Australian Shareholders' Association

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Solid Result in a Challenging Year with no Second Half Dividend

Company/ASX Code	Mystate / MYS
AGM date	Wednesday 21 October 2020
Time and location	10:30am AEDT virtual at https://web.lumiagm.com/396323214
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitors	Ian Day and John Whittington
Pre AGM Meeting?	No

One of the individuals (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**Financial Statements and Reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

In the 2020 financial year (FY20), Mystate's total reported income was $128.9m (up 7%) with net interest income of $99.5m (up 11%) and other income of $29.3m (down 5%). Expenses were $81.0m (up 4%) and credit impairments $4.9m (up from -$0.2m), resulting in a reported net profit after tax (NPAT) of $30.1m (down 3%). Return on average equity (RoE) was 9.2% (down 5%).

The cost to income ratio was 62.8% (down 3%) which can be compared with ANZ, CBA, and WBC whose 2019 cost to income ratios were in the 48-50% range (NAB was ~55%) and BEN whose 2020 cost to income ratio was 62.7%.

Cash flow from operations was $63.8m (up 73%) and free cash flow was $57.7m (up 80%).

Total assets increased by 7% to $6.1bn and total liabilities also by 7% to $5.8bn. The Common equity Tier 1 figure is now 11.07% which compares with 10.4-11.4% for the big four in 2019 and 9.25% for BEN in 2020.

First half dividends remained steady at 14.5 cents per share but the advent of Covid meant that no second half dividend was paid. So, on an annualised basis, dividends were down 50%.

Total shareholder return for the year was -12% (3% from dividends plus -12% due to the decrease in share price).

Key events

Other than the substantial changes to business operations and economic activity as a result of the Covid pandemic, the only key event during the year was that Tasmanian perpetual Trustees was re-branded as TPG Wealth.

Key Board or senior management changes

In November 2019 Non-Executive Director (NED) Stephen Lonie passed away after a brief illness. The only key executive change was the appointment of Gary Dickson, previously Chief Financial Officer (CFO) at ME Bank, as CFO in October 2019.

It had been announced that CEO Melos Sulicich would retire in June 2020 but due to the Covid pandemic this was deferred to at least September 2021.

ASA focus issue

The board appears well constructed with a blend of experience and seems to self-renew.

The structure of the company's remuneration seems suitable although disclosure could be better.

Following the Royal Commission into Banking, the board has reviewed the company's governance, culture, remuneration, and accountability and used this to strengthen its risk management framework and practices. Risk management committees have been created in each division. These initiatives have been tested with the onset of the Covid pandemic.

There have been no capital raisings in the past five years.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	30.060	29.778	31.461	30.080	28.334
Share price ($)	4.13	4.85	5.01	4.85	4.13
Dividend (cents)	14.50	28.75	28.75	28.50	28.50
TSR	-12%	3%	9%	24%	-9%
EPS (cents)	32.86	34.17	34.97	34.04	32.40
CEO total remuneration, statutory ($m)	0.708	0.754	0.791	0.733	0.697

For FY20, the CEO's total statutory remuneration was **7.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Miles Hampton as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Hampton, a former long-term CEO of Roberts Limited and Chairman of Forestry Tasmania, Hobart Water and TasWater, was appointed to the board in February 2009 and appointed Chair in

October 2013. He has a substantial shareholding (worth 12.5 times his director's fees) however his eleven-year tenure means we will soon define him as non-independent.

He does not seem to be currently serving on any other boards, so we do not consider his workload excessive.

We believe that Mr Hampton is well qualified, can contribute to the board and we support his election on the basis that this will be his last term as Chair.

Item 3	**Re-election of Andrea Waters as a Director**
ASA Vote	**For**

Summary of ASA Position

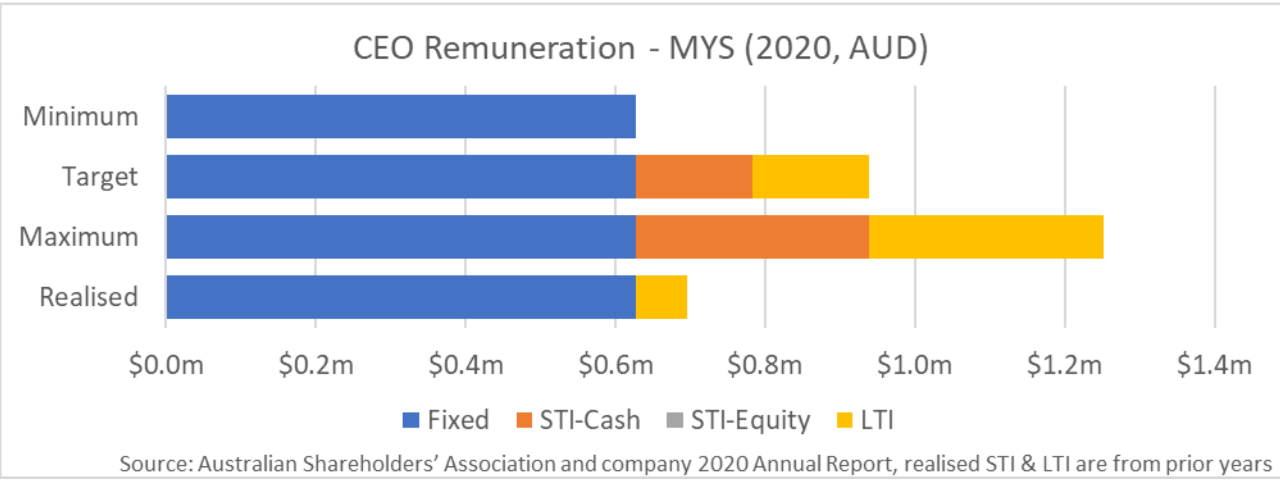
Ms Waters, a Chartered Accountant and former audit partner with KPMG, was appointed to the board in October 2017. She has a shareholding equivalent to 74% of her annual fees after three years on the board which is lower than we would prefer (we would prefer 100%).

