MyState Limited

Investor Presentation

Full Year 2020

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Agenda

01 **Highlights**
Melos Sulicich
CEO & Managing Director

02 **Financial results**
Gary Dickson
Chief Financial Officer

03 **COVID-19**
Gary Dickson
Chief Financial Officer

04 **Strategy & outlook**
Melos Sulicich
CEO & Managing Director

Highlights

Melos Sulicich

Key highlights
Results

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Key highlights

FINANCIAL

+1.0%
Net profit after tax (continuing operations)[1]

-3.0%
Net profit after tax (statutory)[1]

+12.9%
Core earnings[2]

+7.6%
Customer deposits

-195bps
Cost-to-income ratio

+5.1%
Home loan growth

CUSTOMER

+48
Consistently high customer NPS

Customer assistance through COVID-19

Strong participation in FHLDS

RESPONSE TO COVID-19

- More than 1,800 personal and business customers provided with a comprehensive range of support measures
- 100% office staff WFH from mid-March, with graduated partial return to office
- Board reduced fees by 20% from May for 6 months
- Executives elected not to take any STI for FY20. No fixed salary increases
- No final dividend

POSTIONING FOR THE FUTURE

- Restructuring, digital transformation and capability build increasing momentum and releasing funds to invest in marketing
- Closure of 6 branches in 1H21

WE HAVE A CLEAR DIGITAL GROWTH STRATEGY, A SIGNIFICANT OPPORTUNITY TO BUILD OUR BUSINESS AND A SCALABLE PLATFORM

[1] Including impairment expanse of $4.9m
[2] Defined as pre-provision operating profit before tax

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Key metrics and performance drivers

STRONG CORE EARNINGS GROWTH
driven by solid uplift in net interest income

NET PROFIT AFTER TAX
down 3% on statutory pcp but up 0.9% on continuing operations basis when excluding profit impact of FY19 sale of financial planning business

COST TO INCOME RATIO
down 1.9% on pcp through revenue growth and effective management of costs

ABOVE SYSTEM LOAN & DEPOSIT GROWTH
supported by digital experience and product innovation

FINANCIAL PERFORMANCE		*Change**
Core earnings[1]: $47.9m	▲	+12.9%
Net profit after tax: $30.06m (continuing operations basis)	▲	+0.9%
Net profit after tax: $30.06m (statutory)	▼	-3.0%
Earnings per share: 32.86cps	▼	-3.9%
Cost-to-income ratio: 62.8%	▼	-195bps
Return on tangible equity: 12.77%	▼	-20bps
Total capital ratio: 13.01%	▲	+11bps
Total loan book: $5.3b	▲	+4.7%
Customer deposits: $3.9b	▲	+7.6%

* Financial performance, balance sheet and capital figures compare FY19 to FY20 as the previous corresponding period (pcp). All amounts shown represent statutory results exclusive of discontinued operations unless otherwise stated.

[1] Defined as pre-provision operating profit before tax

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Financial Results

Gary Dickson

Results summary
Performance
- Funding
- Operating Costs
- NPAT

Loan book
Credit profile
Funding and capital
Wealth

Results summary

Top line momentum, with NIM +6bps on pcp benefitting from significantly lower funding costs particularly across 2H

Positive jaws in FY20 with income growth exceeding cost growth leading to a lower cost to income ratio

	FY20	FY19	Change (v FY19)		1H20	2H20	2H v 1H Change
Total operating income ($m)	128.9	120.4	+7.0%	▲	63.4	65.5	+3.4%
Operating expenses (excl. BDD) ($m)	81.0	78.0	+3.8%	▲	41.1	39.8	-3.1%
Pre-provision operating profit ($m)	47.9	42.4	+12.9%	▲	22.2	25.7	+15.5%
Statutory net profit after tax ($m)	30.1	31.0	-3.0%	▼	15.1	15.0	-1.2%
Net profit after tax ($m) (continuing basis)	30.1	29.8	+1.0%	▲	15.1	15.0	-1.2%
Statutory earnings per share (cps)	32.86	34.17	-1.31cps	▼	16.57	16.29	-0.28cps
Net interest margin (%)	1.86%	1.80%	+6bps	▲	1.82%	1.88%	+6bps
Cost-to-income ratio (%)	62.82%	64.77%	-195bps	▼	64.92%	60.80%	-412bps
Total capital ratio (%)	13.01%	12.90%	+11bps	▲	13.21%	13.01%	-20bps
CET1 ratio (%)	11.07%	11.09%	-2bps	▼	11.38%	11.07%	-31bps
Return on average equity (%)	9.16%	9.68%	-52bps	▼	9.29%	9.03%	-26bps
Return on tangible equity (%)	12.77%	13.43%	-49bps	▼	12.22%	13.03%	+81bps
Dividend–fully franked (cps)	14.25	28.75	-14.50cps	▼	14.25	-	-14.25cps
Dividend payout ratio (%)	43%	84%	-41%	▼	86%	-	-86%
Credit performance - 30 day arrears (%)	0.61%	0.46%	+15bps	▼	0.56%	0.61%	+5bps

Note: All figures compare FY20 to FY19 as the previous corresponding period (pcp) unless otherwise indicated. All amounts shown represent statutory results exclusive of discontinued operations unless otherwise stated

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MSB captures funding cost decrease

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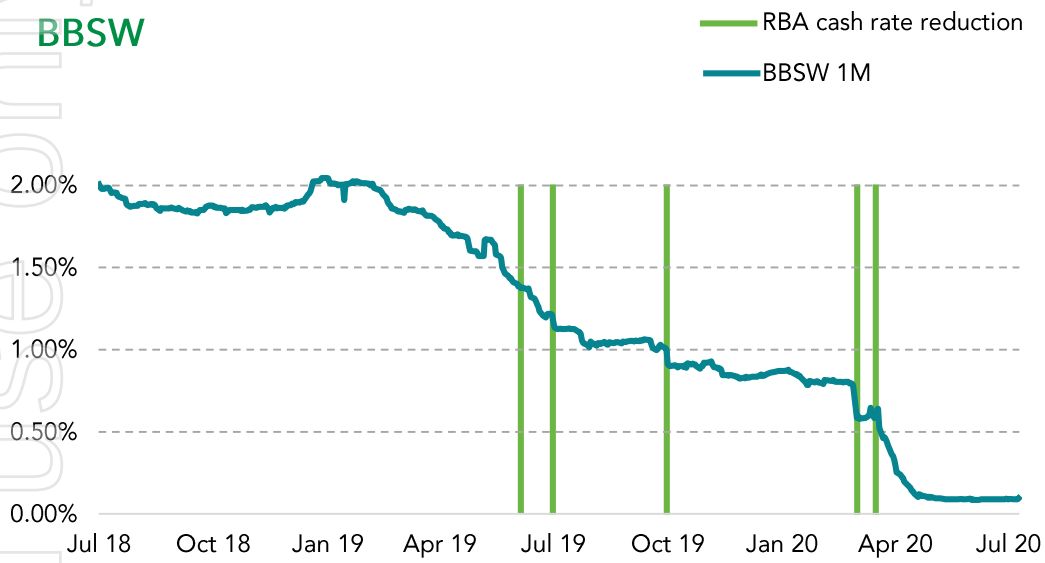
BBSW

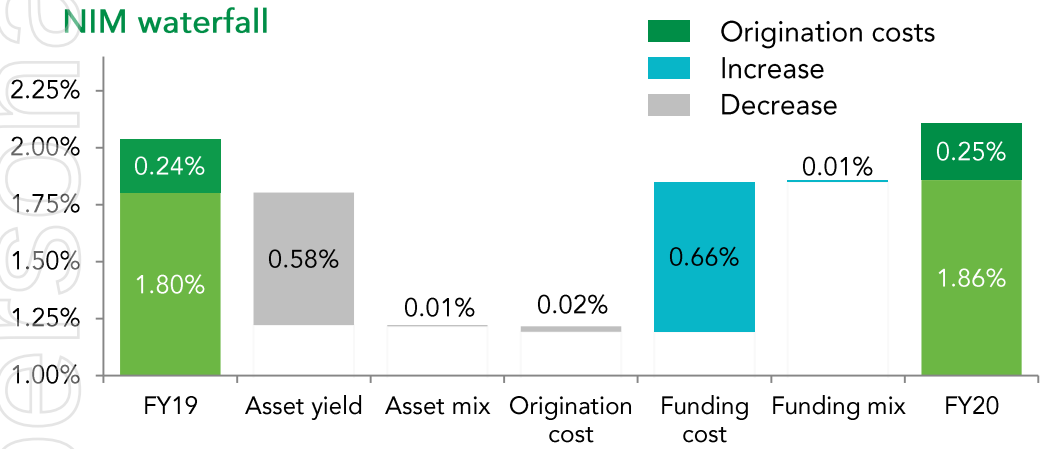


Rapid fall in BBSW and significant decrease in funding costs during 2H20

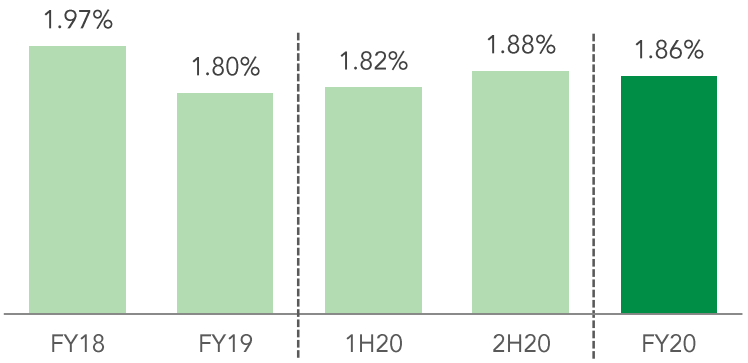
Net interest margin up 6bp on pcp

Lending market remains highly competitive

NIM waterfall



NIM trend



Operating costs

Operating cost increased by 3.8% led by increased investment in capability, digital and marketing

