

18 August 2017

Investor presentation

FY17

MyState
LIMITED



Agenda

FY17 INVESTOR PRESENTATION

1. Overview & strategic landscape

Melos Sulicich
CEO & Managing Director

2. Financial results

David Harradine
Chief Financial Officer

3. Strategy & outlook

Melos Sulicich
CEO & Managing Director





Overview & strategic landscape

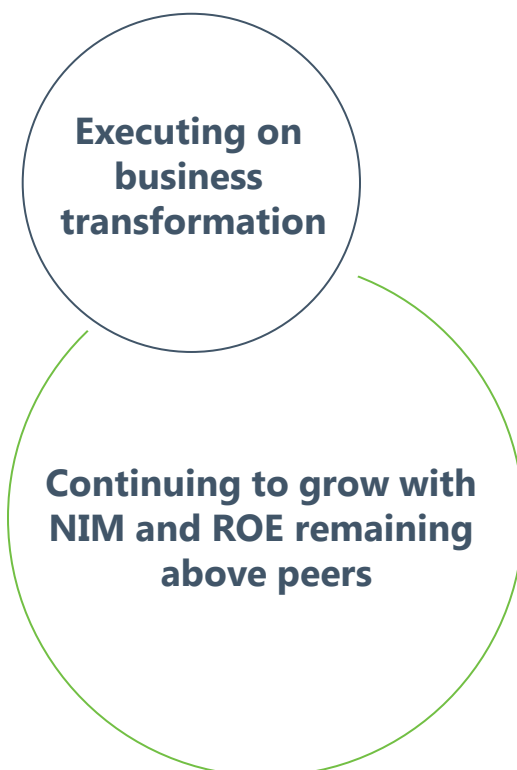
MELOS SULICICH

Highlights

Results

FY17 strategic progress

Highlights













- ✔ Underlying NPAT below prior year due to NIM compression, with NIM and ROE remaining above peers
- ✔ Above system deposit and lending growth with excellent credit quality
- ✔ Strong and efficient capital strategy with multiple RMBS issuances and other capital instrument initiatives
- ✔ Large scale digital transformation to modernise and consolidate banking technology platforms executed well
- ✔ Productivity and efficiency prioritised to enhance customer experience and profitability

Results ¹

**Above system
lending and
deposit growth**

**Full year dividend of
28.5cps and final
dividend steady at
14.5cps fully franked
with DRP discount of
2.0%**

Total income: \$124.6m		1.0%	Home loan book: \$4.08b <small>1.6x system</small>		11.3%
Customer deposits: \$3.0b <small>1.8x system</small>		10.1%	30-day arrears: 0.51%		-19bps
Capital adequacy ratio: 13.3%		25bps	Net profit after tax: \$30.1m		-3.2%
Earnings per share: 34.0cps		-1.5cps	Net interest margin: 1.93%		-20bps
Cost-to-income ratio: 65.9%		270bps²	Return on equity: 10.0%		-62bps

1: FY2016 results presented on an underlying basis with removal of \$1.0m post tax software write down and \$1.8m post tax significant due diligence project costs

2: 60bps increase on FY16 excluding significant M&A project costs

FY17 strategic progress

Delivering on our strategic goals

OUR PURPOSE

To help people achieve their dreams

OUR MISSION

Make financial services simple and trustworthy

OUR VISION

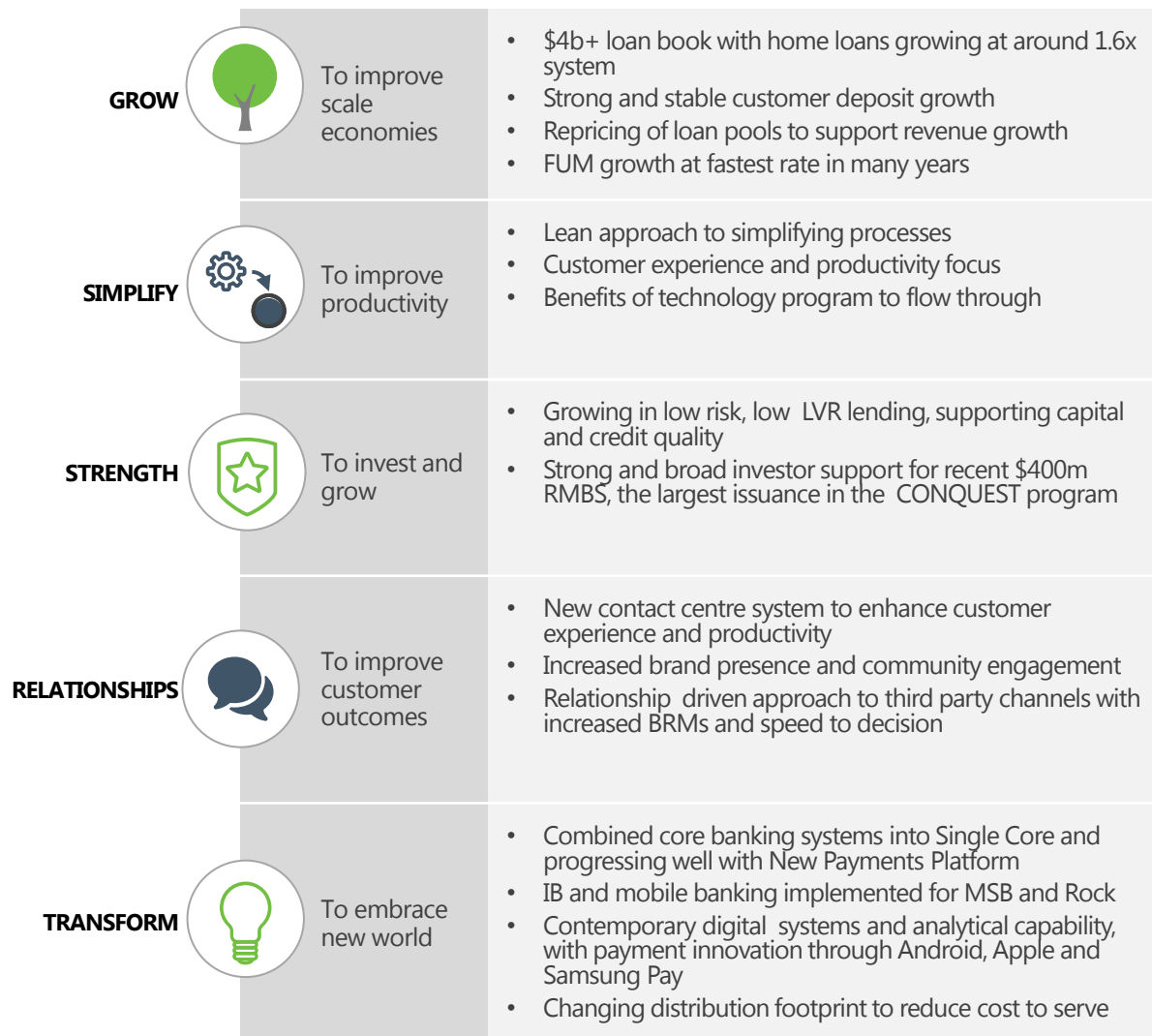
To make a genuine difference to our customers and communities every day

