

Appendix 4D

Half year report

Period ending 31 December 2016

Name of Entity	Auswide Bank Ltd
ABN	40 087 652 060
Half Year Ended	31 December 2016
Previous Corresponding Reporting Period	6 months to 31 December 2015

Results for announcement to the market

				\$A'000
Income from operations	Up	4.58%	to	32,909
Profit from ordinary activities after tax attributable to shareholders	Up	20.73%	to	7,319
Net profit for the period attributable to shareholders	Up	20.73%	to	7,319

Dividends (distributions) - Ordinary shares	Amount per security	Franked amount per security
Final dividend (30 June 2016) - paid 30 September 2016	16.0c	16.0c
Interim dividend (31 December 2016) - to be paid 30 March 2017	14.0c	14.0c
The record date for determining entitlements to the dividends	7 March 2017	

Auswide Bank Ltd profit attributable to owners of the parent entity

The statutory consolidated net profit after tax for the half-year to 31 December 2016 was \$7.319m. This represents a 20.73% increase from \$6.063m in the prior corresponding period.

The underlying cash profit for the half-year to 31 December 2016 increased to \$7.319m compared to \$6.782m in the prior corresponding period, an increase of 7.92%, after adjusting the prior half year result for the effects of non-recurring items. The material one-off items affecting the prior year result were branch rationalisation expenses of \$682,000 and merger & acquisition project costs of \$267,000 (before tax).

Auswide Bank Ltd's total operating income from continuing and discontinued operations for the half-year to 31 December 2016 increased to \$32.909m compared to \$31.469m for the corresponding period, an increase of 4.58%.

The company's NIM for the half-year ended 31 December 2016 was 1.92% compared to the previous six months to 30 June 2016 of 1.94%.

Net interest from continuing operations for the half year increased by 6.64% compared to the corresponding half-year to 31 December 2015, from \$26.503m to \$28.264m.

Financial Position

The loan book recorded growth on an annualised basis of 0.34% across the half-year, increasing from \$2.666 billion at 30 June 2016 to \$2.671 billion at 31 December 2016. During the second quarter of the financial year, loan book growth was 3.7% on an annualised basis.

Loans approved during the half-year amounted to \$269.054m, which is an 8.74% decrease over the prior corresponding period. Loans approved in the first quarter were conservatively managed to facilitate testing of the new Lendfast loans processing system during implementation. Sales will remain a major focus in 2017 as further emphasis is placed on growing the loan book.

Financial Position (continued)

Following the acquisition of YCU in May 2016 there was a focus on extracting synergies from the merged entity and system integration. Synergy targets have been realised and the physical integration of the computer systems was completed in September 2016.

Arrears continued to trend downwards, with total arrears past due 30 days decreasing from \$26.563m at 30 June 2016 to \$17.344m at 31 December 2016. Arrears past due 30 days represented 0.65% of total loans and advances at 31 December 2016 compared to 0.99% at 30 June 2016.

Retail deposits continue to be Auswide's largest source of funding and saw growth of 2.42% in the six month period, resulting in an increase to \$1.940 billion. This result was achieved in a market where strong competition for retail deposits continues.

Capital Management

The group is in a strong capital position with the consolidated capital ratio at the end of December 2016 standing at 14.60%, with Tier 1 capital accounting for 12.22%. The consolidated capital ratio has increased from 14.31% at 30 June 2016. The strength of the capital will facilitate loan book growth in the second half of the financial year.

Dividends

Amount per security	Amount per security	Franked amount per security	Amount per security of foreign source dividend	
Interim dividend	Current year	14.0c	14.0c	Nil
	Previous year	14.0c	14.0c	Nil

Interim dividends on all securities	Current period \$A'000	Previous corresponding period \$A'000
Ordinary securities		
Interim dividend payable 30 March 2017 - previous period paid 30 March 2016	5,696	5,200
Total	5,696	5,200

DIVIDEND REINVESTMENT PLAN

The Board of Directors resolved to suspend the dividend reinvestment plan for the interim dividend for the half year ended 31 December 2016.

Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	\$ 4.21	\$ 4.23

Details of associates and joint venture entities

Controlled entities	Country of incorporation	% Holding		Contribution to consolidated operating profit after income tax	
		Current period	Previous corresponding period	Current period	Previous corresponding period
				\$A'000	\$A'000
Mortgage Risk Management Pty Ltd	Australia	100	100	-	(603)
Mackay Permanent Building Society Ltd	Australia	100	100	-	-
MPBS Insurance Pty Ltd	Australia	100	100	-	-
MPBS Holdings Pty Ltd	Australia	100	100	-	17
Auswide Performance Rights Pty Ltd	Australia	100	100	5	-

Auswide Bank Ltd

ABN 40 087 652 060

**Interim report
for the half-year 31 December 2016**

Auswide Bank Ltd ABN 40 087 652 060
Interim report - 31 December 2016

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This interim financial report does 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 2016 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

The Directors present this report on the company's consolidated accounts for the six month period ended 31 December 2016, in accordance with the provisions of the Corporations Act 2001.

DIRECTORS

The Directors in office during or since the end of the half-year period are:

Professor John S Humphrey LL.B

Professor Humphrey was appointed to the Board on 19 February 2008, and was appointed Chairman following the 2009 Annual General Meeting. He was a senior partner in the Brisbane office of international law firm, King & Wood Mallesons (until 1 January 2013), where he specialised in commercial law and corporate mergers and acquisitions. He is now Executive Dean of the Faculty of Law at Queensland University of Technology. He was a Non-Executive Director of Downer-EDI Limited (until November 2016) and is currently a Non-Executive Director of Horizon Oil Limited. Professor Humphrey is a member of the Audit Committee and is an independent Director.

Mr Martin J Barrett BA(ECON), MBA

Mr Barrett commenced as Chief Executive Officer of Wide Bay Australia Ltd (now Auswide Bank Ltd) on 4 February 2013, and was subsequently appointed Managing Director on 19 September 2013. Mr Barrett has extensive experience in the banking sector, having previously held the positions of Managing Director (Queensland, Western Australia and National Motor Finance Business) and General Manager NSW/ACT Corporate & Business Bank at St George Bank Ltd. Prior to working at St George Bank, Mr Barrett held senior roles at regional financial institutions in the United Kingdom and at National Australia Bank. Mr Barrett is an Executive Director.

Mr Barry Dangerfield

Mr Dangerfield was appointed to the Board on 22 November 2011. Mr Dangerfield has had a successful 39 year banking career with Westpac Banking Corporation having held positions across Queensland and the Northern Territory of Regional Manager Business Banking, Head of Commercial and Agribusiness and Regional General Manager Retail Banking. Mr Dangerfield is a Director of the Bundaberg Friendly Society Medical Institute which operates the Friendly Society Private Hospital and Pharmacies in Bundaberg and is Chairman of the Institute's Audit and Risk Committee. Mr Dangerfield is the Chairman of the Group Board Remuneration Committee, a member of the Audit Committee, a member of the Risk Committee and is an independent Director.

Mr Gregory N Kenny GAICD, GradDipFin

Mr Kenny was appointed to the Board on 19 November 2013. Mr Kenny has had a long and successful career with Westpac Banking Corporation and St George Bank Ltd, and prior to that with Bank of New York and Bank of America in Australia. At St George Bank he held the positions of Managing Director (NSW and ACT), General Manager Corporate and Business Bank and General Manager Group Treasury and Capital Markets. Mr Kenny is the Chairman of the Risk Committee, a member of the Audit Committee, a member of the Group Board Remuneration Committee and is an independent Director.

Ms Sandra C Birkenleigh BCom, CA, GAICD, ICCP (Fellow)

Ms Birkenleigh was appointed to the Board on 2 February 2015. Ms Birkenleigh was previously a partner at PricewaterhouseCoopers for 16 years until 2013. During her career her predominant industry focus has been Financial Services (Banking and Wealth Management). Ms Birkenleigh has also advised on risk management in other sectors such as retail and consumer goods, retail and wholesale electricity companies, resources and the education sector. Ms Birkenleigh is currently a Non-Executive Director of five Wealth Management and Insurance subsidiaries of the National Australia Bank, a Director of four Responsible Entities within the NabWealth Group, a Director of Horizon Oil Limited, an independent member of the Audit Committee of the Reserve Bank of Australia, and a Board of Management member and Treasurer of Children's Therapy Centre. Ms Birkenleigh is the Chairperson of the Audit Committee, a member of the Group Board Remuneration Committee, a member of the Risk Committee and is an independent Director.

The independent Non-Executive Directors each have many years of experience and it is considered with their diverse backgrounds and knowledge that they continue to make an integral contribution to the ongoing development of the company.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Principal activities

Auswide Bank Ltd (Auswide) is an approved deposit-taking institution and licensed credit and financial services provider. Auswide provides deposit, credit, insurance and banking services to personal and business customers across Australia, principally in regional and metropolitan Queensland, Sydney and Melbourne. The majority of the company's loan book is comprised of residential mortgage loans. Personal loans were offered for the first time in 2013 and business banking commenced in 2014, although the portfolios are not yet a material part of the loan book.