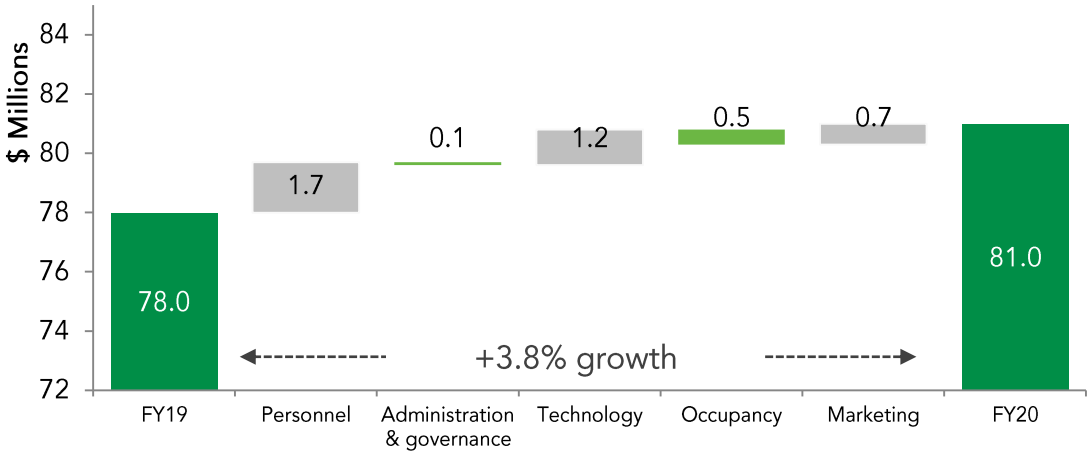
One off costs absorbed during the year including brand investment and costs relating to COVID-19

Personnel costs and FTEs continue to be carefully managed

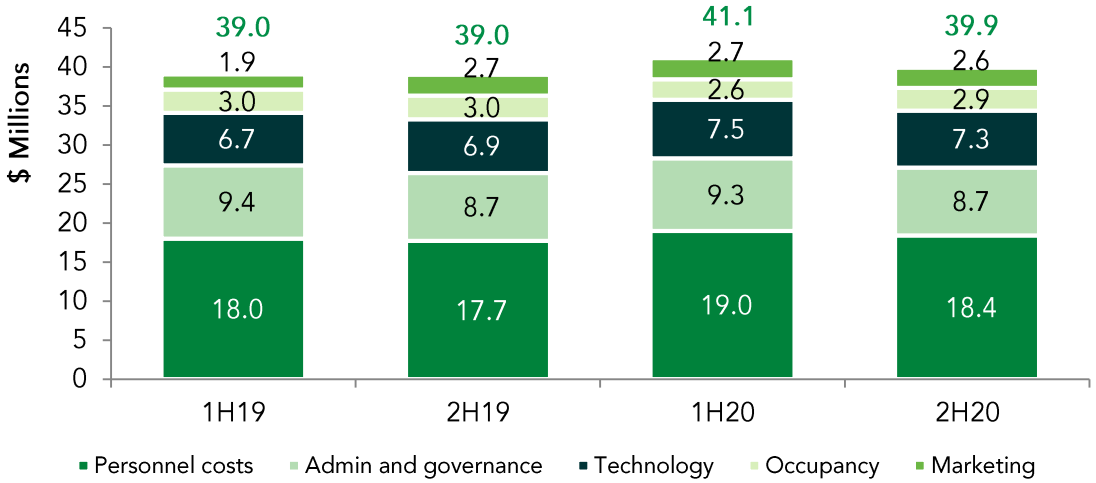
6 branch closures announced, to occur during 1H21 (2 in Tasmania; 4 in Central Queensland)

Closures to provide benefits and optionality from FY21

Operating Expenditure



Expenditure breakdown



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NPAT bridge

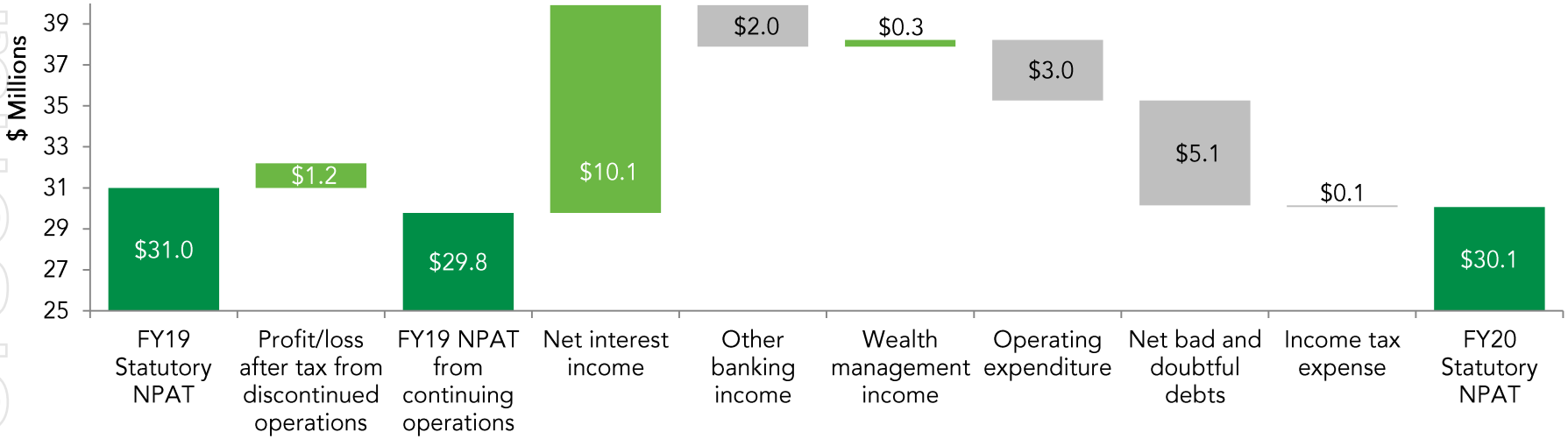
NPAT decline of 3.0% on statutory pcp but up 0.9% on continuing operations basis when excluding profit impact of FY19 sale of financial planning business

Net interest income up strongly on pcp benefiting from lower funding costs particularly across 2H and a higher average balance sheet

Focus on margin management in a difficult environment

COVID-19 related B&DD expense of $4.92m weighed on result, in comparison to a net write-back of $0.20m in FY19

Net profit after tax



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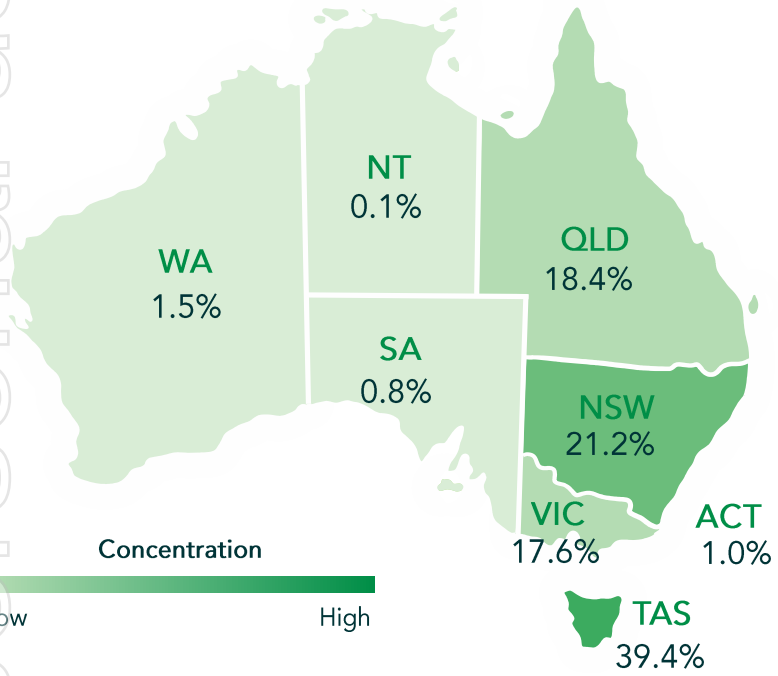
Solid growth, low risk loan book

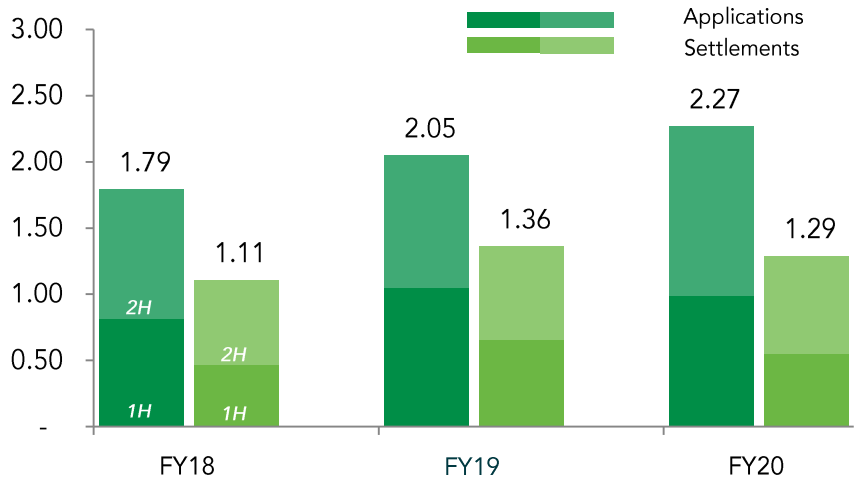
Loan book grew well above system during FY20 led by home lending (1.7x system; +5.1% on pcp) with strong 2H applications and settlements

