's deposit structure and small deposit franchise.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bbb+
Government Support Rating	ns

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

Related Research

- [Global Economic Outlook \(December 2024\)](#)
- [Asia-Pacific Developed Market Banks Outlook 2025 \(November 2024\)](#)
- [No Rating Impact from Proposed MyState and Auswide Merger \(August 2024\)](#)
- [DM100 Banks Tracker \(July 2024\)](#)
- [Fitch Affirms Auswide Bank at 'BBB+'; Outlook Stable \(June 2024\)](#)
- [Challenges Increasing for Smaller Banks in Australia and New Zealand \(June 2024\)](#)

Analysts

Jack Do
+61 2 8256 0355
jack.do@fitchratings.com

Nikkita Lok
+61 2 8256 0345
nikkita.lok@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Long-Term IDR and VR

Auswide's Long-Term IDR and VR could be downgraded if the business profile weakens. This could be reflected in growth in deposits and loans that is persistently below the pace of the system, above-system net interest margin (NIM) attrition due to the need to price more sharply to compete or a prolonged deterioration in the loan/customer deposit ratio.

Rising regulatory and investment burdens in an increasingly digitised market may also reduce Auswide's competitive standing and pressure the business profile assessment. This may prompt the group to increase its appetite for riskier exposures, resulting in greater earnings volatility and pressure on capitalisation through the cycle.

The above scenario may be reflected in a combination of:

- Four-year average stage 3 loans/gross loans increasing to above 3% for a sustained period (FYE24 four-year average: 0.2%).
- The four-year average operating profit/risk-weighted asset ratio declining below 0.75% for a sustained period (FYE24 four-year average: 1.7%).
- The CET1 ratio falling below 10% (FYE24: 12.1%) without a credible plan to increase it back above this level.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Long-Term IDR and VR

Positive rating action on the IDR and VR appears unlikely, as it would require a significant improvement in the financial and business profile without a substantial increase in the risk profile.

Other Debt and Issuer Ratings

Rating Level	Rating
Subordinated: Long Term	BBB-

Source: Fitch Ratings

Short-Term IDR: The Short-Term IDR is the lower of the two options available at a Long-Term IDR of 'BBB+', as the funding and liquidity score of 'bbb' is not high enough to support the higher option.

Subordinated Debt: Auswide's subordinated Tier 2 debt is rated two notches below its anchor rating, the VR, which is consistent with the base case in Fitch's Bank Rating Criteria. The two notches down are for loss severity, with non-performance risk captured adequately by the VR. None of the reasons for alternative notching from the anchor rating, as described in the criteria, are present.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Short-Term IDR

A downgrade of the Short-Term IDR to 'F3' may occur if the Long-Term IDR is downgraded to 'BBB' or below.

Subordinated Debt

The subordinated Tier 2 bond ratings will be downgraded if the VR is downgraded.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Short-Term IDR

The Short-Term IDR could be upgraded to 'F1' if we revise the funding and liquidity score to 'a', from 'bbb', or upgrade the Long-Term IDR to 'A', although both scenarios are unlikely.

Subordinated Debt

The subordinated Tier 2 bond ratings will be upgraded if the VR is upgraded.

Significant Changes from Last Review

Auswide announced a merger with MyState Limited (BBB+/Stable/bbb+) in August 2024, which is estimated to be finalised in early 2025. We expect the merger to be rating neutral for both banks, as the merged entity will still be a small participant in Australia's banking system and the two banks' financial profiles are similar. See [No Rating Impact from Proposed MyState and Auswide Merger](#) for details.

Ratings Navigator

Auswide Bank Ltd							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+ Sta
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of 'bbb' has been assigned above the 'bb' category implied score for the following adjustment reason: business model (positive).

The asset-quality score of 'a-' has been assigned below the 'aa' category implied score for the following adjustment reason: concentration (negative).

The earnings and profitability score of 'bbb+' has been assigned below the 'a' category implied score for the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'bbb+' has been assigned below the 'a' category implied score for the following adjustment reason: size (negative).

The funding and liquidity score of 'bbb' has been assigned below the 'a' category implied score for the following adjustment reason: deposit structure (negative).