ASX300 listed company

Market capitalisation of c.\$450m

c.64,000 shareholders

Consistent dividend returns





Financial results

DAVID HARRADINE

Results summary

Performance

Credit profile

Loan book

Funding

Wealth

Results summary¹

**Result slightly
down due to NIM
compression**

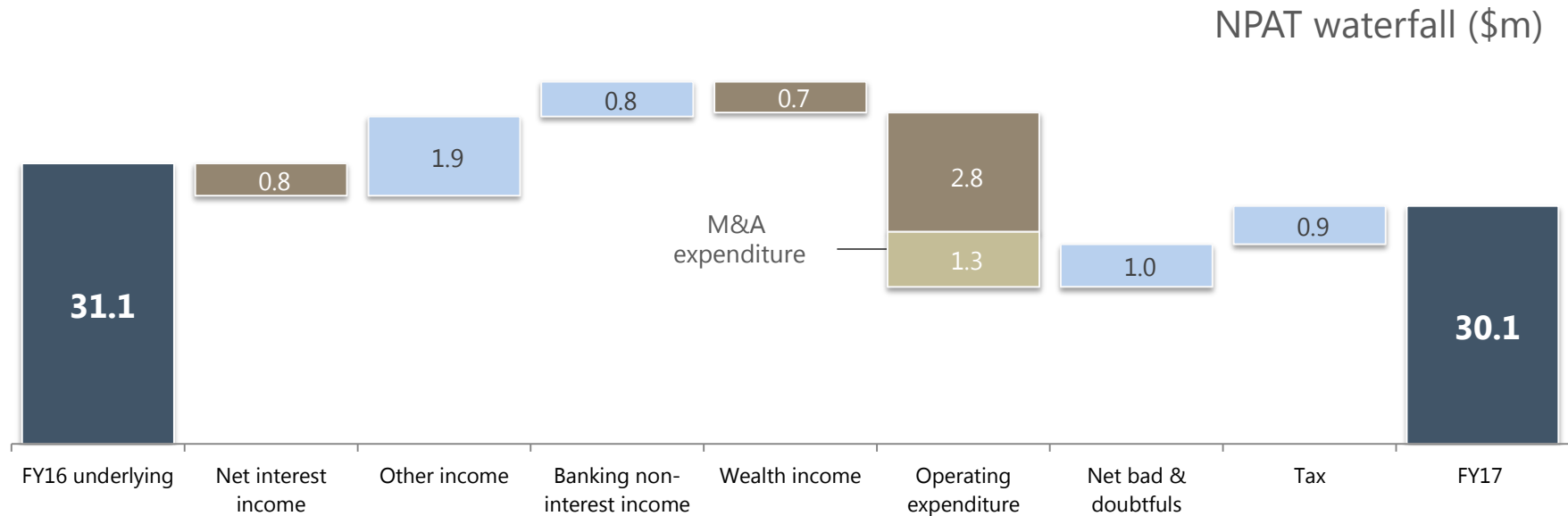
**Continuation of balance
sheet growth with NIM and
ROE remaining above peer
group average**

	FY16	FY17	Change (v FY16)	
Total operating income (\$m)	123.4	124.6	▲	1.0%
Net Profit after tax (\$m)	31.1	30.1	▼	-3.2%
Net interest margin (%)	2.13	1.93	▼	-20bps
Cost-to-income ratio (%)	63.2	65.9	▲	270bps ²
Capital adequacy ratio (%)	13.0	13.3	▲	25bps
Common Equity Tier 1 ratio (%)	11.4	11.3	▼	15bps
Earnings per share (cps)	35.5	34.0	▼	-1.5cps
Return on equity (%)	10.6	10.0	▼	-62bps
Dividend – fully franked (cents)	28.5	28.5	–	–
Dividend payout ratio (%)	80	84	▲	4%
Credit performance – 30 day arrears (%)	0.70	0.51	▼	-19bps

1: FY16 result presented on an underlying basis with no adjustments to FY17 results

2: 60bps increase excluding significant M&A project costs

Net profit after tax



- ✔ Net interest income steady despite strong competition in MyState's target lending in lower risk, lower LVR loans
- ✔ Loan fee income growth through increased lending volumes
- ✔ Operating expenditure impacted by carry over of significant due diligence project costs from prior year
- ✔ Wealth income challenged by Trustee Services decline
- ✔ Improved bad and doubtful debt charges supported by excellent credit quality

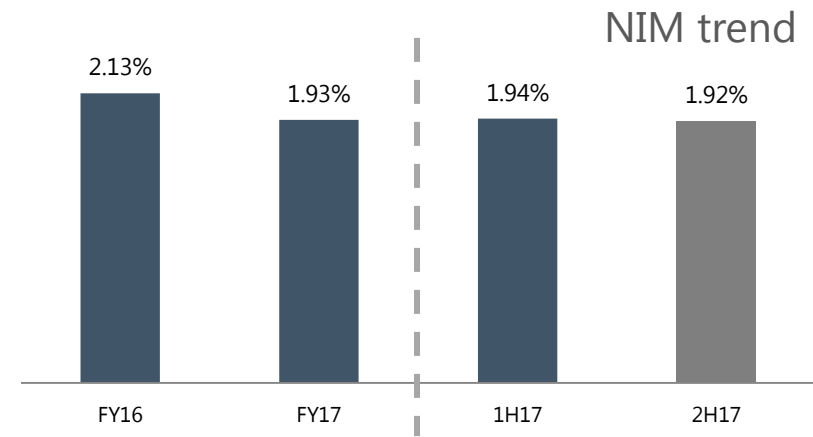
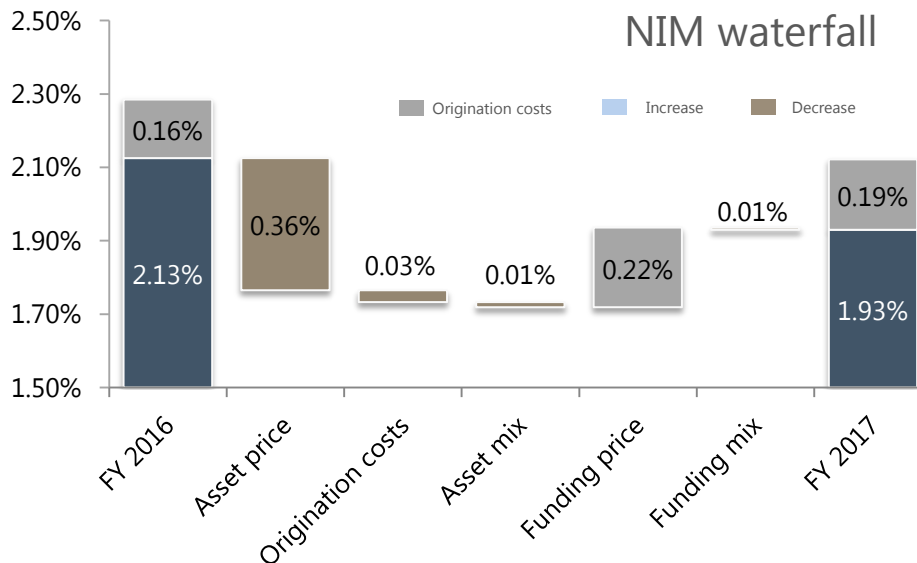
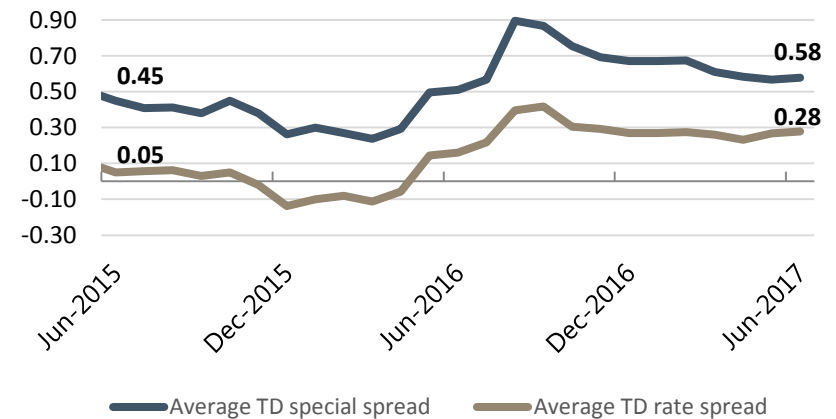
Net interest margin

