



August 2016 Investor Presentation

Building a platform for
continued profitable growth



Agenda

- 1 **Overview**
Melos Sulicich
CEO & Managing Director
- 2 Financial Results
David Harradine
Chief Financial Officer
- 3 Outlook
Melos Sulicich
CEO & Managing Director



The MyState Australian Wooden Boat Festival celebrates Tasmania's rich maritime history and \$70 million wooden boat building industry.



FY 2016 Financial Performance Highlights

- Underlying NPAT of \$31.1m, a 4.5% growth on pcp.
 - Statutory NPAT of \$28.3m, down 12.9% on pcp.
- Underlying EPS growth of 4.4%, outperforming the sector.
- Full year dividend 28.5 cps.
- Underlying revenue of \$123.4m, up 3.3% on pcp.
- FY16 home loan growth of 9.6% above peers at 1.4x system⁽¹⁾.
 - Combined FY15 and FY16 growth of 29.5%, 2x system.
- Customer deposits increased to \$2.7bn, 8.9% growth.
- Net Interest Margin above peers at 2.13%.
- Strong capital adequacy ratio at 13.0%.
- Underlying Return on Equity of 10.6%, up 22bps on pcp.
- Underlying cost to income ratio 63.2%, down 112bps on pcp.

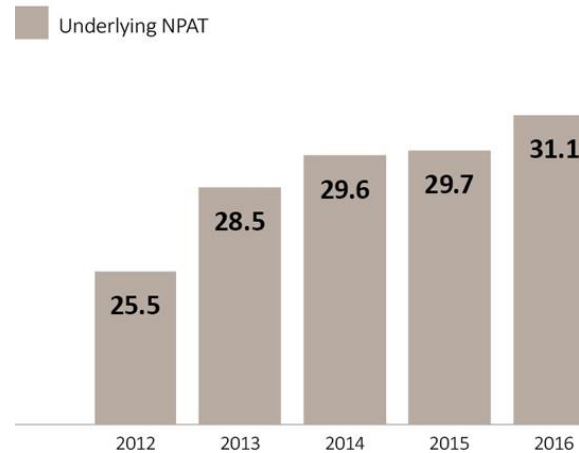
1. Source: APRA banking statistics
June 2016.

* Results are shown on an underlying basis
with a reconciliation of statutory and
underlying profit included on slide 10.

Building a platform for continued profitable growth.

Key underlying performance metrics continue to trend favourably

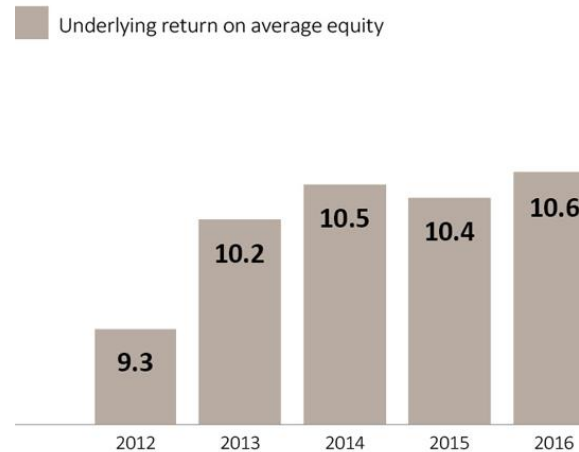
Net profit after tax (\$m)



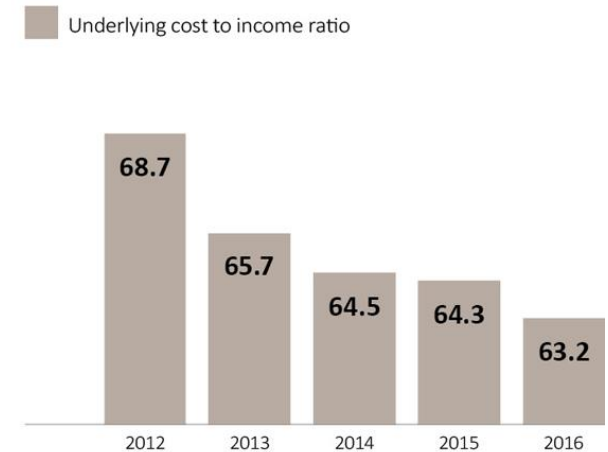
Earnings per share (cps)



Return on average equity (%)



Cost to income ratio (%)

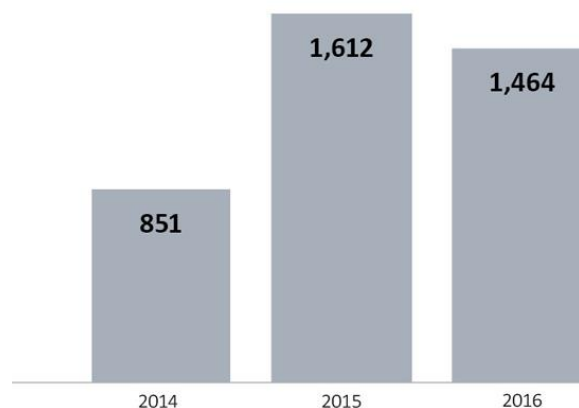


Growth strategy delivers a resurgence in net interest income

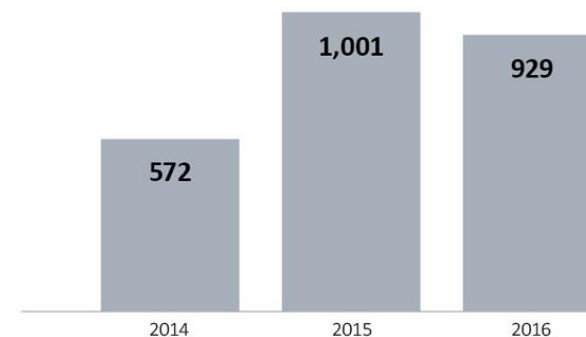
MyState continues to gain market share in lending with 2016 growth 1.4x system.¹

1. Source: APRA banking statistics June 2016.

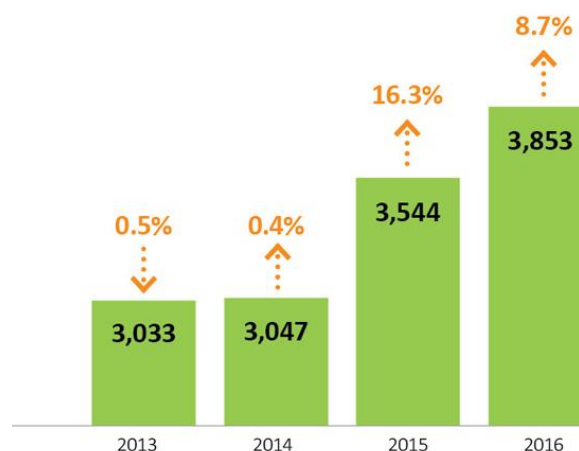
Application values (\$m)



