

MyState Limited Annual General Meeting  
Best Western Hotel, 156 Bathurst Street, Hobart

**Address by the Chairman Mr. Miles Hampton**

**Operating Performance**

Ladies and gentlemen, I am pleased to present my 2018 Chairman's Address.

In a very challenging market the 4.6% increase in net profit after tax from \$30.1 million in FY2017 to \$31.5 million in FY2018 was very satisfactory.

Indeed the year was one of sound improvement across all key performance indicators.

It was in this context that the Board increased the full year dividend payout from 28.5 cents per share to 28.75 cents per share.

Last year in my report I said "We are yet to deliver on the opportunity to reduce the cost of doing business as we have invested significantly in new technology. "

I am pleased to note the substantial reduction in the group cost to income ratio from 65.9% to 64% in FY2018.

I am also pleased to report that the benefits that we expected to flow from our investment in new technology are starting to reap results.

The focus on maintaining a high quality loan book has continued and our impairment charge remains well below that of industry peers.

Further, the group capital position remains very strong with the capital adequacy ratio increasing from 13.3% to 13.5%.

**Competitive Positioning**

Last year I spoke about the need for the government and the regulators to take positive action to level the competitive playing field.

The regulatory requirements placed on smaller banks inhibit our ability to compete effectively with the larger players.

The Productivity Commission in its report released in June 2018 labelled “Competition in the Australian Financial System” concluded:

*“The larger financial institutions have the ability to exercise market power over their competitors and consumers.”*

The report went on to observe that one of the factors contributing to this was:

*“Layers of public policy and regulatory requirements that support larger incumbents.”*

It rather pointedly went on to conclude that the focus on “unquestionably strong” at the cost of a lack of competition was not serving the consumer well.

But it is also important that the Federal Government and the regulatory regime give due regard to the growth in the Non-ADI sector which is commonly referred to as the Shadow Banking Sector.

A recent estimate suggested the shadow-banking sector has been growing at 4 to 5 times the banking sector over the recent period.

There is clear evidence that the constraints imposed on banks through regulation are paving the way for this growth.

The question needs to be asked, is it sensible that regulation skew the overall financial services sector in such a manner?

### **The Royal Commission and Conduct**

There is absolutely no doubt that some of the conduct issues that have been aired at the Royal Commission are egregious at best, but in some instances flagrantly dishonest and certainly represent conduct falling well short of community expectations.

However it is to be hoped that the response will not be further loading the sector with more and more regulation.

Rather there needs to be more vigorous enforcement of the laws and regulations that are already in place.

At MyState we are vigilant of the need to seek to ensure similar conduct issues do not occur in our business.

However as you would expect for an organisation of our size, from time to time we have had issues impacting the customer experience.

The question is have we dealt with them appropriately?

Our culture encourages issues to be raised, investigated and if appropriate remediated with the best interests of our customers in-mind.

The MyState mutual and trustee heritage is one of putting the customer ahead of profit.

But nonetheless we are not complacent and continually monitor our products and services, remuneration arrangements and processes to ensure that they are fit for purpose and above all fair.

A further and particularly appropriate question following revelations at the Royal Commission is have we fully complied with all regulatory reporting obligations?

At MyState, when such issues arise there is detailed and prompt reporting to the relevant regulators, with ongoing dialogue until the matters are fully resolved.

## **Directors**

As foreshadowed at the last Annual General Meeting we welcomed Andrea Waters and Warren Lee to the Board in October last year.

It is with considerable sadness that Colin Hollingsworth who retired as a director at the 2017 AGM, passed away barely five months later. Colin had been an outstanding director of MyState and its antecedent credit unions.

We express our condolences to his family.

## **Concluding Remarks**

The MyState journey to become a modern bank with a contemporary offering that is relevant to our growing customer base is well underway.

We still see our existing branch network as important to our overall customer offering.

However we are building a very strong digital presence that will enable us to offer products and services throughout Australia in a manner that is demanded by today's tech savvy customer.

To all of the team at MyState, thank you for your hard work to ensure that we remain both relevant and vibrant in the face of a fast changing banking sector

Ladies and Gentlemen, that concludes my Chairman's address. I now invite our Managing Director, Melos Sulicich, to address the Annual General Meeting.

