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MyState Limited

ASX/Media release

21 August 2020

Digital growth strategy fuels strong MyState result

- **Pre-provision operating profit up 12.9%**
- **Home loan growth of 5.1% and customer deposits up 7.6%**
- **Cost-to-income ratio down 195bp to 62.8%**
- **No final dividend**

21 August 2020: MyState Limited today announced a strong core operating result before COVID-19 related credit loss provisions for the year to 30 June 2020 as the Group benefited from its customer-led digital strategy and continued growth in mainland states.

Net operating profit before provisions and tax increased 12.9% to $47.9 million from $42.4 million in FY19. After provisions of $4.9 million for possible credit losses, statutory net profit after tax (NPAT) was $30.1 million compared with $29.8 million from continuing operations in FY19*.

To maintain the Group's strong capital position during the current economic uncertainty, the Board has resolved not to pay a final dividend. The total dividend for the year was 14.25 cents per share, representing a payout ratio of 43.4% for FY20. Barring unforeseen circumstances, directors expect to resume dividends for the first half of FY21. In light of the current economic uncertainty, the Board has resolved to change its dividend policy for the time being to a pay-out ratio of 60-80% of post-tax earnings from the previous range of 70-90%.

Net interest income for the year was up 11.3% to $99.5 million, benefiting from balance sheet growth, disciplined margin management, a significant increase in retail deposits and lower wholesale funding costs. Income growth outpaced expenses with the cost-to-income ratio improving 195 basis points to 62.8%. Net interest margin also improved 6 basis points to 1.86%.

The capital adequacy ratio at 30 June 2020 was 13.0% and the CET1 ratio was 11.1%, which remains comfortably above regulatory requirements. On 10 July 2020 MyState Limited issued $25 million of Tier 2 qualifying subordinated notes, which replace the equivalent value of notes issued by MyState Bank Limited in August 2015 and redeemed on 14 August 2020.

Managing Director and Chief Executive Officer, Melos Sulicich, said: "While COVID-19 has presented challenges for the business and for our customers, this result demonstrates the success of our customer-focused approach, underpinned by a strategy of digitising business operations and our long-term ongoing focus on lower risk mortgages.

"There has been an increase in customers using digital banking services during the lockdowns as they have adapted to the limitations imposed by the pandemic. Costs are being managed tightly, with investment focused on marketing and improving services to customers through continued digital transformation."

* Statutory NPAT in FY19 of $31.0 million included a $1.2 million gain on sale of the financial planning business.

MyState Bank: digitisation and retail deposit growth fuel strong results and lower funding costs

MyState Bank's digital strategy helped customer deposits grow 7.6% to $3.9 billion, representing 69.1% of the bank's funding, up 0.5% from 30 June 2019. Retail customer deposits increased by 15.5% during the year, reflecting the focus on transforming the bank into a retail deposit-led business by improving digital engagement with customers. The recent release of new Artificial Intelligence (AI) technology on the bank's internet and mobile banking platforms will improve customer engagement and help customers manage their personal finances.

MyState Bank continued to grow its loan book significantly above system, with an increase of 4.7% to $5.28 billion. Successful participation in the government's First Home Loan Deposit Scheme (FHLDS) boosted the mortgage book, with the bank approving more FHLDS loans than its non-major bank peers.

The bank's prudent lending practice helped arrears remain below the benchmarks of regional peers and the major banks, with 30-day arrears at 0.61% and 90-day arrears at 0.35%. The bank's owner-occupied loan portfolio comprises 79% of the total portfolio, and the focus has continued on low-risk lending with a loan-to-valuation (LVR) of less than 80%, which currently makes up 79% of the total loan book.

New risk management processes and systems were also introduced, including robotics technology and automation to complete previously manual tasks, increasing scalability of the business while improving risk management practices.

TPT Wealth transformed

The transformation of the Group's wealth business continued, with the division rebranded as TPT Wealth and moving to an asset management model from its traditional trustee business. There was substantial restructuring during the year, with fund administration and accounting outsourced to a leading third party provider and the creation of a new digital platform to allow investors to trade and manage their investments online.

Funds under management (FUM) had a steady increase throughout the year, until March. However, following the outbreak of COVID-19 the market changed, resulting FUM falling to $1.07 billion. Despite this, revenue was up 1.3% to $15.5 million, with fund inflows recommencing late in the year as markets stabilised and confidence returned. Distribution will be expanded into mainland states during FY21, supported by additional business development resources.

Business benefiting from digital transformation

With the current phase of MyState Bank's digital transformation nearing completion, customers now have access to more streamlined, user-friendly banking products and services, helping to boost customer loyalty.

Today, two-thirds of MyState's customers are using internet banking, with the proportion receiving eStatements increasing from 29% a year ago to 46%. In response to the continuing decline in branch transactions, which has accelerated during the pandemic, MyState Bank's four Central Queensland branches and two branches in Tasmania will close, along with TPT Wealth's Devonport branch and some rationalisation of corporate office locations in Tasmania. These changes will result in a one-off restructuring cost of approximately $2.4 million before tax in 1H21.