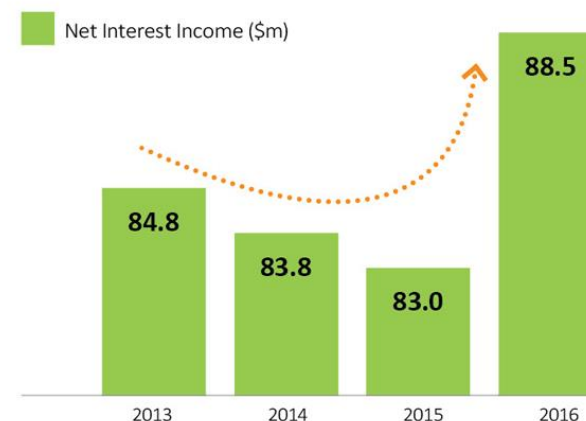
Annual settlements (\$m)



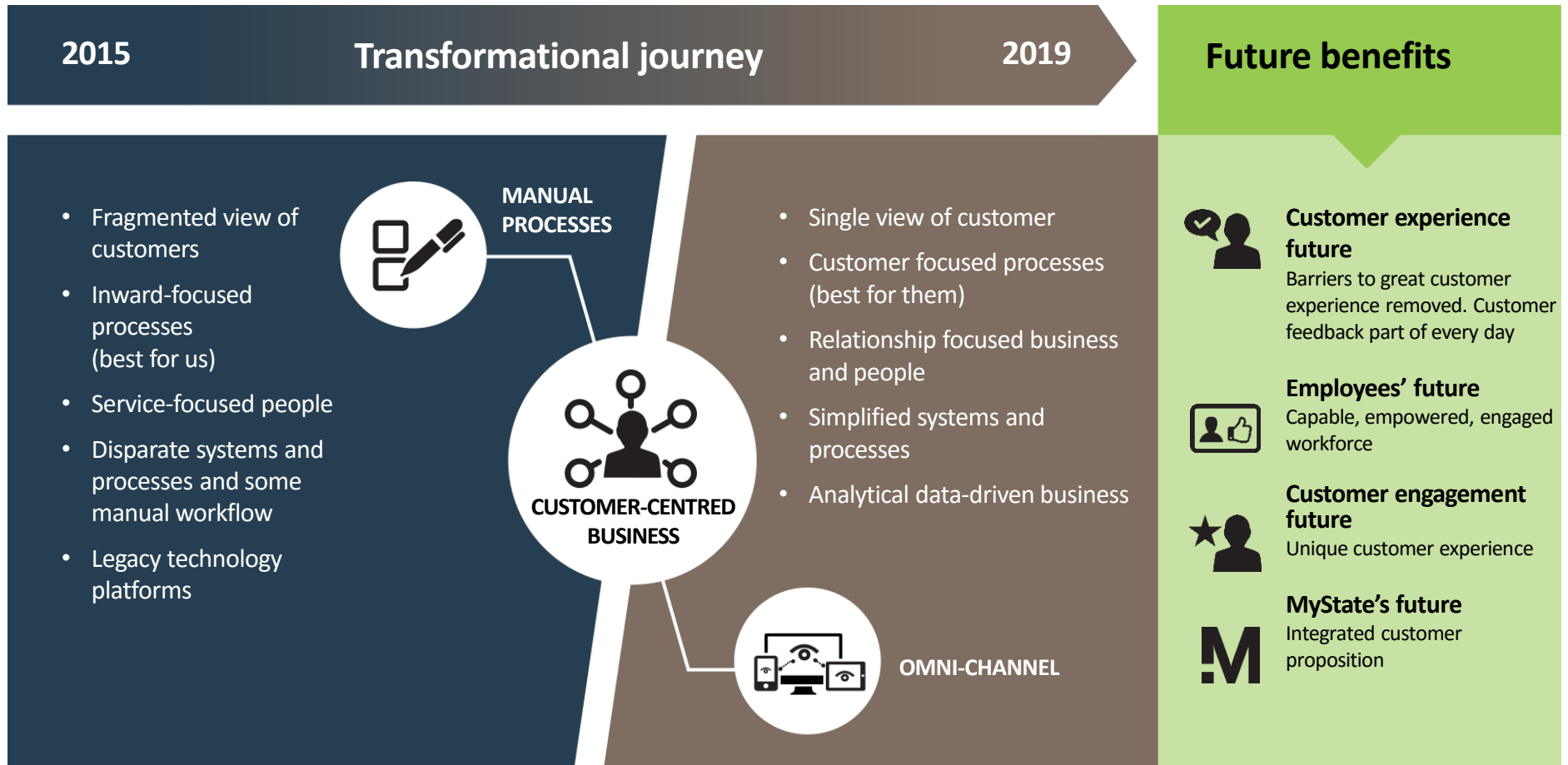
Gross loans and advances (\$m)







6.6% growth in 2016 Banking Net Interest Income



Our transformation roadmap



Delivering on our strategic goals

GROW		Growth in our revenue drivers	<ul style="list-style-type: none"> Underlying profit continues to grow. Focus on volume and margin management providing improved outcomes. Revenue growth achieved in a competitive environment, underpinned by growth in core net interest income.
SIMPLIFY		Simplifying processes for third party and direct channels	<ul style="list-style-type: none"> ADI consolidation provides back office simplification and efficiencies. Core banking system consolidation project to yield efficiency and productivity improvements. Relocation and consolidation of data centre. Replacing Contact Centre system to increase operator efficiency and customer service. Process improvement initiatives leading to improved customer outcomes.
STRENGTH		Capital ratio and arrears levels maintained	<ul style="list-style-type: none"> Sound capital ratio at 13.0%. <ul style="list-style-type: none"> MTN program launch provides capital flexibility. Dividend reinvestment plan to provide further capital support. Credit quality remains a cornerstone with BDD and arrears at continuing low levels. S&P rating of BBB with a positive outlook. Foundation work completed on building improved credit scorecard for rollout in Q2 FY17.
RELATIONSHIPS		Better broker and customer engagement	<ul style="list-style-type: none"> Investment in broker relationships and BDMs furthering our commitment to growing this channel. Upskilling front line staff, with new Bank Managers appointed to each branch. 'Making a genuine difference to our customers and communities every day'.
TRANSFORM		Transforming capability	<ul style="list-style-type: none"> Considerable IT investment underway to simplify and modernise systems. Internet banking and mobile platforms to go live in the near term. Investment in CRM and data warehouse. Supporting payment system innovation (Android Pays).

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MyState continues its support for Agfest, Tasmania's premier rural showcase. The event regularly attracts over 65,000 patrons who sample free fresh local produce.



Strong revenue and NPAT performance underpinned by sustainable growth

* Results are shown on an underlying basis with a reconciliation of statutory and underlying profit included on slide 10.