NIM decline through competition in lower risk, lower LVR owner occupier lending and slightly elevated funding spreads

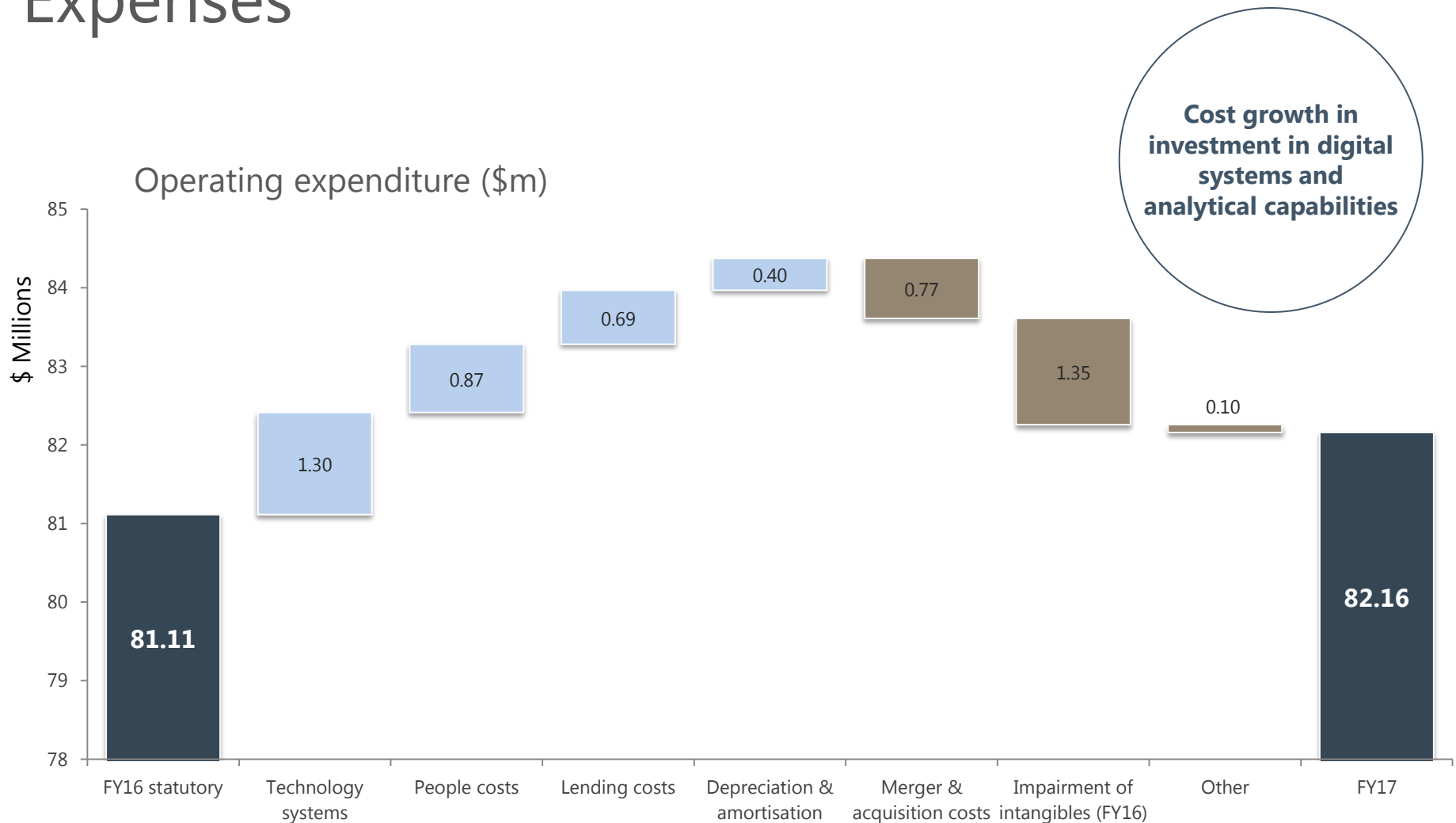
Margin management and a disciplined pricing approach remains a focus with flat NIM profile across the FY17 halves

* Spread above 3 month bank accepted bill rate
Source: RBA – July 2017

Industry term deposit spreads* (%)

