

**INVESTOR
PRESENTATION**
HALF YEAR FY2019



AGENDA

1H19 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



KEY HIGHLIGHTS

CORE STRATEGY

- **Digital bank**
 - Record online origination
 - New online products
- **Service proposition**
 - Full suite of 'Pays'
- **Superior customer outcomes**
 - NPS +39
 - Enhanced digital experience

DISCIPLINED EXECUTION

- **Tight cost management**
 - Flat operating expenses
- **Appropriately capitalised**
- **Loan book growth**
 - Record settlements

CONTINUED INVESTMENT

- **Wealth products + systems**
- **Brand**
 - Single bank brand
- **Digital**
 - All bank products now with fully digital origination

**Softer than expected 1H19 result driven by external factors including sector funding costs.
Expecting 2H19 similar to 2H18**

KEY METRICS AND PERFORMANCE DRIVERS

2x SYSTEM LENDING GROWTH

driven by superior customer service
proposition and advocacy

STRONG CUSTOMER DEPOSIT GROWTH

supported by digital platform
and product innovation

WELL CAPITALISED


to support growth initiatives and
shareholder returns

External environment impacting


FUNDING COSTS


and margins

Home loan book:
\$4.6b
2.1x system  **+10.3%**

Customer deposits:
\$3.4b  **+10.6%**

Total capital ratio:
13.05%  **-34bps**

Net profit after tax:
\$14.4m  **-9.0%**

Earnings per share:
15.87 cps  **-1.69cps**

Fully franked dividend:
14.25 cps¹  **Steady**

1. Final dividend of 14.25cps payable to shareholders on the register at the record date of 4 March 2019

Change on 1H18 results except where otherwise stated



RESULTS SUMMARY

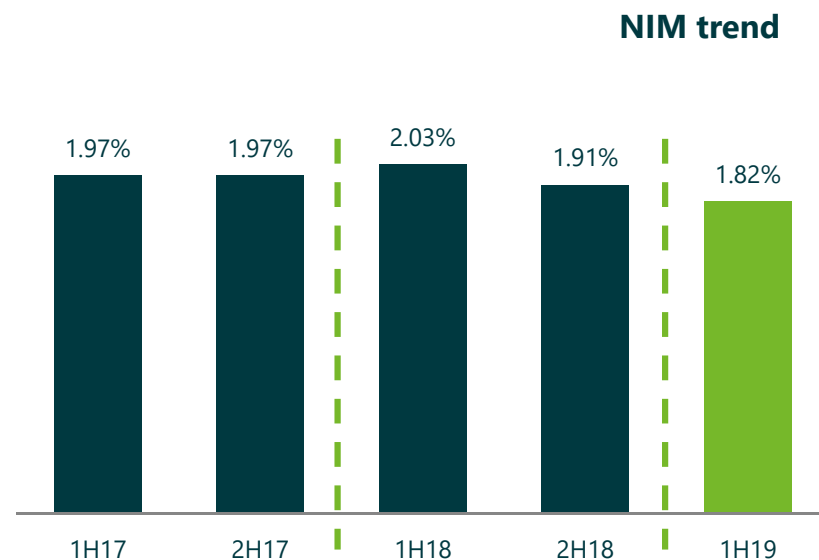
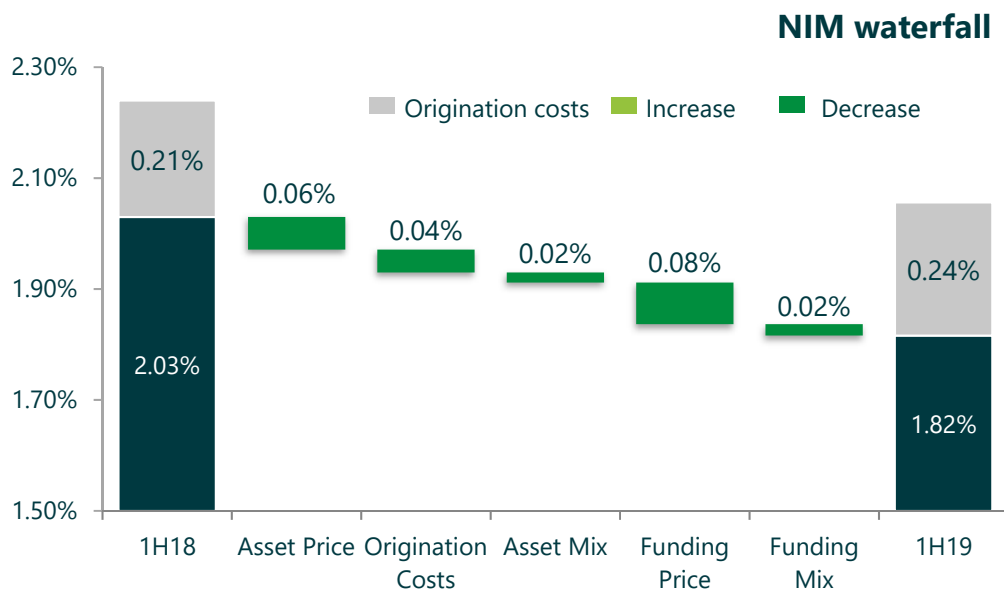
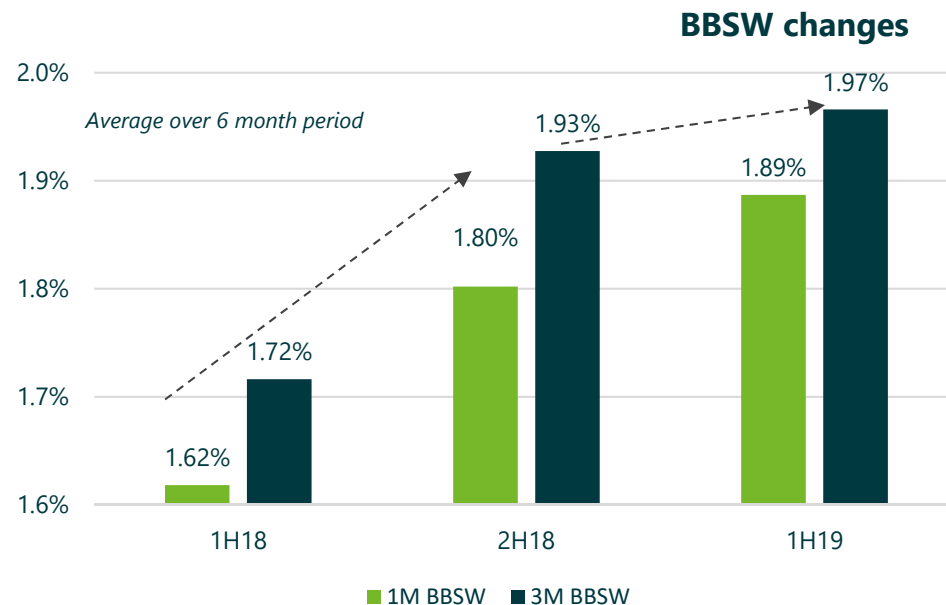
- Softer 1H19 result given challenging external environment
- Strong lending growth supported interest earned despite competitive market pricing
- Elevated spreads in funding markets placing downward NIM pressure
- Superior lending quality maintained continuing to outperform peers
- Disciplined cost control and FTE management
- Well capitalised to support growth initiatives