Meaningful participation in First Home Loans Deposit Scheme (FHLDS) with 985 places reserved

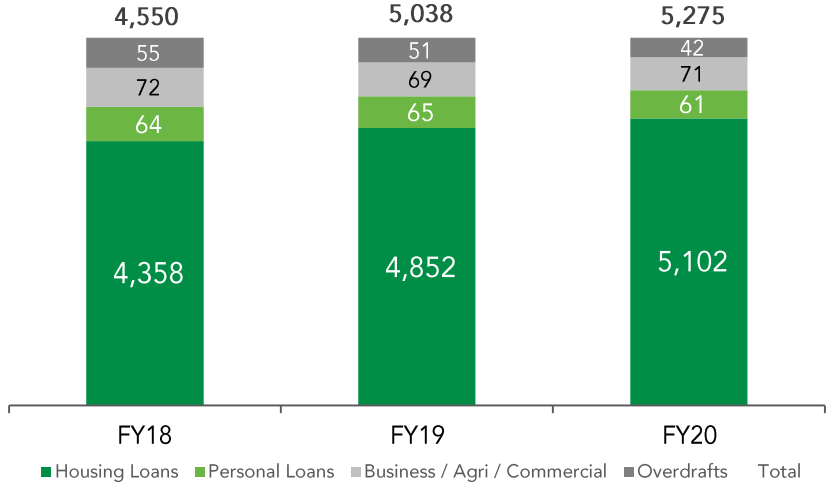
Maintaining quality lending growth remains a key focus



Home loan book – applications and settlements ($b)



Total book composition ($m)



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High credit quality

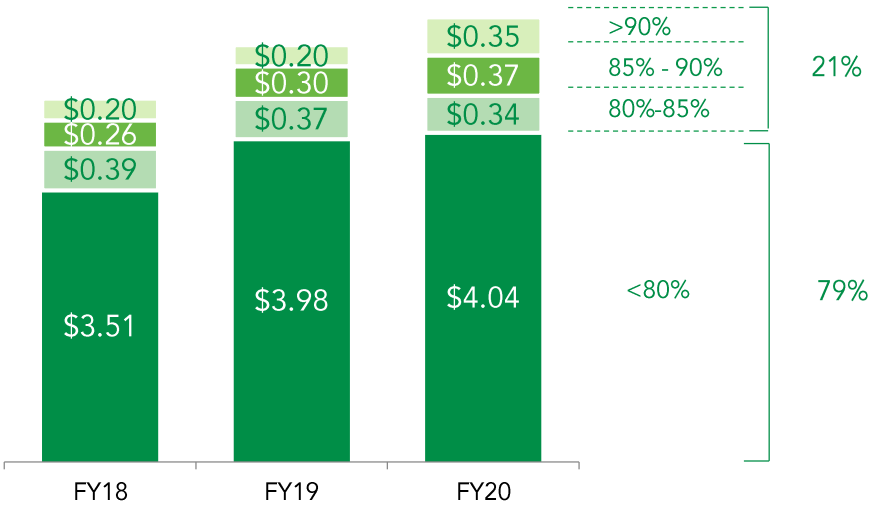
Consistent focus on lower LVR loans

While impairments have risen, 99% of home loan book arrears are 30 days or less and considered performing loans

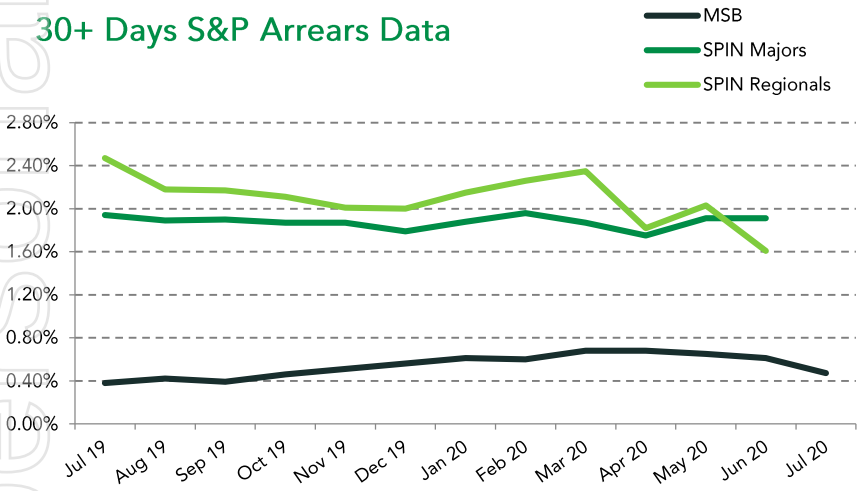
Successful FHLDS has driven >90% LVR growth

Further detail provided in COVID-19 section

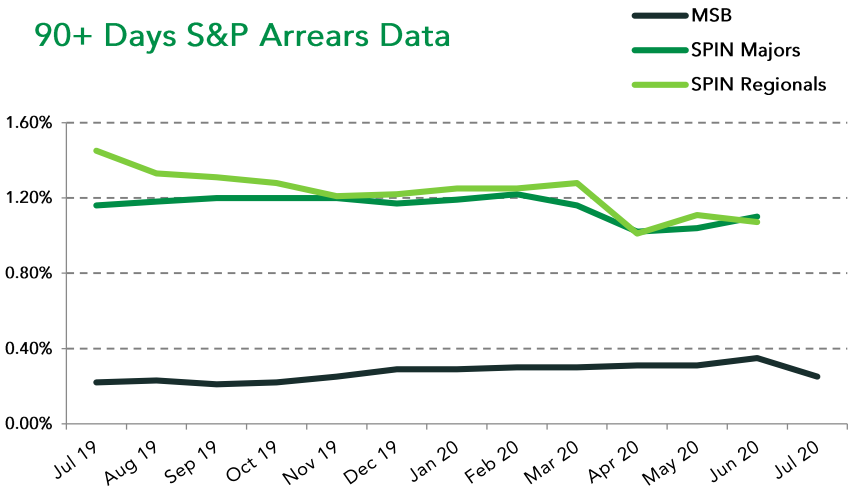
Home loan book - LVR profile ($b)



30+ Days S&P Arrears Data



90+ Days S&P Arrears Data



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Customer funding

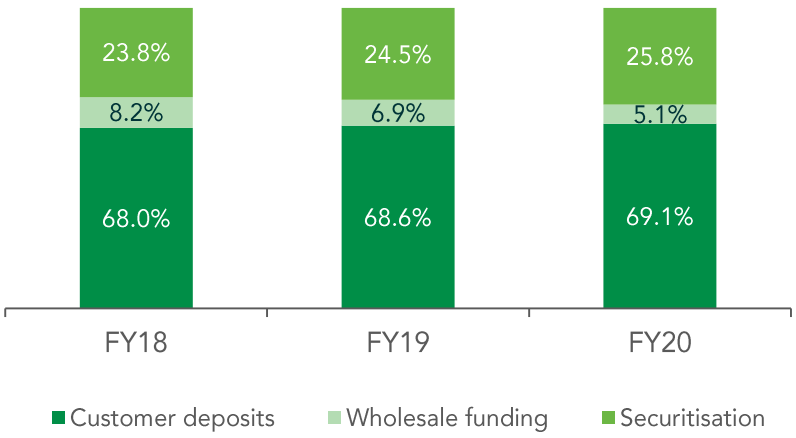
Funding mix continues to be enhanced by growth in lower cost at call customer deposits (+24.7% on pcp)

Customer deposits grew above system (+7.6% on pcp)

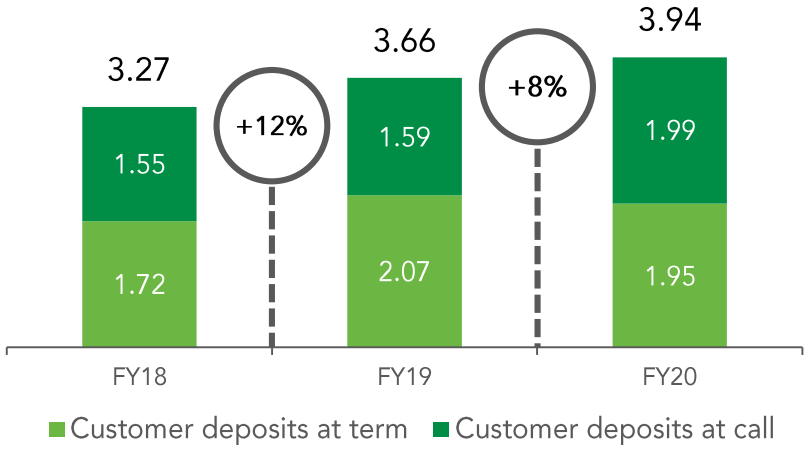
Programmatic RMBS issuance continues to be well supported by broad investor base

Current Moody's Baa1/P2 rating on review for downgrade

Funding mix (%)



Customer deposits ($b)