	2015 (Underlying)	2016 (Underlying)	Change (v 2015)	
Revenue (\$m)	119.5	123.4	▲	3.3%
Net profit after tax (\$m)	29.7	31.1	▲	4.5%
Statutory net profit after tax (\$m)	32.5	28.3	▼	-12.9%
Net interest margin (%)	2.28	2.13	▼	-15bps
Cost-to-income ratio (%)	64.3	63.2	▼	112bps
Earnings per share (cps)	34.0	35.5	▲	4.4%
Statutory earnings per share (cps)	37.3	32.4	▼	-13.0%
Capital adequacy ratio (%)	12.7	13.0	▲	36bps
Common equity tier 1 ratio (%)	12.5	11.4	▼	-109bps
Return on equity (%)	10.4	10.6	▲	22bps
Dividend – fully franked (cents)	28.5	28.5	–	–
Dividend payout ratio (%)	84	80	▼	4%
Credit performance – 30 day arrears (%)	0.66	0.70	▲	4bps

Reconciliation of underlying earnings with statutory profit

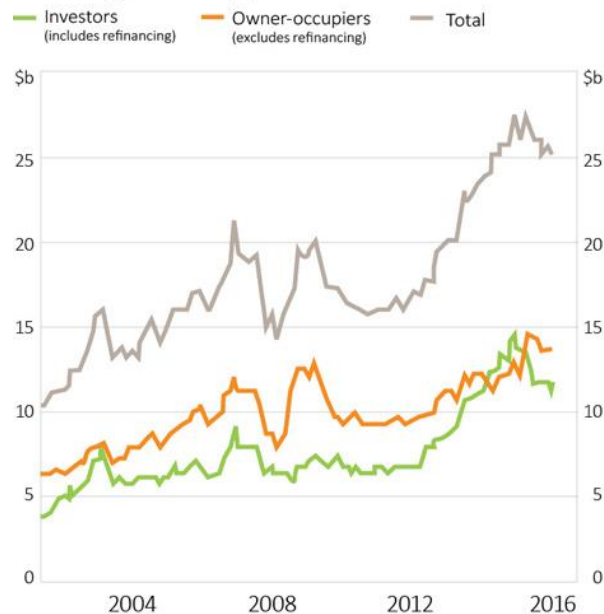
1. Sale of non-strategic asset (Cuscal Shares) to support growth and reinvestment.
2. Restructuring costs – Recruitment, termination and related costs to invest in new, experienced and capable Executive Leadership Team and selected positions.
3. Impairment of Rock core banking system arising on proposed consolidation of core banking systems.
4. M&A costs associated with advanced stage due diligence project.

	FY 2016	FY 2015
Underlying net profit after tax	\$31.1m	\$29.7m
Profit on sale of Cuscal shares ¹	–	\$3.9m
Restructuring costs ²	–	(\$1.1m)
Software Intangibles Impairment ³	(\$1.0m)	–
Merger & Acquisition Due Diligence ⁴	(\$1.8m)	–
Statutory net profit after tax	\$28.3m	\$32.5m

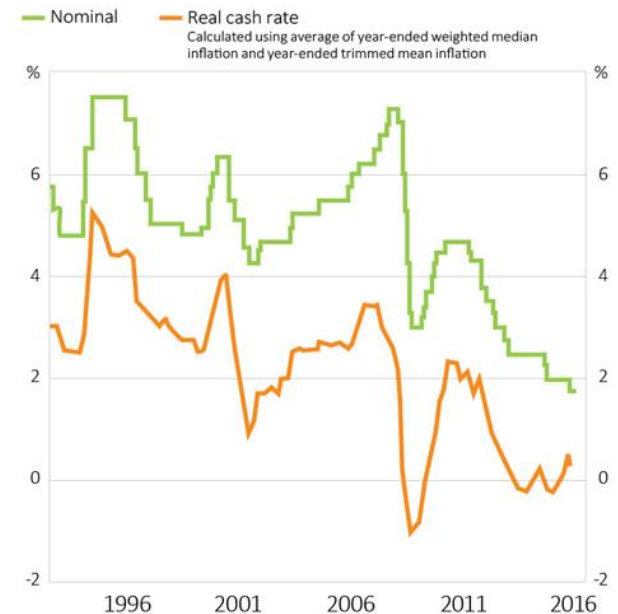
Domestic economy

- Low growth environment expected moving forward.
- Low rate environment changing industry dynamics.
- Total housing credit growth has eased to 6.7% over the year.
- Investor lending down over the year to an annual growth rate of 5.0%. Owner-occupier lending strengthens to a growth rate of 7.7%.
- Financial markets volatility placing pressure on funding costs.

Housing Loan Approvals



Australian Cash Rate



Source: RBA Growth in Selected Financial Aggregates June 2016

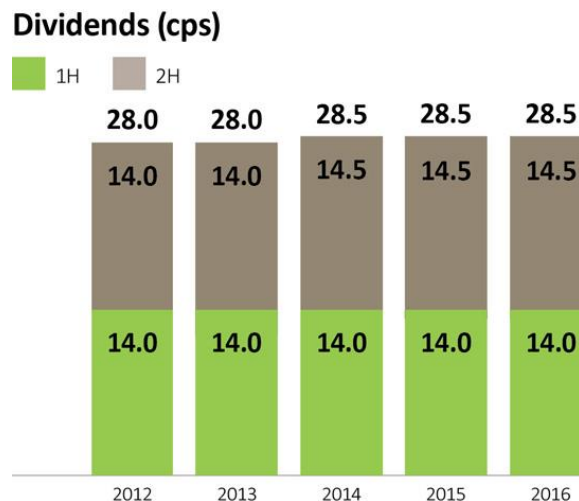
Continued improvement in the Tasmanian economy

The Tasmanian economy continues to see a modest lift in momentum:

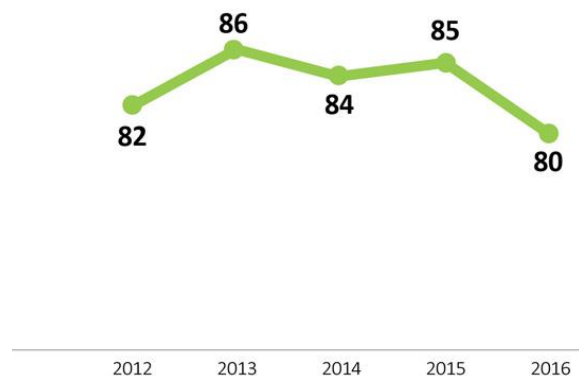
- Unemployment rate at 6.5%.
- Construction work 2.4% above 'normal' levels.
- Home prices up 6.2% over the 12 months to June 16, well above decade average of 1.6%.
- Lower currency providing a boost to an array of sections, especially tourism and agribusiness.



Sustainable dividend performance providing consistent attractive yield



Underlying ordinary dividend payout ratio (%)



Key dividend considerations

- Seek to maintain or increase nominal dividend whilst being alert to capital generation needs.
- Maintain payment ratio that is sustainable in the long term.
- Pay fully franked dividends given high franking credit surplus.
- The Board has suspended the Dividend Reinvestment Plan for this dividend.

Profit uplift through income growth

Strong loan book growth and margin management underpinned revenue growth.

Competition for both lending and deposits continues.

Revenue growth outpaced costs, delivering positive JAWS.