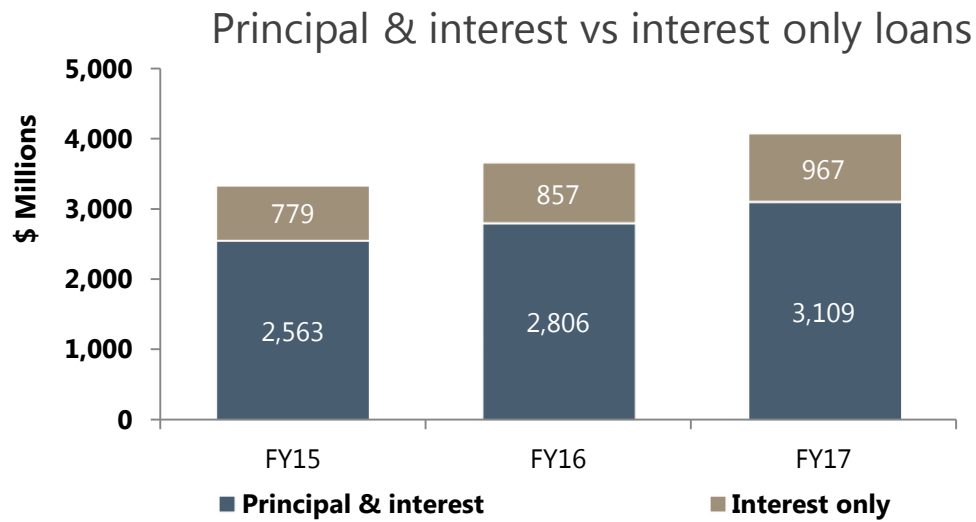
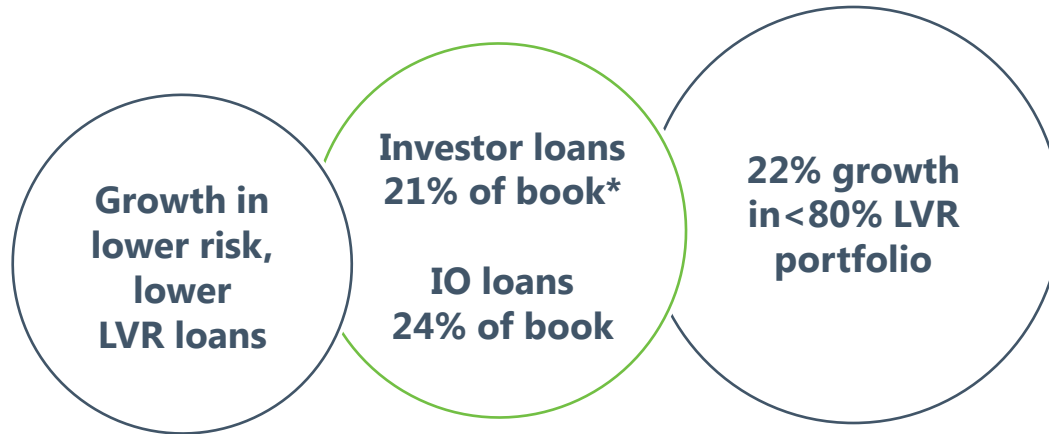


Expenses



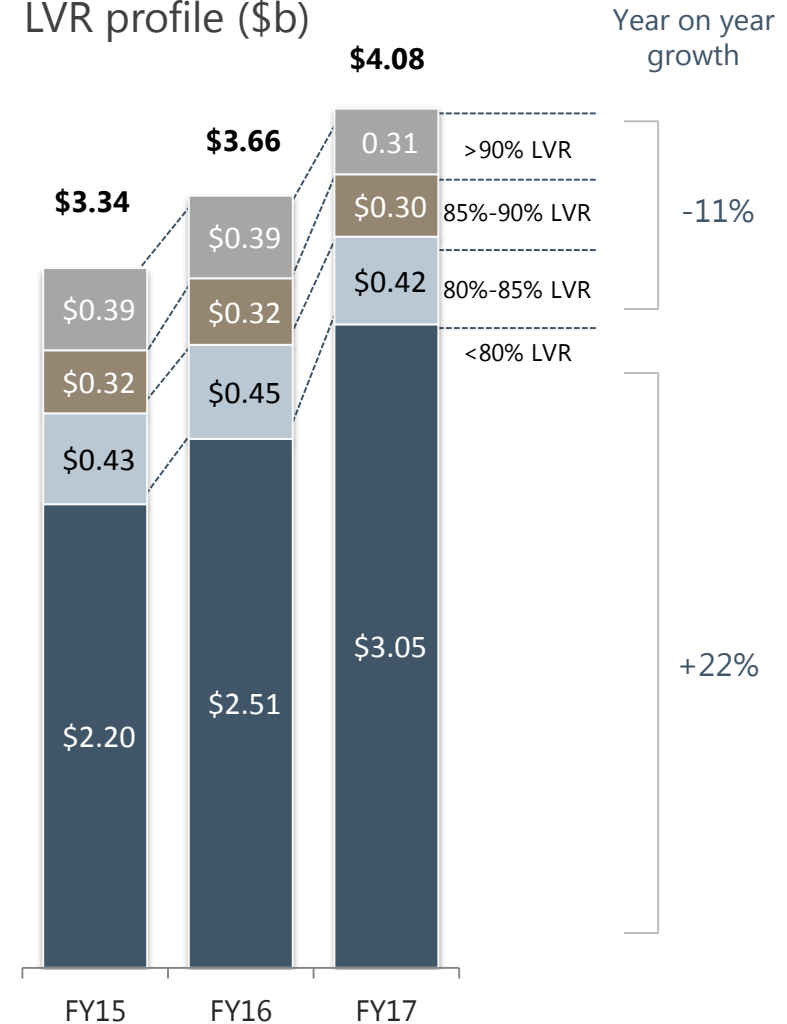
The analysis above is presented on a statutory basis as no adjustments have been made in FY2017 to report on an underlying basis. On a statutory basis, costs grew by 1.3% and on an underlying basis by 3.7% (excluding the impact of significant due diligence project costs (FY2016: \$1.8m, FY2017: \$1.3m) and impairment of software (FY2016: \$1.3m)).

Portfolio composition



*includes reclassifications of back book in FY17

Home loan book LVR profile (\$b)



