MyStateLimited

ASX/Media release
Friday 19 February 2021

MyState delivers outstanding first half result

- Core earnings growth of 18.8%, NPAT up 12.6% and EPS up 11.6%
- Dividend 12.5 cents per share
- Above system lending of 5.5% on 31 December 2019 and strong 1H deposit growth, up 5.1%
- ROE up 65bps to 9.94%
- Cost-to-income ratio down 340bps to 61.5%, underpinned by strong revenue growth
- Consistently high Net Promoter Score driving customer growth.

19 February 2021: MyState Limited, the banking and funds management group, today announced an outstanding first half result with 18.8% growth in core earnings to $26.4m (1H20: $22.2m) and 12.6% growth in statutory NPAT to $17.0m (1H20: $15.1m). This excellent result was underpinned by above system lending growth, further improvements in the cost of funding and continued efficiency gains with benefits emerging from technology investments. MyState also achieved a peer-leading ROE of 9.94%, up 65bps on the prior period, and impressive cost performance with the cost to income ratio falling by 340bps to 61.5% for the half.

As a result, the Board has declared an Interim Dividend of 12.5 cents per share for the half year, equivalent to a 67.6% pay-out ratio of after-tax earnings. This decision is in line with the current dividend guidance range, striking the right balance between pursuing the significant organic growth opportunities in the business and rewarding shareholders with dividends.

Managing Director and Chief Executive Officer, Melos Sulicich, said, “This was a challenging period, however the results underlined the effectiveness of MyState’s strategy: driving strong customer acquisition, increasing investment in digital innovation and managing operating expenses while maintaining a culture focused on delivering positive customer experiences.

“Our decision to increase the momentum of our evolution into a digital bank and funds management business is paying off. Our ability to undertake this digital transformation quicker than many of our competitors means that our growing customer base finds we are easier and more trustworthy and intuitive to deal with, leading to stronger relationships with them.

“Importantly, it allows us to scale more efficiently as competition for lending products intensifies. We are better able to refine our products to ensure they continue to suit our customer’s needs, and harness resulting business opportunities so they provide maximum benefit to shareholders.”

Credit quality, evidence of strong lending disciplines

MyState was well positioned heading into the pandemic, given the quality of the underlying loan book. As a result, the Group remains very comfortable with the underlying credit quality. At 15 February 2021, less than 200 customers remain on some form of COVID related assistance, with the majority being home loan customers representing about 1.6% of total home loan balances (down from a peak of 10.9% in June 2020). Given the change in economic conditions, the forward looking credit loss overlay has been reduced from $2.5m at 30 June 2020 to $1.6m, supported by a more positive economic outlook.

Net Interest Margins and competition

MyState reported a pleasing +12bps improvement in its Net Interest Margin (NIM) to 1.94% over the period from December 2019. This result was achieved despite the ongoing competitive environment in the home loan market, which is expected to continue. The higher net interest margin was underpinned by increasing customer deposits, lower funding costs, reflective of current liquidity conditions, and the repricing of deposits as interest rates have fallen.

Operational efficiency and benefits from technology investment

MyState is now beginning to see benefits in lower operating costs, following a multi-year transformational journey. The half saw a meaningful reduction in the cost to income ratio, with operating expenses managed carefully. Further, with a significant number of customers transacting digitally, MyState is able to meet customer needs in a more efficient way.

Significant savings will flow through following the restructure of the wealth business and the MyState Bank branch closures, resulting in a $2.5m restructure charge. MyState Bank closed 6 branches during the half, with the remaining seven branches supporting the long standing Tasmanian customer base. Savings related to these initiatives will see a payback of less than two years with the ongoing digitisation of the business continuing to drive further savings.

Balance Sheet growth above system

Home loan growth of 5.5% for the 12 months to 31 December 2020, representing 1.7 times system growth continued the growth trend for MyState. Home loan applications (up 10%) and settlements (up 24%) ensured continued lending growth, despite an increasing competitive lending environment. MyState Bank is further investing in distribution capacity, with a doubling of the number of Business Development Managers in the business and is consequently expecting a significant increase in growth through the second half and beyond.