Strong underlying NPAT growth achieved through revenue uplift (\$m)



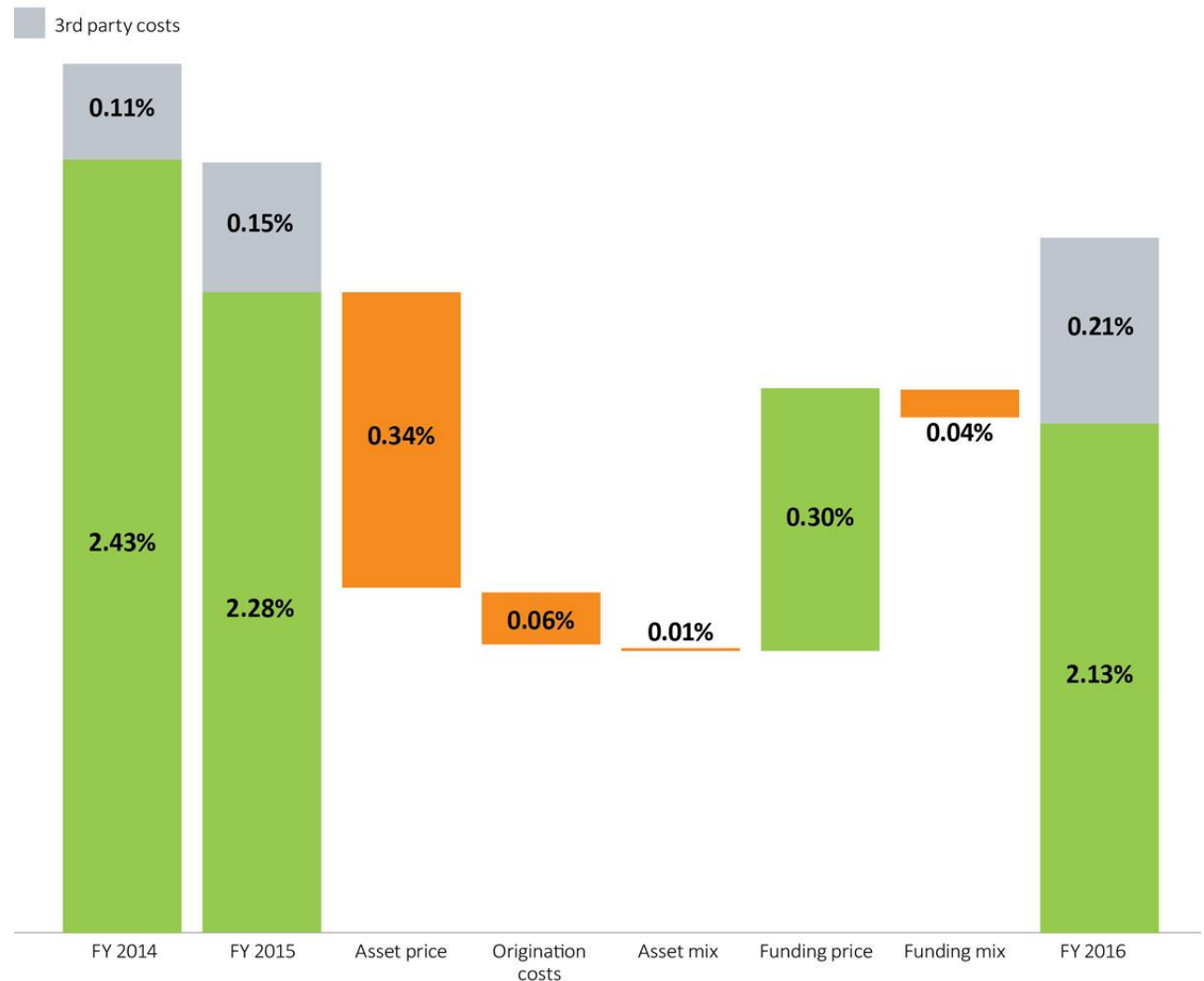
- Strong loan growth has underpinned FY16 Net Interest Income performance.
- Banking and Wealth non-interest income remains challenging.
- Operating expenditure growth contained to 1.5% and directed towards investment in people capability and new technologies.
- Bad & doubtful debts steady on the prior corresponding period, with management overlay remaining in place.

Net Interest Margin

NIM compression continues with competition for owner occupier lending intensifying and repricing from RBA rate reduction.

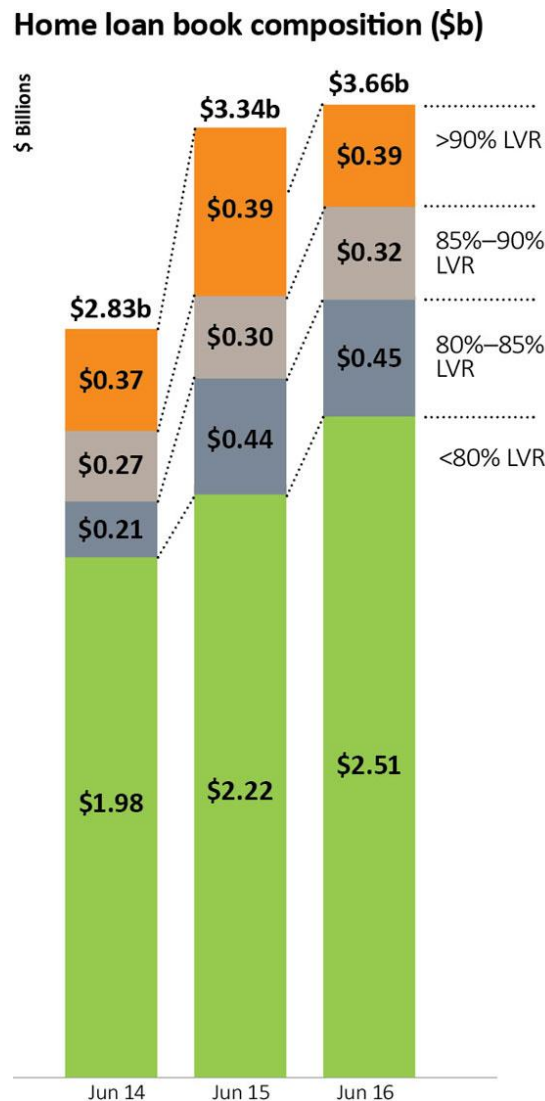
Pressures on funding costs continue with wholesale market volatility and heightened competition for customer deposits.

Third party costs increasing due to increasing proportion of broker portfolio.

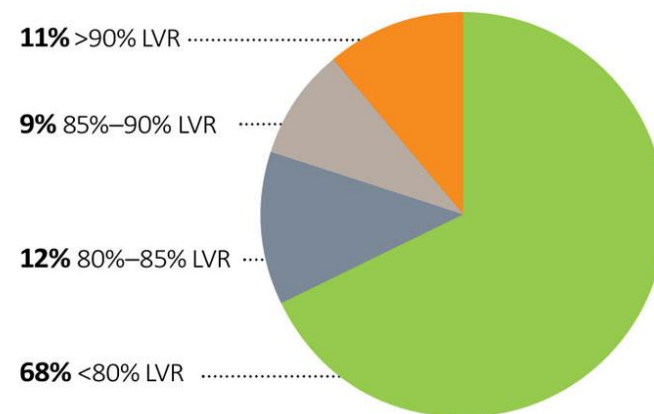


Growing sustainably is a strategic imperative

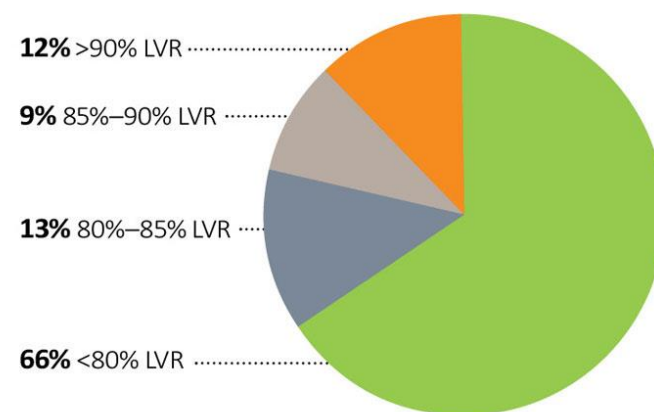
92% of home loan growth achieved from <80% LVR lending.