	1H19	1H18	Change (v 1H18)	
Total operating income (\$m)	60.73	62.67	▼	-3.1%
Total expenses (excl. BDD) (\$m)	40.57	40.01	▲	+1.4%
Net profit after tax (\$m)	14.37	15.79	▼	-9.0%
Earnings per share (cps)	15.87	17.56	▼	-1.69cps
Net interest margin (%) ¹	1.82	2.03	▼	-21bps
Cost to income ratio (%)	66.80	63.85	▲	+294bps
Total capital ratio (%) ²	13.05	13.39	▼	-34bps
Return on average equity (%) ³	9.03	10.15	▼	-112bps
Dividend – fully franked (cps) ⁴	14.25	14.25	-	-
Credit performance – 30 day arrears (%)	0.52	0.58	▼	-6bps

1. During the half a change was made to the way NIM is reported by MyState Bank (MSB). Offset accounts are now a component of Total Assets and Interest Expense now includes bond issuance costs which had previously been included in Depreciation and Amortisation. Please refer to the appendix in this document for further information.
2. 11.09% CET1 (1HFY18: 11.28%)
3. Annualised FYTD
4. Final dividend of 14.25cps payable to shareholders on the register at the record date of 4 March 2019

MARGIN COMPRESSION DUE TO INCREASED FUNDING COSTS

- Elevated wholesale funding spreads continued in 1H19 at c. 27bp above 1 month BBSW pcg
- Heightened front book pricing competition limited scope for asset repricing in 1H19, with subsequent loan book repricing in January 2019
- These extended market factors have placed downward NIM pressure, falling -21bp on pcg
- Margin outlook in the short term is more stable, noting wholesale funding spreads have continued into 2H19 at elevated levels