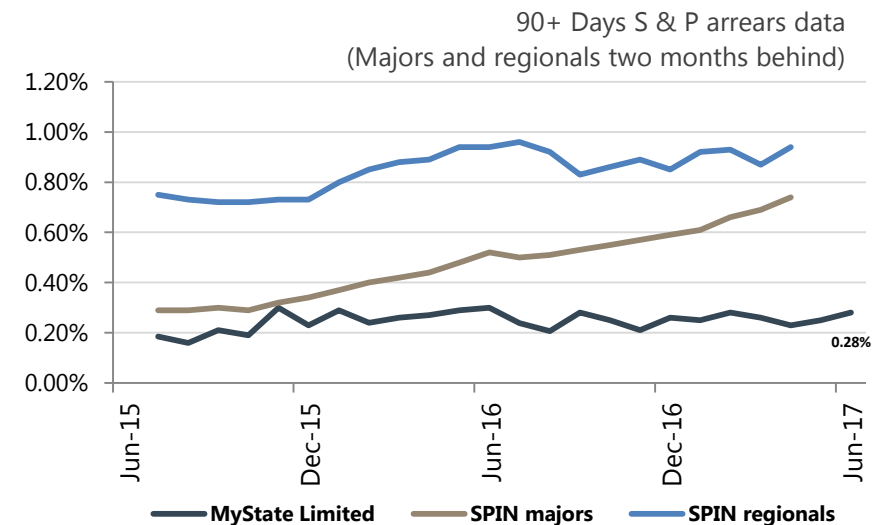
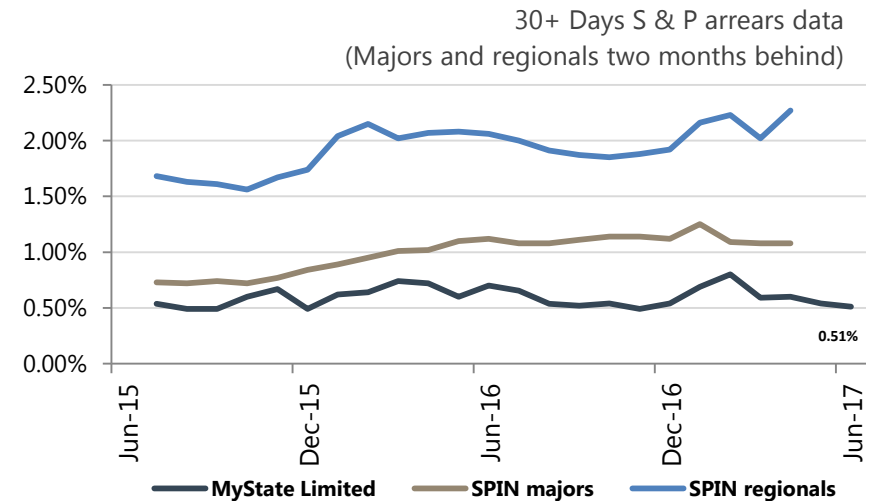
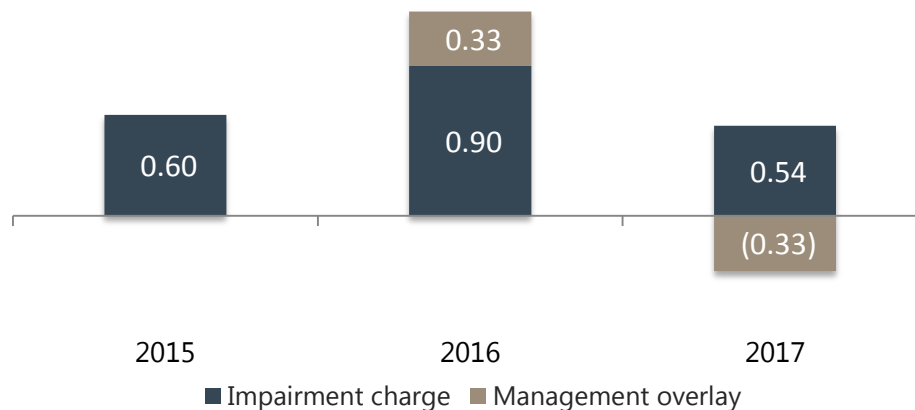
Credit quality

Credit quality remains excellent

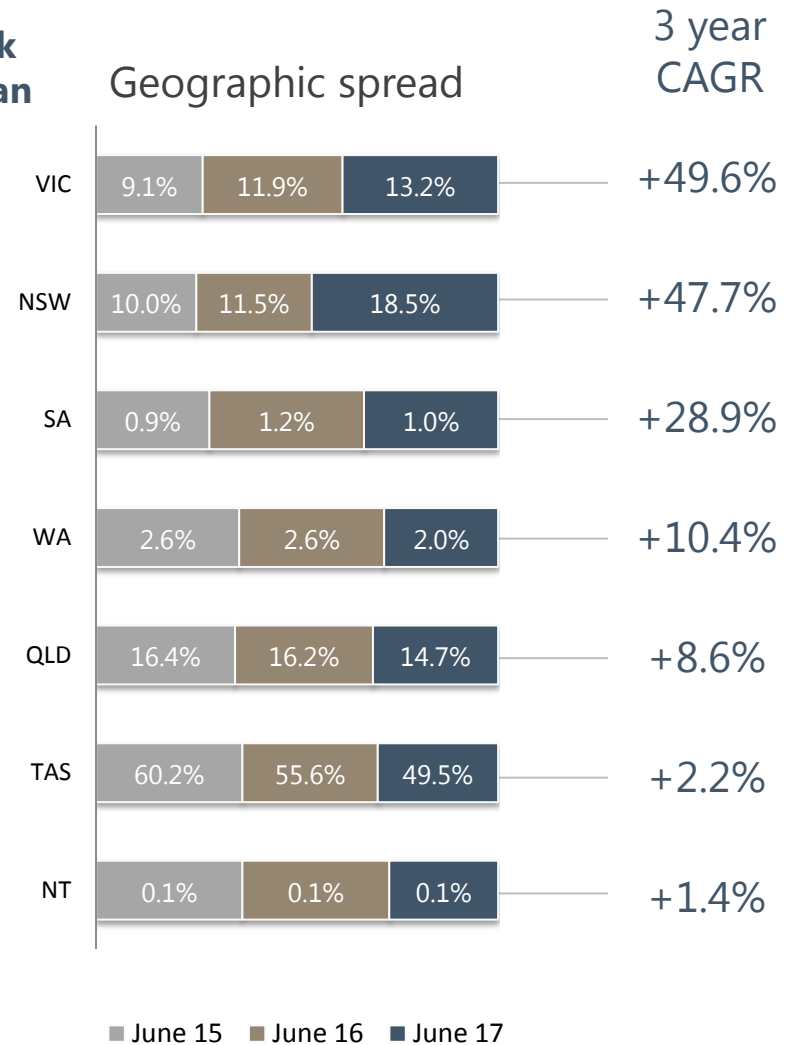
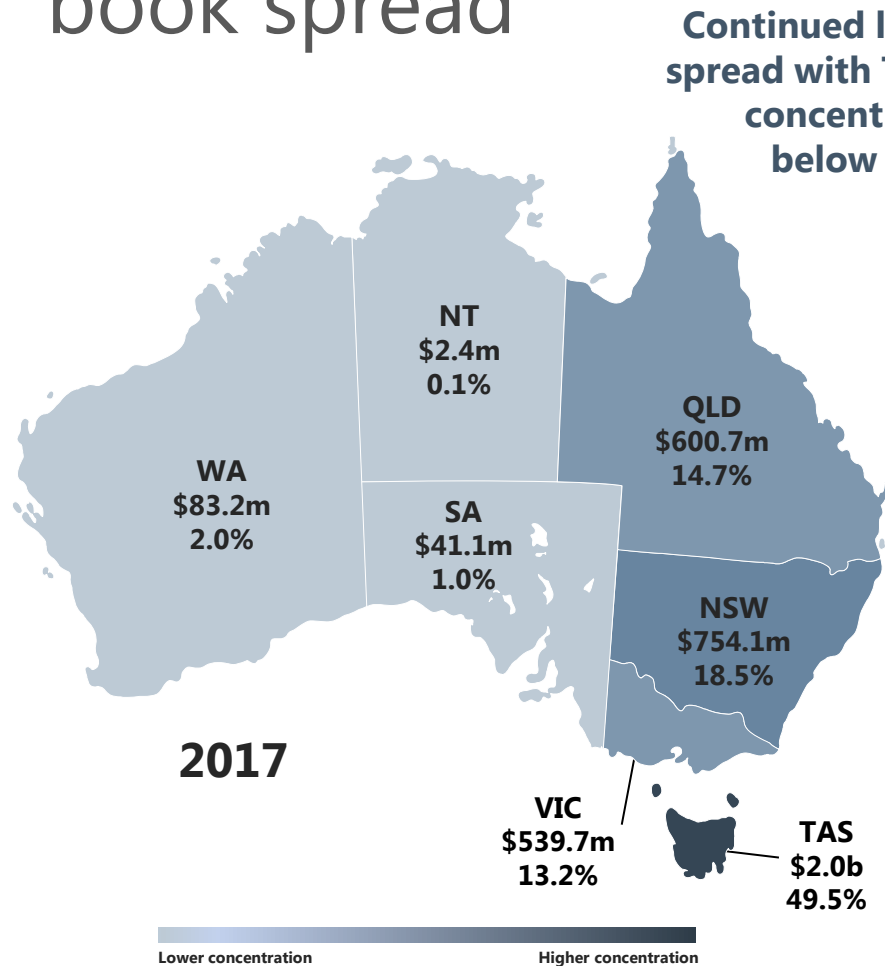
Historically low impairments

