

**INVESTOR
PRESENTATION**
FULL YEAR FY2018





AGENDA

FY18 INVESTOR PRESENTATION

- 1. Highlights & strategy**
Melos Sulicich
Managing Director & CEO
- 2. Financial results**
David Harradine
Chief Financial Officer
- 3. Strategy & outlook**
Melos Sulicich
Managing Director & CEO



HIGHLIGHTS & STRATEGY

MELOS SULICICH

Key highlights Results

KEY HIGHLIGHTS

- Growth across key financial metrics and underlying performance drivers
- Growing contribution from digital channels with increased customer adoption and advocacy
- Continued momentum in bank balance sheet and FUM growth and soundly capitalised for future growth

High customer advocacy, disciplined strategy execution and increasing customer uptake of digital are underpinning MyState's performance

KEY METRICS AND PERFORMANCE DRIVERS

Change on FY17 results except where otherwise stated

Solid
performance and
growth across all
key metrics

Increased full year
dividend of 28.75cps
and final dividend
steady at 14.5cps
fully franked

Total income: \$126.3m	▲	+1.4%	Net interest income: \$90.8m	▲	+3.1%
Net profit after tax: \$31.5m	▲	+4.6%	Earnings per share: 34.97 cps	▲	+0.93cps
Fully franked dividend: 28.75 cps ¹	▲	+0.25cps	Return on average equity: 10.1%	▲	+9bps
Cost to income: 64.0%	▼	-190bps	Total capital ratio: 13.47% ²	▲	+18bps
Home loan book: \$4.4b 1.2x system	▲	+6.9%	Funds under management: \$1.15b	▲	+5.9%

1. Final dividend of 14.5cps payable to shareholders on the register at the record date of 24 August 2018
2. 11.51% CET1 (FY17: 11.28%)



FINANCIAL RESULTS

DAVID HARRADINE

Results summary
Performance
Loan book

Credit profile
Funding
Wealth

Tasmanian economy
Shareholder returns

IMPROVING OPERATING LEVERAGE DELIVERING GROWTH

Revenue growth and cost containment delivered positive jaws and a lower cost to income ratio

Momentum in banking and wealth with home loan book growing +2x system in 2HFY18 and wealth FUM and FUA growing strongly

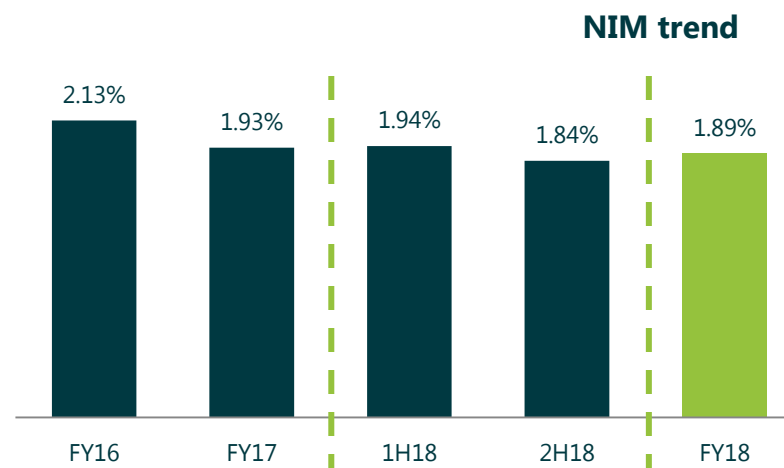
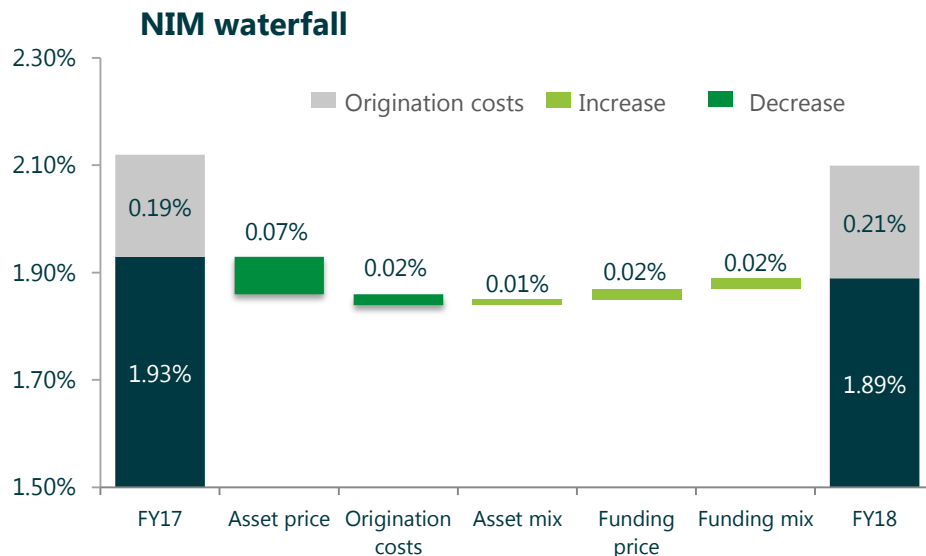
	FY18	FY17	Change (v FY17)	
Total operating income (\$m)	126.3	124.6	▲	+1.4%
Operating expenses (excl. BDD) (\$m)	80.9	82.2	▼	-1.5%
Net Profit after tax (\$m)	31.5	30.1	▲	+4.6%
Earnings per share (cps)	34.97	34.04	▲	+2.7%
Net interest margin (%)	1.89	1.93	▼	-4bps
Cost to income ratio (%)	64.0	65.9	▼	-190bps
Total capital ratio (%) ¹	13.47	13.29	▲	+18bps
Return on average equity (%)	10.1	10.0	▲	+9bps
Return on tangible equity (%)	13.7	13.4	▲	+28bps
Dividend – fully franked (cps) ²	28.75	28.50	▲	+0.25cps
Dividend payout ratio (%)	83	84	▼	-1.0%
Credit performance – 30 day arrears (%)	0.47	0.51	▼	-4bps