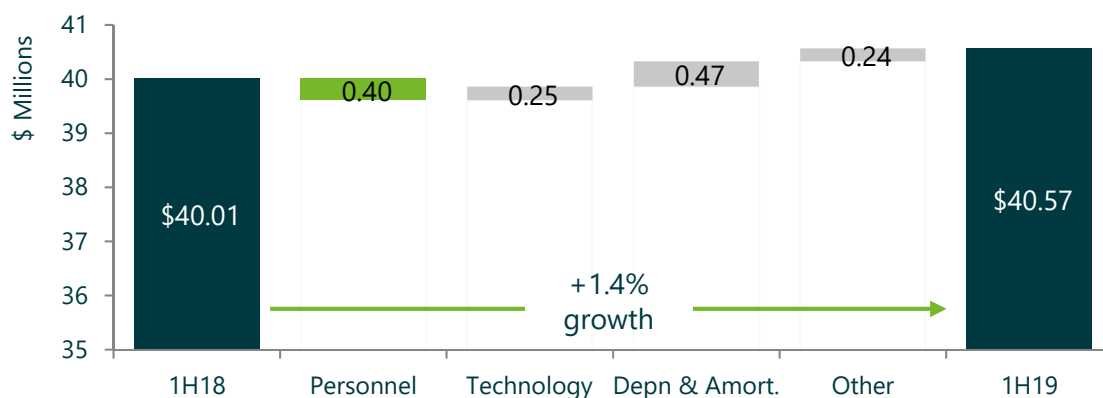


DISCIPLINED COST CONTROL

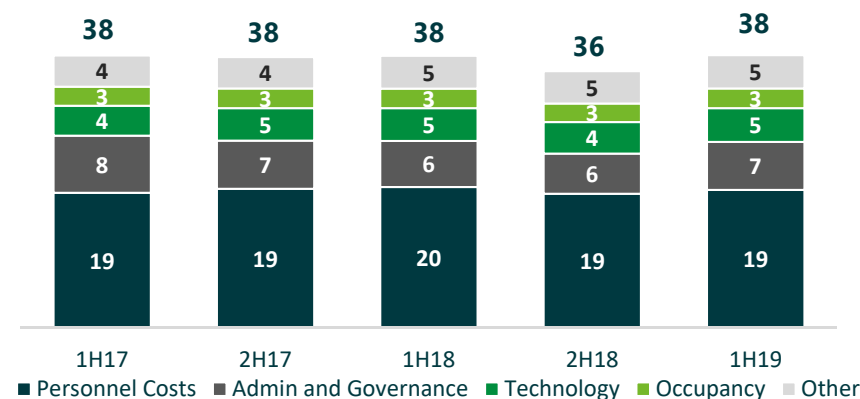
- Flat cost profile maintained for 1H19, with costs increasing +1.4% on pcp
- Technology and digital platform investment related depreciation and amortisation were drivers of the increase on pcp
- Several one off costs were absorbed during 1H19, including a brand refresh and the rebranding of The Rock to MyState Bank
- Personnel costs and FTEs have been carefully managed



Total expenditure

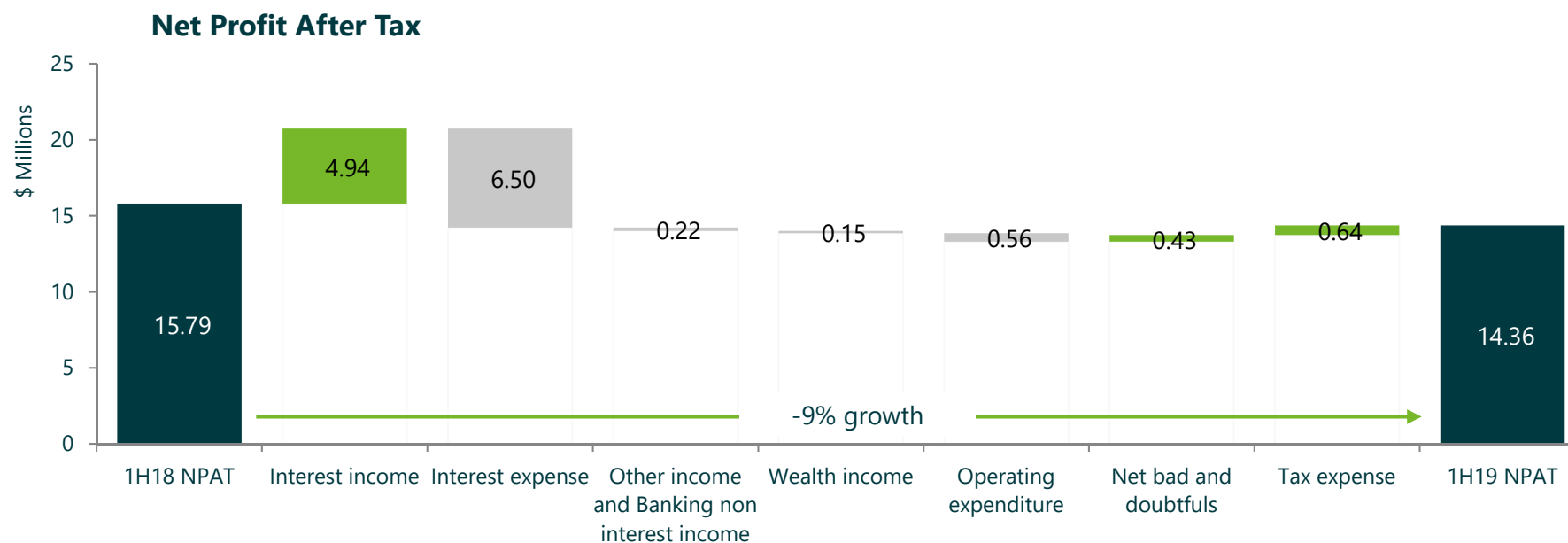


Operating expense breakdown (\$m)



