



# Investor Presentation

Half Year 2020

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CEO & Managing Director

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Chief Financial Officer

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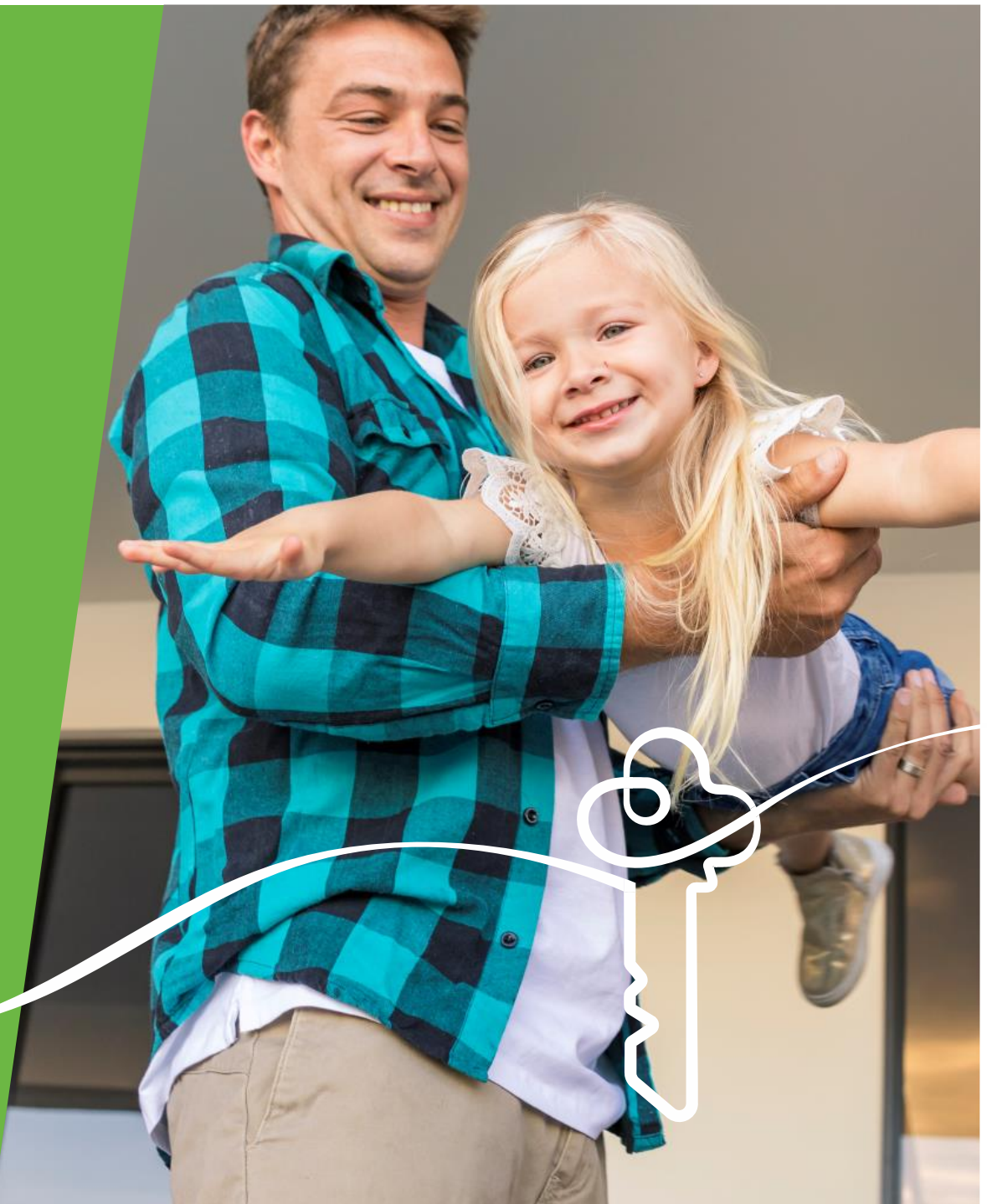
Strategy & outlook

**Melos Sulicich**

CEO & Managing Director

# Highlights & strategy

Melos Sulicich



# Key highlights



## FINANCIAL

+5.4%

Net profit after tax

+9.1%

Net interest income



## DIGITAL

Customer uptake of internet and mobile banking increasing

89%

customer transactions performed online or on a mobile device



## CUSTOMER

+40

Strong and consistent customer NPS



Bonus Saver account awarded



## POSITIONING FOR THE FUTURE

Launch of new managed fund platform and refreshed branding



Restructuring, digital transformation and capability build increasing momentum and releasing funds to invest in marketing

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

# Key metrics and performance drivers

## FINANCIAL PERFORMANCE

Change\*

**STRONG 1H PROFIT AHEAD OF 1H19**  
driven by solid uplift in total operating income

Net profit after tax<sup>1</sup>: **\$15.1m**

**5.4%**

Earnings per share: **16.57cps**

**4.4%**

**INCREASED NET INTEREST INCOME**  
driven by balance sheet growth and focused  
margin management

Return on tangible equity: **12.6%**

**+20bps**

Fully franked dividend<sup>2</sup>: **14.25cps**

**Stable**

**HIGH CUSTOMER SERVICE AND ADVOCACY**  
underpinning growth in bank assets and deposits

## BALANCE SHEET + CAPITAL

Total capital ratio: **13.2%**

**+31bps**

Total loan book<sup>3</sup>: **\$5.1b**

**+7.4%**

Customer deposits: **\$3.7b**

**+0.6%**

\* Financial performance figures compare 1H20 to 1H19 as the previous corresponding period (pcp). Balance sheet and capital figures compare 30 June 2019 as pcp. All amounts shown represent statutory results inclusive of discontinued operations unless otherwise stated.