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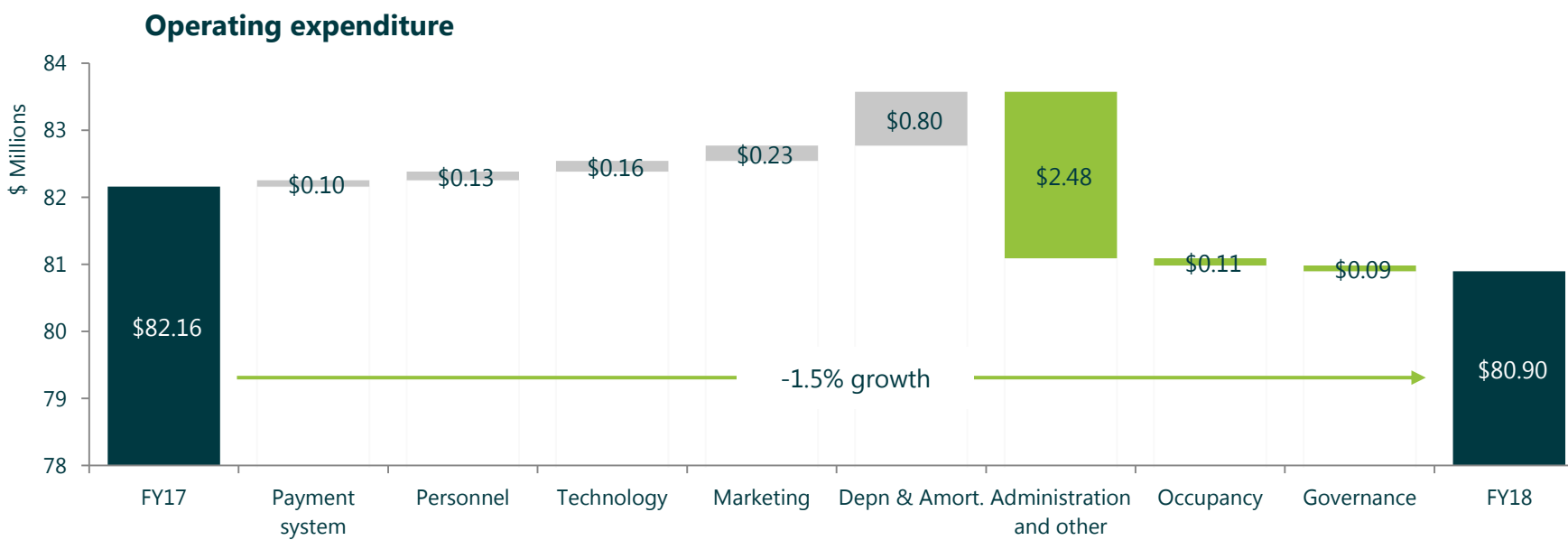
MARGIN COMPRESSION IN COMPETITIVE ENVIRONMENT

- Significant increase in BBSW during 2H18 impacted funding costs
- Net interest margin down -4bp on pcg
- Lending market remains highly competitive