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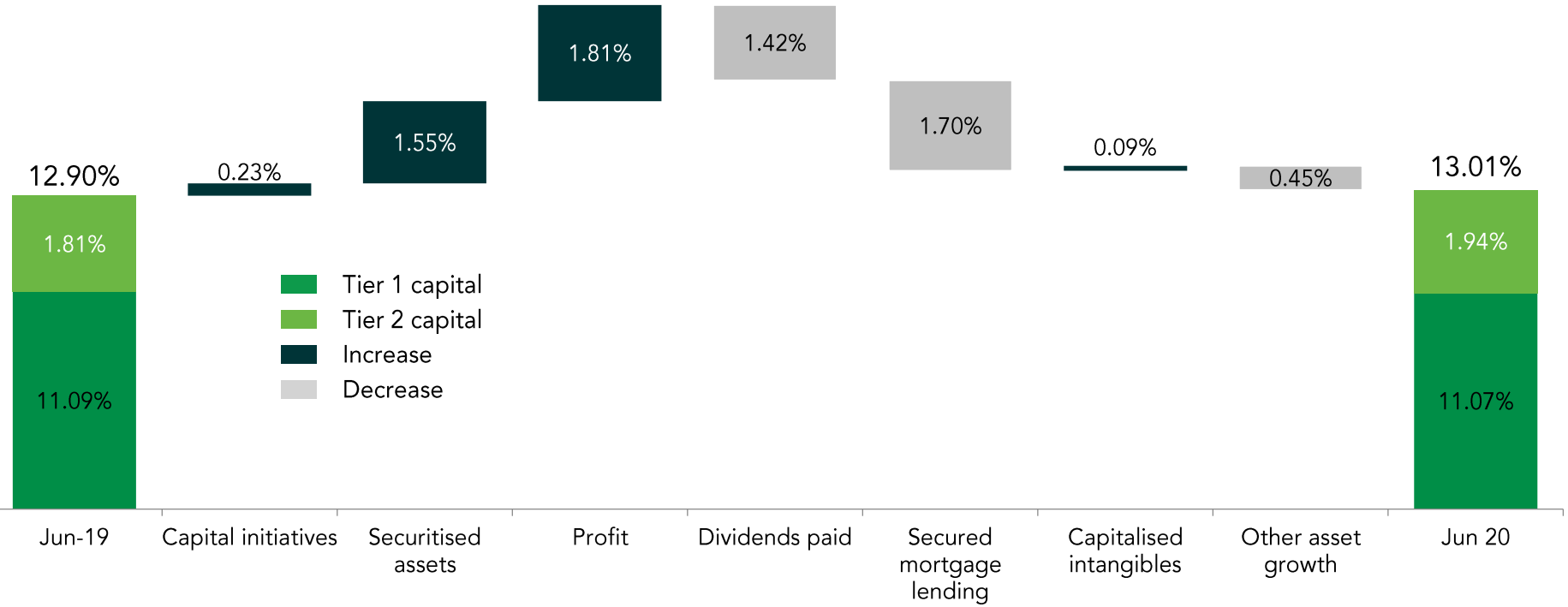
Well capitalised

Capital ratios comfortably above regulatory minimums

Capital position supported by earnings growth and securitised funding

Effective capital strategy underpinning growth and investment in digital capability

Reviewing alternatives to improve balance sheet efficiency



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TPT Wealth

Net FUM $100m lower to $1.07b, impacted by COVID-19 market adjustment and investor sentiment

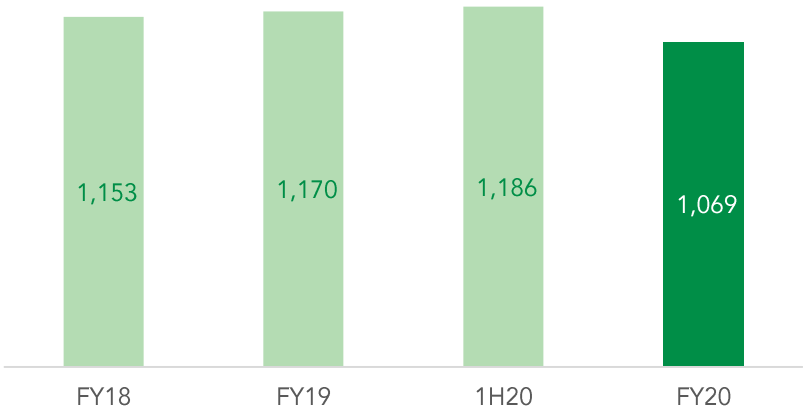
Wealth revenue increased 1.3%* on pcp due to higher trustee fees and funds management revenue

Positive customer response to new funds management investor portal and rebranding of wealth operations to TPT Wealth

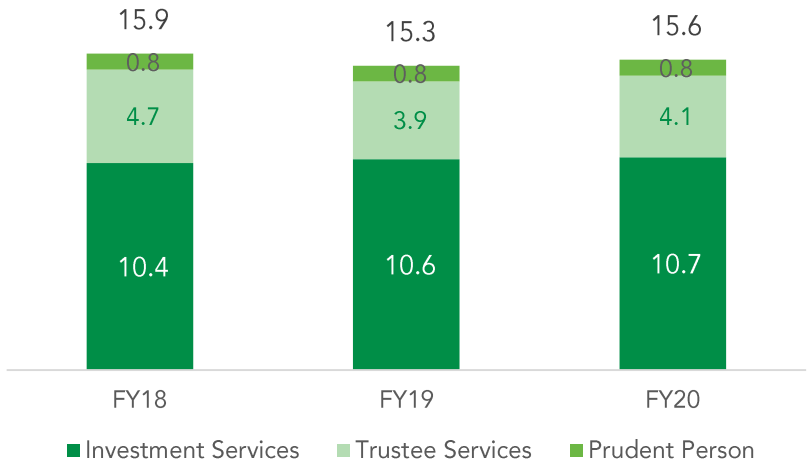
Replacement of legacy trustee system underway; target completion end 1H21

Closure of 2 sub-scale equity funds during the year

Funds under management ($m)



Operating income ($m)



*on a continuing business basis

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COVID-19

Gary Dickson

Assistance provided to customers
Provisions and coverage ratios
COVID-19 economic outlook and scenario weightings

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COVID-19 assistance to customers

MEASURES

MyState Bank's customer assistance (announced in March):

- Loan deferrals of up to 6 months – with a check-in at 3 months
- Maximum threshold on Bonus Saver Accounts increased to $250,000
- Introduction of fee-free redraws on home and personal loans
- Early access to Term Deposits for business customers

ASSISTANCE PROVIDED

Loans that have been provided assistance due to COVID-19 as at 30 June:

Assistance Type	Total balance of COVID-19 assistance ($m)			
	Home loan	Personal loan	MSB commercial	Total
Restructure	$61.1m	$0.2m	$0.1m	$61.4m
Loan pause	$428.5m	$1.9m	$14.1m	$444.5m
Interest only	$56.9m	-	$0.9m	$57.8m
Reduced repayments	$10.0m	-	-	$10.0m
Total approved	**$556.5m**	**$2.1m**	**$15.1m**	**$573.7m**

3 MONTH CHECK IN*

Staff have commenced contact with COVID-19 affected customers

Customers with loans to a value of $81.3m have either resumed repayments or discharged their loan (18% of customers who paused repayments)

Status as at 9 August 2020	Home loan	Personal loan	MSB commercial	Total
Assistance expired	$31.4m	$0.2m	$0.0m	$31.6m
Restarted payments	$40.2m	$0.2m	$0.0m	$40.4m
Discharged	$9.3m	$0.0m	$0.0m	$9.3m
Active hardship	$476.4m	$1.5m	$14.5m	$492.4m
Total	**$557.3m**	**$1.9m**	**$14.5m**	**$573.7m**

* Data as at 9 August 2020

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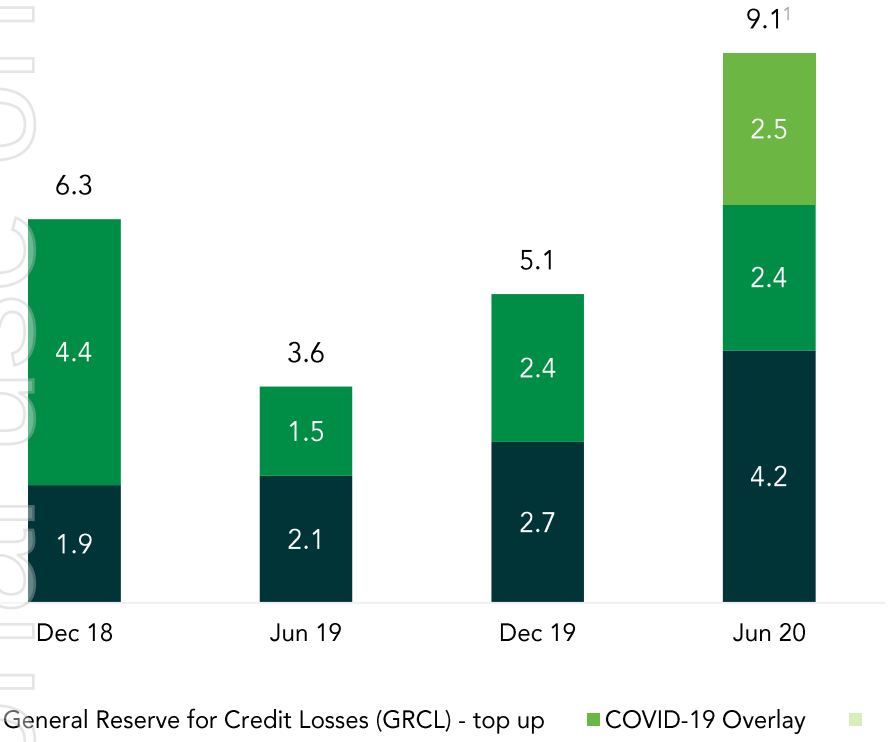
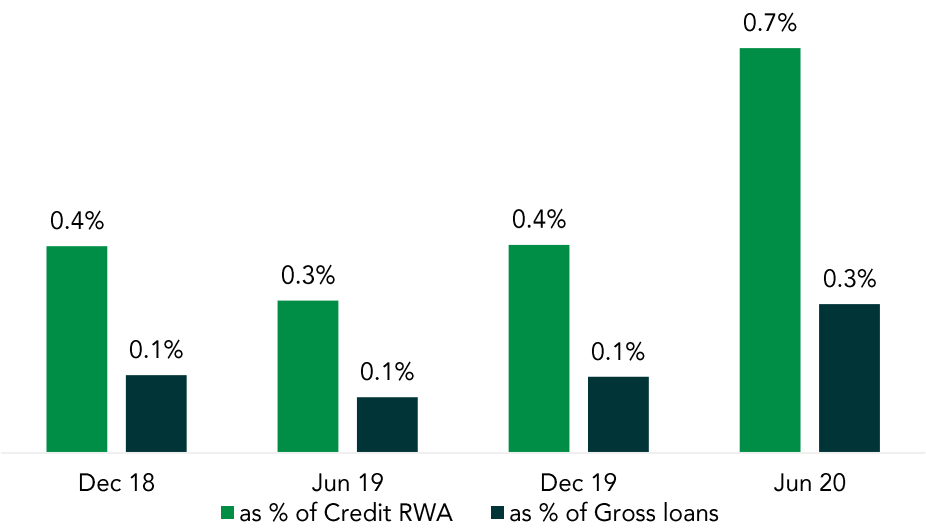
Provisions and coverage ratios