1. Excludes discontinued operations
2. Interim dividend of 14.25cps payable to shareholders on the register at the record date of 2 March 2020
3. Growth on December 2018, average balance sheet growth of 9.3% on pcp



# We are building a digital business that is attracting and engaging customers\*

## Growing contribution from digital



62% increase in online customer growth



89% of all customer transactions performed online or on a mobile device



Over 20% growth in eStatement registrations

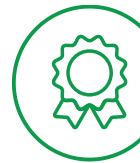
## Leading customer advocacy and product offerings



Customer NPS +40



Bonus Saver account awarded 5 stars by Canstar & winner Mozo Experts Choice 2020 Regular Saver



Business online saver winner of Mozo Choice 2020 Small Business No Strings Savings



Loan book 59% mainland and proportion is increasing

## Operating momentum for further high quality growth



Marketing investment up 39%



Re-brand of Wealth Management as TPT Wealth



Transition of funds management to a new digital platform powered by Link Market Services



Selected as a panelist on the Federal Government's First Home Loan Deposit Scheme

\* All statistics compare 1H20 with 1H19 unless otherwise stated

# Financial Results

Gary Dickson



# Results summary

Positive jaws in 1H with income growth exceeding cost growth leading to a lower cost to income ratio

Return on average equity increased on pcip to 9.29% which compares favourably to regional bank peers

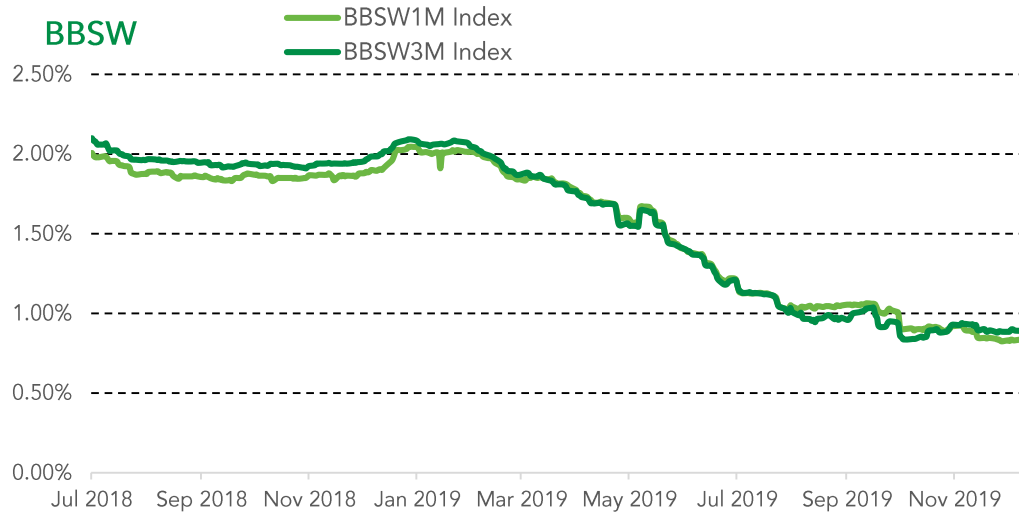
	1H20	1H19	Change*	
Net interest income (\$m)	48.16	44.15	+9.1%	▲
Total operating income (\$m) <sup>1</sup>	63.34	59.36	+6.7%	▲
Operating expenses (excl. BDD) (\$m) <sup>1</sup>	41.12	39.23	+4.8%	▲
Net profit after tax (\$m) <sup>1</sup>	15.12	14.34	+5.4%	▲
Earnings per share (cps)	16.57	15.87	+0.7cps	▲
Net interest margin (%)	1.82%	1.81%	+1bp	▲
Cost to income ratio (%) <sup>1</sup>	64.92%	66.08%	-116bp	▼
Total capital ratio (%) <sup>2</sup>	13.21%	12.90%	+31bp	▲
Return on average equity (%) <sup>3</sup>	9.29%	9.02%	+27bp	▲
Return on tangible equity (%) <sup>3</sup>	12.64%	12.44%	+20bp	▲
Dividend—fully franked (cps) <sup>4</sup>	14.25	14.25	0.0cps	■
Dividend payout ratio (%)	86%	90%	-4%	▼
Credit performance - 30 day arrears (%)	0.56	0.52	+4bp	▲

Note: Financial performance figures compare 1H20 to 1H19 as the previous corresponding period (pcp). Balance sheet and capital figures compare 30 June 2019 as pcip. All amounts shown represent statutory results inclusive of discontinued operations unless otherwise stated

1. Excludes discontinued operations
2. As at 30 June 2019
3. Annualised FYTD
4. Interim dividend of 14.25cps payable to shareholders on the register at the record date of 2 March 2020



