

Auswide Bank Ltd (/gws/en/esp/issr/96578684)



Fitch Assigns First-Time 'BBB+' Rating to Auswide Bank; Outlook Stable

Fitch Ratings-Sydney-21 December 2017: Fitch Ratings has today assigned Auswide Bank Ltd a Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BBB+' with a Stable Outlook, and Viability Rating at 'bbb+'. The bank's Support Rating has been assigned at '5' and its Support Rating Floor at 'No Floor'. A full list of rating actions is at the end of this rating action commentary.

The assignment of the IDRs and Viability Rating, and the Stable Outlook reflect our view that the bank is likely to perform solidly over the next two years. Risk appetite is the key rating driver for the Viability Rating, in line with Auswide's domestic peers, as it is an important determinant of profitability and capitalisation through a cycle. Auswide continues to improve its underwriting standards and risk controls, which Fitch views as important given its geographically concentrated loan book in its traditional heartland in central Queensland.

We do not expect risk appetite to materially weaken in the current environment, especially given the regulatory focus on mortgage underwriting. This is particularly important as risks continue to build in Australia's household sector. Auswide has nearly 85% of its total assets in residential mortgages.

High and rising household debt combined with low wage growth and still-elevated levels of underemployment make Australia's households increasingly susceptible to a sharp rise in either unemployment or interest rates. However, neither of these scenarios is part of Fitch's base case for the system.

KEY RATING DRIVERS

IDRS AND VIABILITY RATING

The bank's IDRs and Viability Rating reflect its acceptable risk appetite, asset quality, financial performance and capital position, as well as its small franchise and a funding profile that is more reliant on potentially more volatile wholesale markets compared to its peers.

Auswide's mortgage and business loan underwriting standards are largely in line with domestic peers. Asset quality has remained sound, but it has strong geographic concentration in parts of Queensland. We believe that the greater focus on asset growth and use of the broker channel is likely to increase the risk profile of the mortgage portfolio.

Given its small market position, Auswide is a price taker in its core segment of residential mortgages, although its regional focus provides some increased loyalty to the brand and bank. We consider the franchise to be a limiting factor for the rating.

Auswide has been able to generate acceptable profitability over the last few years in line with its direct peers. We expect Auswide's profitability to remain sound on the back of its prudent underwriting standards, and recent and ongoing efficiency improvements.

Auswide's capitalisation is adequate for its current rating. The bank has reasonable capital flexibility - as a listed entity it may be able to increase its internal capital generation through its dividend re-investment plan or raise capital directly through the capital markets, an option its mutual peers do not have.

The bank sources about 70% of its funding from customer deposits, mainly stable retail deposits. However, the bank continues to be reliant on wholesale funding markets and we do not foresee any significant change in the funding model in the near term given Auswide's growth aspirations. Liquidity remains acceptable with available liquidity greater than short-term wholesale funding.

SUPPORT RATING AND SUPPORT RATING FLOOR

The bank's Support Rating and Support Rating Floor reflect Fitch's view that while support from the authorities is possible, it cannot be relied upon due to the bank's small market share and low systemic importance.

RATING SENSITIVITIES

IDRS AND VIABILITY RATING

The bank's IDRs are sensitive to factors that would affect its Viability Rating. The Viability Rating of Auswide remains sensitive to any increase in its risk appetite, which may be evident in more aggressive underwriting standards or looser risk controls while seeking asset growth, possibly in an effort to increase the bank's company profile. This may in turn manifest in a larger-than-peers' deterioration in asset quality, profitability and capitalisation should there be a significant downturn in the operating environment. A weakening in the funding and liquidity positions could result in negative rating action, especially if combined with aggressive organic or acquisitive growth.

Positive rating action is unlikely given the modest franchise, as well as a funding profile that is weaker than many similarly rated international peers.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating and Support Rating Floor of Auswide are sensitive to changes in Fitch's assumptions about the propensity or ability of the Australian sovereign (AAA/Stable) to provide timely support. No change to the propensity of the authorities to provide support appears imminent, unless Auswide significantly increases its franchise and systematic importance to the wider financial industry, which Fitch considers unlikely now.

The rating actions are as follows:

Auswide Bank Ltd

Long-Term Foreign-Currency IDR assigned at 'BBB+'; Outlook Stable

Short-Term Foreign-Currency IDR assigned at 'F2'

Viability Rating assigned at 'bbb+'

Support Rating assigned at '5'

Support Rating Floor assigned at 'No Floor'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Exposure Draft: Bank Rating Criteria (pub. 12 Dec 2017) (<https://www.fitchratings.com/site/re/904081>)

Additional Disclosures

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