Total collective provisions and GRCL ($m)



Loan provisioning strengthened for the potential impact of COVID-19

Total Provision Coverage Ratio (Collective and GRCL)



[1]The $4.0m increase in Total Collective Provisions and GRCL between Dec 19 and Jun 20 is as follows:
+$2.5m COVID-19 overlay (Collective Provision)
+$1.5m GRCL Top-Up
- $1.5m GRCL Top-up methodology change (contractual life to actual average life for stage 1 loans)
+$1.5m Increase in total arrears and an ageing of arrears in the total loan book (Collective Provision)

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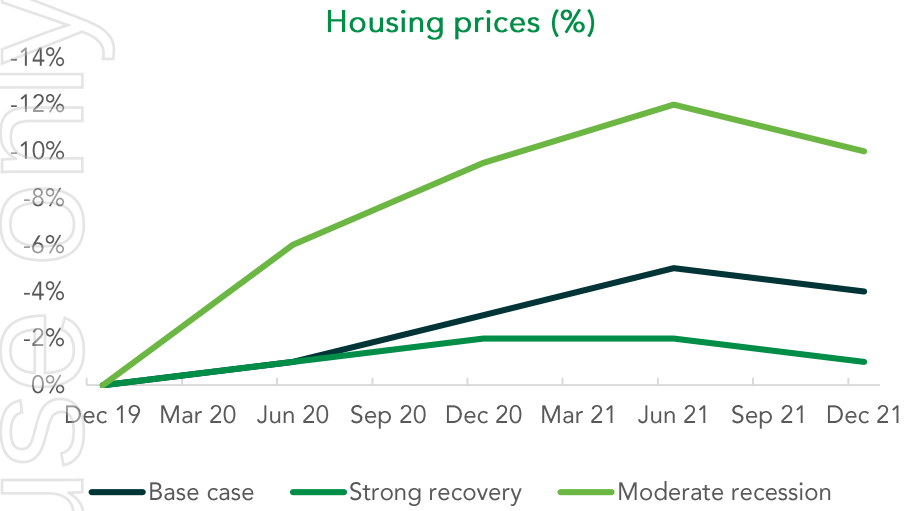
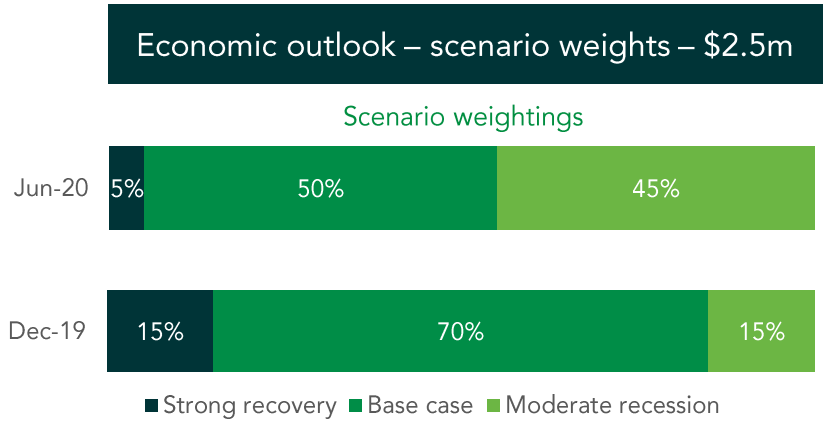
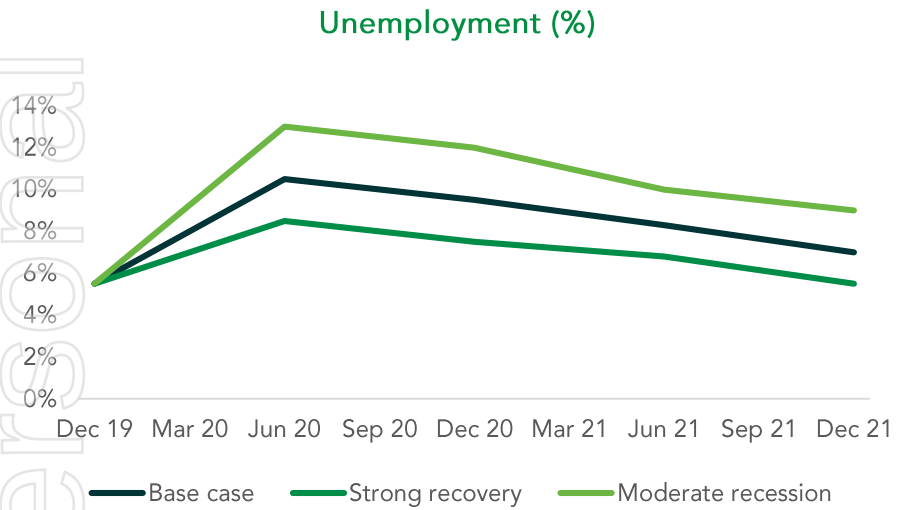
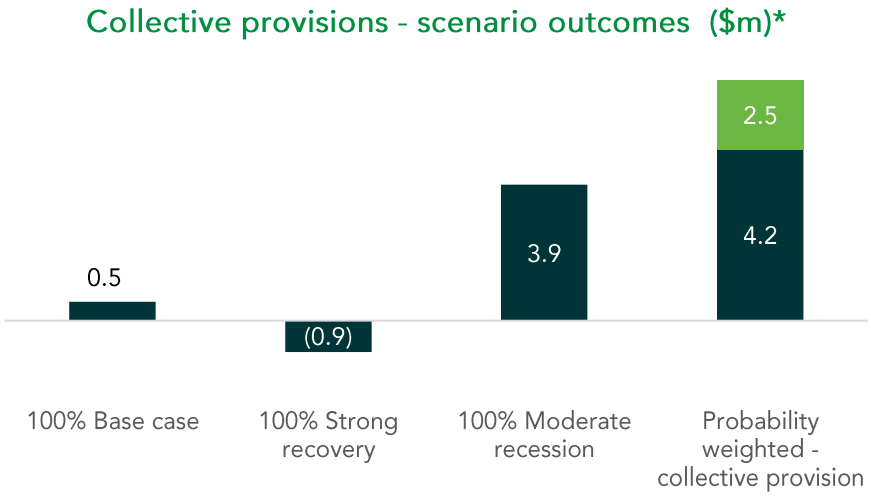
COVID-19 economic outlook and scenario weightings









*Excludes GRCL. The probability-weighted forward looking overlay includes an additional overlay of $0.5m

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Strategy & Outlook

Melos Sulicich

Community and Tasmanian economy
Sector overview
Strategic priorities
Outlook

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We make a genuine difference to our customers and communities every day

MyState Foundation
Empowering youth

$2.3M
in grants to help more than 130 not-for-profit organisations

Football Tasmania
Grassroots support

Support to reboot football and get
9,000
Tasmanian kids back into the game

MyState Student Film Festival
High engagement

300
Entries
1,500
Students

More support
for our community

Hardie Fellowship, International Women's Day and Cape Hope Foundation

Tasmanian economy continues to perform well

State final demand
Positive economic growth, although impacted by early stages of COVID-19

+2.6%
YoY

Home building activity
Solid commencements although may slow on economic uncertainty

+2.5%
YoY

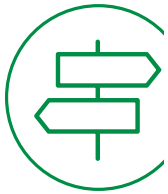
Population growth
Above average trend still in place

+0.9%
YoY

House price growth
Remains resilient as national property prices soften

+5.9%
Dwelling value growth YoY

Tourism
Key industry supported



'Make yourself at home'
Campaign to encourage domestic tourism, supporting key state industry

Economic data sourced from ABS, CommSec and CoreLogic
- SFD as at 3 June 2020; Population growth as at 18 June
- Dwelling commencements as at 15 July
- CoreLogic dwelling values as at 3 August

Sector overview

Industry dynamics

Key themes shaping the 'COVID-19 impacted' year ahead

- Slowing economy and rising unemployment likely to mean a slow and uneven pathway out
- Soft consumer and business confidence
- Low credit growth
- Intensifying competition for new lending

Continuing pressure on operating costs and the balance between cost/efficiency and customer service

Customers expecting more functionality from online and mobile banking

Customers coming out of COVID-19 with a different set of values; increase in 'austerity'?