Ms Waters is a non-executive director of five unlisted entities – Grant Thornton Australia, Bennelong Funds Management Group, Citywide Service Solutions, Colonial Foundation, and Genworth Mortgage Insurance Australia. We believe this is a heavy but probably acceptable workload.

We believe that Ms Waters is well qualified, can contribute to the board and we support her election.

Item 4	**Remuneration Report**
ASA Vote	**For**

Summary of ASA Position



The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Mystate remuneration is part fixed and part variable where the variable component should be considered variable pay rather than a bonus. Performance under target/expectations will result in lower pay, performance above target/expectations will result in higher pay.

The remuneration structure has three components – fixed remuneration, short term incentives (STI) and executive long-term incentive plan (ELTIP).

The STI provides an annual cash payment for achieving undisclosed financial and non-financial metrics. The maximum payable is 50% of fixed remuneration for the CEO and 30% of fixed remuneration for other senior executives.

The ELTIP is described below under item 5 so will not be repeated here.

We believe that the report is generally clear and clearly outlines the structure and logic of the remuneration scheme in a way that most readers could understand. Whilst the director's fees are probably higher than we would prefer for a company of this size, the CEO's fees are lower than we would normally expect, perhaps due to the lower cost of living in Tasmania compares with Sydney or Melbourne. We are, however, disappointed about the completely inadequate disclosure of STI metrics, that STI is paid entirely in cash (we prefer 50% cash, 50% equity), and that there is no table of actual (also referred to as realised or "take home") remuneration.

We would normally oppose such a remuneration report due to the shortcomings in disclosure however it is close to the line and this is the first year we have monitored Mystate so we have not had the opportunity to work with them to improve. As a result we will support the report this year but note that we would expect significant improvements in disclosure before we could support it again in the future.

Item 5	**Issue of shares to Managing Director & CEO under ELTIP**
ASA Vote	**For**

Summary of ASA Position

This is for the issue of shares as part of the 2017 ELTIP scheme approved by shareholders at the 2017 AGM. We consider it as a procedural item to ratify a previously approved scheme and will support this issue.

Item 6	**Approval of the Managing Director & CEO's participation in ELTIP**
ASA Vote	**For**

Summary of ASA Position

This is for the issue of a maximum of 77,351 fully paid ordinary shares worth $312,500 as at 30 June ($286k at current share price). This is equivalent to 50% of fixed remuneration and is of the same value as the last two years.

Half of these share will vest based on the relative shareholder return of the company compared with the ASX300 index over the period 1 July 2020 to 30 June 2023. If the company TSR over this period falls below the 25th percentile of the comparator group, no shares will vest. If the TSR falls between the 25th and 75th percentile then a linear scale will apply from 25% vesting at the 25th percentile up to 100% vesting at the 75th percentile. If the TSR exceeds the 75th percentile then 100% of the shares will vest. ***In addition***, no reward will be payable if performance is negative irrespective of the benchmark group performance.

The other half of these shares will vest based on the Return on Equity (RoE) over the period 1 July 2020 to 30 June 2023. If the company RoE over this period is below 27% then no shares will vest. If the RoE falls between the 27% and 30% then a linear scale will apply from 25% vesting at the 27% RoE up to 100% vesting at 30% RoE. If the RoE exceeds 30% then 100% of the shares will vest.

The shares will not actually be allocated to the CEO until 1 July 2025 (ie five years from the start of the performance period and two years after vesting) and are subject to reassessment and possible forfeiture during the deferral period.

If the CEO ceases employment with the company, the offer will be assessed by the Board at the end of the performance period subject to a minimum 12-month performance hurdle.

This award ticks most boxes for us, it is not excessive, it is calculated at face/market value, it is at risk for five years, it is quite transparent and relatively easy to understand, it is based on two metrics with payout of half being dependent on positive shareholder returns, and it has a flat vesting schedule with no major “cliffs”. We therefore support this award.