2016 home loan book by LVR (\$3.7b total)

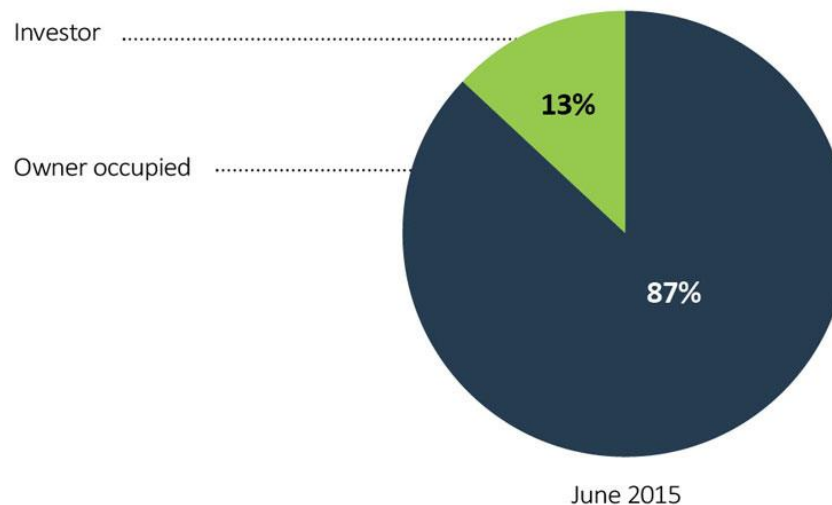
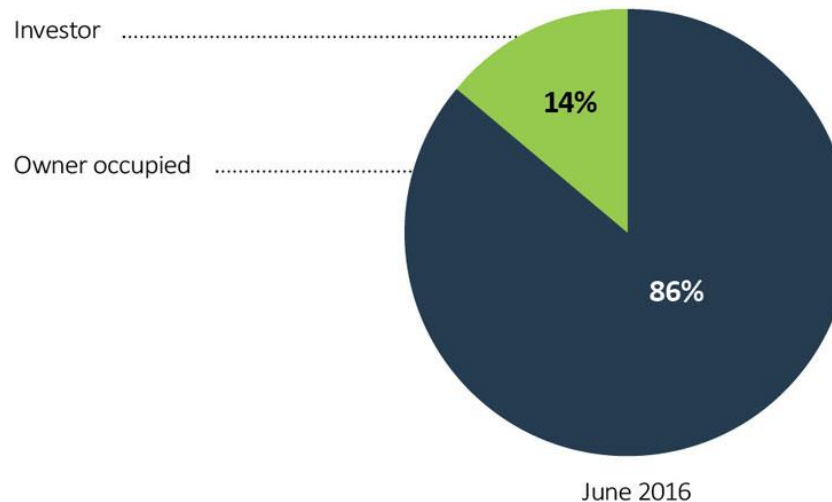


2015 home loan book by LVR (\$3.3b total)

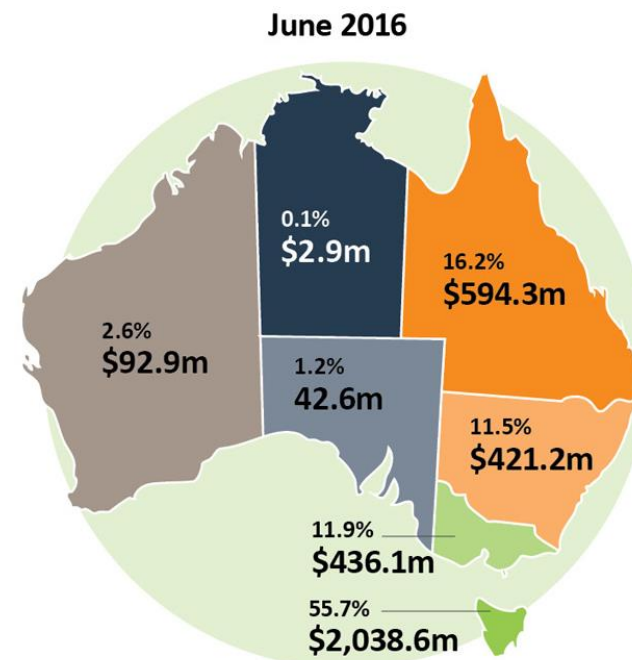
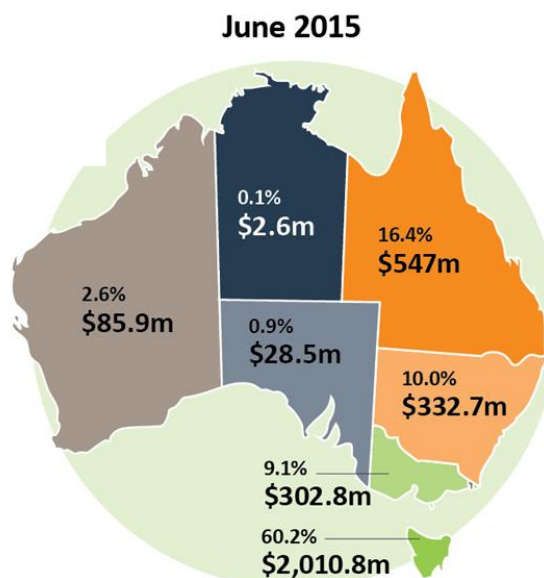
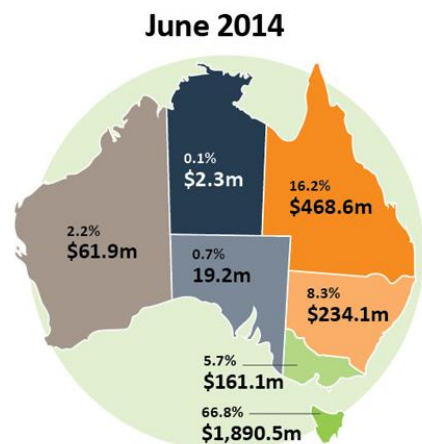


Investor lending well below industry average

Home loan book composition



Continued geographic diversification with NSW and VIC making nearly ¼ of the home loan book



State	2 year CAGR
VIC	64.5%
SA	49.0%
NSW	34.1%
WA	22.5%
QLD	12.6%
NT	12.3%
TAS	3.8%

Exemplary credit performance maintained

Impairment charges 3bps of gross loans.