Funding for loans is raised through a combination of retail and wholesale deposits as well as through securitisation markets. On 19 August 2015 Auswide announced that it had priced its first Senior Unsecured Floating Rate Note (FRN). The ongoing issue of FRNs will provide further diversification to the funding sources of the company.

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

Profitability

The statutory consolidated net profit after tax for the half-year to 31 December 2016 was \$7.319m. This represents a 20.73% increase from \$6.063m in the prior corresponding period.

The underlying cash profit for the half-year to 31 December 2016 increased to \$7.319m compared to \$6.782m in the prior corresponding period, an increase of 7.92%, after adjusting the prior half year result for the effects of non-recurring items. The material one-off items affecting the prior year result were branch rationalisation expenses of \$682,000 and merger & acquisition project costs of \$267,000 (before tax).

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Financial Position

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Capital Management

The group is in a strong capital position with the consolidated capital ratio at the end of December 2016 standing at 14.60%, with Tier 1 capital accounting for 12.22%. The consolidated capital ratio has increased from 14.31% at 30 June 2016. The strength of the capital will facilitate loan book growth in the second half of the financial year.

Outlook and Strategy

Auswide has a strategic focus to significantly grow its consumer lending book by targeting a consumer lending portfolio of \$60m by 30 June 2019. Through investment in the peer-to-peer lender, MoneyPlace, there is confidence in future growth opportunities for the partnership. Growth and loan quality have been performing above expectations over the last 12 months.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS (continued)

Outlook and Strategy (continued)

Auswide is developing on-balance sheet credit card products which are expected to be available to customers prior to the close of the 2017 financial year. Credit cards compliment the bank's existing financing activities and will build stronger banking relationships with customers

Auswide will continue to grow the Business banking segment through increasing capacity in South-east Queensland with the establishment of the Brisbane office and branch following the acquisition of YCU.

In line with the Company's Strategic Plan, Auswide's appointment of a Chief Customer Officer in 2016, has allowed the bank to increase its focus and strategy on customer growth. This appointment has united all sales channels, products and marketing allowing for increased alignment and coordination of resources. Auswide will focus on growing its broker base through maintaining and further developing relationships in that space.

There will be ongoing investment on innovation, improving operational and technological efficiency, and expanding distribution points in the online models. New digital and online promotional mediums are continuing to emerge and play an increasingly significant role in Auswide's product marketing decisions.

Subsequent Events

Investment in MoneyPlace

On 16 February 2017, Auswide announced an increase in the equity stake in peer-to-peer lender Money Place Holdings Pty Ltd (MoneyPlace). Auswide will have a controlling interest of at least 51% with the prospect of increasing that interest up to 75% dependent on the final take up of other MoneyPlace shareholders in a capital raising initiative being undertaken by MoneyPlace. Auswide will commission a formal independent valuation of MoneyPlace which will be used to undertake acquisition accounting for this investment in the second half of the financial year.

Auswide Bank acquired a 19.3% equity stake in MoneyPlace in January 2016 while also committing funding to the Melbourne-based P2P lender's consumer lending program.

Dividend

A final dividend in respect of the year ended 30 June 2016 of 16.0 cents per ordinary share (fully franked) was paid on 30 September 2016.

On 22 February 2017 the Directors of Auswide Bank Ltd declared an interim dividend of 14.0 cents per ordinary share (fully franked) in respect of the December 2016 half-year, payable on 30 March 2017. The amount estimated to be appropriated in relation to this dividend is \$5.696m. The dividend has not been provided for in the 31 December 2016 half-year financial statements.

The Board has resolved to suspend the Dividend Reinvestment Plan for the interim dividend payable on 30 March 2017.

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

Discontinued operations

Mortgage Risk Management Pty Ltd (MRM)

Mortgage Risk Management (MRM) was effectively wound up on 30 September 2015 and in response to a formal application by MRM, APRA revoked the authorisation under subsection 12(2) of the Insurance Act 1973, to carry on insurance business in Australia, effective 17 December 2015. All risks, provisions and capital were transferred to Auswide Bank on 30 September 2015.

Discontinuance of the operation was completed in the 2015-2016 financial year.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the half year ended 31 December 2016 has been received and been included in this financial report.

This Report is signed for and on behalf of the Board of Directors in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'John Humphrey', with a large, stylized flourish at the end.