**Miles Hampton**  
**Chairman**



## **MANAGING DIRECTOR'S ADDRESS**

**MELOS SULICICH**

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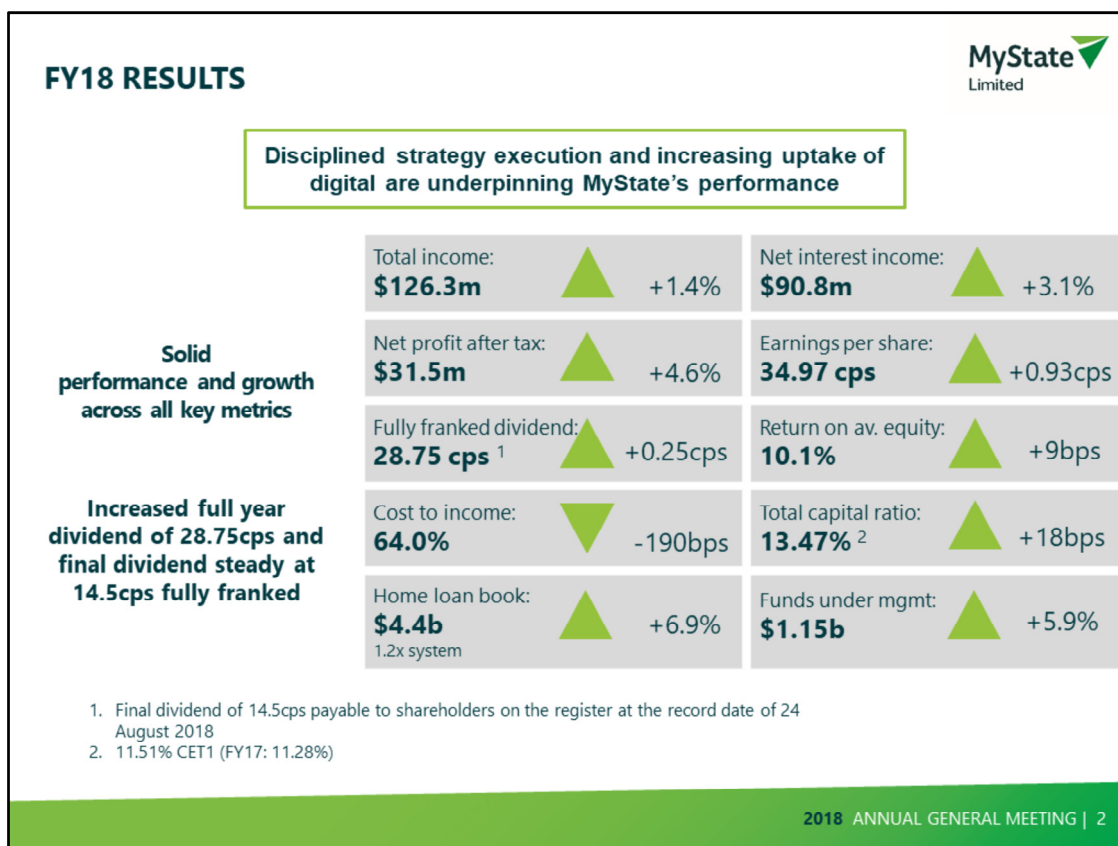
Thank you, Miles. Good morning and welcome, it's a pleasure to be with you here today.

We have been in business in Tasmania for more than 100 years and share the heritage of this wonderful State. We have more than 200,000 customers and some will have entrusted funds and financial services to us through generations.

MyState has become one of Tasmania's most recognised brands and as our national customer base grows, awareness of MyState and what we do is increasing, particularly in Australia's eastern states. However, Tasmania is, and always will be our home.

Our banking and wealth management business is built on our customers' trust and confidence, and we place the interests of our customers front and centre in everything that we do.

Our passion is driven by a customer-focused culture and guided by a vision to make a genuine difference to our customers and communities every day.



