

Auswide Bank

John Core, Ignacio Galindo, and Christopher Noe

Company Background

Auswide Bank grew out of the communities of Queensland, Australia's Wide Bay Burnett region through a series of mergers of several local building societies.¹ It later expanded outside of Queensland by opening branches in Sydney and Melbourne. In 1994, it listed on the Australian Stock Exchange. In 2015, it converted from a building society to a bank.²

Commenting on Auswide's mission, Managing Director Martin Barrett said, "We're taking on the 'big banks' and setting out to redefine what 'real banking' means. By opening an account with us or applying for a loan, our customers will be helping to re-establish a balance in Australian banking which is currently dominated by the 'Big 4' and their subsidiaries. Even though we are smaller, we believe that we can make a big difference."³ Auswide's mission statement – "to demonstrate the 'power of small' by placing customers at the centre of everything we do" – reflected this smaller is better mindset.⁴

As of the fiscal year end June 30, 2020, Auswide had assets of AUD3,789 million, loans and advances of AUD3,206 million, and deposits and short term borrowings of AUD3,019 million. In fiscal year 2020, the bank generated net interest revenue of AUD70.5 million and net profit after tax of AUD18.5 million. It also paid dividends of AUD13.6 million. See **Exhibit 1** for Auswide's fiscal year 2020 financial statements.

¹ Building societies provide banking and other financial services to their members. They are similar to credit unions.

² Details of Auswide's history from <https://www.auswidebank.com.au/about-us/our-company/> (accessed June 2021).

³ "Country's Newest Bank," *The NewsMail*, April 2, 2015.

⁴ Auswide Bank Annual Report, June 30, 2020.

This case was prepared by Professor John Core, Ignacio Galindo, MBA 2021, and Senior Lecturer Christopher Noe.

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Representative Transactions

Assume that Auswide engaged in the following representative transactions during the fiscal year ended June 30, 2021:

1. On July 3, 2020, the bank issued 1,000,000 shares of common stock for AUD4.90 per share.
2. On August 8, 2020, the bank borrowed an additional AUD40 million under the Reserve Bank of Australia's term funding facility at a rate of 0.25% for a term of three years. Auswide reflected this borrowing on its balance under "other borrowings."
3. On September 7, 2020, the bank purchased AUD300,000 in office supplies from Officeworks on credit. The terms of the purchase required the bank to pay cash in 60 days.
4. On September 24, 2020, the bank used cash to purchase AUD700,000 in office furniture from IKEA.
5. Customers made AUD300 million in deposits and AUD100 million in withdrawals over the year.
6. Customers took out AUD680 million in loans and repaid AUD450 million in loans over the year.
7. Interest revenue received from loans outstanding totaled AUD120 million for the year. Of this amount, 95% was paid in cash while the remaining 5% was accrued as interest receivable.
8. Interest expense on customer deposits totaled AUD37 million for the year. Of this amount, 85% was paid in cash while the remaining 15% was accrued as interest payable.
9. Employee benefits expense totaled AUD24 million for the year, all of which was paid in cash.
10. Commissions to third-party mortgage brokers for originating mortgages totaled AUD 8 million for the year, all of which was paid in cash.
11. The bank sold one of its loans with a carrying value of AUD800,000 to another bank for AUD850,000 in cash.
12. On March 31, 2021, the bank paid a dividend of AUD12 million.
13. The bank recorded depreciation expense on PP&E of AUD3 million for the year.
14. The bank recorded loan impairment expense of AUD8 million for the year.
15. The bank determined that its goodwill had not been impaired during the year.

Suggested Assignment Questions

1. Record the representative transactions in the spreadsheet accompanying this case using the balance sheet equation.
2. Prepare a balance sheet as of the fiscal year end June 30, 2021 assuming that the representative transactions were the only ones that occurred during this fiscal year.

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3. Calculate fiscal year 2021 net income and cash flow assuming that the representative transactions were the only ones that occurred during this fiscal year.

Exhibit 1 Auswide Bank Statement of Profit or Loss (Thousands)

Fiscal Year End June 30, 2020	AUD
Interest revenue	126,252
Interest expense	<u>(55,736)</u>
Net interest revenue	<u>70,516</u>
Other non-interest income	<u>9,959</u>
Total operating income	<u>80,475</u>
Employee benefits expense	21,584
Depreciation expense	3,324
Amortisation expense	710
Occupancy expense	1,533
Fees and commissions	11,524
General and administration expenses	10,406
Other expenses	<u>1,051</u>
Operating expenses less loan impairment expense	<u>50,132</u>
Loan impairment expense	<u>3,845</u>
Total operating expenses	<u>53,977</u>
Profit before income tax expense	26,498
Income tax expense	<u>7,994</u>
Net profit after tax	<u>18,504</u>

Exhibit 1 (cont.) Auswide Bank Statement of Financial Position (Thousands)

Fiscal Year End June 30, 2020	AUD
ASSETS	
Cash and cash equivalents	106,478
Due from other financial institutions	16,293
Other financial assets	378,266
Current income tax assets	3,344
Loans and advances	3,205,775
Other investments	1,379
Property, plant and equipment	21,394
Other intangible assets	1,198
Deferred tax assets	5,726
Other assets	3,250
Goodwill	46,363
Total assets	3,789,466
LIABILITIES	
Deposits and short term borrowings	3,018,508
Other borrowings	49,793
Payables and other liabilities	25,645
Loans under management	420,731
Deferred tax liabilities	1,404
Provisions	3,347
Subordinated capital notes	28,000
Total liabilities	3,547,428
Net assets	242,038
EQUITY	
Contributed equity	193,261
Reserves	14,431
Retained profits	34,346
Total equity	242,038

Exhibit 1 (cont.) Auswide Bank Cash Flow Statement (Thousands)

Fiscal Year End June 30, 2020	AUD
Cash flows from operating activities	
Interest received	127,029
Other non-interest income received	10,670
Interest paid	(60,529)
Income tax paid	(10,313)
Cash paid to suppliers and employees (inclusive of goods and services tax)	<u>(59,689)</u>
Net cash provided by / (used in) operating activities	<u>7,168</u>
Cash flows from investing activities	
Net movement in investment securities	(61,207)
Net movement in amounts due from other financial institutions	4,701
Net movement in loans and advances	(124,549)
Net movement in other investments	(57)
Proceeds from sale of property, plant and equipment	-
Payments for non current assets	<u>(2,847)</u>
Net cash provided by / (used in) investing activities	<u>(183,959)</u>
Cash flows from financing activities	
Net movement in deposits and short term borrowings	265,695
Net movement in amounts due to other financial institutions and other liabilities	(71,022)
Principal payment of lease liabilities	(2,152)
Proceeds from share issue	-
Dividends paid	(13,554)
Movement in share capital due to employee incentive scheme	<u>(87)</u>
Net cash provided by / (used in) financing activities	<u>178,880</u>
Net movement in cash and cash equivalents	2,089
Cash and cash equivalents at the beginning of the financial year	<u>104,389</u>
Cash and cash equivalents at end of the financial year	<u>106,478</u>

Source: Auswide Bank Annual Report, June 30, 2020.