# MSB captures funding tailwinds



Net interest margin up +3bps on 2H19

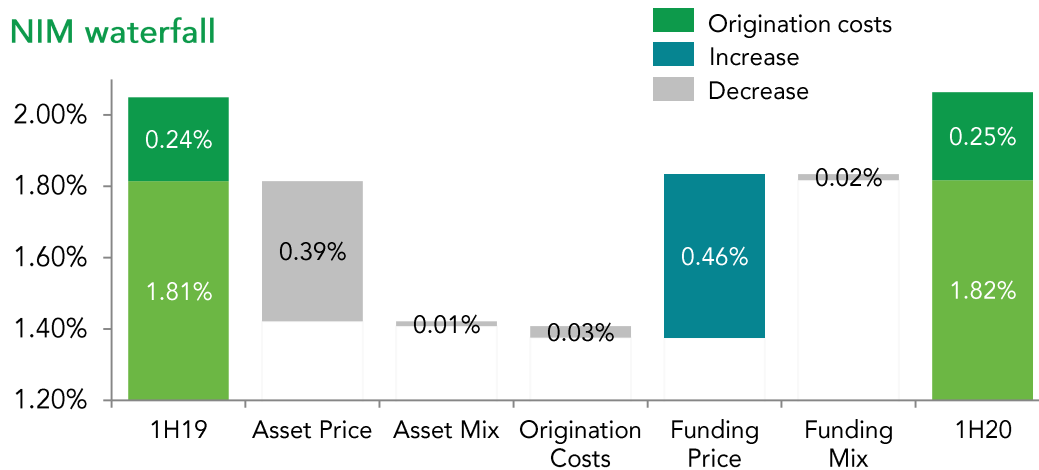
Continued fall in wholesale funding costs

Narrowing of BBSW-OIS spread contributed 10bps

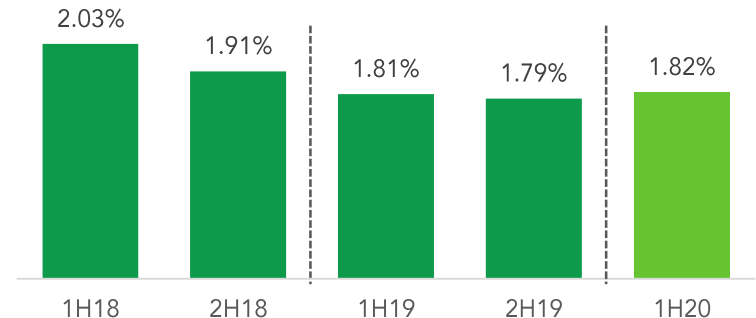
TD rates falling as book rolls to lower rates

Lending market remains highly competitive

## NIM waterfall



## NIM trend



# Operating costs well managed

Operating costs increased 4.82% led by increased investment in capability, marketing and digital

Increased investment in marketing of \$0.8m, up 39% on pcip

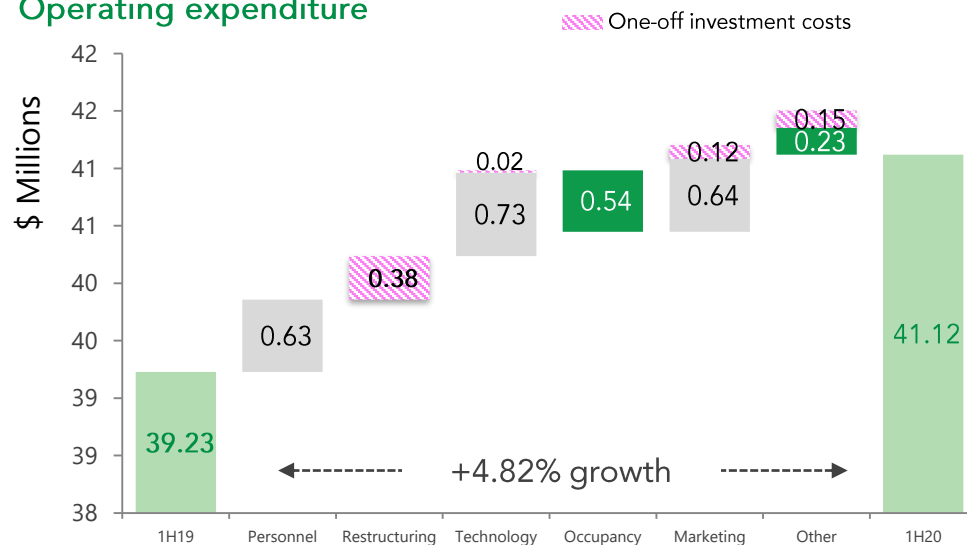
One-off investment costs of \$0.65m relating to rebrand of TPT Wealth and launch of new managed funds platform (\$0.4m) and re-engineering the cost base (\$0.25m)