NPAT BRIDGE

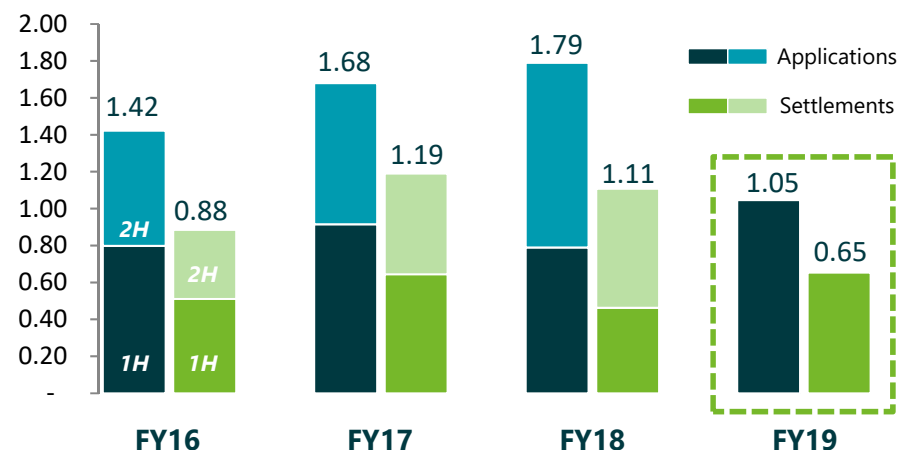
- Net interest income fell below the pcg and was adversely impacted by external funding markets and competitive market pricing for home loans
- Interest earned grew \$4.9m (+5.2%) on pcg
- Interest expense rose \$6.5m (+13.4%) on account of elevated wholesale funding spread, up c.27bp on the pcg
- Wealth income steady on pcg
- Operating expenditure tightly managed on pcg
- Net BDD lower due to continued improvement in credit quality



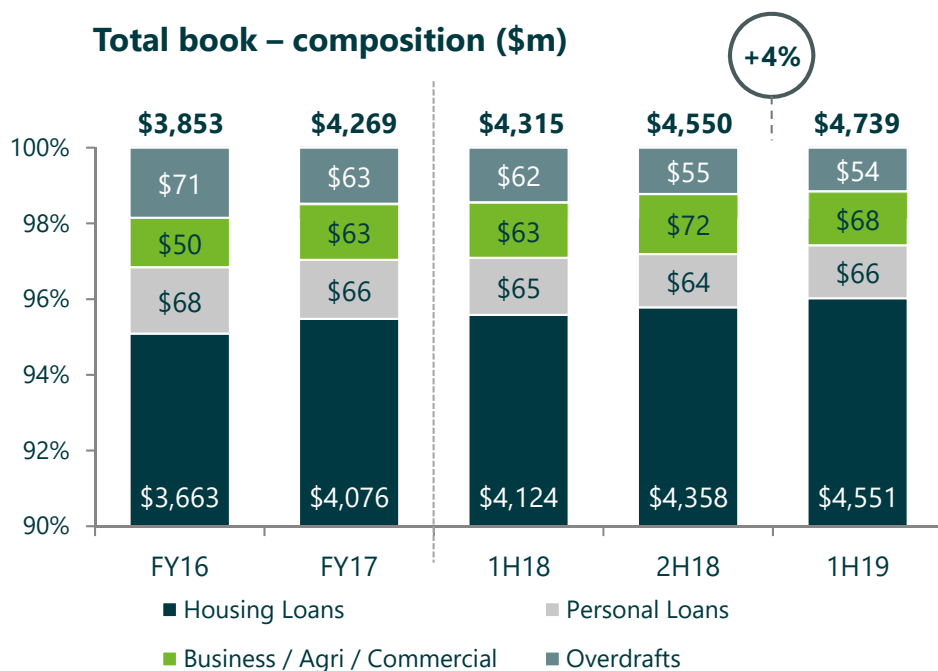
STRONG 1H LENDING GROWTH

- Loan book grew approximately 2x system during 1H19 with record applications and settlements (+33% ; +42% on pcp). Strong pipeline for 2H19
- Growth targeted to Australian eastern seaboard; focus on lower LVR loans with high asset quality

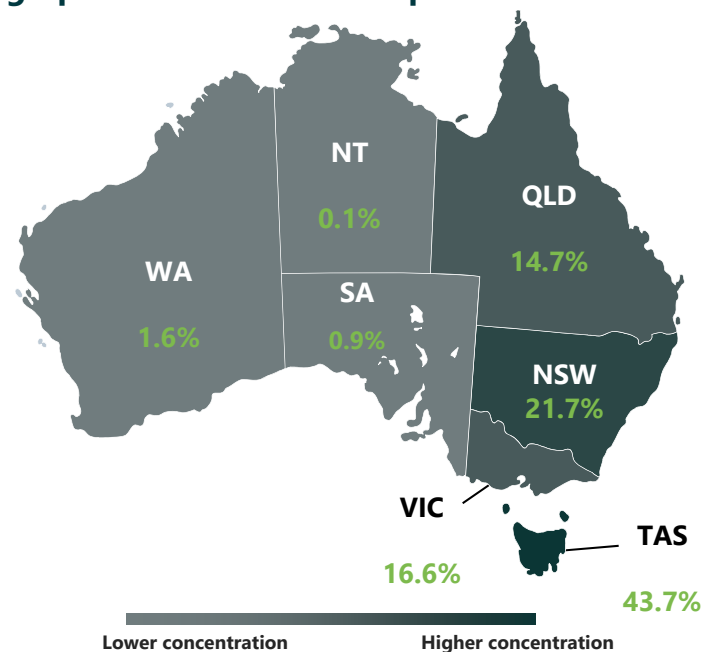
Home loan book – applications and settlements (\$b)