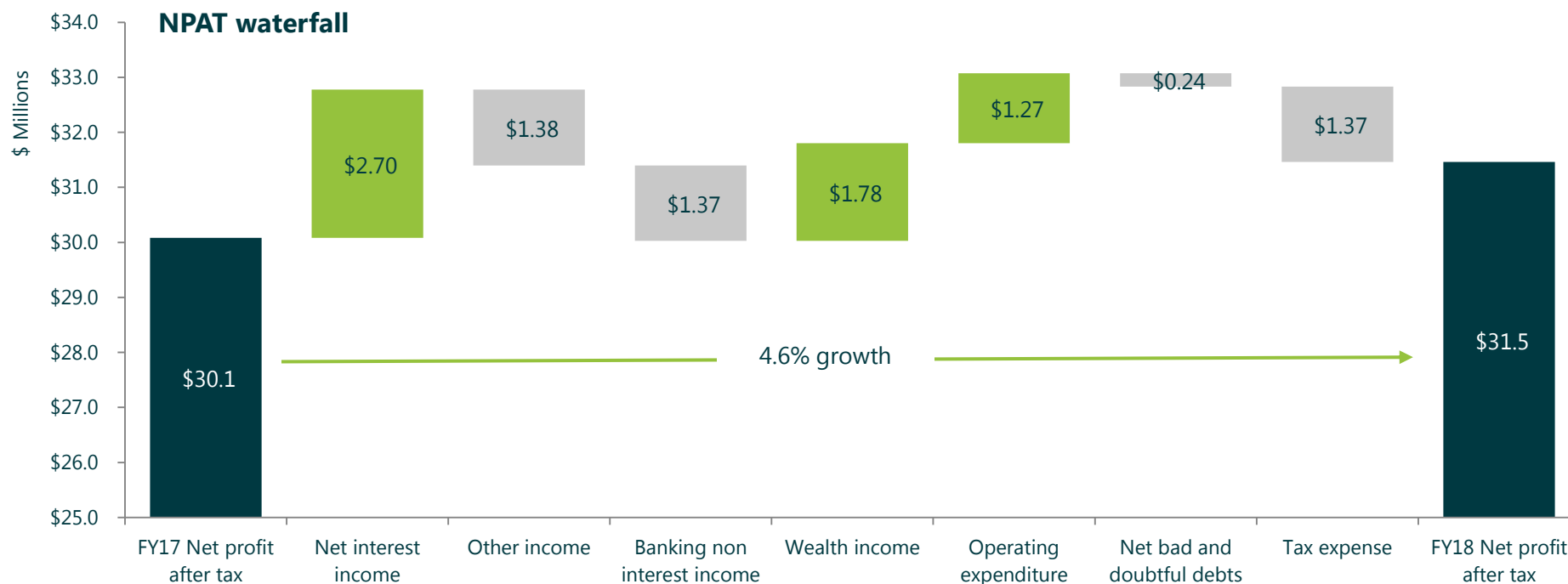
CONTINUED DISCIPLINED COST MANAGEMENT

- Operating costs declined -1.5% below pcg
- Continued focus on re-shaping the cost base to enable investment in customer acquisition, marketing and digital capability
- Administration costs managed well below pcg
- Depreciation and amortisation increased on pcg as higher levels of investment in technology began to be amortised



NPAT UNDERPINNED BY NII GROWTH AND WEALTH

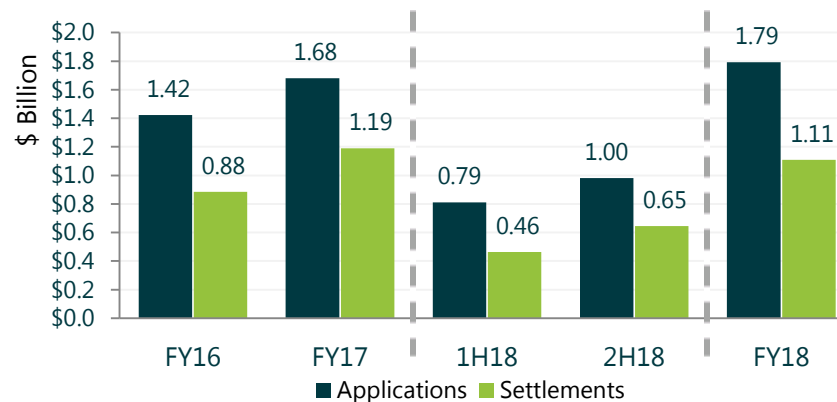
- Net profit before tax growth of 6.5% and NPAT growth of 4.6%
- Strong NII growth despite continued competition in lower risk, lower LVR lending
- Wealth growth across all business lines
- Operating expenditure managed below prior year; one-off benefits also assisted
- High quality growth leading to low bad debt outcomes



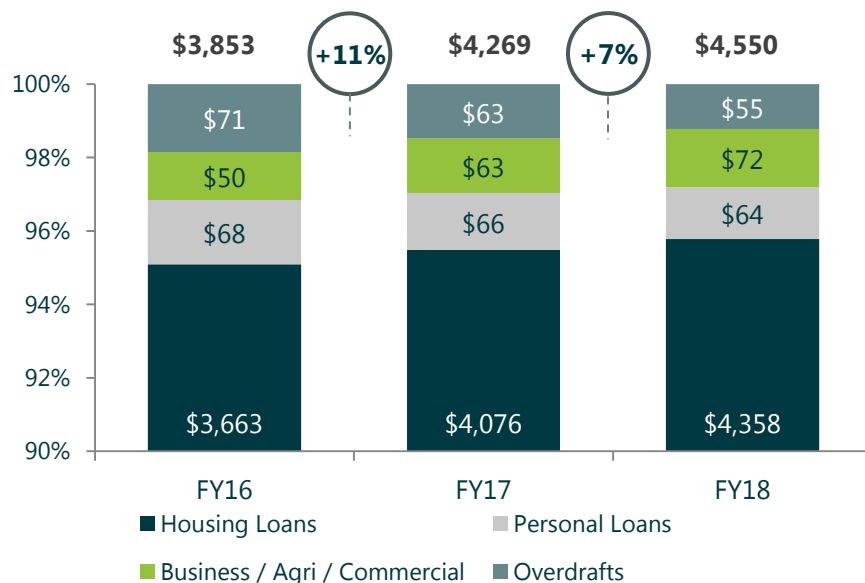
STRONG 2H LENDING GROWTH

- Loan book grew +2x system during 2HFY18
- Margin management remains key focus
- Emphasis on maintaining quality lending growth amidst vigorous competition
- Growth targeted to Australian eastern seaboard; focus on lower LVR loans with high asset quality