This recent growth has been in part driven by success with the Government First Home Loan Deposit Scheme (FHLDS), but mainly due to an active owner-occupier refinance market and increased interest in fixed rate home loans.

MyState has also seen customer deposit growth of 5.1% in the six months to December 2020, with the award-winning MyState Bank Bonus Saver Account attracting significant growth – up 210% in the half year – driven by an active and ongoing digital acquisition campaign.

As a consequence, the customer deposit ratio has trended strongly in the right direction with a funding mix of 71.1% from deposits (68.1% in 1H20).

Leading NPS score translating into Customer growth.

MyState's consistently high customer net promoter score (NPS) of +40 is a leading contributor to strong customer growth.

"The MyState strategy is unchanged, but we are starting to see the benefits of this strategy with the NPS score translating into much higher levels of customer growth and customer attraction. Further, we have been investing in new marketing initiatives to drive new customers, with our recent marketing activities in the Melbourne market expected to add further to our progress".

TPT Wealth set for future growth

Net funds under management grew 3.2% for the first half to a total of $1.1b as at 31 December 2020, driven largely by its suite of well performing income funds. Operating income was down 6.8% on 2H20, due

to lower trustee fee and fund management revenue, impacted in part by the broader COVID-19 impact on investment markets.

There have been significant changes made to the wealth business in recent years with more planned improvements in the coming year ahead. Distribution capability and capacity has been strengthened to increase reach to set the business up for strong levels of organic growth in the core income funds offerings.

Outlook

Commenting on the outlook for the company, Mr Sulicich said ”The growth of the Australian economy and increase in business and consumer confidence has been much stronger than envisaged as we emerge from COVID-19, but uncertainty remains and there are a number of risks that could slow the pace of recovery.

“During the last year, we have focussed on supporting customers to help them through the social, economic and emotional impact of the COVID-19 pandemic.

“While this past year has been extremely challenging, because of the transformation strategy we have had in play, we adapted quickly, we were confident in our approach, we provided important support for our customers and came out the other end in very good shape. I am confident that we have a culture of continuous improvement and have the capacity to adapt to new challenges and meet our customer’s evolving needs.

“Looking ahead we will have an ongoing focus on digitisation of operations, adding to our capability, and generating momentum to driving further activity and investment in attracting new customers. We see a significant opportunity for us to grow the Bank balance sheet and funds management businesses in a low risk manner, but at much faster pace.

“The momentum we have seen in the first half is expected to continue into the second half with many of the underlying drivers to persist for the full financial year. The improvement in operating efficiencies seen will continue, further supporting our significant growth ambitions”.

Authorised
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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.

APPENDIX

Results summary for six months to	31 Dec 20	31 Dec 19	Change
Net interest income ($m)	55.4	48.2	15.0%
Group total operating income ($m)	68.6	63.3	8.4%
Operating expenses[1]	42.2	41.1	2.7%
Pre-provision operating profit (Core earnings) [1]	26.4	22.2	18.8%
Statutory Net profit after tax ($m)	**17.0**	**15.1**	**12.6%**
Banking contribution ($m)	16.1	13.2	22.6%
Wealth contribution ($m)	0.9	1.9	-51.8%
Net interest margin (%)	1.94	1.82	12bps
Earnings per share (cents)	**18.5**	**16.6**	**1.9cps/11.6%**
Return on average equity (%)	9.94	9.29	65bps
Return on tangible equity (%)	13.26	12.64	62bps
Interim dividend per share – fully franked (cents)	12.50	14.25	-1.75cps
Dividend payout ratio (%)	67.6	86.0	-18.4%

As at the end of the reporting period:	31 Dec 20 ($ million)	30 Jun 20 ($ million)	Change (%)
Total assets	6,223.3	6,095.8	2.1%
Net assets	351.5	334.3	5.1%
Funds under management	1,103	1,069	3.2%

[1] Excludes Restructure costs ($2.5 million before tax)

Note: Financial performance figures compare 1H21 to 1H20 as the previous corresponding period (pcp). Balance sheet and capital figures compare 30 June 2020 as pcp. All amounts shown represent statutory results inclusive of discontinued operations unless otherwise stated. Percentages may not reconcile due to rounding.