Uncertainty around impact of credit loss provisions

Regulatory dynamics

Impact of COVID-19 has further heightened regulatory intensity and scrutiny…

… although many impending legislative changes deferred for a period due to COVID-19 disruption

Extension of APRA temporary favourable capital treatment for deferred and restructured loans a positive

Continued focus on culture, particularly risk culture.

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Our strategic priorities

Our purpose

is to help people achieve their dreams

Our mission

is making financial services simple and trustworthy

Our Strategy

MyStateBank

- **Grow** and automate bank operations
- **Increase** digital capabilities
- **Build** our brand to ultimately grow our balance sheet
- **Attract** and deepen relationships with customers

TPT WEALTH

- **Invest** in contemporary, scalable wealth management and trustee products and systems
- **Growth** through mainland distribution

Supported by investment in marketing and a strong risk culture

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Continued migration to digital

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DIGITAL HIGHLIGHTS

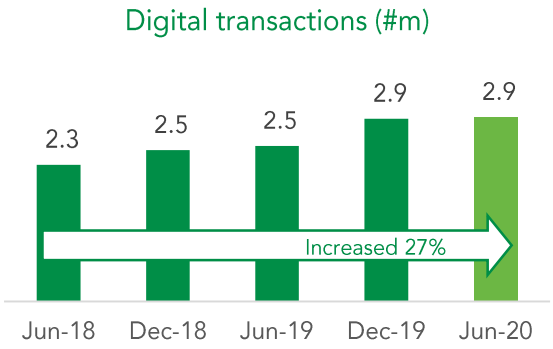
Launch of world class AI insights in MyState Bank app

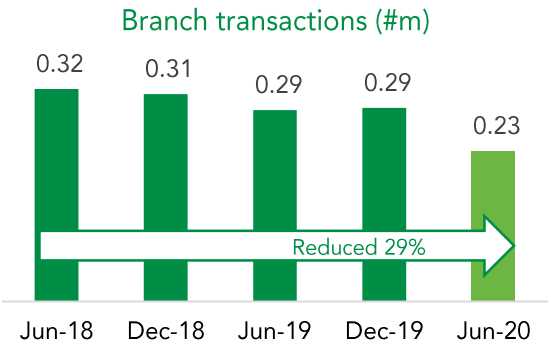
Digitisation of back office processes increases scalability

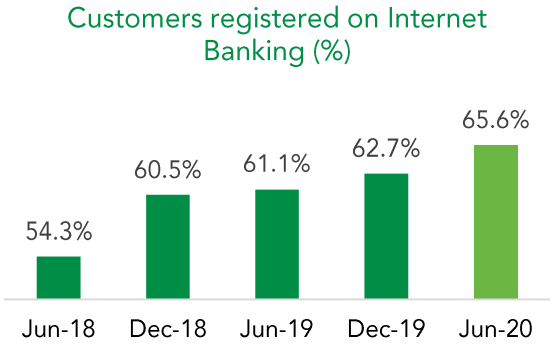
Customer uptake of internet and mobile banking continues to increase

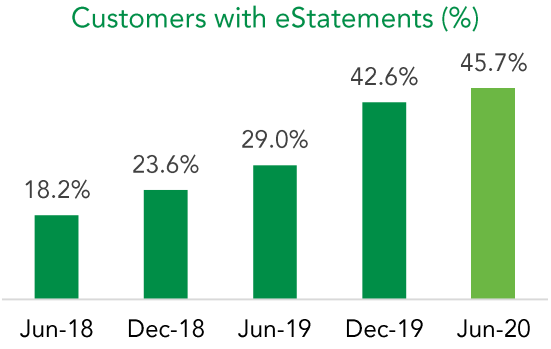
Bonus Saver awarded 5 Stars by Canstar & Mozo Experts Choice Award

On-line book and on-line customer numbers doubled for second consecutive year









Banking on the future

Nov 2013
- MSB Core system replacement

Apr 2017
- CRM
- Origination engine

May 2017
- Core system consolidation
- Deposit origination
- Apple & Google Pay

Jun 2017
- Contact centre system

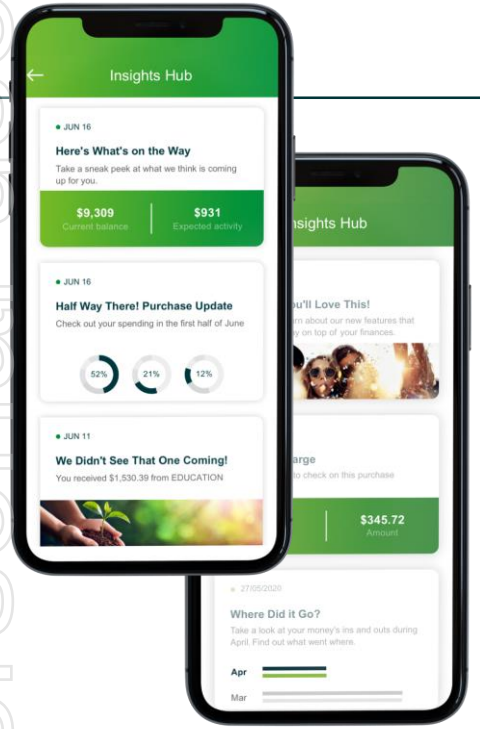
Feb 2018
- New Payments Platform (NPP)

Dec 2019
- Online mortgage origination

Feb 2020
- TPT Wealth website & investor portal

Jun 2020
- AI powered customer insights
- Auto-savings in MyState Bank App

Aug 2020+
- Open Banking - phase one (product reference data)
- Digital cards
- Further predictive AI development



INSIGHTS HUB

- Auto-savings
- Keep an eye on your spending
- Never forget to pay a bill again
- See into the future
- Less "uh-oh, we've overspent" moments

500,000
Insights generated for 63,000 customers

79%
Positive reviews for insights

$1.75m
Potential auto-savings identified

19,000
Predictive insights warning of potential problems

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TPT Wealth - investing for the long game

Jun 2019
- Sale of retail Financial Planning business

1H20
- Rebranded to TPT Wealth
- Outsource of fund unit registry
- Fund product simplification

2H20
- Launch of new funds management investor portal
- Outsource of fund administration

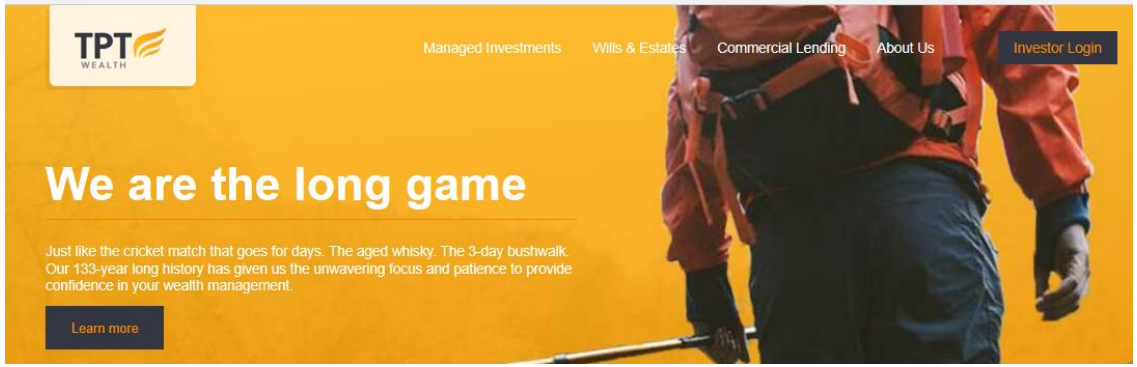
1H21
- Replacement of legacy trustee system
- Launch of new cloud lending system

OUR GOAL

Transformation into a national digital business, acknowledged as both a trustee as well as an expert, specialist income fund provider, delivering regular and reliable yield to investors.

We are investing in contemporary, scalable wealth management and trustee products and systems as well as growth through mainland distribution.

We are focused on achieving a functional and fluid ecosystem to take maximum advantage of our growth potential.



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Outlook

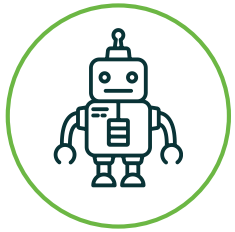
REVENUE GROWTH

Bank balance sheet growth

Disciplined margin management

FUM growth via Mainland distribution.

CHANGE



Increased marketing spend to enhance MSB retail funding and TPT Wealth FUM growth

Further fund product rationalisation.

Enhanced customer facing digital proposition.

RESTRUCTURING & COSTS

Re-engineering cost base, improving productivity and reinvesting in growth

Closure of 6 branches in 1H21

Replacement of legacy Trustee system underway; targeting completion end of 1H21

TAKEAWAY

The operational efficiencies and improvements that we have made in prior years are flowing through to the bottom line and are setting us up for a bright future.