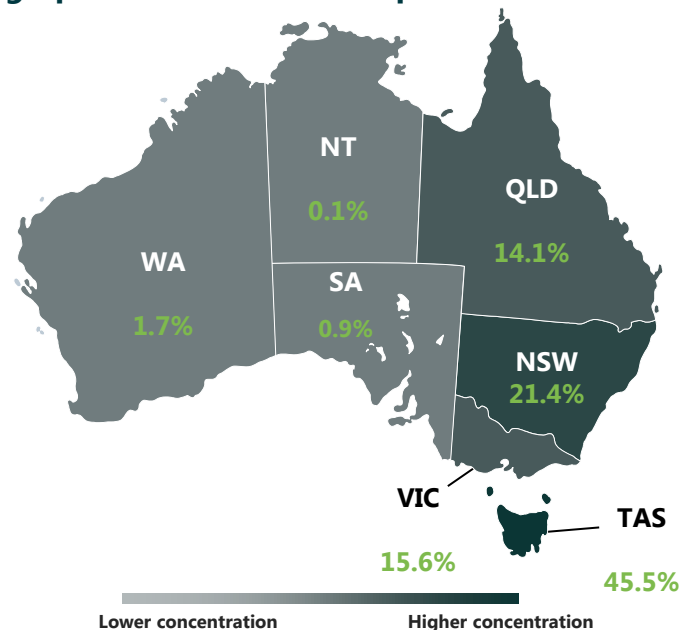
Home loan book – applications and settlements



Total book – composition (\$m)