John Humphrey
Director

Brisbane
23 February 2017

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

23 February 2017

Dear Board Members

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 financial statements of Auswide Bank Ltd for the half-year ended 31 December 2016, 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 sincerely



DELOITTE TOUCHE TOHMATSU



Jamie Gatt
Partner
Chartered Accountants

Auswide Bank Ltd
Condensed consolidated statement of profit or loss and other comprehensive income
For the half-year 31 December 2016

		Consolidated	
	Notes	6 months to 31 Dec 16 \$'000	6 months to 31 Dec 15 \$'000
Continuing operations			
Interest revenue	2	63,282	61,169
Interest expense	2	<u>(35,018)</u>	<u>(34,666)</u>
Net interest revenue		28,264	26,503
Other non interest revenue		<u>4,645</u>	<u>4,632</u>
Total operating income		32,909	31,135
Bad and doubtful debts expense	4	<u>(372)</u>	846
Other expenses		<u>(21,929)</u>	<u>(22,349)</u>
Profit before income tax		10,608	9,632
Income tax expense		<u>(3,289)</u>	<u>(2,824)</u>
Profit from continuing operations		7,319	6,808
Discontinued operation			
Loss from discontinued operations	12	<u>-</u>	<u>(745)</u>
Profit for the period		7,319	6,063
Other comprehensive income, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Revaluation of cash flow hedge to fair value		692	220
Revaluation of RMBS investments to fair value		4	(49)
Income tax relating to these items		<u>(208)</u>	<u>(51)</u>
Other comprehensive income for the period, net of income tax		488	120
Total comprehensive income for the period		7,807	6,183
Profit for the period attributable to:			
Owners of the Company		7,319	6,063
Total comprehensive income attributable to:			
Owners of the Company		7,807	6,183
 Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)		18.10	16.36
Diluted (cents per share)		18.10	16.36
From continuing operations			
Basic (cents per share)		18.10	18.37
Diluted (cents per share)		18.10	18.37

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

Auswide Bank Ltd
Condensed consolidated statement of financial position
As at 31 December 2016

	Consolidated	
Notes	as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000
ASSETS		
Cash and cash equivalents	105,427	67,792
Due from other financial institutions	10,441	22,014
Accrued receivables	11,793	12,818
Financial assets	226,716	225,045
Current tax assets	(837)	411
Loans and advances	2,670,899	2,666,411
Other investments	949	512
Property, plant and equipment	15,110	15,544
Other intangible assets	2,513	2,719
Deferred tax assets	5,217	5,441
Other assets	7,110	7,750
Goodwill	46,363	46,363
Total assets	3,101,701	3,072,820
LIABILITIES		
Deposits and short term borrowings	2,216,525	2,183,902
Payables and other liabilities	19,057	25,353
Loans under management	613,558	613,821
Deferred tax liabilities	1,608	2,210
Provisions	2,770	2,879
Subordinated capital notes	28,000	28,000
Total liabilities	2,881,518	2,856,165
Net assets	220,183	216,655
EQUITY		
Contributed equity	5 184,752	182,629
Reserves	13,871	13,358
Retained profits	21,560	20,668
Total equity	220,183	216,655

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

Auswide Bank Ltd
Condensed consolidated statement of changes in equity
For the half-year 31 December 2016

	Attributable to owners of Auswide Bank Ltd									Total Equity \$'000
	Share Capital Ordinary \$'000	Retained Profits \$'000	Asset Revaluation Reserve \$'000	General Reserve \$'000	Statutory Reserve \$'000	Doubtful Debts Reserve \$'000	Available for Sale Reserve \$'000	Cash Flow Hedging Reserve \$'000	Share- based payments \$'000	
Consolidated entity										
Balance at 1 July 2015	166,637	19,536	3,896	5,834	2,676	2,388	158	(1,027)	(108)	199,990
Profit attributable to members of parent company	-	6,063	-	-	-	-	-	-	-	6,063
Increase (decrease) due to sale of properties	-	-	(551)	-	-	-	-	-	-	(551)
Transfer to retained profits of revaluation of assets since sold	-	559	-	-	-	-	-	-	-	559
Increase (decrease) due to revaluation of RMBS investments to fair value	-	-	-	-	-	-	(49)	-	-	(49)
Deferred tax liability adjustment on revaluation of RMBS investments	-	-	-	-	-	-	15	-	-	15
Increase (decrease) due to revaluation of cash flow hedge to fair value	-	-	-	-	-	-	-	220	-	220
Deferred tax liability adjustment on revaluation of cash flow hedge	-	-	-	-	-	-	-	(66)	-	(66)
Subtotal	-	6,622	(551)	-	-	-	(34)	154	-	6,191
Issue of share capital for staff share plan	477	-	-	-	-	-	-	-	-	477
Dividends provided for or paid - ordinary shares	-	(5,927)	-	-	-	-	-	-	-	(5,927)
Subtotal	477	(5,927)	-	-	-	-	-	-	-	(5,450)
Balance at 31 December 2015	167,114	20,231	3,345	5,834	2,676	2,388	124	(873)	(108)	200,731