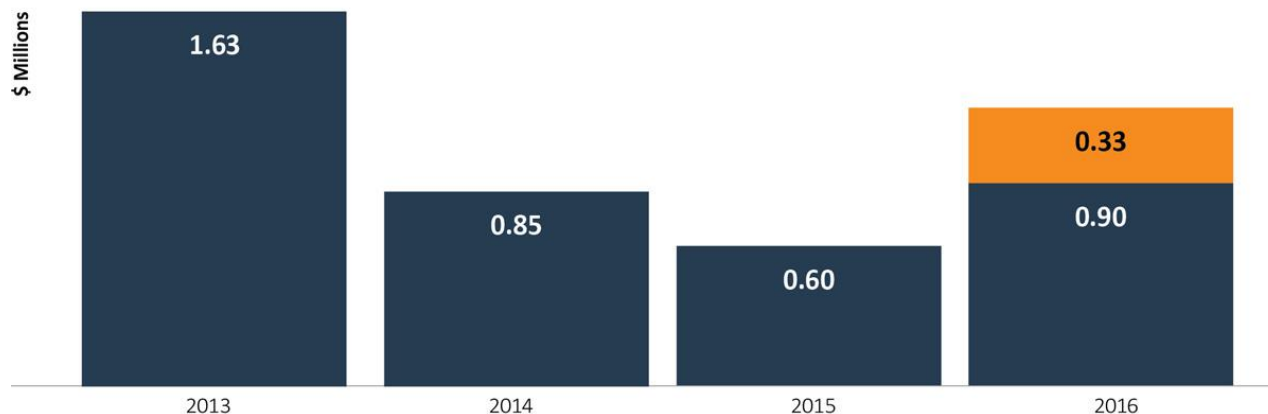
Underlying impairment charge increase due to fall in recoveries and slight increase in home loan provisions.

Management overlay applied as a prudent measure as loan book continues to grow.

Arrears still well below peers.

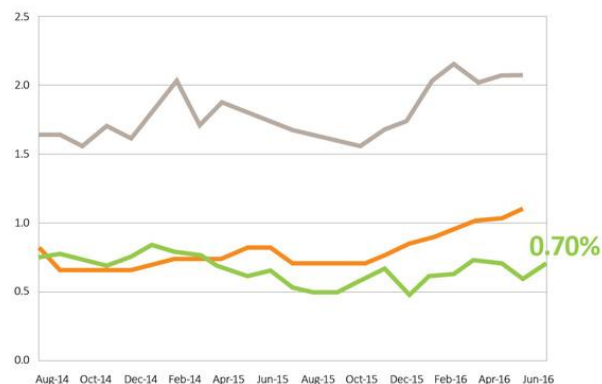
Impairment charge (\$m)

■ Impairment charge ■ Overlay



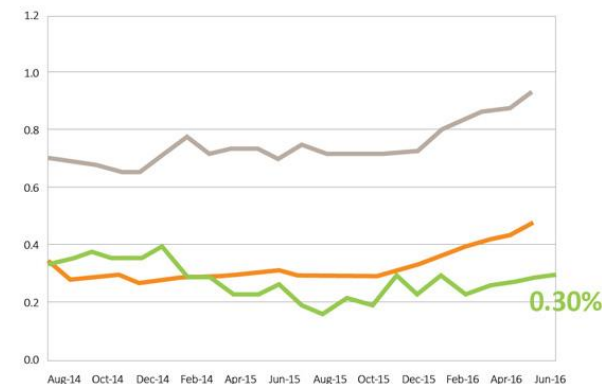
30+ day arrears remaining well below peers

— S&P Major Banks — S&P Regional Banks — MyState Limited



With a similar story for 90+ day arrears

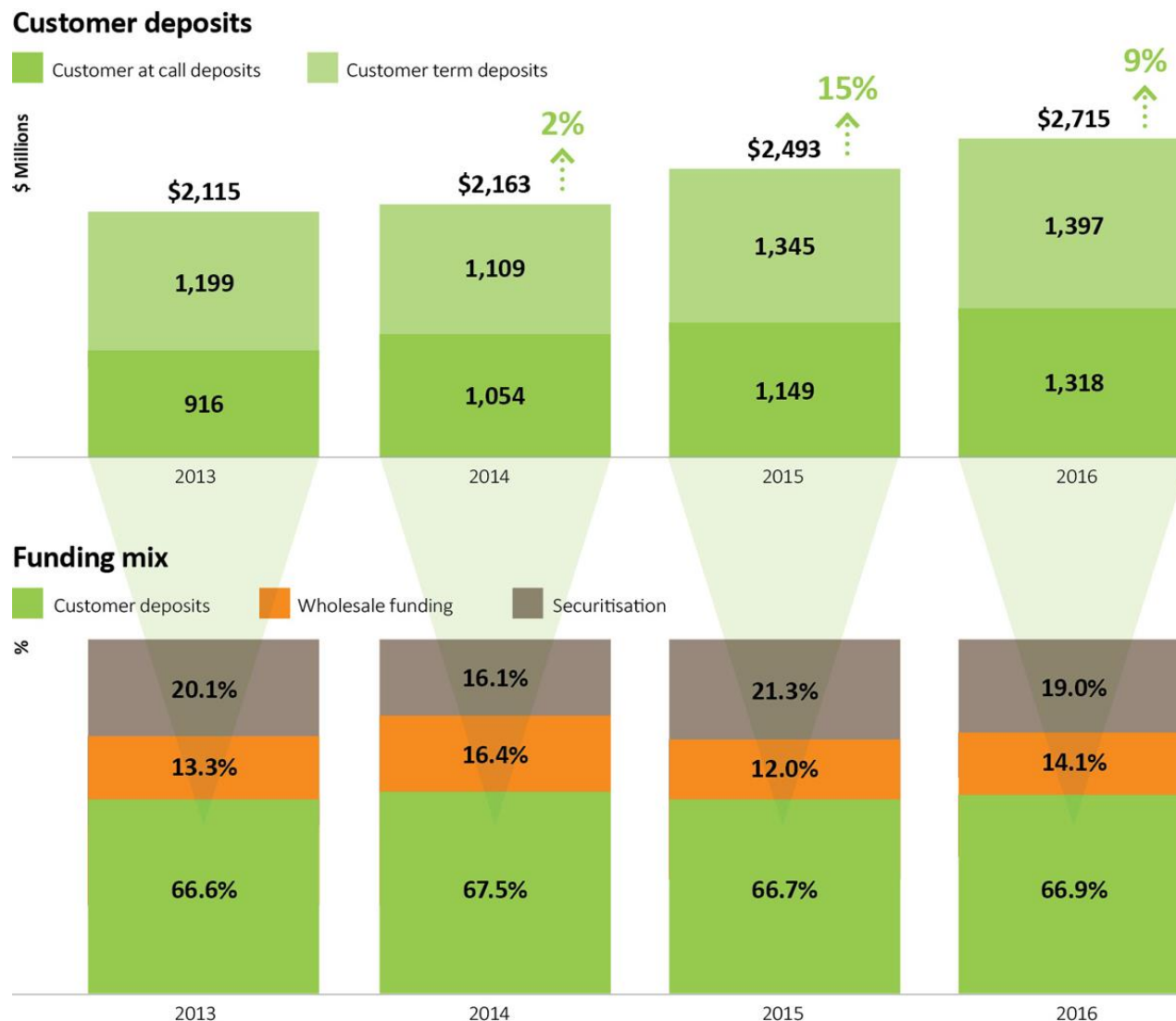
— S&P Major Banks — S&P Regional Banks — MyState Limited



A stable funding mix supported by growth in customer deposits

MTN program provides further funding diversification and tenor.