Total book – composition (\$m)



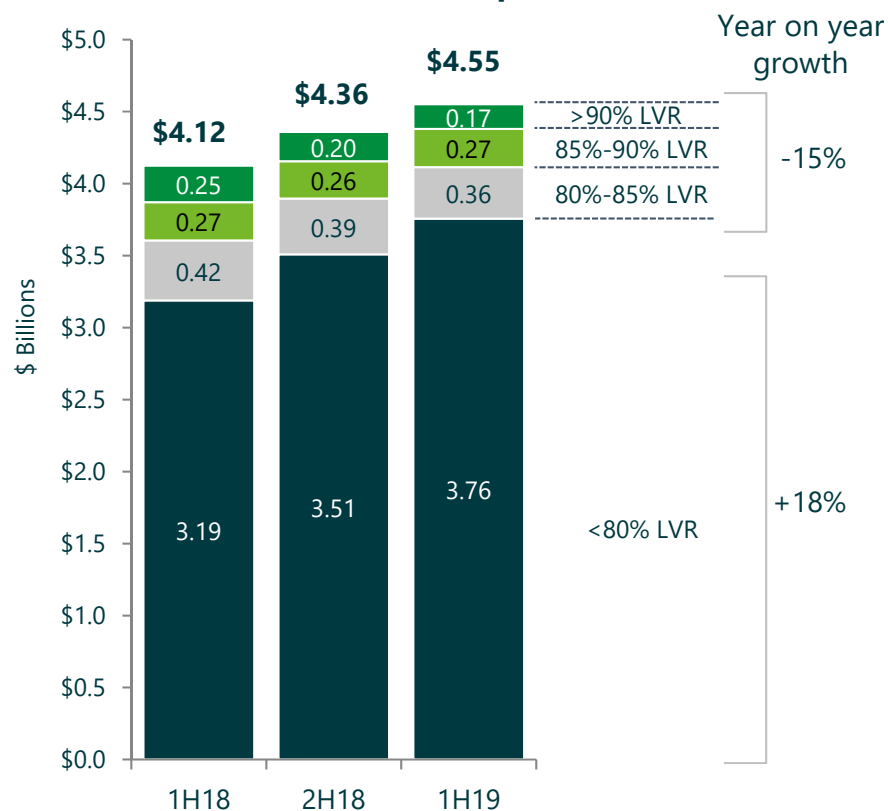
Geographic home loan book spread



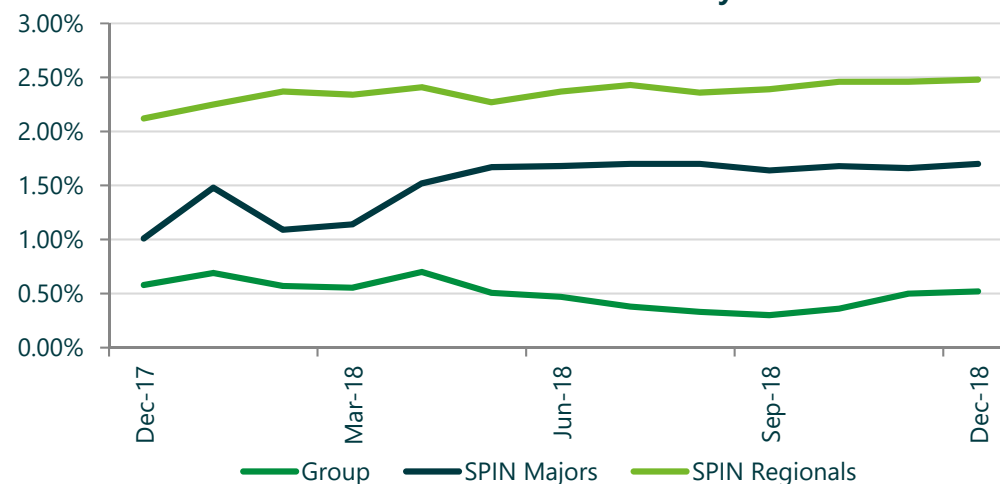
CONTINUED STRONG CREDIT QUALITY

- Impairments remain at historic lows
- 30 and 90 day arrears below peers and stable
- No signs of stress across the loan book
- AASB 9 has been adopted with an increase in provisions