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

Auswide Bank Ltd
Condensed consolidated statement of changes in equity
For the half-year 31 December 2016
(continued)

		Attributable to owners of Auswide Bank Ltd									
Consolidated entity	Notes	Share Capital Ordinary \$'000	Retained Profits \$'000	Asset Revaluation Reserve \$'000	General Reserve \$'000	Statutory Reserve \$'000	Doubtful Debts Reserve \$'000	Available for Sale Reserve \$'000	Cash Flow Hedging Reserve \$'000	Share- based payments \$'000	Total Equity \$'000
Balance at 1 July 2016		182,629	20,668	3,345	5,834	2,676	2,388	113	(784)	(214)	216,655
Profit attributable to members of parent company		-	7,319	-	-	-	-	-	-	-	7,319
Issue of shares to employees		-	-	-	-	-	-	-	-	25	25
Increase (decrease) due to revaluation of RMBS investments to fair value		-	-	-	-	-	-	4	-	-	4
Deferred tax liability adjustment on revaluation of RMBS investments		-	-	-	-	-	-	(1)	-	-	(1)
Increase (decrease) due to revaluation of cash flow hedge to fair value		-	-	-	-	-	-	-	692	-	692
Deferred tax liability adjustment on revaluation of cash flow hedge		-	-	-	-	-	-	-	(207)	-	(207)
Subtotal		-	7,319	-	-	-	-	3	485	25	7,832
Issue of share capital for staff share plan		349	-	-	-	-	-	-	-	-	349
Issue of share capital for dividend reinvestment plan		1,774	-	-	-	-	-	-	-	-	1,774
Dividends provided for or paid	8	-	(6,427)	-	-	-	-	-	-	-	(6,427)
Subtotal		2,123	(6,427)	-	-	-	-	-	-	-	(4,304)
Balance at 31 December 2016		184,752	21,560	3,345	5,834	2,676	2,388	116	(299)	(189)	220,183

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

Auswide Bank Ltd
Condensed consolidated statement of cash flows
For the half-year 31 December 2016

	Consolidated	
	6 months to 31 Dec 16 \$'000	6 months to 31 Dec 15 \$'000
Cash flows from operating activities		
Interest received	63,448	60,603
Other non interest income and receivables	9,744	(4,575)
Interest paid	(38,629)	(34,690)
Cash paid to suppliers and employees (inclusive of goods and services tax)	(24,868)	(19,319)
Income tax paid	(2,627)	(2,525)
Net cash provided by / (used in) operating activities	7,068	(506)
Cash flows from investing activities		
Net movement in investment securities	(1,668)	46,306
Net movement in amounts due from other financial institutions	11,574	-
Net movement in loans and advances	(3,391)	(116,811)
Net movement in other investments	(437)	(73)
Payments for non current assets	(681)	(2,949)
Proceeds from sale of property, plant and equipment	-	2,767
Net cash provided by / (used in) investing activities	5,397	(70,760)
Cash flows from financing activities		
Net movement in deposits and short-term borrowings	31,632	95,039
Net movement in amounts due to other financial institutions and other liabilities	(2,158)	10,567
Proceeds from share issue	349	478
Dividends paid	(4,653)	(5,927)
Net cash provided by / (used in) financing activities	25,170	100,157
Net movement in cash and cash equivalents	37,635	28,891
Cash and cash equivalents at the beginning of the financial year	67,792	51,495
Cash and cash equivalents at the end of the period	105,427	80,386

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

1 Significant accounting policies

(a) Basis of preparation

These condensed consolidated financial statements for the half-year reporting period ended 31 December 2016 have 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 2016 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*.