Underlying cost growth of 3.16% excluding one-off investment costs

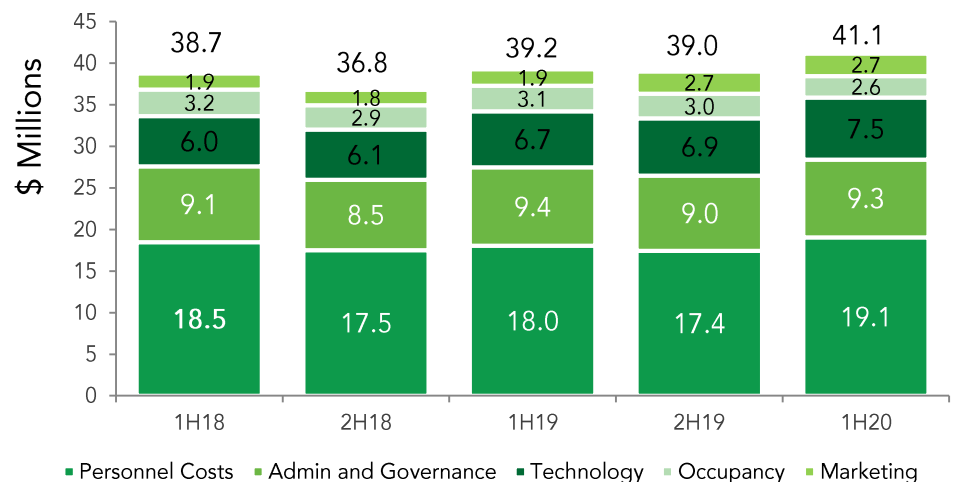
Restructuring costs to provide benefits in 2H20

One branch closure, network reduced to 13 branches

## Operating expenditure



## Expenditure breakdown



1H20 Admin and Governance and Occupancy costs impacted by first time adoption of AASB16 Leases

# NPAT bridge

NPAT growth of 5.4%

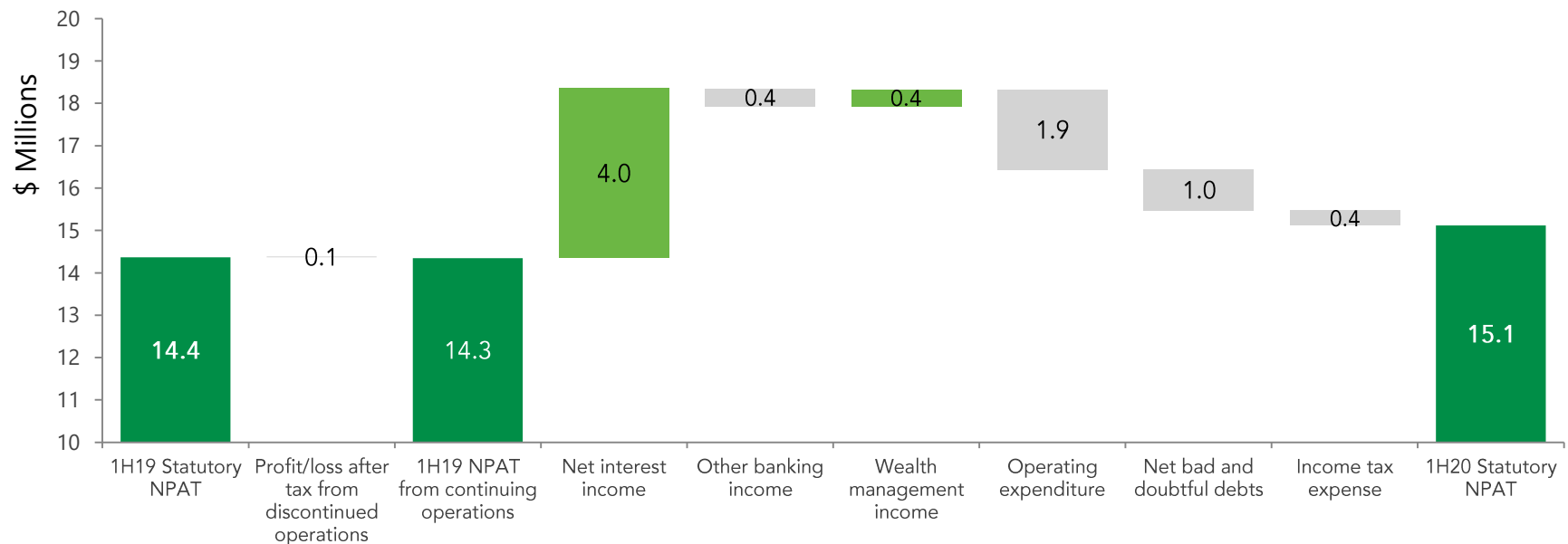
Net interest income grew 9.1% on pcp off the back of a higher average balance sheet, falling funding costs and focused margin management

Disciplined management of costs while we continue to invest in marketing and digital

Net bad and doubtful debts charge reflects a small increase in late stage arrears