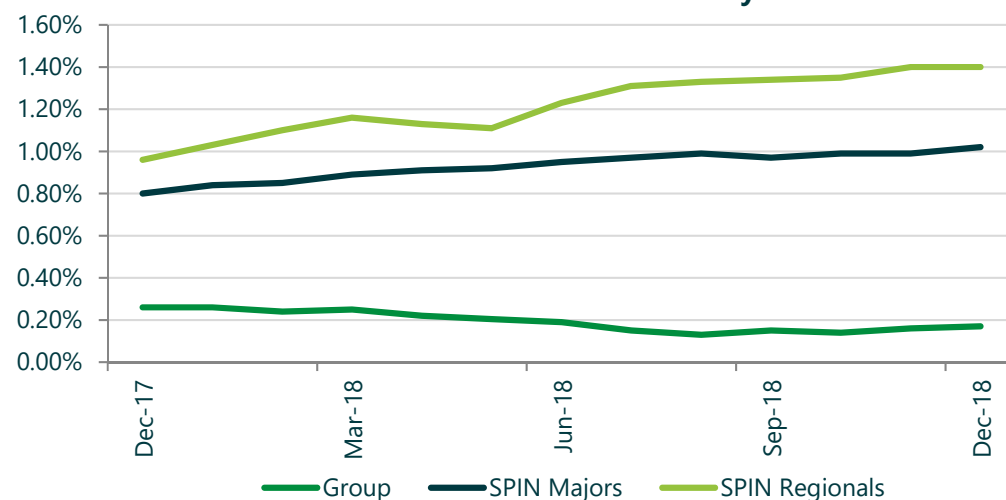
Home loan book LVR profile



30+ Days S & P Arrears Data



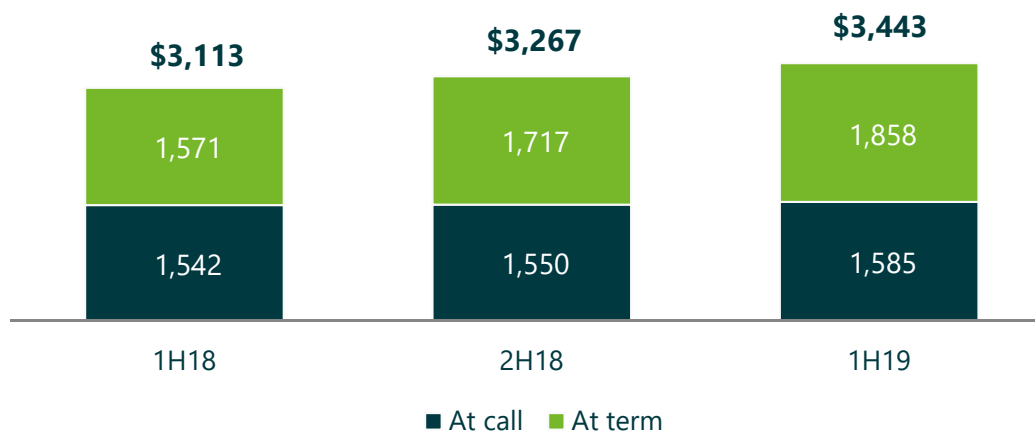
90+ Days S & P Arrears Data



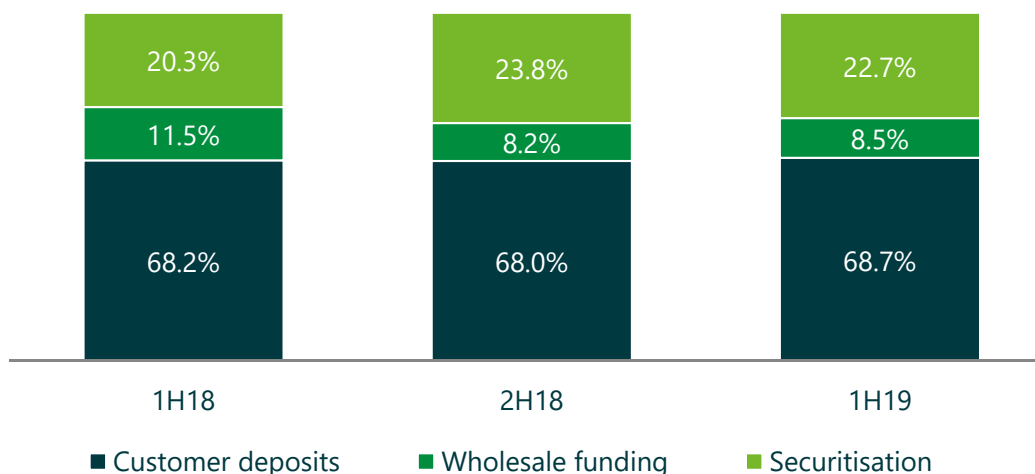
IMPROVED FUNDING MIX

- Stable funding mix enhanced by growth in customer deposits
- Customer deposit growth supported by introduction of Bonus Saver, Glide transaction account and online TDs
- Programmatic RMBS issuance continues to be well supported by broad investor-base
- Moody's Baa1/P2 stable investment grade rating

Customer deposits (\$m)