The company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016*, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated. All amounts are presented in Australian dollars.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) New and amended standards adopted by the economic entity

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

(c) Comparative figures

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

2 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 2016			
Deposits with other financial institutions	62,315	436	1.40
Investment securities	200,209	2,528	2.53
Loans and advances	2,646,321	59,972	4.53
Other	30,863	346	2.24
	2,939,708	63,282	4.31
Interest expense December 2016			
Deposits from other financial institutions	604,654	10,009	3.31
Customer deposits	1,907,910	20,532	2.15
Negotiable certificates of deposit (NCDs)	207,432	2,571	2.48
Floating rate notes (FRNs)	75,333	1,011	2.68
Subordinated notes	28,000	895	6.39
	2,823,330	35,018	2.48
Net interest revenue December 2016		28,264	1.83

Consolidated entity

Interest revenue December 2015

Deposits with other financial institutions	43,199	451	2.09
Investment securities	187,660	2,632	2.80
Loans and advances	2,425,810	57,878	4.77
Other	20,420	208	2.04
	2,667,090	61,169	4.57

Interest expense December 2015

Deposits from other financial institutions	591,834	10,223	3.45
Customer deposits	1,668,160	20,320	2.44
Negotiable certificates of deposit (NCDs)	213,884	2,836	2.65
Floating rate notes (FRNs)	29,167	358	2.46
Subordinated notes	28,000	929	6.64
	2,531,044	34,666	2.74

Net interest revenue December 2015

	26,503	1.83
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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 and interest spread December 2016

Interest revenue	2,939,708	63,282	4.31
Interest expense	2,823,330	35,018	2.48
Net interest spread			1.83
Benefit of net interest-free assets, liabilities and equity			0.09
Net interest margin - on average interest earning assets	2,939,708	28,264	1.92

Interest margin and interest spread December 2015

Interest revenue	2,677,090	61,169	4.57
Interest expense	2,531,044	34,666	2.74
Net interest spread			1.83
Benefit of net interest-free assets, liabilities and equity			0.15
Net interest margin - on average interest earning assets	2,677,090	26,503	1.98

3 Capital adequacy

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

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

Details of the capital adequacy ratio on a parent entity and consolidated basis are set out below:

	Consolidated		Company	
	as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000	as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000
Total risk weighted assets	1,278,368	1,262,861	1,278,314	1,261,387
Capital base	186,609	180,695	185,943	178,541
Risk-based capital ratio	14.60%	14.31%	14.55%	14.15%

4 Credit risk

The past due loans and advances for the company and the group (excluding effects of hardship accounts) comprise:

	Consolidated	
	as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000
30 days and less than 60 days	6,068	4,401
60 days and less than 90 days	816	6,714
90 days and less than 182 days	2,351	8,223
182 days and less than 273 days	3,362	2,266
273 days and less than 365 days	2,299	553
365 days and over	2,448	4,406
	17,344	26,563

Provision for impairment:

Opening balance	(5,047)	(1,719)
Bad and doubtful debts unwound / (provided for) during the year	853	(3,328)
Total provision for impairment	(4,194)	(5,047)

Charge to profit or loss for bad and doubtful debts comprises:

Specific provision	853	(3,328)
Bad debts recognised directly	(1,225)	3,896
	(372)	568

5 Issued capital

	31 Dec 16 No. of shares	31 Dec 16 \$'000	31 Dec 15 No. of shares	31 Dec 15 \$'000
Fully paid ordinary shares				
Balance at the beginning of the year - 1 July	40,251,196	182,629	37,040,654	166,637
Dividend reinvestment plan	357,742	1,774	-	-
Staff share plan	77,095	349	99,479	477
Balance at the end of the period - 31 December	40,686,033	184,752	37,140,133	167,114

The DRP was suspended for the final dividend payable on 2 October 2015 for the 2014/15 financial year and reintroduced for the interim dividend payable on 30 March 2016 and continued for the final dividend payable on 30 September 2016 for the 2015/16 financial year.

The Board of Directors resolved to suspend the Dividend Reinvestment Plan (DRP) for the interim dividend for the 2016/17 financial year.

6 Goodwill

Queensland Professional Credit Union Ltd (YCU)

On 19 May 2016, the Group acquired 100 per cent of the shares of Queensland Professional Credit Union Ltd trading as Your Credit Union (YCU).

The financial accounting for this business combination was prepared in accordance with Australian Accounting Standards and as set out in the annual report, and recognises the acquisition date as 19 May 2016.

There have been no changes to purchase price allocation which would impact goodwill.

Impairment testing

The cash-generating unit selected for impairment testing of goodwill was the Auswide Bank Ltd parent entity, as it is impractical to identify a separate MPBS cash generating unit, or YCU cash generating unit, within the Company and Consolidated entities.

The goodwill disclosed in the Statement of Financial Position at 31 December 2016 was supported by the impairment testing and no impairment adjustment was required.