Conquest 2016-1 Warehouse established in May 2016 provides further funding and capital flexibility.

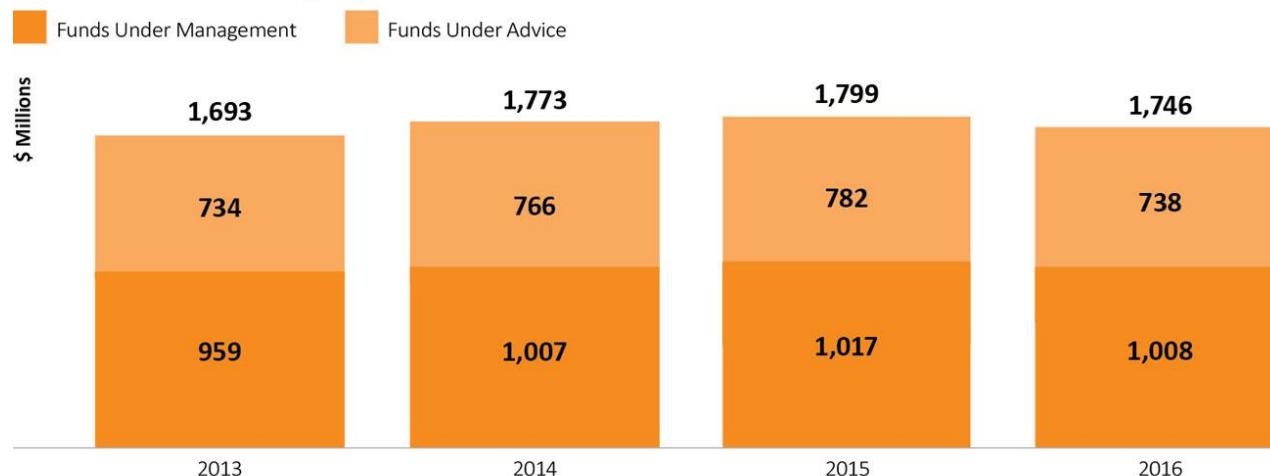


Wealth business steady, with opportunity to grow

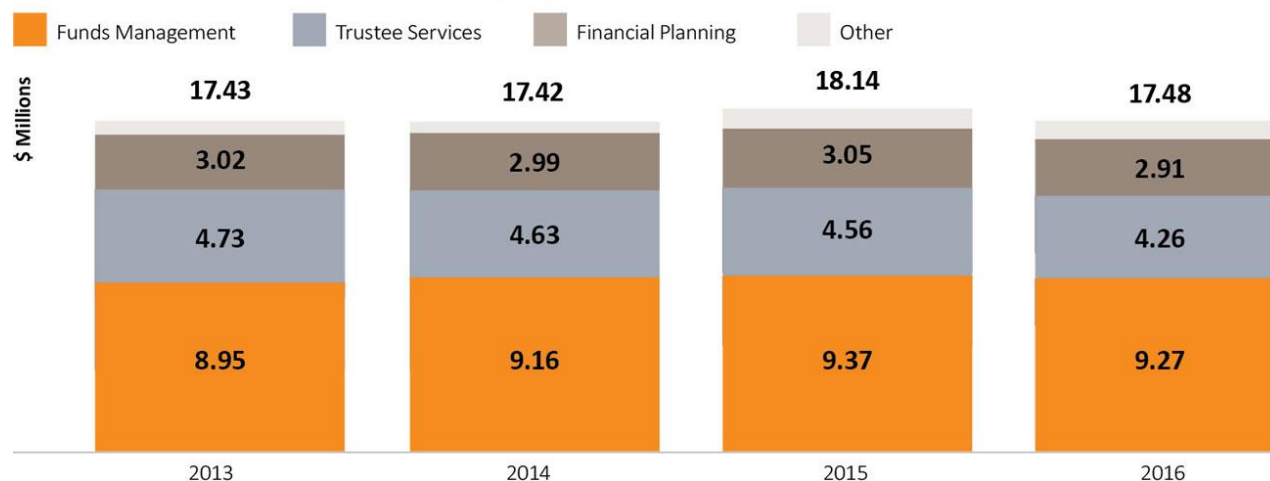
Current strategic focus

- General Manager appointed.
- Focus on business and operational improvements.
- Improve distribution capability.
- Deepening relationships across the entire business.

FUM and FUA stable (\$m)