Over several years we have invested in technology to take advantage of opportunities created by today's fast-moving environment. We are well progressed in becoming a fully functioning digital bank.

We have built a modern, highly scalable business and the benefits of the strategic refinement of our business model are beginning to flow through.

In the 2018 financial year, we delivered a very high-quality result and the Chairman has already mentioned some of the highlights.

In addition, earnings per share improved to 34.97 cents per share from 34 cents.

Total income increased to \$126.3 million from \$124.6 million.

We are continuing to build scale in our home loan book which in financial year 2018 increased to \$4.4 billion, up from \$4.1 billion the year before.

Return on average equity improved by 9 basis points and at 10.1% remains strong compared to peers.

## STRATEGIC OVERVIEW

### 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**

### Our Brand

We have rolled out an **upgraded brand and logo type** for MyState Limited. We have modernised the MyState Bank logo type and adopted it for MyState Limited and have freshened up the colours and typeface. The changes are subtle, but an important step in growing and building a modern financial services business on the national stage.

## 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**

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



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MyState has a clear strategy that is guided and directed by a cultural framework which we call the MyState Way.

This articulates our purpose as a company which is to help people achieve their dreams – whether it is a personal loan for a first car, a savings account for a home deposit, a home loan or protecting your assets.

We were delighted that our progress to make financial services simple and trustworthy has been recognised by an improvement in our customer net promoter score to +27 at the end of the financial year with a continuing increase in advocacy since the end of the year.

This is an outstanding achievement in an industry which has been in the public eye for all the wrong reasons and has been beset by some very poor behaviours and poor customer outcomes.

To highlight our progress we have modernised our brand, which is a subtle but important step towards broader business growth.

We are digitising our business with cost effective and customer friendly propositions to provide great customer experiences.

One significant achievement was our establishment on the New Payments Platform from its first day of operation. That meant we were amongst the first banks to initiate and administer real time payments through the platform.

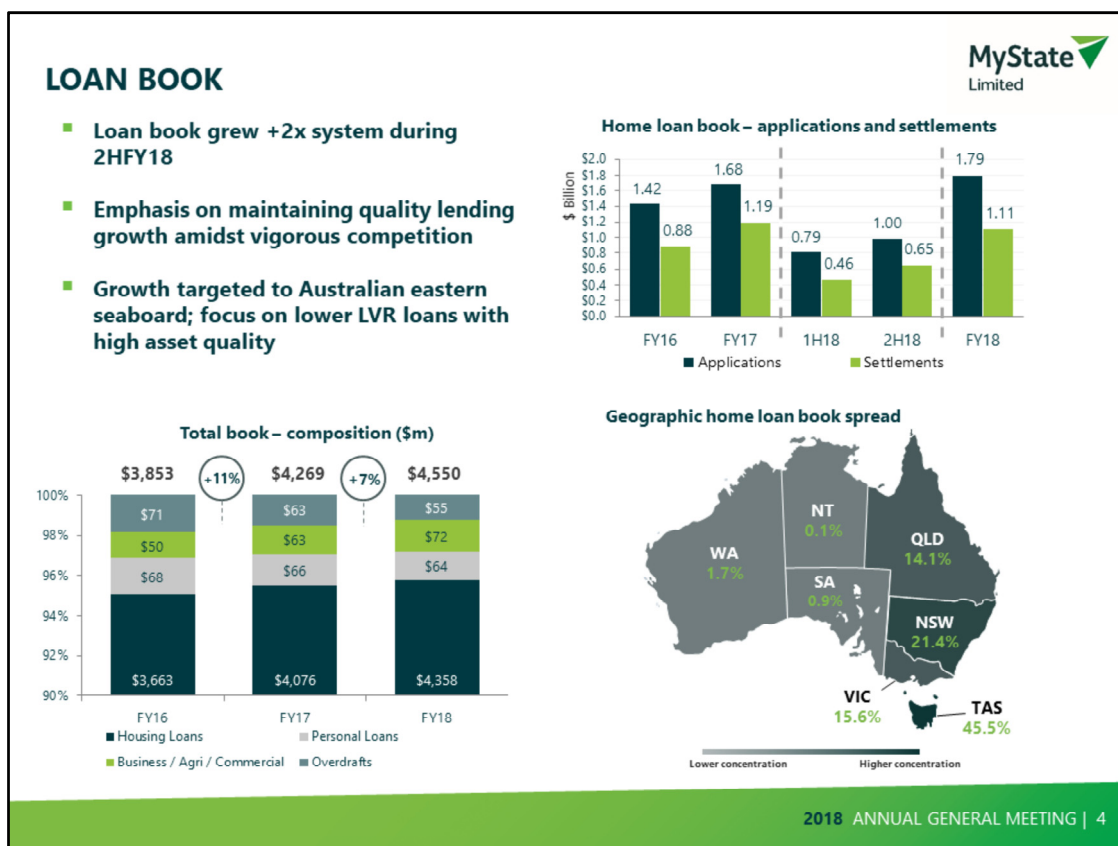
We continue to leverage digital innovation to create services that our customers want,