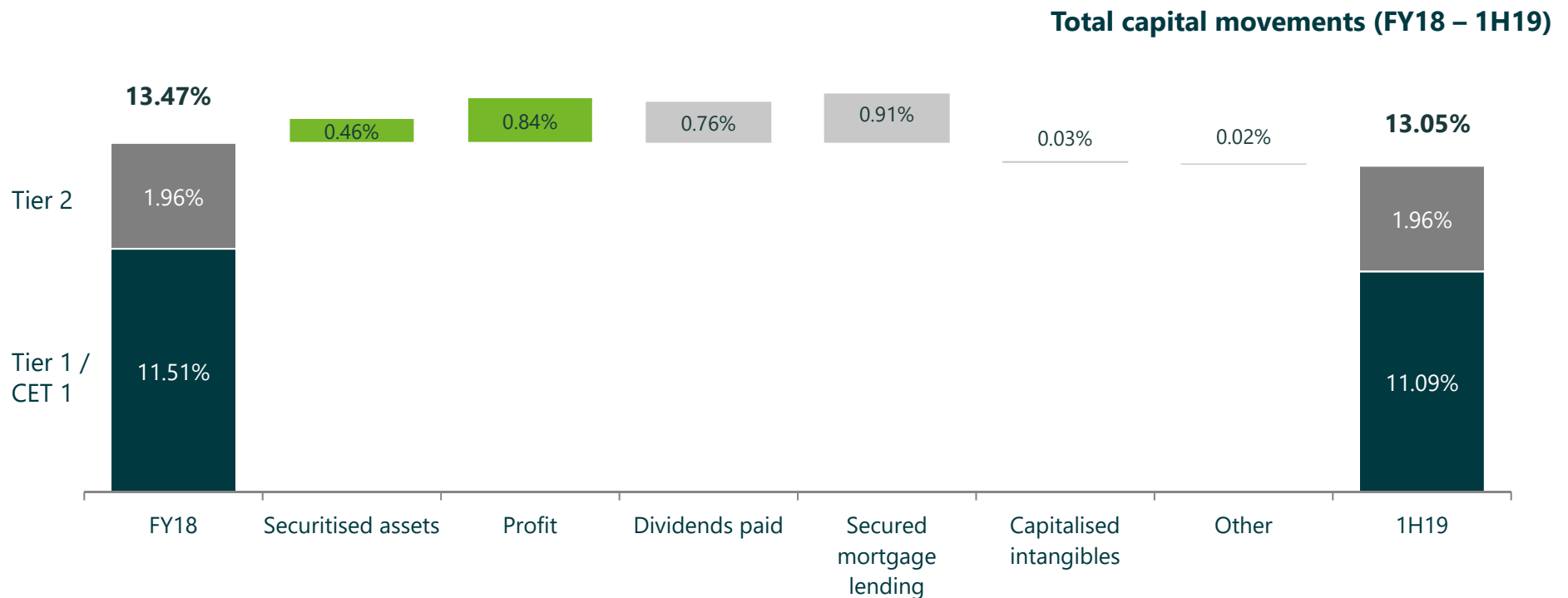


Funding mix (%)



WELL CAPITALISED TO SUPPORT GROWTH

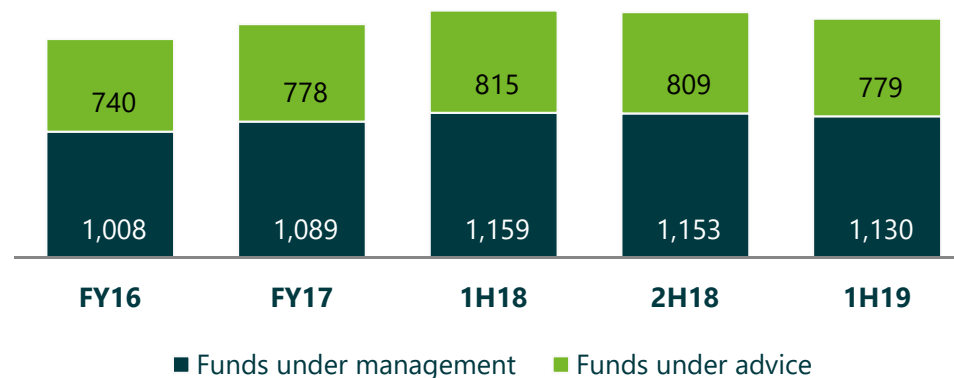
- Robust capital position supporting peer leading ROE
- Capital base underpinning growth and investment in digital
- Well positioned to meet regulatory changes