Arrears remain well below benchmarks for regional bank peers and major banks

## Net profit after tax



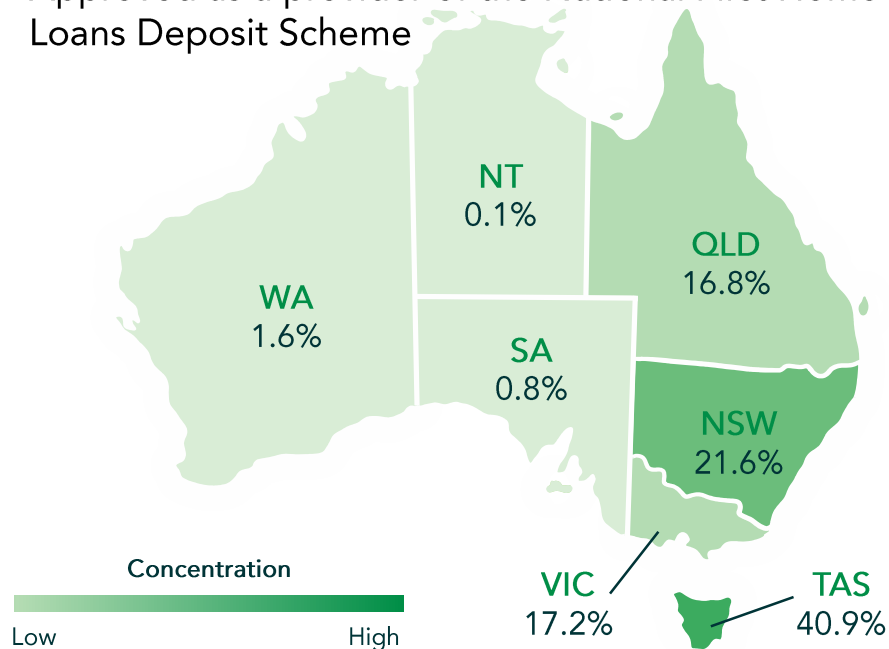
# Quality, low risk loan book

Emphasis on maintaining quality lending growth amidst strong competition

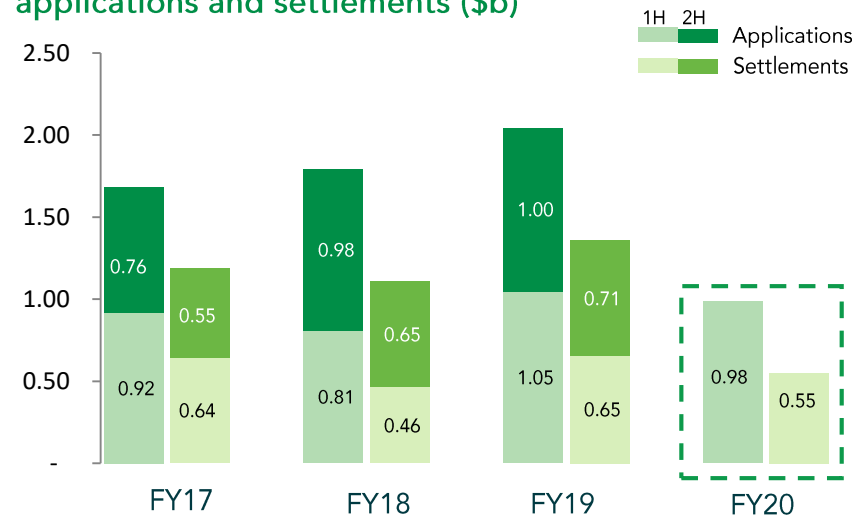
Loan book growth eased in the half; offset by increases in NIM

Lending momentum has returned with strong application flows towards the end of 2019

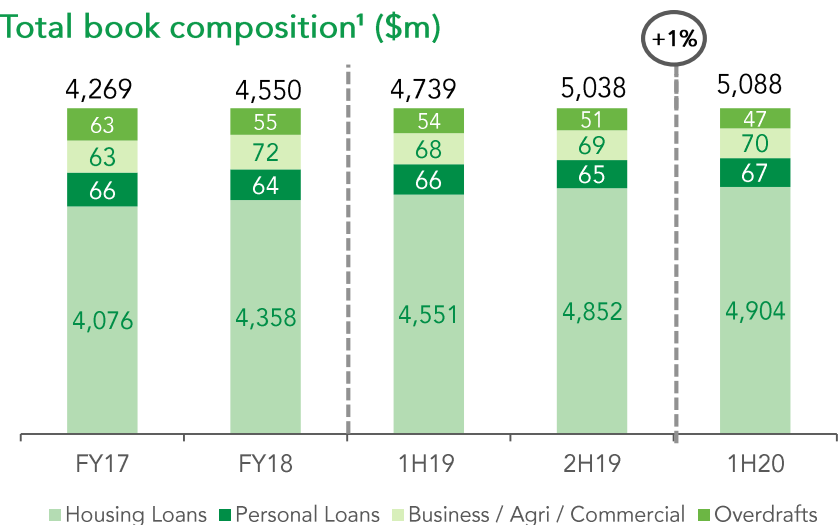
Approved as a provider of the National First Home Loans Deposit Scheme



## Home loan book – applications and settlements (\$b)



## Total book composition<sup>1</sup> (\$m)



1. Excludes capitalised origination costs

# High credit quality

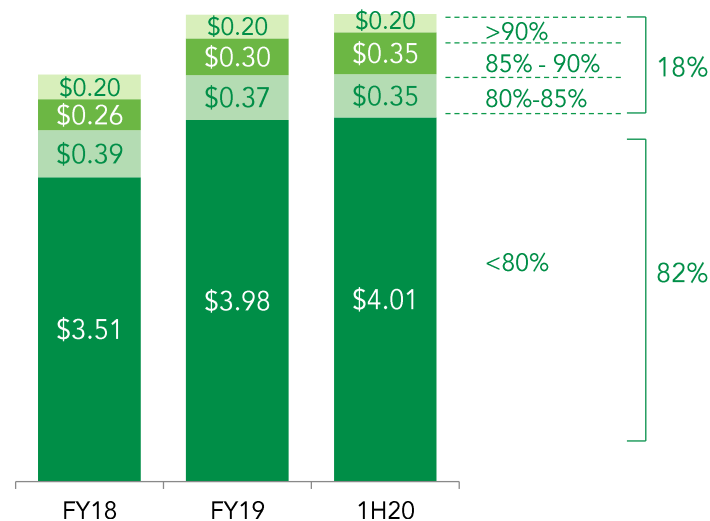
Consistent focus on lower LVR loans with high asset quality