Financials

Summary Financials and Key Ratios

	30 Jun 24		30 Jun 23	30 Jun 22	30 Jun 21
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	47	71.3	89.2	82.0	78.2
Net fees and commissions	6	8.8	-7.1	-4.5	-3.5
Other operating income	2	2.4	1.7	2.7	0.9
Total operating income	55	82.5	83.8	80.2	75.6
Operating costs	44	66.0	48.6	43.4	40.3
Pre-impairment operating profit	11	16.5	35.2	36.8	35.3
Loan and other impairment charges	0	0.2	-0.7	-0.7	0.6
Operating profit	11	16.3	35.9	37.5	34.7
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	3	5.1	10.8	11.4	10.5
Net income	7	11.2	25.1	26.1	24.2
Other comprehensive income	-3	-4.8	-6.0	12.8	1.0
Fitch comprehensive income	4	6.4	19.1	38.9	25.2
Summary balance sheet					
Assets					
Gross loans	2,922	4,411.7	4,381.8	3,832.4	3,561.1
- Of which impaired	4	6.3	4.9	5.9	10.2
Loan loss allowances	3	4.2	4.0	4.8	6.1
Net loans	2,920	4,407.5	4,377.8	3,827.6	3,555.0
Interbank	11	16.0	3.0	11.8	12.8
Derivatives	0	0.6	7.9	16.4	0.0
Other securities and earning assets	355	535.8	394.0	396.6	400.0
Total earning assets	3,285	4,959.9	4,782.7	4,252.4	3,967.8
Cash and due from banks	149	224.2	203.2	178.5	112.6
Other assets	50	75.6	73.6	73.7	75.4
Total assets	3,484	5,259.7	5,059.5	4,504.6	4,155.8
Liabilities					
Customer deposits	2,442	3,686.3	3,413.5	3,058.7	2,932.6
Interbank and other short-term funding	390	589.3	629.4	558.6	416.7
Other long-term funding	409	617.4	673.8	563.6	526.5
Trading liabilities and derivatives	0	0.5	0.9	0.8	2.7
Total funding and derivatives	3,241	4,893.5	4,717.6	4,181.7	3,878.5
Other liabilities	51	76.4	48.0	40.8	20.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	192	289.8	293.9	282.1	256.5
Total liabilities and equity	3,484	5,259.7	5,059.5	4,504.6	4,155.8
Exchange rate		USD1 = AUD1.509662	USD1 = AUD1.508296	USD1 = AUD1.451589	USD1 = AUD1.330141

Source: Fitch Ratings, Fitch Solutions, Auswide

Summary Financials and Key Ratios

	30 Jun 24	30 Jun 23	30 Jun 22	30 Jun 21
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.9	1.8	1.9	1.9
Net interest income/average earning assets	1.5	2.0	2.0	2.1
Non-interest expense/gross revenue	80.0	58.0	54.1	53.3
Net income/average equity	3.9	8.7	9.7	9.7
Asset quality				
Impaired loans ratio	0.1	0.1	0.2	0.3
Growth in gross loans	0.7	14.3	7.6	10.9
Loan loss allowances/impaired loans	66.7	81.6	81.4	59.8
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	12.1	11.4	10.6	10.8
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	4.6	4.9	5.2	5.0
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	0.9	0.4	0.5	2.1
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	119.7	128.4	125.3	121.4
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	75.3	72.4	73.2	75.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Auswide

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence ■ Moderate influence ■ Lower influence

The Government Support Rating of 'no support' assigned to Auswide reflects that there is no reasonable assumption authorities will provide support to the bank, given its small market share and low systemic importance.

Environmental, Social and Governance Considerations

FitchRatings Auswide Bank Ltd

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Auswide Bank Ltd has 5 ESG potential rating drivers ➔ Auswide Bank Ltd has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. ➔ Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance	
GHG Emissions & Air Quality	1	n.a.	n.a.	5	
Energy Management	1	n.a.	n.a.	4	
Water & Wastewater Management	1	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2	
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5 and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance	
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance		CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5		5 Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4		4 Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3		3 Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2		2 Irrelevant to the entity rating but relevant to the sector.
				1		1 Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esgrelevance-scores

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