Acquisition of new customers through digital channels is increasing, with the number of new on-line customers doubling again during the year. Customers are increasingly supported by digital channels with increasing investment in mobile and internet banking applications, including the recent launch of a new AI-powered insights banking service that enables customers to manage their financial affairs more efficiently.

MyState has launched phase one of Open Banking, well ahead of the October 2020 mandated implementation date. Phase one makes details about the features, rates and fees of transaction, savings and term deposit accounts available to developers through an Application Programming Interface (API). This marks MyState's first step in the Consumer Data Rights (CDR) regime with phase two planned to conclude in 2021.

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A multi-year program of work is continuing to transform TPT Wealth. A new lending system has recently been deployed and a new trustee system, well into the planning stage, is anticipated to be complete by the end of the current calendar year. Replacement of existing legacy systems will create a more efficient and scalable business. Additionally, the product suite has seen the first phase of rationalisation with the closure of two sub-scale funds.

Market-leading Net Promoter Score

The success of MyState's digital transformation is reflected in its consistently high Net Promoter Score (NPS) of +48, up from +42 the previous year. NPS gauges customer advocacy, with this high score reflecting the Group's focus on customer service and the effectiveness of its digital transformation strategy. Following six years of transformation, MyState is now well equipped to continue to grow.

COVID-19 response

In response to the COVID-19 pandemic, MyState Bank has been helping customers who need financial assistance through switching their loans to interest-only or deferring payments. The Group has also expanded its hardship and collection services team to support customers facing greater financial hardship.

During the crisis, MyState made the safety and welfare of staff a priority, with the company instituting work-from-home practices for all office-based staff and the call centre. The MyState team moved quickly and effectively, and have been communicating and working using best-in-class digital tools during the pandemic. Branches have remained open throughout the lockdown, allowing customers to access essential services.

In recognition of the hardship some shareholders may be experiencing, MyState's non-executive directors' fees have been reduced by 20% for a six month period from May 2020 and the executive team have elected to forego any short-term incentive for the FY20 financial year. Additionally, there will be no management fixed remuneration increases in 2020.

Outlook

Mr Sulicich said: "Following the hard work of the past six years, MyState is set for a bright future. These results show our investments in modernising our bank and wealth management business have been well received by our customers.

"Six years ago, we made decisions about where we were headed and executed a digital strategy that has transformed MyState Bank into a digital bank which is expanding rapidly along Australia's east coast. Customers appreciate the changes we have made, with our new digital capabilities supporting customer growth. Our products are easier to use and always accessible via our mobile and internet banking applications.

"TPT Wealth has also been brought into the digital age with the asset management platform transformed. Investors are now able to sign up, trade and top up investments easily online.

"While COVID-19 is uncharted territory in terms of credit and liquidity challenges, we are extremely well placed for the future. We are ready to compete for market share, grow our mortgage book and secure a greater number of deposit customers across Australia. TPT Wealth is also well placed to win market share in eastern states and grow its business.

"We are now seeing evidence of operating leverage emerging in our business. Combined with our very high NPS score and growing deposit accounts, we are confident that this will translate into increased value for shareholders."

Authorised by the Board of Directors of MyState Limited

About MyState Limited

Registered Office: 137 Harrington Street, Hobart 7000
MyState Limited is the ASX-listed (MYS) non-operating holding company of the diversified financial services group consisting of MyState Bank and TPT Wealth, a trustee and wealth management company. MyState Bank is regulated by the Australian Prudential Regulatory Authority. MyState Bank and TPT Wealth hold Australian Financial Services Licences issued by the Australian Securities and Investments Commission.

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APPENDIX

Results summary for the year*	**30 Jun 20**	**30 Jun 19**	**Change**
Net interest income ($m)	99.5	89.4	11.3%
Group total operating income ($m)	128.9	120.4	7.0%
Pre-provision operating profit ($m)	47.9	42.4	12.9%
Statutory net profit after tax ($m)	30.1	31.0	-3.0%
Banking contribution ($m)	26.4	25.9	1.9%
Wealth contribution ($m) #	3.7	5.1	-27.5%
Net interest margin (%)	1.86	1.80	6bps
Statutory earnings per share (cents)	32.86	34.17	-1.31cps
Return on average equity (%)	9.2	9.7	-54bps
Final dividend per share – fully franked (cents)	0	14.5	-14.5cps
Total dividends per share – interim and final fully franked (cents)	14.25	28.75	-14.5cps
Dividend payout ratio (%)	43	84	-41%

As at the end of the reporting period:	**30 Jun 20 ($ million)**	**30 Jun 19 ($ million))**	**Change (%)**
Total assets	6,095.8	5,712.9	6.7%
Net assets	334.3	327.5	2.1%
Funds under management	1,069	1,170	-8.6%

* Percentages may not reconcile due to rounding
# Wealth contribution on a continuing basis in FY19 was $3.9m