Impairment testing of goodwill was carried out by comparing the net present value of cash flows from the cash-generating unit to the carrying value of the cash generating unit. The cash flows were based on projections of future earnings before taxation, depreciation and amortisation, minus forecast capital expenditure.

The cash flows have been projected over a period of three years. The terminal value of the business beyond year three has been determined using a constant growth perpetuity.

The key assumptions used in carrying out the impairment testing were as follows:

- | | |
|--|---|
| * Budgeted trading result for the financial years ending 30 June 2018/19 | Represents the cash-generating potential of the parent entity based on the forecast approved by the Board of Directors. |
| * Estimated growth rate | 5.0% (Jun 2016: 6.0%) represents growth in cash-generating unit cash flows over years one to three (beyond 31 Dec 2016). (Such growth is considered to be reasonable by management and the Board of Directors given historical loan book growth and strategic long-term growth targets) |
| * Terminal growth rate | 7.0% (Jun 2016: 6.0%) represents the terminal growth rate (beyond three years). |
| * Pre-tax discount rate | 12.0% (Jun 2016: 12.0%) is the pre-tax discount rate used in impairment testing representing the Cost to Equity to the consolidated group at 31 December 2016. |

The recoverable amount exceeds the carrying value of the cash-generating unit by \$54.7m at 31 December 2016 (Jun 2016: \$124.4m).

The trigger points at which the carrying value of cash-generating unit would exceed its recoverable amount, while holding all other variables constant, are as follows:

- terminal growth rate - 3.0% (Jun 2016: 1.9%); and
- discount rate - 13.8% (Jun 2016: 15.6%).

7 Fair value of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(a) Aggregate net fair value & carrying amount of financial assets and financial liabilities

		Total carrying amount		Aggregate net fair value	
		as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000	as at 31 Dec 16 \$'000	as at 30 Jun 16 \$'000
Methods & assumptions used to determine net fair values					
Financial assets					
Cash and cash equivalents	Carrying amount approximates fair value due to short term to maturity.	105,427	67,792	105,427	67,792
Due from other financial institutions	Estimated using discounted cash flow analysis based on current lending rates for similar types of investments.	10,441	22,014	10,441	22,014
Accrued receivables	Fair value approximates carrying value due to short term nature.	11,734	12,766	11,734	12,766
Financial assets	Fair value is quoted market price (if available) adjusted for any realisation costs.	226,716	225,045	227,941	226,490
Loans and advances	Estimated using discounted cash flow analysis based on current lending rates for similar types of loans.	2,675,094	2,671,458	2,684,199	2,678,922
Other investments	Carrying amount considered to be a reasonable estimate of net fair value.	989	552	989	552
Total financial assets		3,030,401	2,999,627	3,040,731	3,008,536
Financial liabilities					
Deposits and short term borrowings	Estimated using discounted cash flow analysis based on current lending rates for similar types of deposits.	2,216,525	2,183,902	2,210,482	2,177,906
Payables and other liabilities	For short term liabilities, carrying value approximates fair value. For the liabilities which are long term the fair value is estimated using discounted cash flow analysis, based on current rates for similar types of liability.	19,057	25,353	19,057	25,353
Securitised loans	Estimated using discounted cash flow analysis based on current lending rates for similar types of loans.	613,558	613,821	615,647	615,536
Provisions	Carrying amount approximates fair value.	2,770	2,879	2,770	2,879
Subordinated capital notes	Carrying amount approximates fair value.	28,000	28,000	28,000	28,000
Total financial liabilities		2,879,910	2,853,955	2,875,956	2,849,674

7 Fair value of financial instruments (continued)

(b) Fair value of the Group's financial assets & liabilities including those measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular the valuation technique(s) and inputs used).

Consolidated entity	Fair value		FV hierarchy	Valuation technique(s) and key input(s)
	31 Dec 2016 \$'000	30 Jun 2016 \$'000		
Financial assets				
Financial assets held to maturity:				
Certificates of deposit	195,740	199,924	Level 1	Quoted price
Financial assets held at amortised cost:				
Notes - securitisation program	19,624	19,335	Level 2	Held at amortised cost
Loans and advances	2,684,199	2,678,922	Level 3	Held at amortised cost
Financial assets at fair value through profit or loss:				
Shares in unlisted companies	949	512	Level 3	Market approach using recent observable market data including cost value and net present value of future cash flows
Financial assets available for sale:				
External RMBS investments	2,047	2,373	Level 2	Mark-to-market value based on consideration, maturity and interest rates
Shares in unlisted companies	2,165	2,000	Level 3	Market approach using recent observable market data including cost value and net present value of future cash flows
Investments in managed funds	7,141	1,413	Level 3	Market approach using recent observable market data including cost value and net present value of future cash flows
Total	<u>2,911,865</u>	<u>2,904,479</u>		
Financial liabilities				
Financial liabilities held at amortised cost:				
Deposits and short term borrowings	2,210,482	2,177,906	Level 3	Held at amortised cost
Securitised loans	615,647	615,536	Level 2	Held at amortised cost
Total	<u>2,826,129</u>	<u>2,793,442</u>		