and deliver them through online and mobile services in the way that they want.

Our customers have embraced mobile devices, so we support them through new age transaction services including Apple Pay, Google Pay and Samsung Pay and will soon add Garmin Pay and Fitbit Pay.

More targeted marketing is also helping us to win new customers.

By re-engineering our processes we continue to work at being easy for customers to bank with while continuing to deliver on our strategic goals.



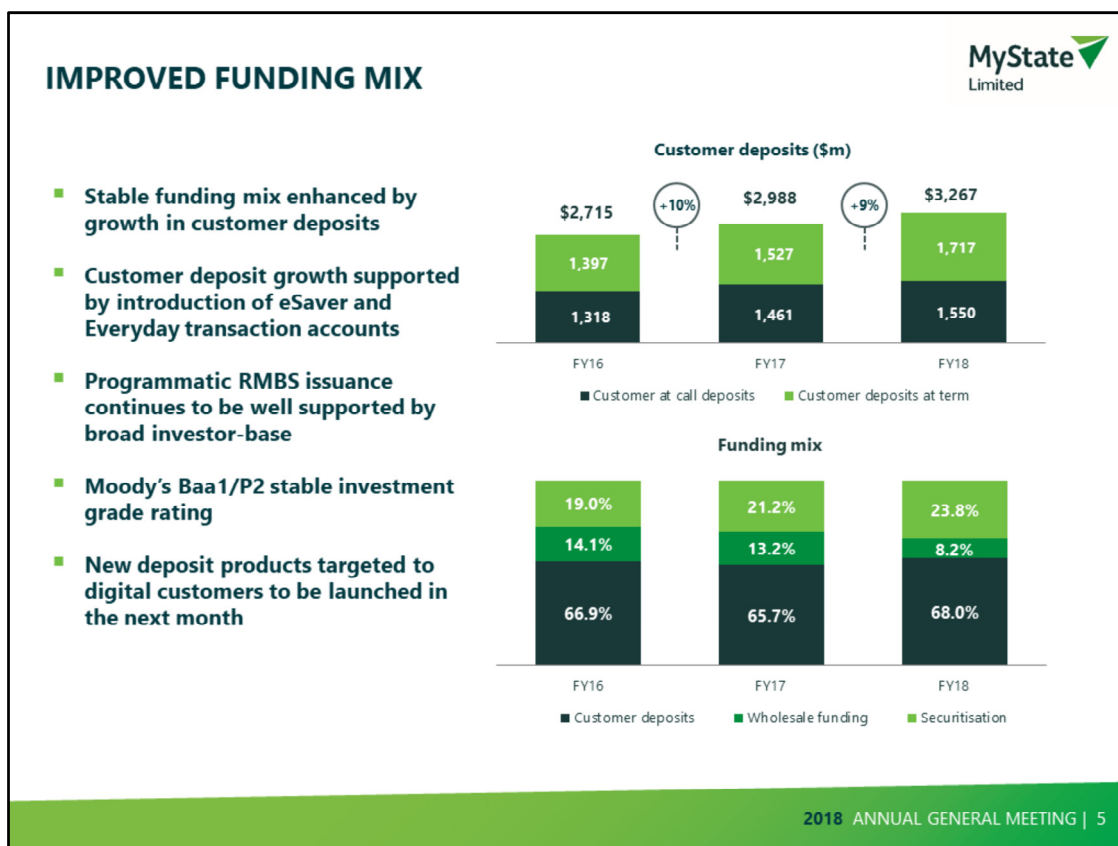
A central component of our strategy is to grow our loan book, focusing on low-risk, owner occupied, low loan-to-valuation ratio home lending.