Uptick in arrears has lead to an increase in impairment provisions

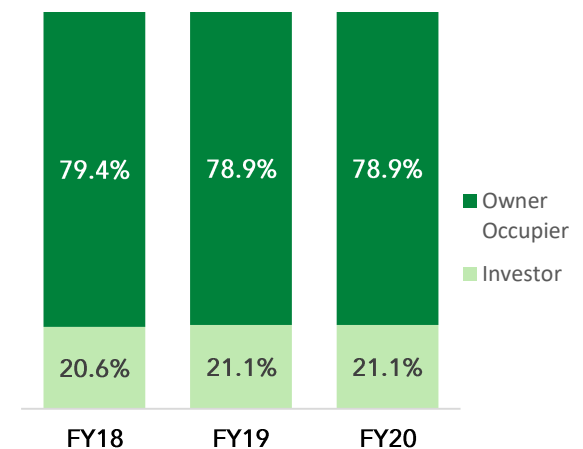
30 and 90 day arrears well below industry

Impairments remain at historic lows

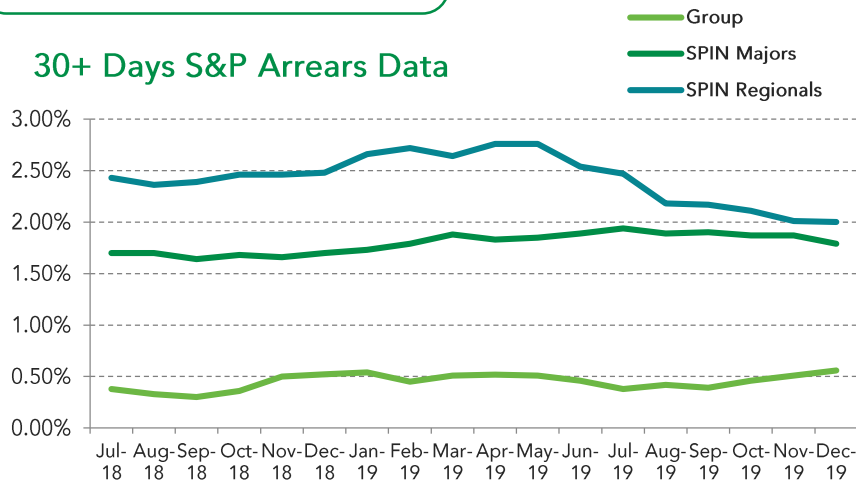
Home loan book – LVR profile (\$b)



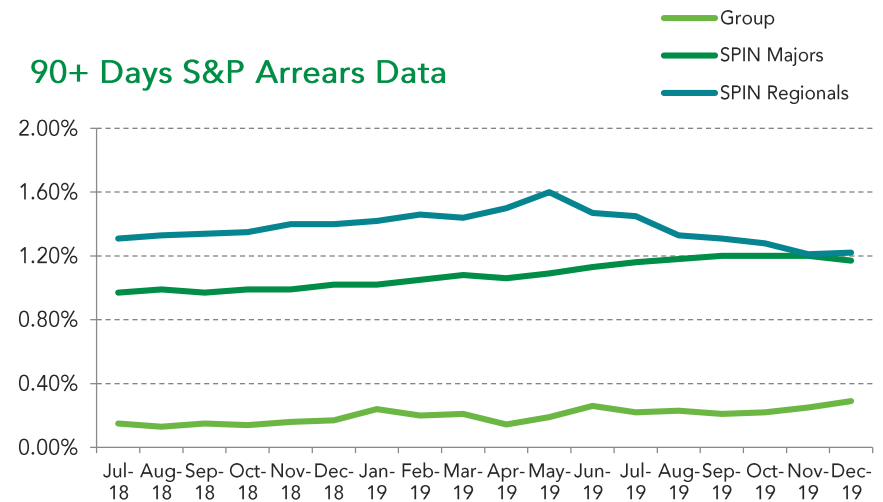
Home loan book composition



30+ Days S&P Arrears Data



90+ Days S&P Arrears Data





# Customer funding

Funding mix enhanced by lower cost at call customer deposits

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

Moody's Baa1/P2 stable investment grade rating

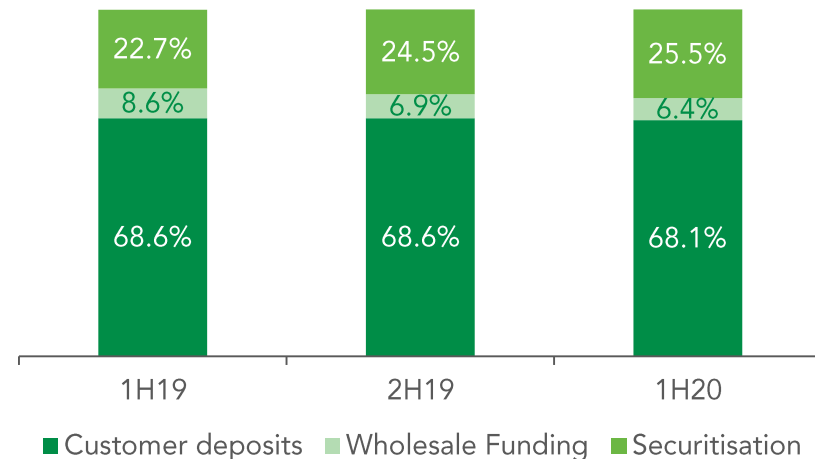
Retail funding costs continuing to fall off the back of lower wholesale funding rates