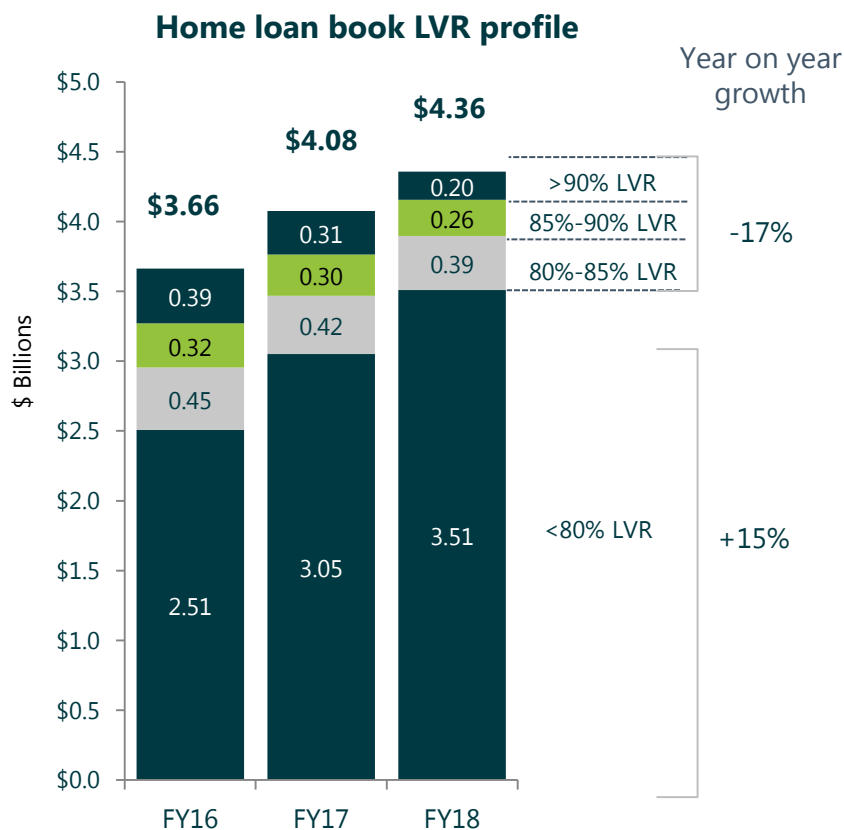


Geographic home loan book spread

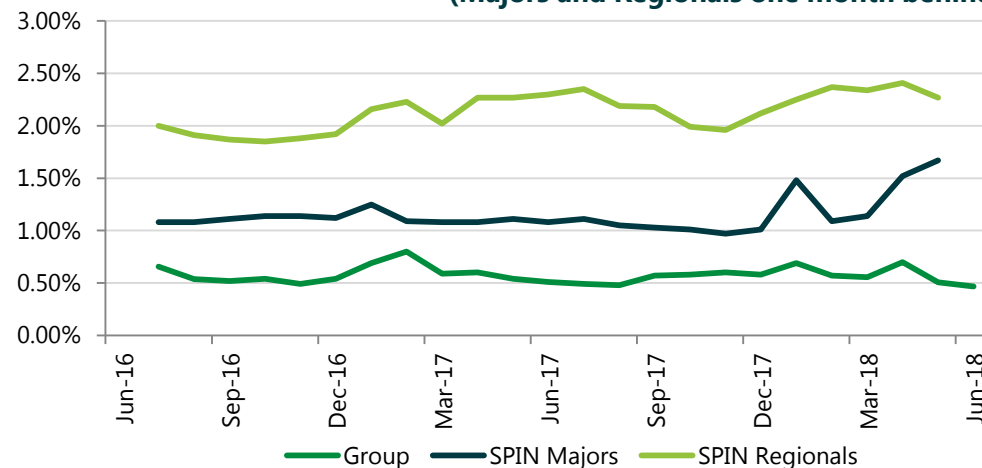


CONTINUED HIGH CREDIT QUALITY

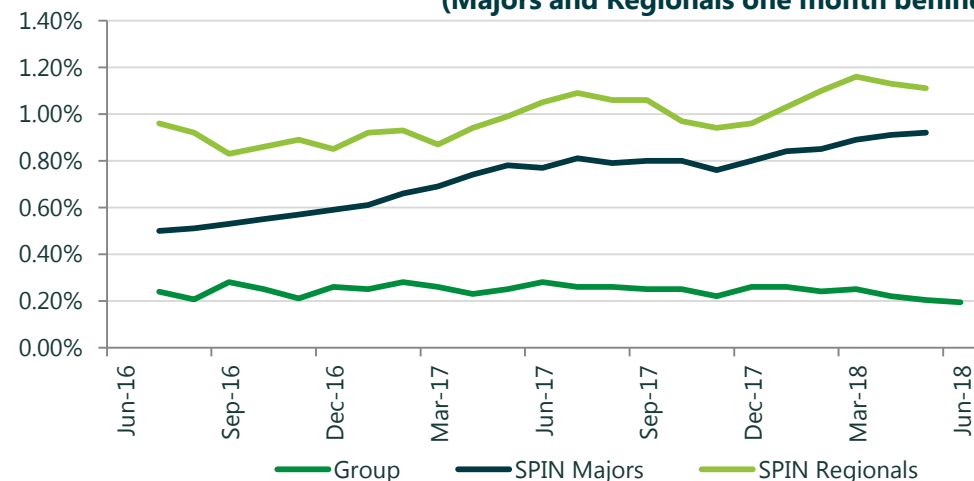
- Impairments remain at historic lows
- 30 and 90 day arrears well below peers and stable
- AASB 9 to be implemented July 2018 with expected increases in provisioning



30+ Days S & P Arrears Data
(Majors and Regionals one month behind)



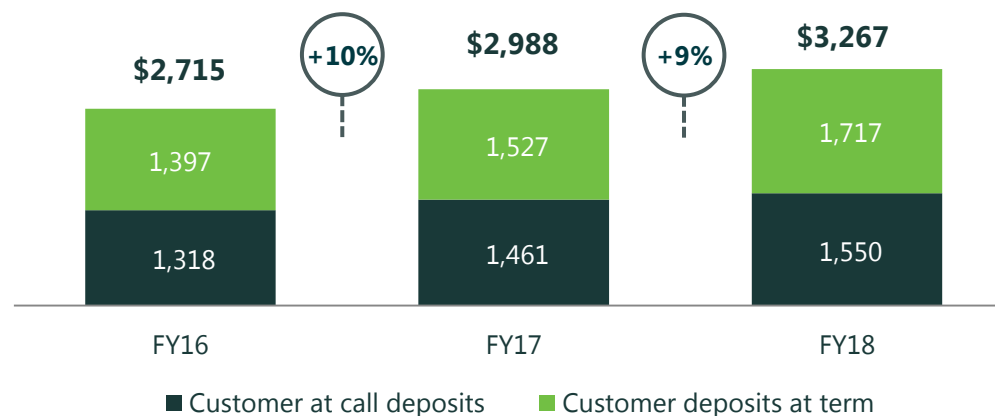
90+ Days S & P Arrears Data
(Majors and Regionals one month behind)



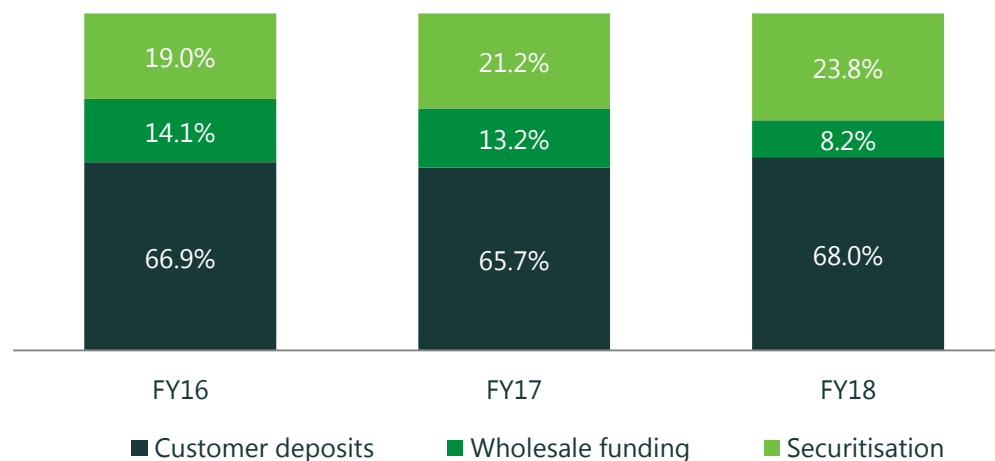
IMPROVED FUNDING MIX

- Stable funding mix enhanced by growth in customer deposits
- Customer deposit growth supported by introduction of eSaver and Everyday transaction accounts
- Programmatic RMBS issuance continues to be well supported by broad investor-base
- Moody's Baa1/P2 stable investment grade rating

Customer deposits (\$m)