GROWTH OF A HIGHLY SCALABLE BANKING AND FUNDS MANAGEMENT BUSINESS

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Glossary

1H: First half of financial year
2H: Second half of financial year
ADI: Authorised deposit-taking institution
APRA: Australian Prudential Regulation Authority
Avg: Average
ASX: Australian Securities Exchange
BBSW: Bank Bill Swap Rate
BDD: Bad & Doubtful Debt Expense
bps: basis points
CAGR: Compounded annual growth rate
CET1: Common Equity Tier 1
cps: Cents per share
CTI: Cost-to-income ratio
DRP: Dividend reinvestment plan
EPS: Earnings per share
FY: Financial year
HY: Half year
IO: Interest only
IRB: Internal ratings-based
Jaws: relationship between income and expense growth
LVR: Loan to valuation ratio
MYS: MyState Limited
MSB: MyState Bank Limited
NII: Net Interest Income
NIM: Net Interest Margin
NPAT: Net Profit after Tax
NPBT: Net Profit before Tax
PPOP: Pre-provision operating profit (before tax)
RBA: Reserve Bank of Australia
RMBS: Residential mortgage-backed security
ROE: Return on equity
RWA: Risk-Weighted Assets
SPIN: Standard and Poor's Performance Index
S&P: Standard and Poor's
TD: Term deposit
TPT Wealth: TPT Wealth Limited

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Appendix

Profile of customers provided COVID-19 assistance

Total portfolio arrears

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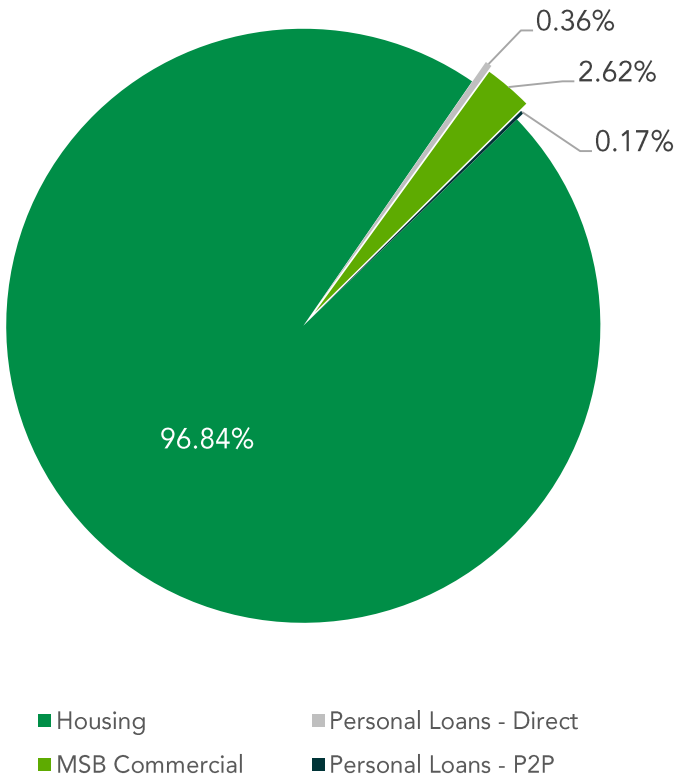
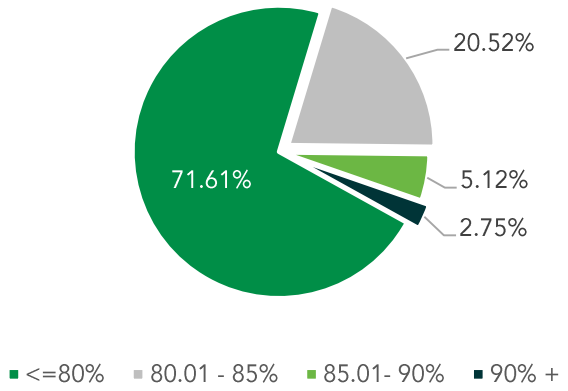
COVID-19 profile of customers provided assistance

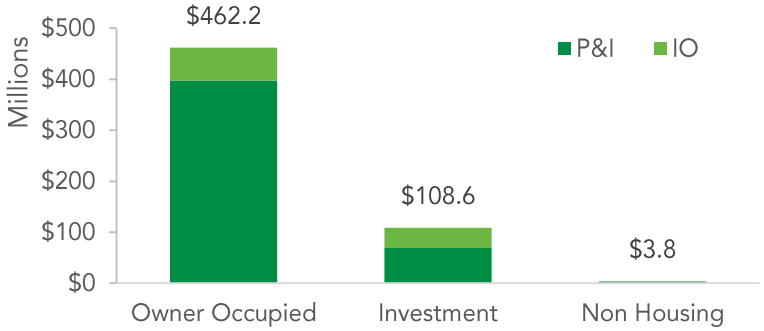
Total COVID-19 Loans



Home Loan LVR Breakdown



Purpose & Repayment Type



Data as at 30 June 2020

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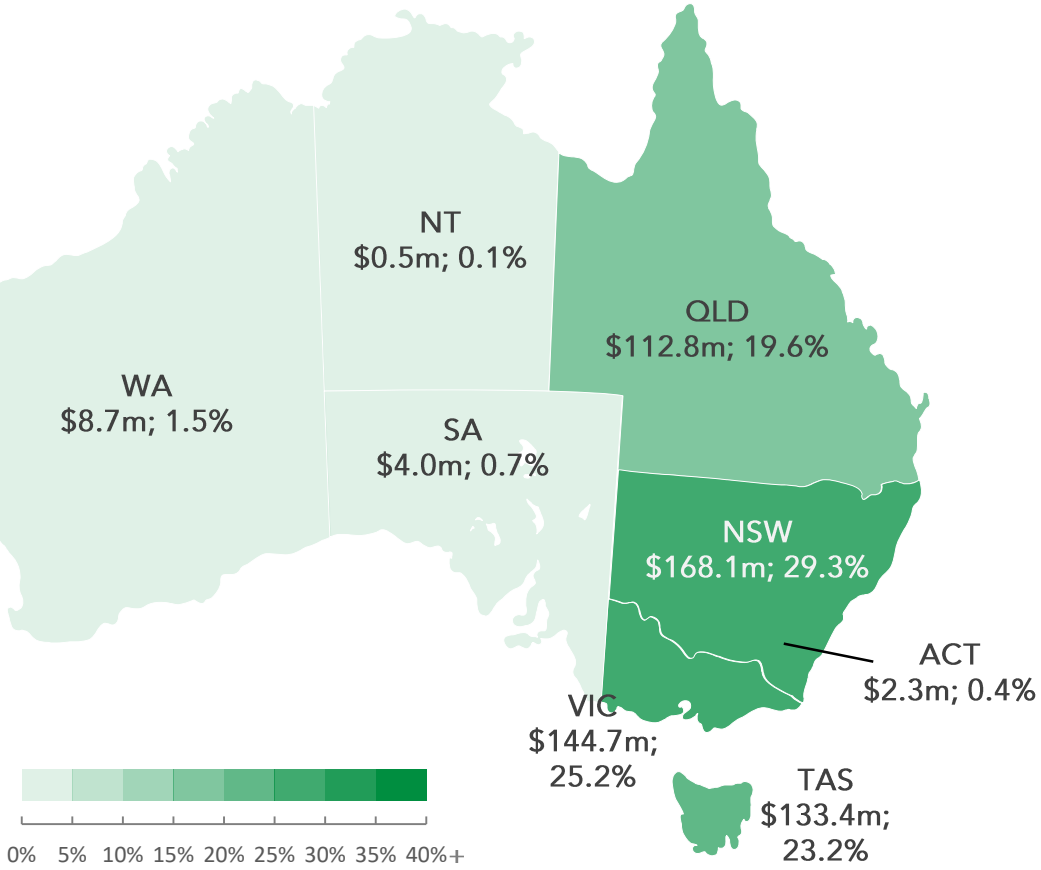
COVID-19 profile of customers provided assistance



COVID-19 hardship loans are predominantly located in NSW ($168m), followed by VIC ($145m), TAS ($133m) and QLD ($113m)

Data at 30 June 2020

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COVID-19 profile of customers provided assistance

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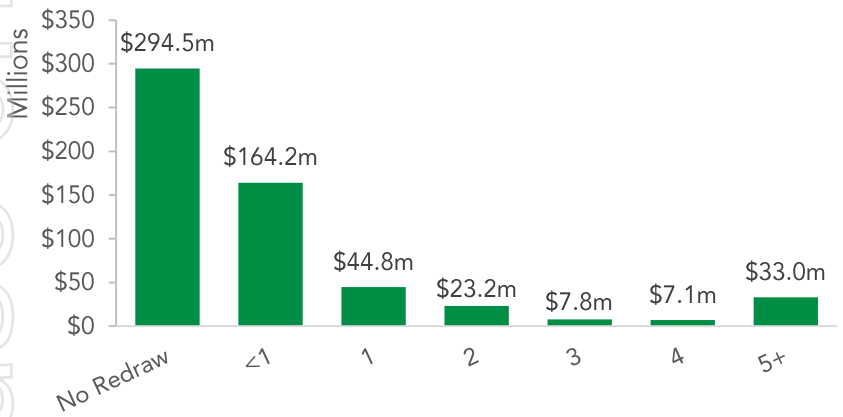
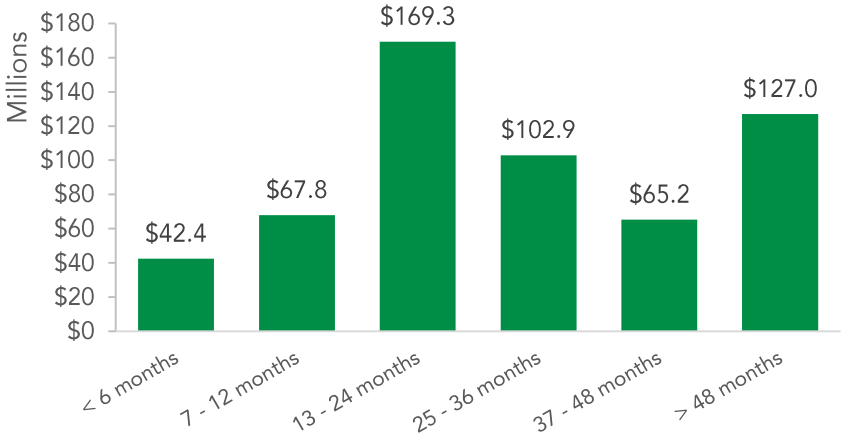
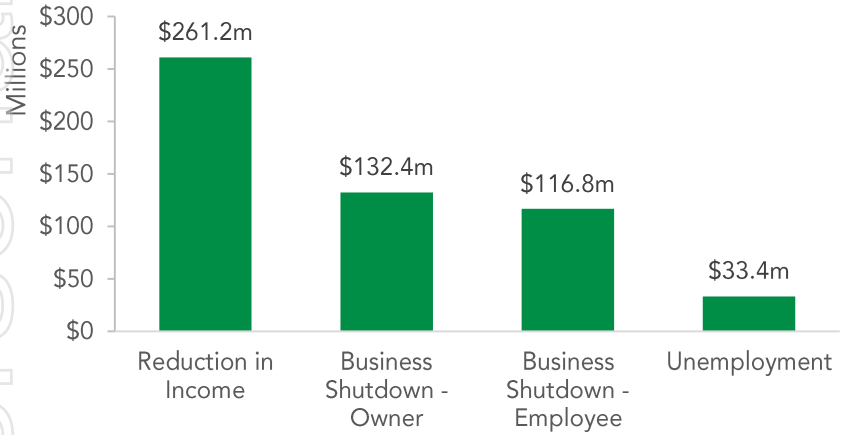
Number of Advance Payments