Bonus Saver account awarded 5 stars by Canstar and winner of Mozo Experts Choice 2020 Regular Saver

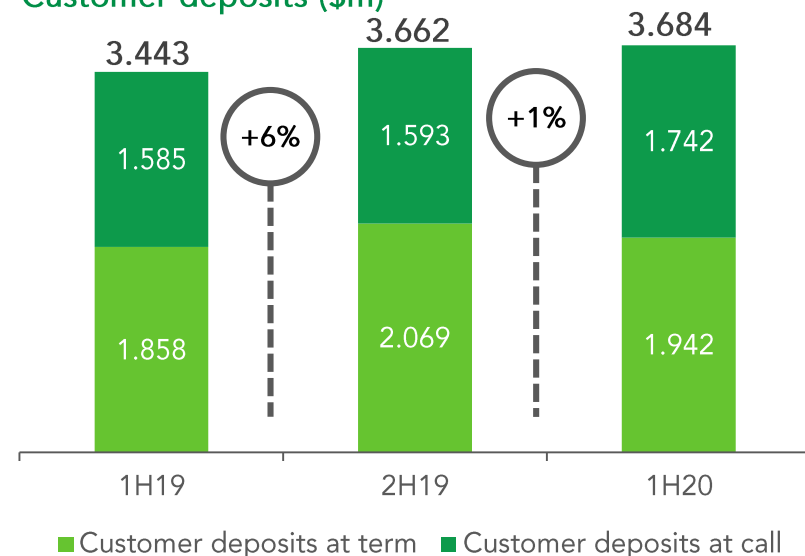
Business Online Saver winner of Mozo Experts Choice 2020 Small Business No Strings Savings



Funding mix (%)



Customer deposits (\$m)



# Well capitalised

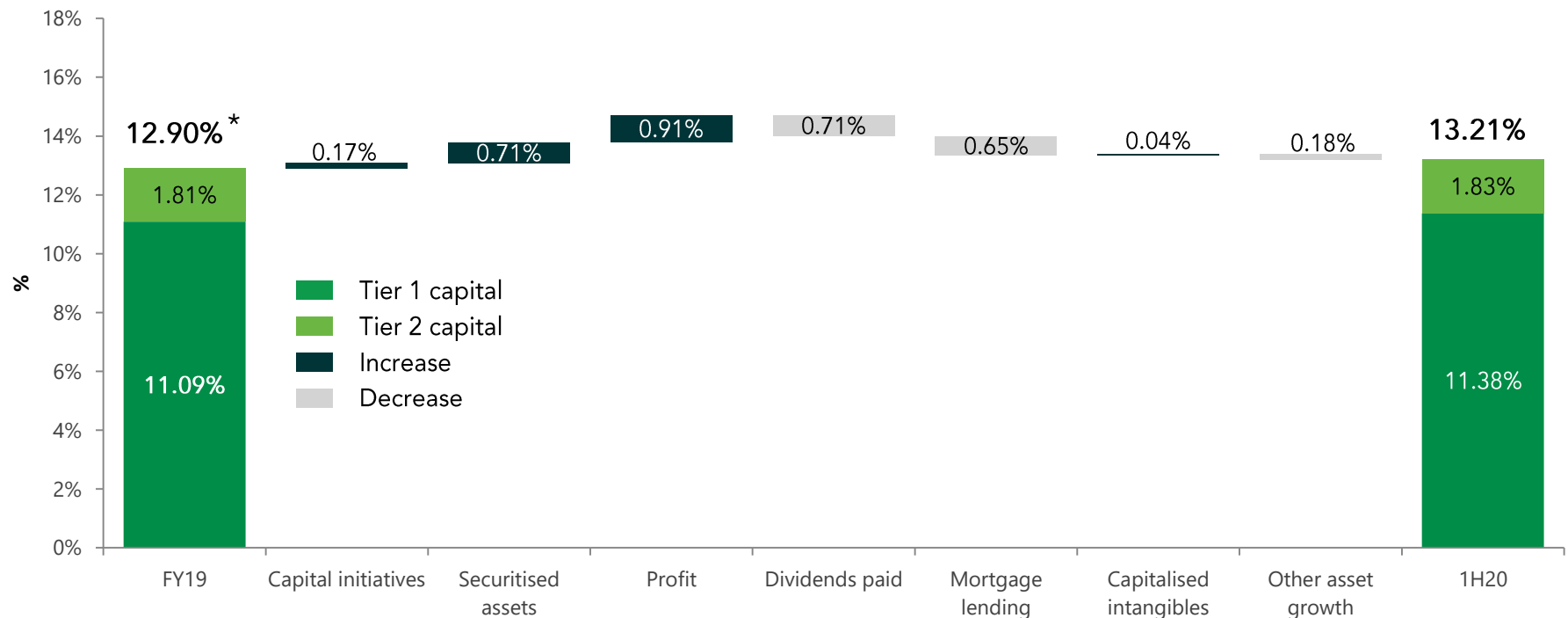
Capital ratios comfortably above regulatory minimums

Capital position supported by earnings growth and securitised funding

Effective capital strategy underpinning growth and investment in digital capability

Currently exploring alternatives to improve balance sheet efficiency

## Capital



\* On a pro forma basis, MyState's total capital ratio would increase to 13.0% if the proceeds of the financial planning sale were applied.