30 day arrears performance improved in FY17 and remains well below industry

Impairment charge (\$m)



Geographic loan book spread

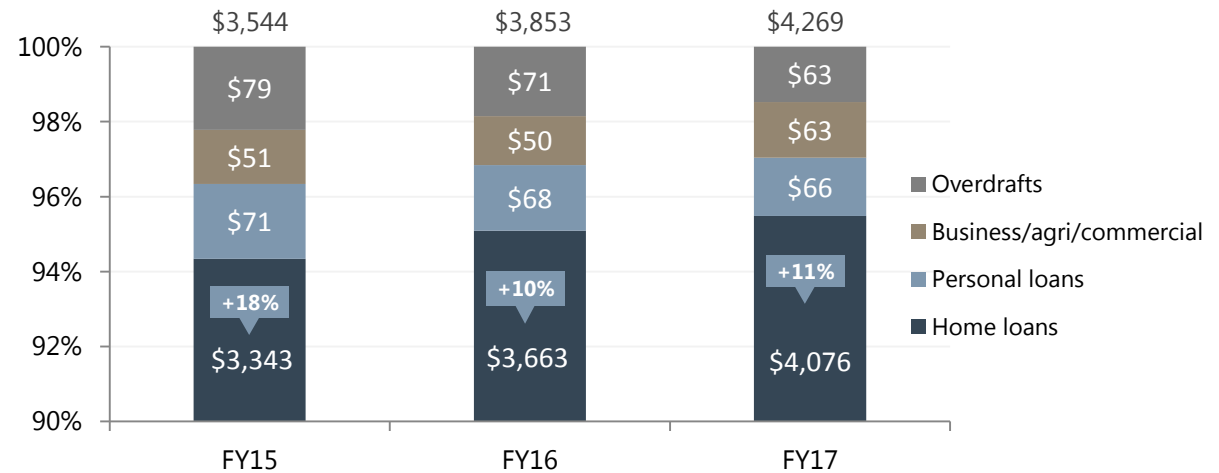


Loan book

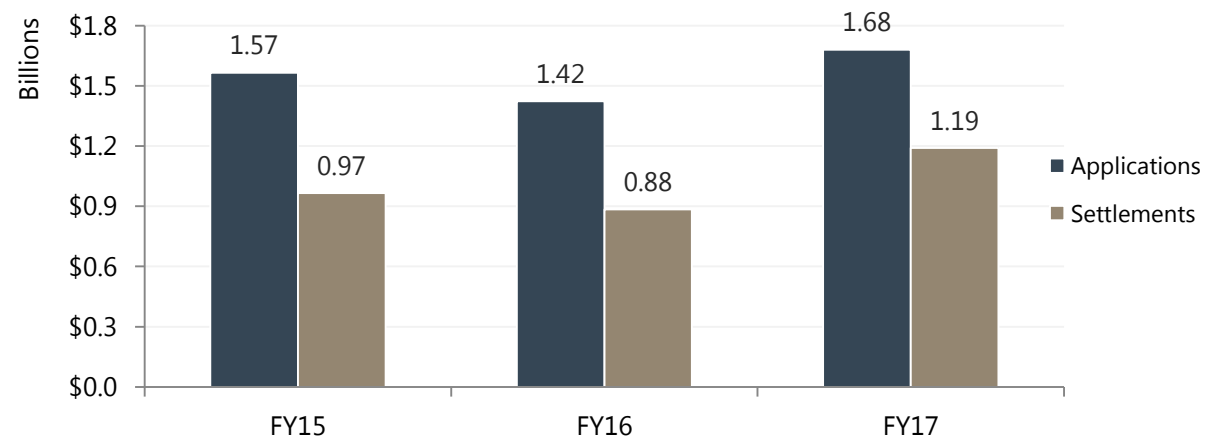
**Total loan
book growing at
1.8 times system**

**Improved service
proposition driving
higher conversion
to settlement**

Total book – composition (\$m)