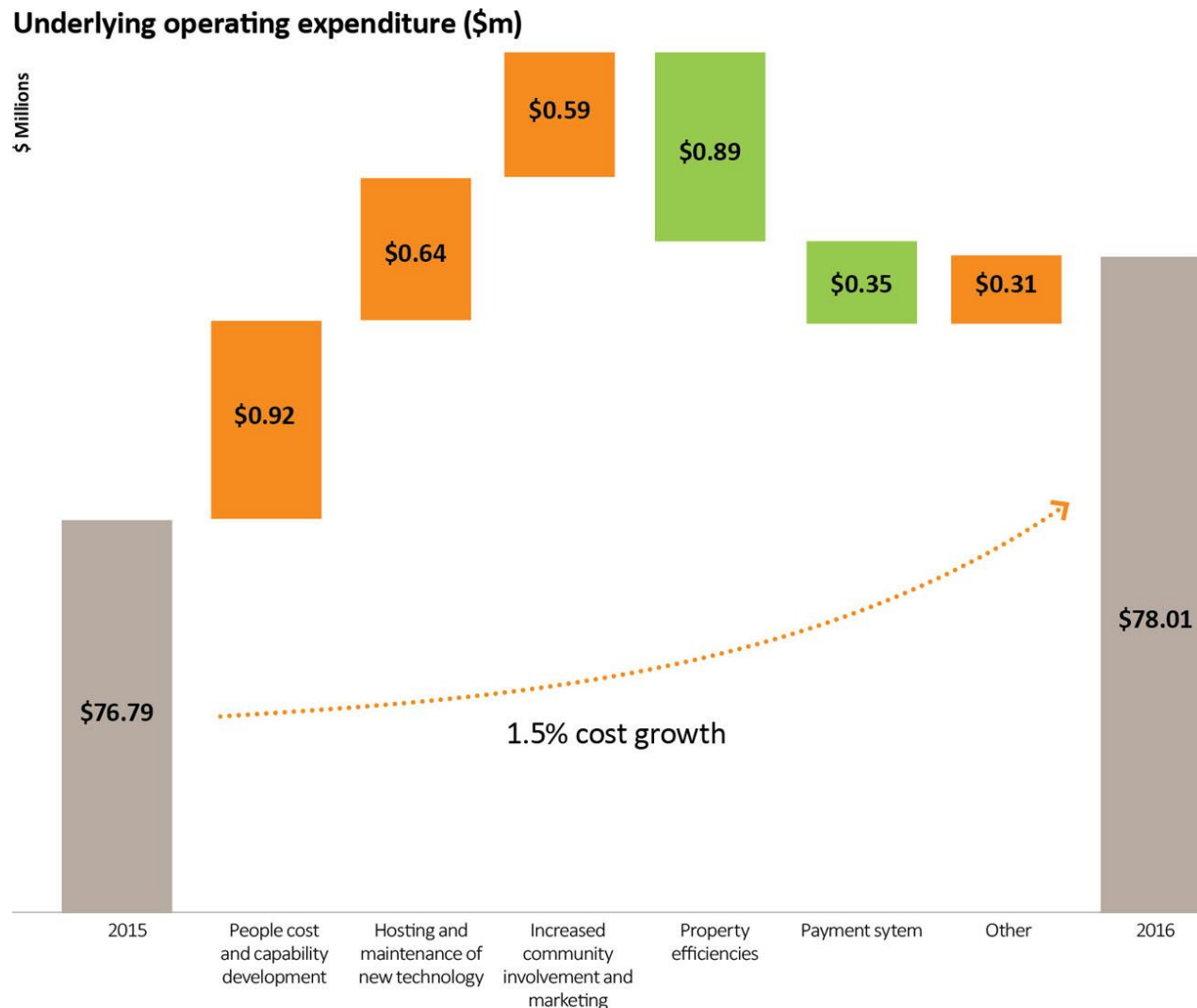


Modest decline in wealth revenue (\$m)



Business efficiencies reinvested in building capability and business development

Cost to income ratio improves by 112bps to 63.2% on pcp.

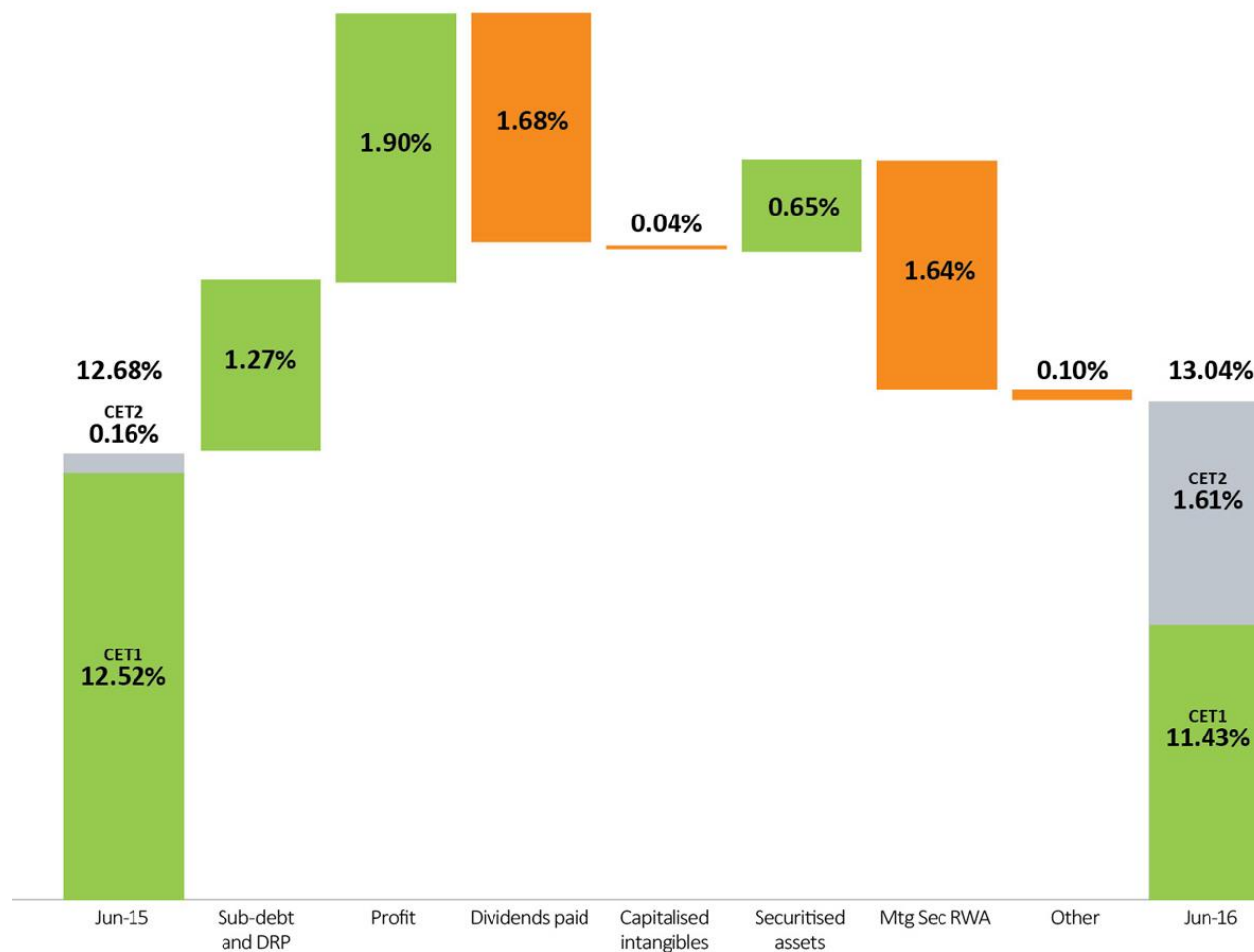


Increased capital diversity through MTN issue and new Conquest warehouse...

...with a range of capital options to support continued lending growth.

S&P review resulted in a reassessment of MyState's prospects, with a BBB positive outlook and likely to move to BBB+ within 12 months.

Strong capital ratio despite above system lending growth



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CEO & Managing Director



The MyState Student Film Festival showcases young Tasmanian talent to Australia – and the world.



Economic and regulatory outlook

Changing industry dynamics.

Modest growth outlook across the sector with margin pressure continuing.

Regulatory change and oversight still high.

- Australian economic outlook tempered by global uncertainty and low inflation.
- Historic low interest rate environment with further risks to the downside.
- Housing credit growth outlook stable with housing supply and demand continuing to converge.
- Constrained investor lending growth with strong competition for owner occupier lending remaining.

- Increasing capital risk weights for IRB approved banks.
- International developments likely to lead to higher investor loan risk weights.
- Regulation driving increased competition for stable funding sources.
- Customer deposit funding costs likely to remain elevated with margin pressure continuing in the sector.

Building a platform for continued profitable growth

What we've achieved:

- Loan growth 1.4x system through improved sales culture.
- MTN program to diversify funding.
- New loan origination system.
- Merged ADIs to provide efficiencies.
- Significantly improved capability with new leadership team.

What we're currently working on:

- Product rationalisation and aligned core systems and data centre.
- Ongoing process simplification.
- Internet banking, mobile, digital and contact centre system.
- Analytics, CRM and data warehouse improvements.

What's to come:

- Continued investment in technology simplification to improve services to customers.
- Opportunity to build wealth products and distribution.
- Build out marketing and CRM capabilities.
- Continue to investigate M&A opportunities.

Underpinned by Credit, Risk & Capital Management