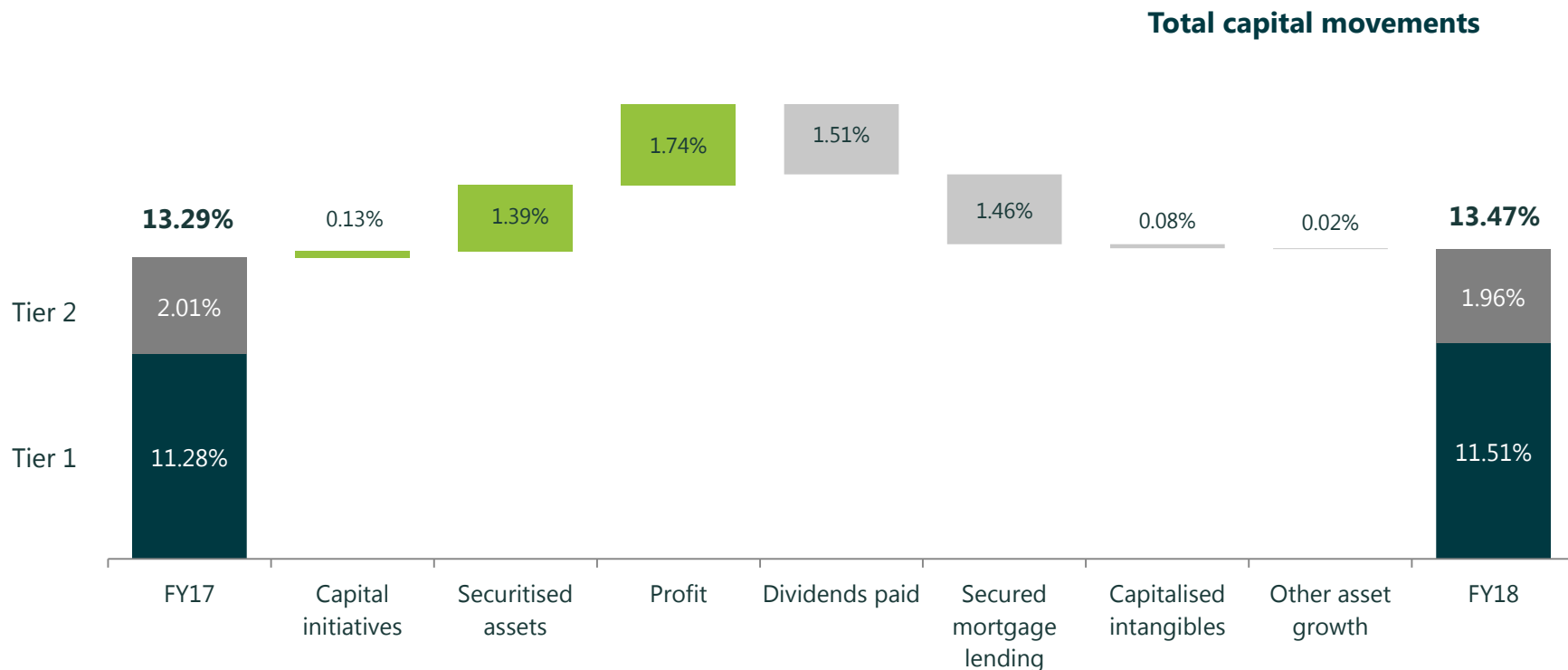


Funding mix



WELL CAPITALISED TO SUPPORT GROWTH

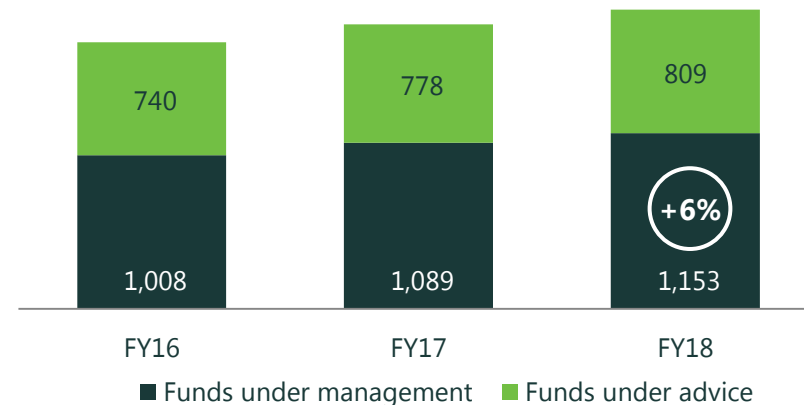
- Robust capital position supported by organic capital generation
- Capital base underpinning growth and investment in digital
- Well positioned to meet regulatory changes



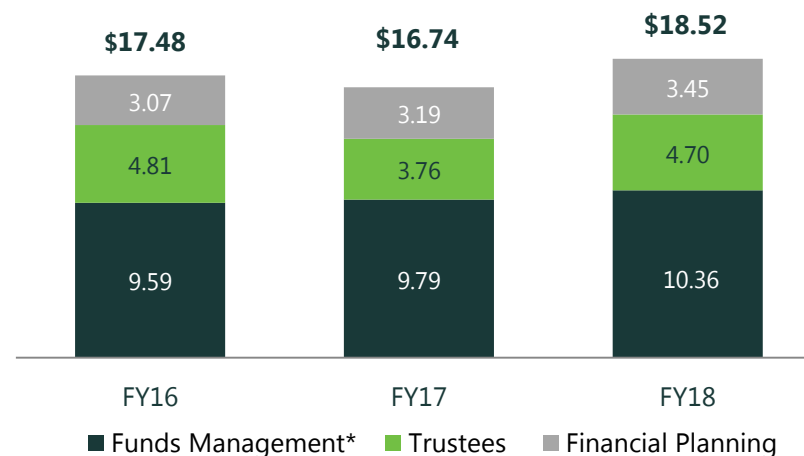
GROWTH IN WEALTH BUSINESS

- Wealth revenue growth +10.6% on pcp with solid performance across all business lines
- Trustee revenue +25% on pcp benefiting from sustained focus on will writing
- FUM growth of \$64m +5.9%
- FUA growth of \$31m +4.0%
- Income fund strategy and investment focused on the growing income needs of retirees
- Investment planned to grow wealth business