Home loan book – applications and settlements



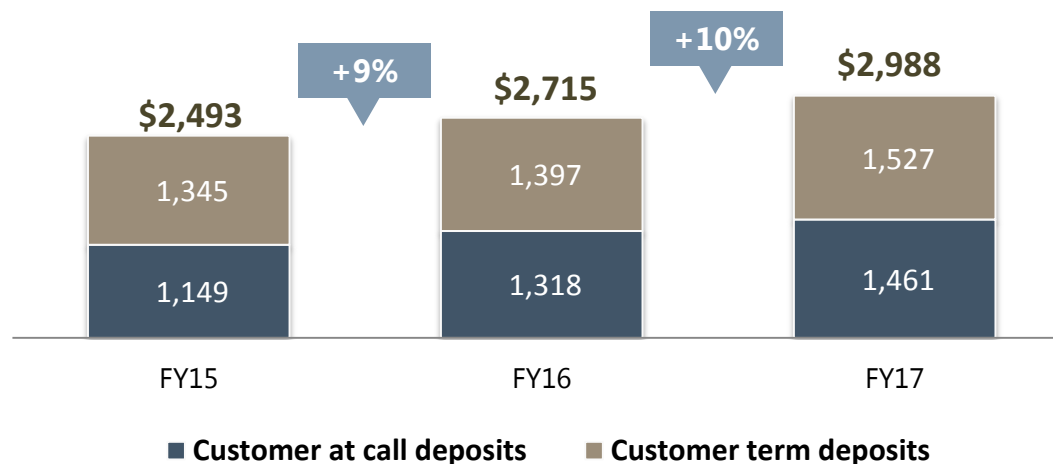
Funding

A stable funding mix supported by growth in customer deposits

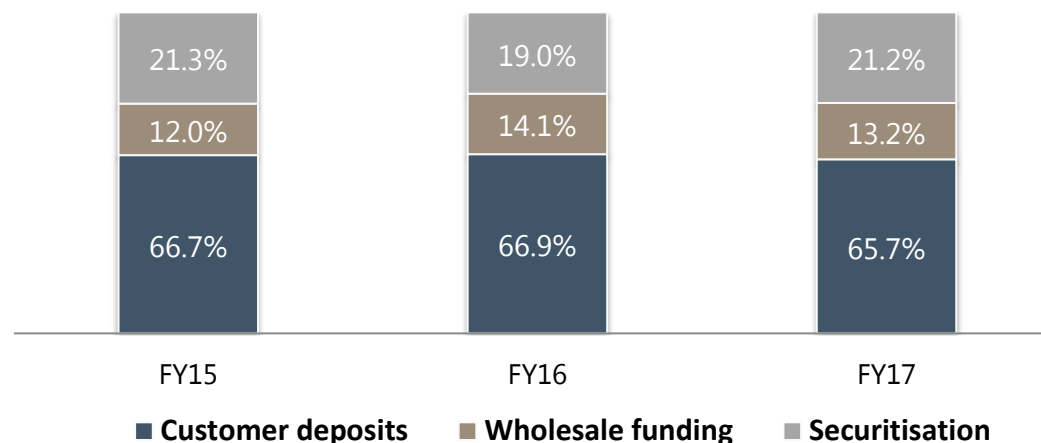
eSaver product successfully launched in 2H17 with online account opening enabling national customer growth

Multiple RMBS issuances with further issuance of sub-debt supported by broadened investor base

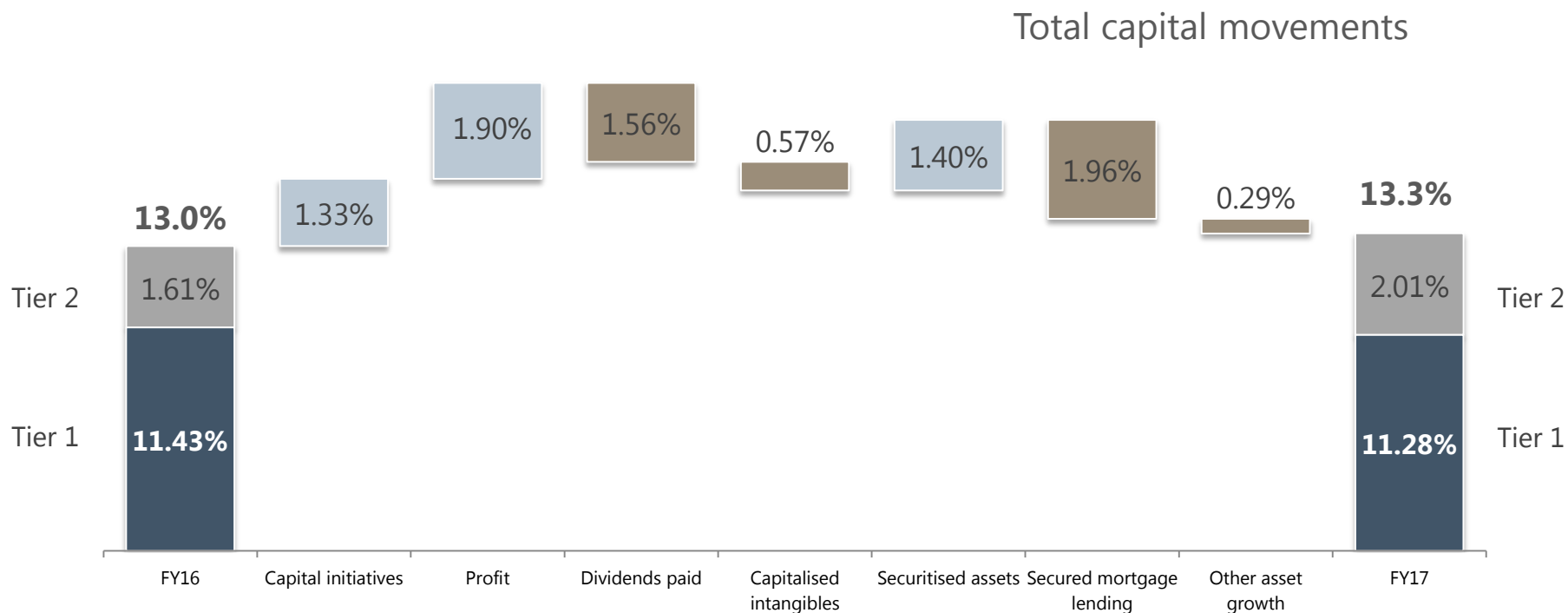
Customer deposits (\$m)



Funding mix



Capital

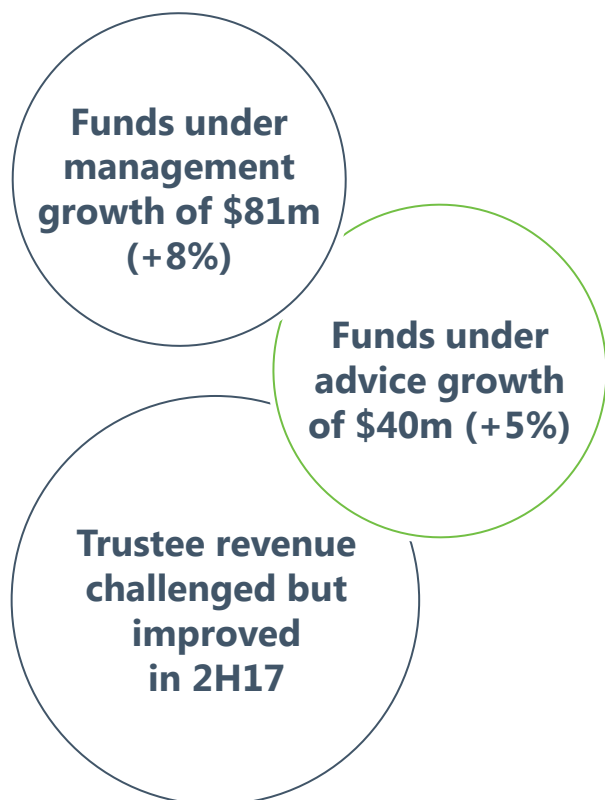


Strong and effective capital strategy underpinning growth and digital banking platform investments

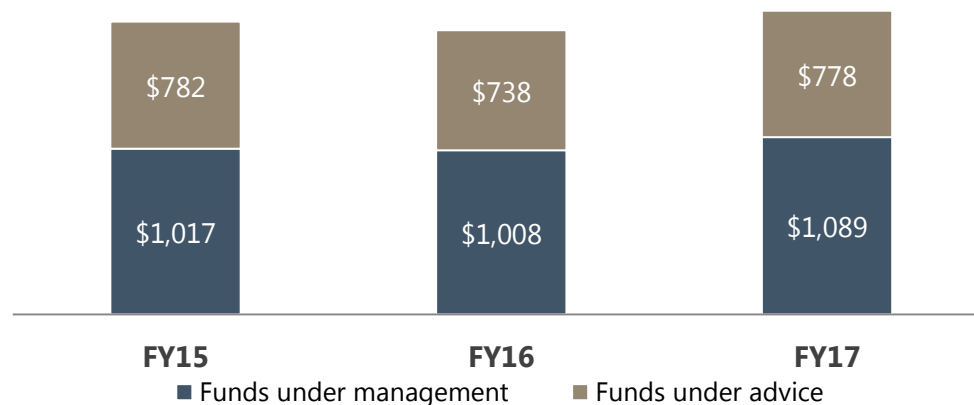
Capital initiatives in FY17:

- ✔ \$10m sub-debt issuance in September 2016
- ✔ \$300m RMBS issuance in November 2016
- ✔ Partial DRP underwrite in February 2017
- ✔ \$400m RMBS issuance in June 2017

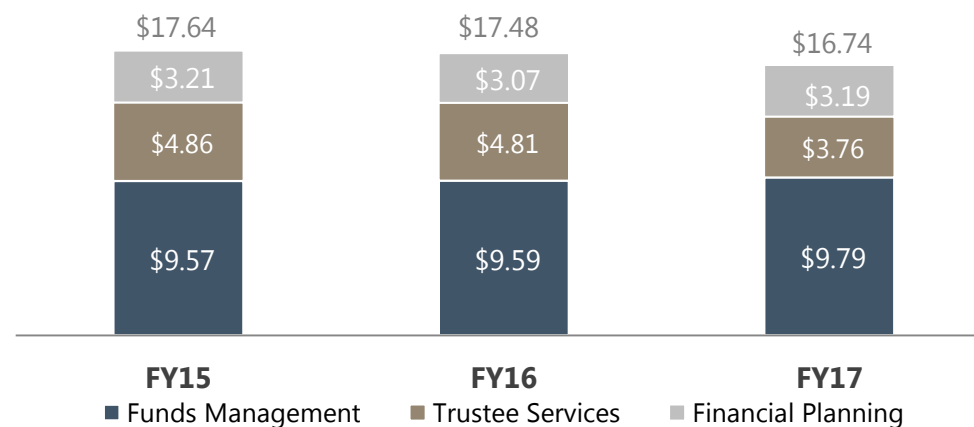
Wealth



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



Operating income (\$m)





Strategy & outlook

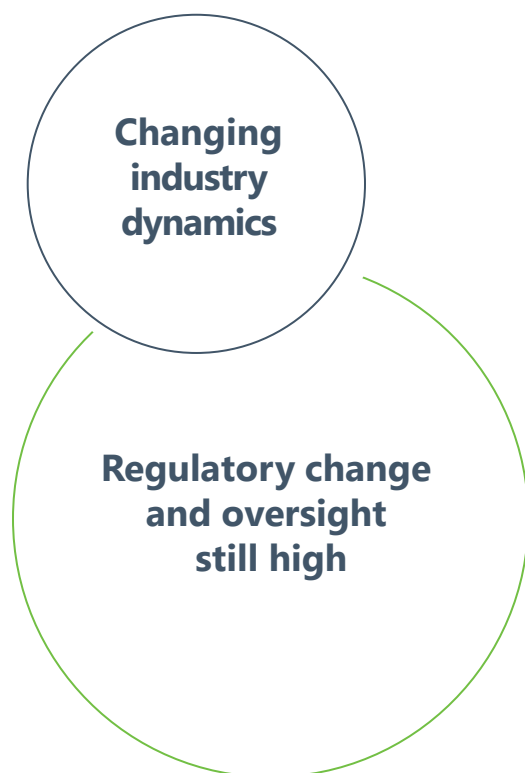
MELOS SULICICH

Sector overview

Platform for continued growth

Strategic overview

Sector overview



- ✔ System credit growth moderating
- ✔ Historically low interest rate environment continues
- ✔ Competition is fierce particularly in lower LVR owner occupied household lending
- ✔ Financial system stability concerns influencing regulator direction on investor and interest only lending causing changes in competitive landscape
- ✔ APRA view of 'unquestionably strong' resolved with increase in CET1 for IRB and standardised ADIs, with some Basel IV reforms still to be finalised
- ✔ Major Bank Levy unveiled by the Federal Government with consideration by State jurisdictions

Platform for continued growth

What we've achieved

Deposit and loan book growth



- Well above industry

Capital optimisation



- MTN program and sub-debt issuance
- Multiple RMBS issuances in FY17

Digital transformation



- IB and mobile banking
- Contact centre system replacement
- Core banking systems combined

Leadership



- Strong leadership team and capability

What we're currently working on

Cost efficiencies



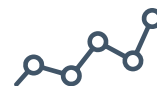
- Productivity and process review
- Optimising physical distribution footprint

Deposits



- Low cost retail deposit growth to enhance margin

Wealth



- Wealth business product and distribution growth strategy

Digital transformation



- New Payments Platform
- Analytics and CRM based marketing campaigns
- Online originations for more products

What's to come

Channel optimisation



- Broaden digital for growth

Simplification



- Streamlining processes and leveraging technology to improve services and reduce cost

Marketing



- Build out marketing analytics and CRM capabilities

Growth



- Organic revenue growth
- Open to corporate transactions and strategic opportunities and assessing these as they arise

Strategic overview

MyState's strategy



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



MyState is making **significant investments** in **technology** and changing the way we **think** and **operate** to thrive in this future.

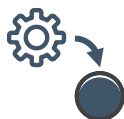


This combination of **customer centricity** and **technology investment** and continued improvement is the key to MyState's **future success**.

MyState's strategy is underpinned by **5 strategic goals**, focused on how MyState plans to:



Grow



Simplify



Strengthen



Build Relationships



Transform the Business

MyState's transformation

Lendfast and Apply

COMPLETED: APRIL 2017



CRM stage 1

COMPLETED: APRIL 2017



Single core

COMPLETED: MAY 2017



IB and mobile (incl. Apple, Android & Samsung Pay)

COMPLETED: MAY 2017



Contact centre system

COMPLETED: JUNE 2017



New Payment Platform

ON TRACK: END OF 2017



Future benefits

Customer growth and service improvement

Cost and efficiency gains

Improved earnings

Glossary

1H: First half of financial year	IRB: Internal ratings-based
2H: Second half of financial year	LVR: Loan to valuation ratio
ADI: Authorised deposit-taking institution	M&A: Merger and acquisition
APRA: Australian Prudential Regulation Authority	MYS: MyState Ltd
Avg: Average	MSB: MyState Bank Ltd
ASX: Australian Securities Exchange	NIM: Net Interest Margin
BDD: Bad & Doubtful Debt Expense	NPAT: Net Profit after Tax
bps: basis points	RBA: Reserve Bank of Australia
CAGR: Compounded annual growth rate	RMBS: Residential mortgage-backed security
CET1: Common Equity Tier 1	ROE: Return on equity
cps: Cents per share	ROTE: Return on tangible 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	
IO: Interest only	

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