MyState Limited

# Media release

22 February 2019

# MyState grows loan book but profit down against a backdrop of external challenges

- **NPAT down 9% to $14.4 million**
- **Home loan book growth of 10.3% on pcp**
- **Disciplined execution of core strategy underpinning customer uptake of digital services**
- **Customer satisfaction continues to grow**

** All figures compare 1H FY19 to 1H FY18 prior corresponding period (pcp) unless otherwise indicated.*

**Friday 22 February 2019:** MyState Limited today announced that net profit after tax for 1H FY19 was $14.4 million compared with $15.8 million in the pcp.

Managing Director and Chief Executive Officer, Melos Sulicich, said: "The lower result reflected higher funding costs as well as investment to deliver a new platform that will facilitate growth of the funds management business.

"We are seeking to build long term growth in the profitability of our business by gaining market share in both banking and mortgage funds management. To deliver on this objective, we have undertaken a number of key initiatives to support business activity which we expect will provide a foundation for profit growth in FY20 and beyond.

"Pleasingly, we continue to see ongoing growth in new customers which provides further confidence in our value proposition. Home loan book growth for the six months to 31 December 2018 was 10.3% on pcp, just over 2 times system. Although challenging markets impacted our overall result, MyState's home loan book growth reflects our compelling customer service proposition and high level of customer advocacy."

The Board declared an interim dividend of 14.25 cents per share, fully franked, consistent with the previous year and payable on 29 March 2019 to all shareholders on the register at the record date of 4 March 2019, with a 1.5% discount for shares issued under the Dividend Reinvestment Plan.

**Digital platform contributes to banking growth**

Mr Sulicich added "Our strategy of digitising services is benefiting customers and we now offer a complete digital product suite, having recently introduced online origination for home loans, online deposit products and new payment technologies.

"Our digital platform enables us to offer highly competitive and innovative products, with growth in online accounts contributing to an increase in customer deposits of 10.6% to $3.4 billion. We are pleased that our continued investment in improving customer services has been recognised in the Group's net promoter score of +39 at the end of the first half, up from +27 at end of June 2018. This places MyState among the leading financial services firms in terms of customer satisfaction."

MyState remains focused on low risk, owner-occupied lending with a loan-to-valuation ratio of less than 80% with the quality of the mortgage book evidence of this focus. Further, as part of actively managing the business in the current environment, variable home loan rates for mortgage customers were increased on 29 January 2019 by between 11 and 16 basis points, reflecting increases in funding costs.

While credit growth slowed nationally, heavy competition for home lending continued and net interest margin reduced to 1.82% for 1H 2019. Although house price growth has slowed nationally, economic indicators remain

at healthy levels and unemployment remains close to five-year lows. The Group has maintained prudent lending practices and 30 and 90 day arrears continue to be below peers and industry benchmarks.

Expenses continued to be actively managed, with operating expenses flat on pcp. Total expenses rose 1.4% on pcp, primarily due to higher depreciation and amortisation related to the Group's investment in its technology platform, digital investment, investment in the wealth management business and one-off rebranding and associated marketing costs. The Group's cost-to-income ratio increased to 66.8% largely reflecting increased competition for wholesale and retail deposits and the higher Bank Bill Swap Rate (BBSW) which disproportionately elevated funding costs.

**Simplifying our banking brands**

During the first half, as part of the Group's strategy, banking brands were consolidated under a single brand, with The Rock rebranded as MyState Bank. This facilitated a consistent suite of banking products and services across the Group and enabled The Rock customers to access new internet, mobile and online origination services.

**Future focus on wealth management to benefit fund investors**

"As part of our strategy, we are investing in our Wealth Management business by developing contemporary products, restructuring funds and administration to benefit investors with a future focus on national distribution," said Mr Sulicich.

Profit from the Group's wealth management operations was $2.2 million, in line with pcp. Funds under management revenue increased slightly on pcp, with funds under management 2.5% lower, coming off a decade high in December 2018.

**Healthy capital position**

MyState has a strong balance sheet, and the Group's capital adequacy ratio at 31 December 2018 was 13.05%. Despite the low profit result in the period, the Group ROE of 9.03% is significantly higher than regional bank peers as a result of disciplined capital, cost and balance sheet management.

**Comments on Hayne Royal Commission**

MyState notes the release of Commissioner Hayne's report into misconduct in the Banking, Superannuation and Financial Services Industry and its recommendations. Although MyState was not called to provide information or evidence to the Royal Commission, a number of recommendations in the report may have some impact on the Group. MyState welcomes recommendations to strengthen the accountability and effectiveness of regulators.

MyState notes the very important role that mortgage brokers play in bringing competition to the mortgage market in Australia. The Commission has made recommendations to change mortgage broker remuneration. Mortgage brokers are valued by customers and almost 60% of mortgages are written by mortgage brokers across the nation. MyState is committed to working with the mortgage broking industry through this period of uncertainty and change to help the industry evolve and continue to generate competition.

**Outlook**

Mr Sulicich said: "While competition for high quality, owner-occupied lending remains strong, the Group anticipates continued above-system home loan growth. We will continue our disciplined cost management as we move beyond a period of significant investment and are confident of the underlying robustness of our business. We have a clear strategy of organic growth supported by strategic investment in innovative products that help customers to bank the way they want.

"Reinvigoration of our funds management platform will introduce new services for investors and increase national distribution of our wealth management products.

"Given the external environment, our recent repricing initiative, volume and cost momentum, we expect the second half of FY19 to be broadly in line with the second half of FY18 and therefore the full year net profit after tax is expected to be around $30 million or 3-5% below FY18."

**About MyState Limited**

MyState Limited is the ASX-listed non-operating holding company of the diversified financial services Group consisting of MyState Bank and Tasmanian Perpetual Trustees, a trustee and wealth management company. MyState Bank is regulated by the Australian Prudential Regulatory Authority. MyState Bank and Tasmanian Perpetual Trustees hold Australian Financial Services Licences issued by the Australian Securities and Investments Commission.

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**APPENDIX**

| **Results summary for six months to** | **31 Dec 18** | **31 Dec 17** | **Change** |
|---|---|---|---|
| Net interest income ($m) | 44.2 | 45.8 | -3.4% |
| Group total operating income ($m) | 60.7 | 62.7 | -3.1% |
| Net profit before tax | 20.5 | 22.7 | -9.1% |
| **Net profit after tax ($m)** | **14.4** | **15.8** | **-9.0%** |
| Banking contribution ($m) | 12.1 | 13.6 | -10.4% |
| Wealth contribution ($m) * | 2.2 | 2.2 | -0.9% |
| Net interest margin (%) | 1.82 | 2.03 | -21 bps |
| **Earnings per share (cents)** | **15.9** | **17.6** | **-1.7cps** |
| Return on average equity (%) ** | 9.03 | 10.15 | -112bps |
| Interim dividend per share – fully franked (cents) | 14.25 | 14.25 | stable |
| Dividend payout ratio (%) | 90 | 81 | +9% |

| **As at the end of the reporting period:** | **31 Dec 18 ($ million)** | **31 Dec 17 ($ million)** | **Change (%)** |
|---|---|---|---|
| Total assets | 5,379.9 | 4,925.6 | 9.2% |
| Net assets | 322.4 | 316.3 | 1.9% |
| Funds under management | 1,130.1 | 1,158.9 | -2.5% |

'* Percentages may not reconcile due to rounding
** Annualised FYTD