7 Fair value of financial instruments (continued)

(c) Reconciliation of Level 3 fair value measurements

Consolidated entity	Shares in unlisted companies		Investments in managed funds	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Opening balance	2,512	395	1,413	-
Purchases	602	2,117	5,728	1,413
Closing balance	3,114	2,512	7,141	1,413

Investment in MoneyPlace

The Group holds 19.3% of the ordinary share capital of Money Place Holdings Pty Ltd, a company that provides loans of between \$5,000 and \$35,000 through its peer-to-peer (P2P) platform. The Directors of the Group do not consider that the Group is able to exercise significant influence over the entity as at 31 December 2016. Additional investment to fund loans of \$5.7 million has also been made during the period. Both investments are classified as available for sale financial assets and are held at fair value. The Directors have not identified any significant indicators of impairment at the period end.

8 Dividends

A final fully franked dividend in respect of the year ended 30 June 2016 of 16.0 cents per ordinary share (\$6.440m) was paid on 30 September 2016.

The Board declared a fully franked dividend of 14.0 cents per ordinary share (\$5.696m), for the six months to 31 December 2016, payable on 30 March 2017. 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.

9 Segment information

The company operates predominantly in one industry. The principal activities of the company are confined to the raising of funds and the provision of finance for housing, personal loans and business banking.

The company commenced funding personal loans in May 2013. The personal loans portfolio was immaterial at balance date and has not been reported as a segment.

Funding of business loans commenced in April 2014. The business loans portfolio was immaterial at balance date and has not been reported as a segment.

The company operates principally within the states of Queensland, New South Wales and Victoria.

10 Contingent Liabilities

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

11 Events subsequent to balance date

Investment in MoneyPlace

On 16 February 2017, Auswide announced an increase in the equity stake in peer-to-peer lender Money Place Holdings Pty Ltd (MoneyPlace). Auswide will have a controlling interest of at least 51% with the prospect of increasing that interest up to 75% dependent on the final take up of other MoneyPlace shareholders in a capital raising initiative being undertaken by MoneyPlace. Auswide will commission a formal independent valuation of MoneyPlace which will be used to undertake acquisition accounting for this investment in the second half of the financial year.

Auswide Bank acquired a 19.3% equity stake in MoneyPlace in January 2016 while also committing funding to the Melbourne-based P2P lender's consumer lending program.

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

12 Discontinued operation

Mortgage Risk Management (MRM) was effectively wound up on 30 September 2015 and in response to a formal application by MRM, APRA revoked the authorisation under subsection 12(2) of the Insurance Act 1973, to carry on insurance business in Australia, effective 17 December 2015. All risks, provisions and capital were transferred to Auswide Bank on 30 September 2015.

Discontinuance of the operation was completed in the 2015-2016 financial year.

The results of the discontinued operations included in the profit for the half year are set out below. The comparative profit from discontinued operations has been re-presented to include those operations classified as discontinued in the current year.

	Consolidated	
	6 months to 31 Dec 16 \$'000	6 months to 31 Dec 15 \$'000
<i>Profit for the half year from discontinued operations</i>		
Revenue	-	333
Expenses	-	(1,304)
Profit/(loss) before income tax	-	(971)
Income tax expense	-	226
Profit/(loss) for the half year from discontinued operations (attributable to owners of the Company)	-	(745)

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'John Humphrey', with a large, stylized flourish at the end.

John Humphrey
Director

Brisbane
23 February 2017

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

We have reviewed the accompanying half-year financial report of Auswide Bank Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year, as set out on pages 6 to 20.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Auswide Bank Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

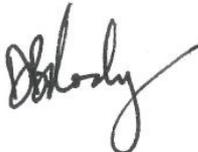
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Auswide Bank Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


DELOITTE TOUCHE TOHMATSU



Jamie Gatt
Partner
Chartered Accountants
Sydney, NSW
23 February 2017



David Rodgers
Partner
Chartered Accountants
Brisbane, QLD
23 February 2017