Funds under management and funds under advice (\$m)



Operating income (\$m)



* including funds management mortgage fees

MOMENTUM IN THE TASMANIAN ECONOMY

State final demand All time high



Export growth Above national average



Tourism Strong economic driver



Housing Price growth leading the nation

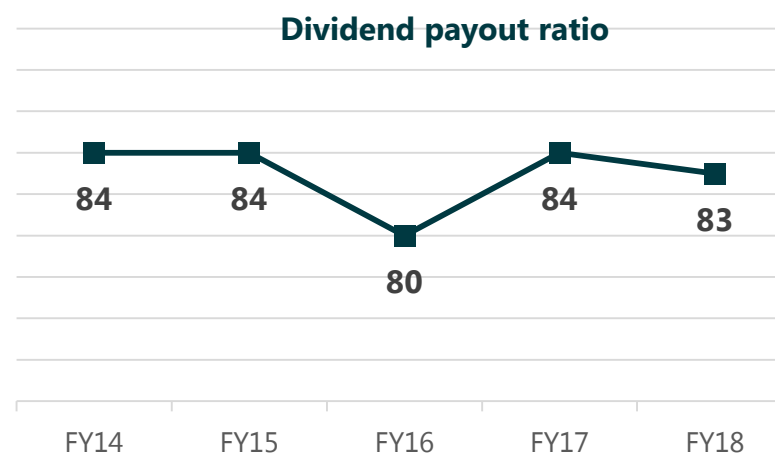
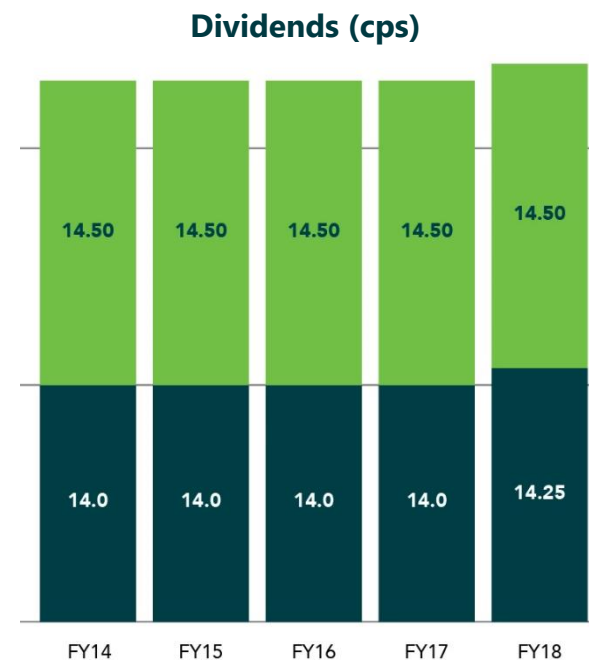
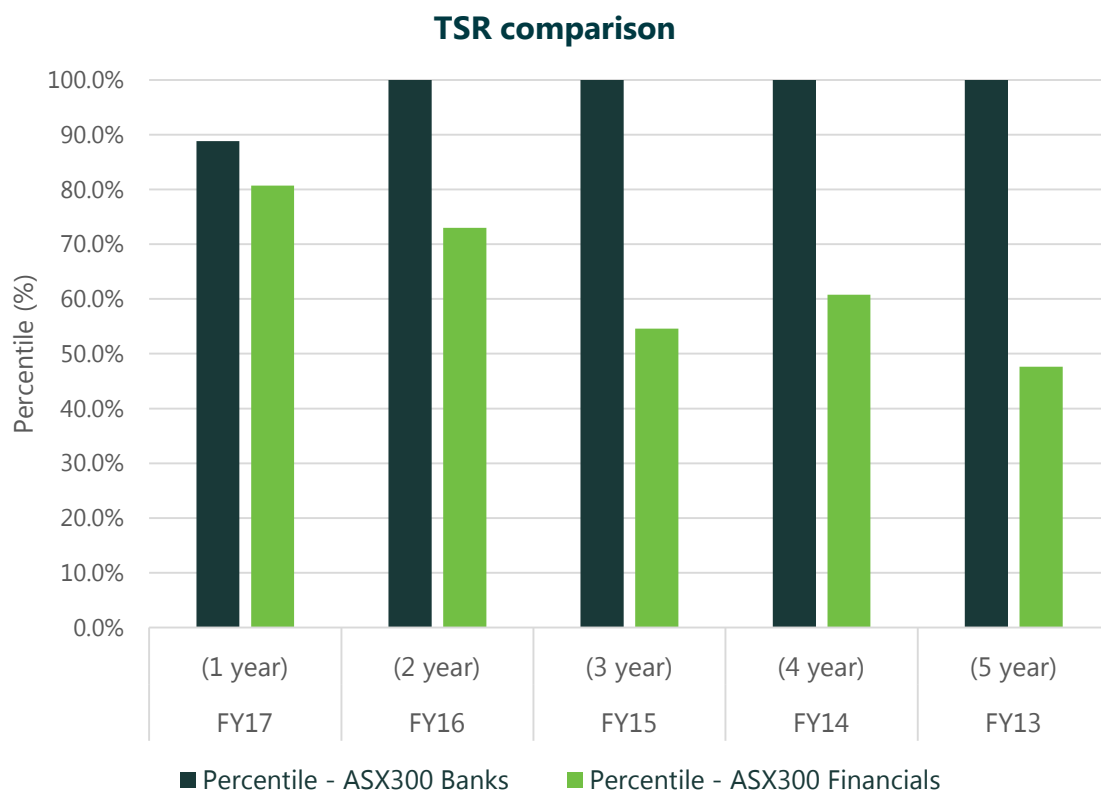