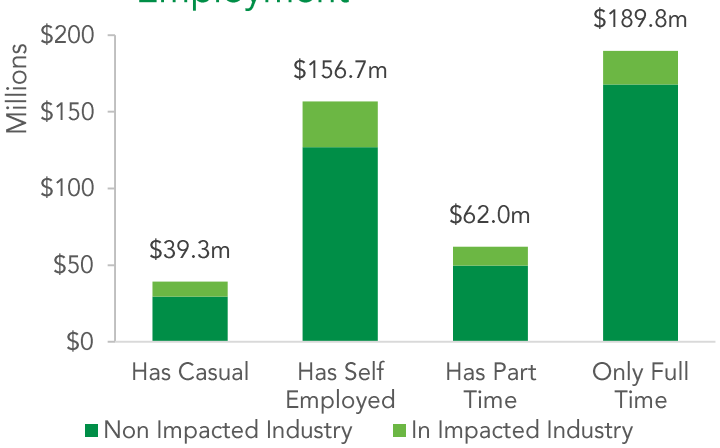
Age of Loan



Predominant Hardship Reasons



Employment



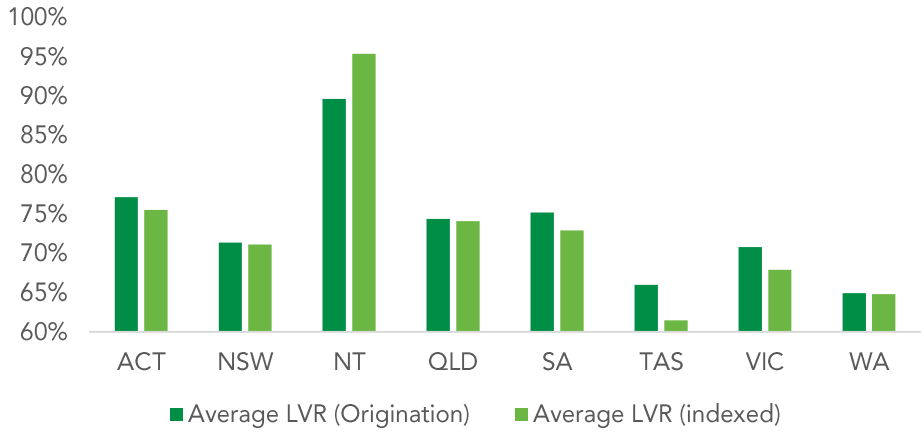
Data at 30 June 2020

COVID-19 profile of customers provided assistance

State	Average balance of loans with COVID-19 Assistance ($)			
	Home Loan	Personal Loan	Commercial	All Lending
ACT	328,220			328,220
NSW	507,846	22,861	615,714	501,896
NT	457,070	20,962		239,016
QLD	344,087	22,798	171,250	325,945
SA	223,664	16,338		212,752
TAS	233,607	16,553	305,968	208,811
VIC	402,769	19,358	407,948	397,616
WA	320,236	20,246		299,547
All Lending	352,343	18,068	350,622	330,028
Total lending book	232,908	13,260	279,804	203,200

The average loan balance for COVID-19 assistance loans are slightly higher than the Bank's total loan book.

LVR change since origination
(COVID-19 assistance loans)



Data at 30 June 2020

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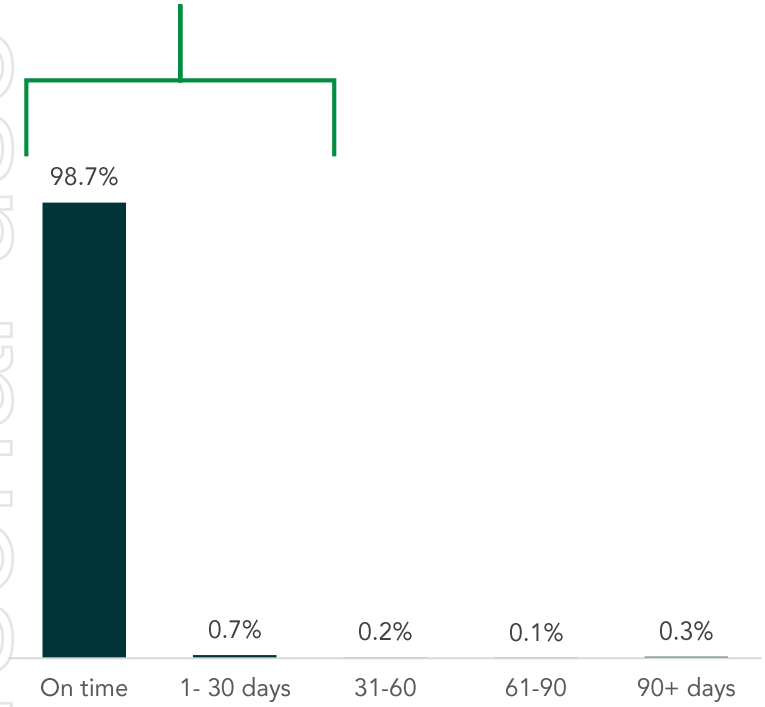
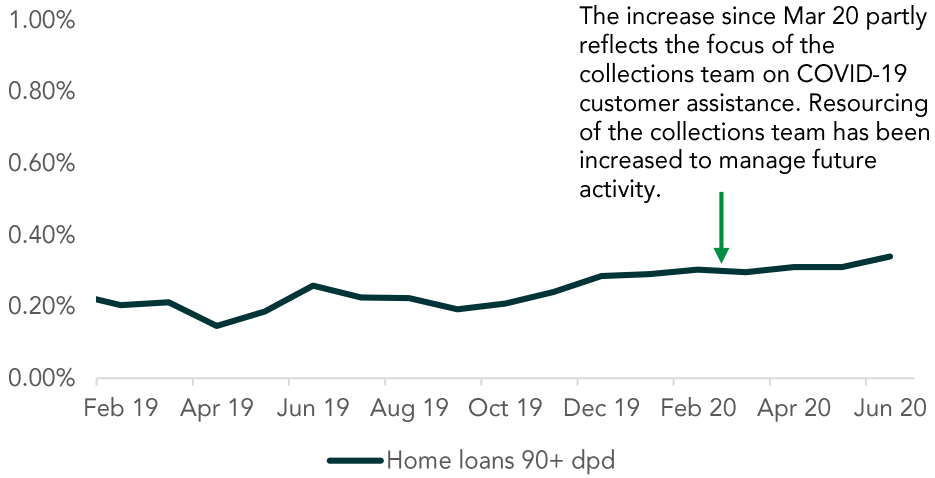
Total portfolio arrears

Home loan arrears profile (%)

>99% of home loan book arrears is 30 days or less and therefore considered performing loans.

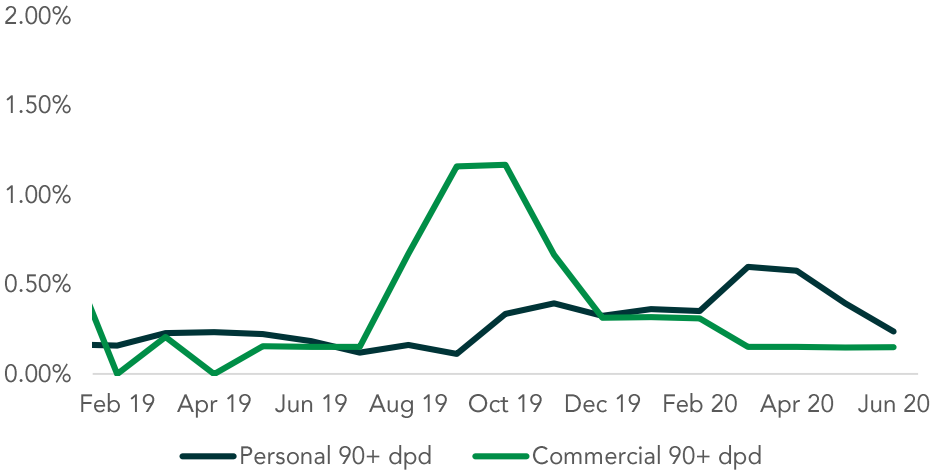


Home loan arrears



The increase since Mar 20 partly reflects the focus of the collections team on COVID-19 customer assistance. Resourcing of the collections team has been increased to manage future activity.

Commercial and personal arrears[1]



[1]Direct personal loan portfolio only
Data at 30 June 2020

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