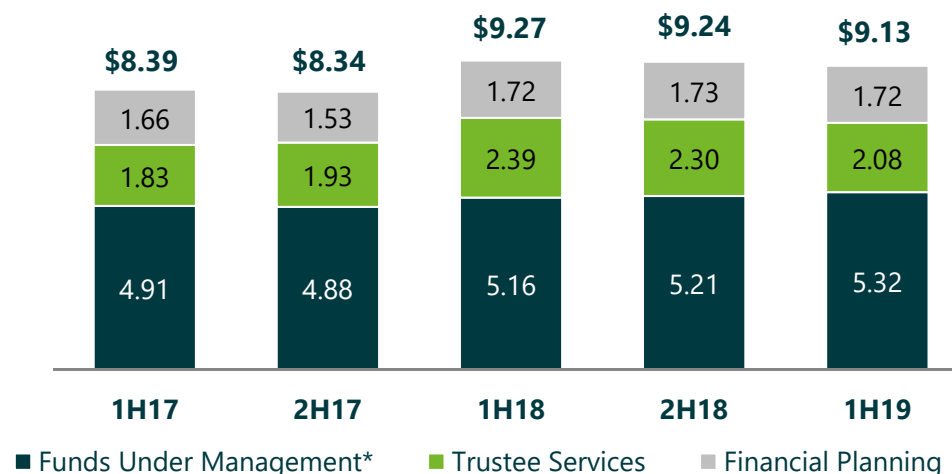
WEALTH BUSINESS

- Wealth NPAT steady on pcp
- FUM slightly lower on pcp, driven by capital distributions and volatile equity markets
- FUA declined slightly on pcp with financial planning income remaining steady
- Investment in the development of contemporary funds management products and systems focussed on the growing income needs of retirees

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



Operating income (\$m)



* including funds management mortgage fees



OUR STRATEGIC PRIORITIES

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**

Being **agile** with a strong focus on growth, **margins** and **cost management**



Our STRATEGY is focused on

Building out and operationalising our **digital bank, digital capabilities** and **brand**



Investing in contemporary **wealth management** products and systems

To DELIVER

Superior **customer outcomes**

Increased **customer advocacy**

High levels of **staff engagement**

Greater **operational efficiency**

Sustained **shareholder returns**

SECTOR OVERVIEW

Industry dynamics

- Lending market remains competitive, some industry participants taking the opportunity to reprice both back and front books
- Funding costs remain elevated
- Economic indicators still strong; unemployment remains low but credit growth still slowing and likely to continue to slow further in periods ahead



Regulatory dynamics

- Royal Commission
 - Pivotal in ensuring customer long term interests are looked after
 - Strength, accountability and effectiveness of regulators
 - Changes to mortgage broker remuneration should be done thoughtfully and sensibly
- Competitive landscape still unbalanced:
 1. Mortgage broker ownership transparency and ongoing viability
 2. Risk weighted asset and capital differentials
 3. 'Too big to fail' funding cost advantage
 4. Disproportionate impact of regulatory burden on smaller banks



OUTLOOK



**Continued above
system book growth**



Operating costs managed



**Continued enhancement of
marketing, digital
capabilities and customer
aquisition**



**Investment in funds
management capabilities,
products and systems**

GLOSSARY

1H: First half of financial year	IO: Interest only
2H: Second half of financial year	IRB: Internal ratings-based
ADI: Authorised deposit-taking institution	LVR: Loan to valuation ratio
APRA: Australian Prudential Regulation Authority	MYS: MyState Limited
Avg: Average	MSB: MyState Bank
ASX: Australian Securities Exchange	NII: Net Interest Income
BBSW: Bank Bill Swap Rate	NIM: Net Interest Margin
BDD: Bad & Doubtful Debt Expense	NPAT: Net Profit after Tax
bps: basis points	NPBT: Net Profit before Tax
CAGR: Compounded annual growth rate	RBA: Reserve Bank of Australia
CET1: Common Equity Tier 1	RMBS: Residential mortgage-backed security
cps: Cents per share	ROE: Return on equity
CTI: Cost-to-income ratio	SPIN: Standard and Poor's Performance Index
DRP: Dividend reinvestment plan	S&P: Standard and Poor's
EPS: Earnings per share	TD: Term deposit
FY: Financial year	
HY: Half year	

Changes in accounting policy and disclosures

The Group has adopted two disclosure changes that impact on the reporting of net interest margin (NIM). These have been applied retrospectively in the financial statements and this investor presentation.

1. *Inclusion of Bond Issuance costs in the effective interest rate*

Costs incurred to issue Bonds had previously been disclosed within "Intangible assets and goodwill" on the balance sheet and the amortisation had previously been disclosed within "Administration costs". In the current reporting period this policy has been changed. The unamortised balance of these costs is now included in "Deposits and other borrowings including subordinated notes" and the expense is included in "Interest expense" to reflect the average effective interest rate calculation of the bonds issued.

2. *Inclusion of Mortgage Offset Accounts in the calculation of average interest earned on assets*

When discussing average interest earning assets and net interest margin, mortgage offset accounts had previously been excluded from the asset base. Offset account balances are now included in the asset base as these balances represent the proportion of Loans and advances that are non-interest earning. This change impacts the disclosures regarding average asset balances but does not represent any change to the Group's balance sheet.

A table showing a comparison of the new NIM methodology against the old appears below.

NIM comparison	1H17	2H17	FY17	1H18	2H18	FY18	1H19
Old methodology	1.94%	1.92%	1.93%	1.94%	1.84%	1.89%	1.75%
New methodology	1.97%	1.97%	1.97%	2.03%	1.91%	1.97%	1.82%

The group has also adopted the requirements of AASB 15 *Revenue from Contracts with Customers*. This has resulted in netting of certain income and expenses. This change does not impact NIM. For further information on the changes above, please refer to the Half Year financial statements of the Group.

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