# TPT Wealth

Net FUM growth to decade high of \$1.19b

Wealth revenue increased 5.1%\* on pcg due to higher trustee fees and funds management revenue

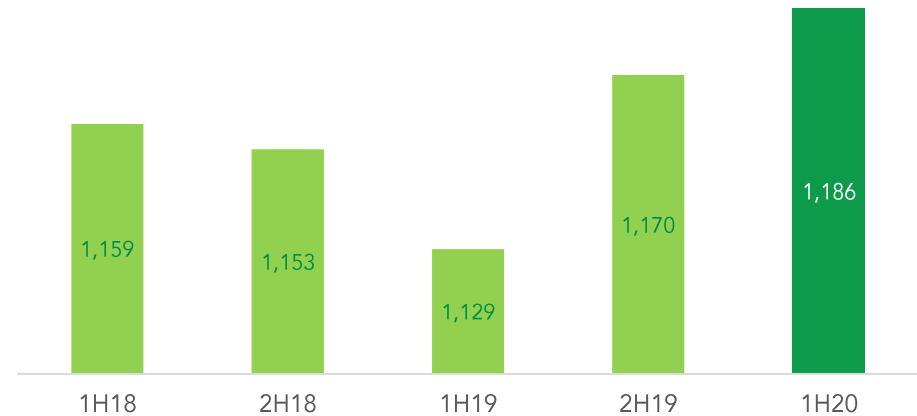
Rebranding of Wealth operations as TPT Wealth and launch of new investor portal supporting plan for national growth

Outsourced registry and funds admin providing business simplification and improved customer experience

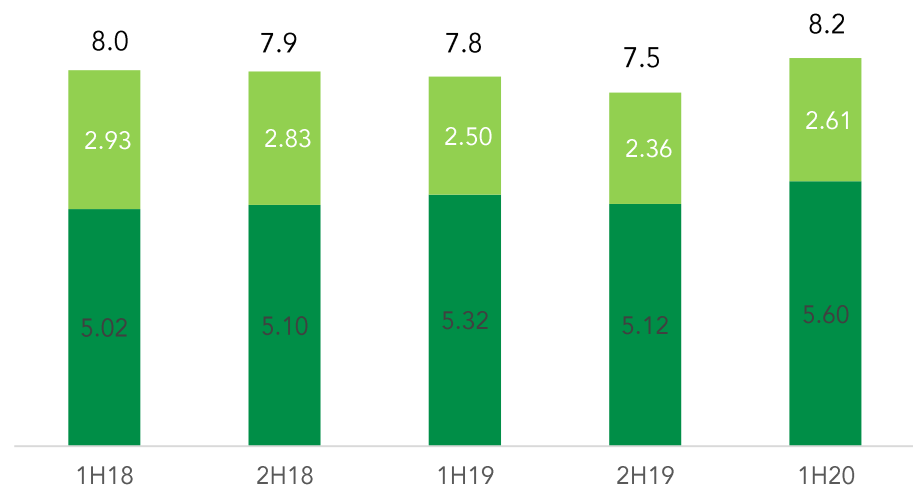
Closed Platform Mortgage Fund to simplify product suite



## Funds under management (\$m)



## Operating income (\$m)



■ Funds Management ■ Trustees

\*on a continuing business basis

# Strategy & Outlook

Melos Sulicich



# Sector overview

## Industry dynamics



We have a 'low mojo' economy:

- Low and falling interest rates
- Low economic growth... and for longer
- Low consumer and business confidence
- Low credit growth

Rising house prices and rising buying intention

Customers expecting more functionality from online and mobile banking

Larger banks distracted with 'non-financial' issues

## Regulatory dynamics



Regulatory intensity and scrutiny high and sustained

Competitive landscape still unbalanced:

1. Risk weighted asset and capital differentials
2. 'Too big to fail' funding cost advantage
3. Disproportionate impact of regulatory burden on smaller banks
4. Mortgage broker ownership transparency

It's a great time to be a small, 'clean' bank



# Our strategic priorities

## Our GOAL is to be



Simple, relevant and easy to “use”

Digitally enabled so that we can attract and retain the target customers we are seeking more cost effectively



Agile with a strong focus on growth, margins and cost management

## Our STRATEGY is focused on



Growing and automating our bank operations, increasing our digital capabilities and building our brand



Investing in contemporary, scalable wealth management and trustee products and systems and growth through mainland distribution



## Our strategy is DRIVEN BY

Marketing, automation and continuous improvement, underpinned by a robust risk culture

# Outlook

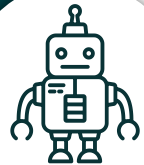


## Revenue growth through:

- Bank balance sheet growth
- Focused margin management
- FUM growth via mainland distribution

Significant **robotics technology** now in use with more to come reducing operating costs.

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



**Increased marketing spend** to increase number of customers.

**Enhanced customer** facing digital proposition.

Further **fund product rationalisation**.

**Further investment** in mortgage fund lending systems.

**Investing** in trust management system.



Growth of a highly scalable banking and funds management business

# 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

PCP: Previous Corresponding Period

RBA: Reserve Bank of Australia

RMBS: Residential mortgage-backed security

ROE: Return on equity

SPIN: Standard and Poor's Performance Index

S&P: Standard and Poor's

TD: Term deposit

TPT: Tasmanian Perpetual Trustees Limited

# Disclaimer

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