- Tasmanian economy experienced positive start to the year, with majority of indicators supporting economic growth.
- State Final Demand reached an all-time high of \$8.2bn in the March 2018 quarter, underpinned by a year of consistent growth in household consumption.
- Tasmanian retail sales grew 4.6% in the year to June 2018 compared to the national average of 3.1%, supported by tourism growth.
- 300,400 international visitors came to Tasmania in the year to March 2018, a 20% increase on the previous year and the highest number of international visitors to Tasmania in a given year.
- Hobart leads the nation in housing price growth with average dwelling values increasing 11.5% in the year to 30 June 2018.
- Tasmanian exports grew significantly, increasing 33% over the year to June 2018, above the national average of 8%.

Economic data sourced from ABS, CoreLogic and Tourism Tasmania

CONSISTENT RETURNS TO SHAREHOLDERS

- Consistent dividend returns to investors
- 100th percentile TSR compared to ASX300 Banks in FY13, 14, 15 and 16. 90th percentile in FY17.
- High yielding fully franked dividend





STRATEGY & OUTLOOK

MELOS SULICICH

Sector overview
Strategic overview

Achievements
**Platform for
continued growth**

SECTOR OVERVIEW



Industry dynamics

- System credit growth still slowing
- Housing market cooling nationally
- Lending market continues to be highly competitive
- Funding costs remain elevated



Regulatory dynamics

- Royal Commission
- Productivity Commission Review
- Competitive landscape still unbalanced:
 1. Funding cost differentials
 2. Risk weighted asset and capital differentials
 3. Macroprudential regulation skewing competition and profitability in the sector
 4. Lack of transparency in vertical integration of mortgage brokers
 5. Disproportionate impact of regulatory burden on smaller banks
 6. Non ADIs benefiting from macro prudential interventions

DELIVERING ON OUR STRATEGIC PRIORITIES

Our PURPOSE

To help people achieve their **dreams**

Our MISSION

To make financial services **simple** and **trustworthy**

Our VISION

We want to make a **genuine difference** to our customers and communities **every day**

The WORLD is changing

The **needs** and **expectations** of customers are changing and technology is opening opportunities to **attract** and **serve** new customer segments across Australia

At MyState, we know that our future success will be **founded on digital innovation** and evolving the way we **think and operate** so that we put **customers** at the centre of everything we do

Our GOALS are to be

Simpler, more **relevant**, accessible for our customers and **easier** to “use”



Evermore **digitally enabled** so that we can attract the **target customers** we are seeking

More deeply **community connected**

Seen by our shareholders as being **agile** with a strong focus on growth, **margins** and **cost management**



BUILDING A DIGITAL, SCALABLE BUSINESS *

Growing contribution from digital



c. **280%** growth
in bank accounts
opened online



eSaver
deposit growth
exceeds 100%



Almost a **third** of
personal loan applications
made online



eStatement
registrations up
over 130%

Increasing customer satisfaction and advocacy



Customer NPS
increased to **+27**



Over 400,000 NPP transactions
since Feb 2018 launch.
Processing NPP payment
volumes significantly above
MyState's market share.



Contact centre wait
times reduced by
over 80%



Predictive modelling
improving customer
outcomes and tailored
offerings

Operating momentum for further high quality growth



Roadmap for future products
includes Bonus Saver, zero monthly fee
transaction account, Fitbit Pay
and Garmin Pay



Loan book spread **55%** mainland
and proportion is increasing



Stable credit quality
increasingly complemented
by **credit automation**

* All statistics compare FY18 with FY17 unless otherwise stated

PLATFORM FOR CONTINUED GROWTH

What we've achieved



Deposit and loan book growth

- Continued **growth** above system



Costs

- Targeted **branch closures**
- Productivity benefits accruing



Digital transformation

- Increase in **customer NPS to +27**
- **Introduced** eSaver and Everyday transaction accounts and Basic Home Loan



Robust capital position

- Moody's Baa1/P2 stable **investment rating**

What we're working on



Customer enhancements

- **MyExcellence** program
- Continued focus on **customer improvement initiatives** including continuous cycle of platform improvements



Digital

- **Faster customer onboarding**
- **Digital** mortgage origination
- Focus on **digital deposit acquisition**



Marketing

- Build out **marketing analytics** and CRM capabilities
- **Brand building + refresh**



Wealth

- Investment in **Wealth**, with a focus on systems and capability

We are modernising our business and putting customers at the centre of everything we do

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 Ltd

MSB: MyState Bank Limited

NII: Net Interest Income

NIM: Net Interest Margin

NPAT: Net Profit after Tax

NPBT: Net Profit before Tax

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

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