Our total loan book exceeds \$4.5 billion, up about 50% compared to four years ago.

In a highly competitive market our home loan book grew by 7% overall in financial year 2018 with a 62% conversion of applications into settlements. These increased significantly in the second half when our rate of growth accelerated to above twice system growth.

Although house prices have eased in some markets they remain high by historical standards, and customers that have had a house for several years have benefited from increased equity through house price growth.



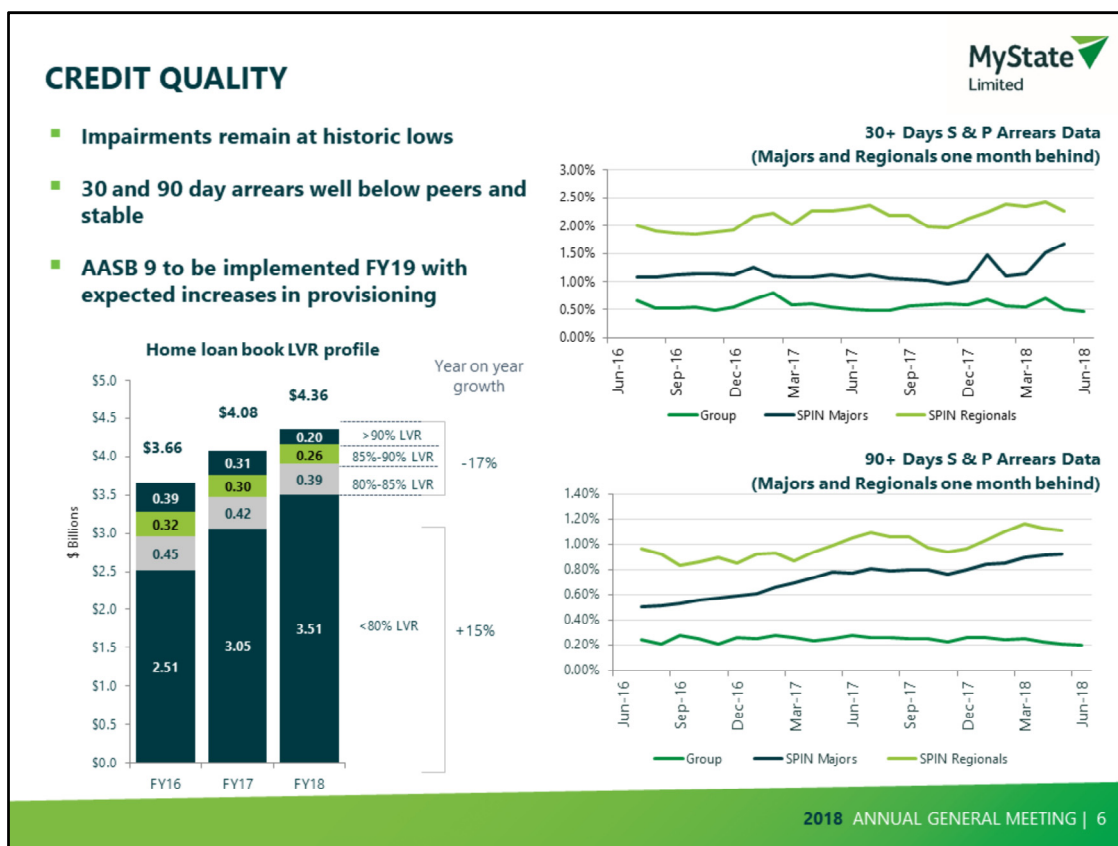


We are capitalising on digital innovation to provide customers with quality products and services which have been very successful.

This includes huge growth in customers opening bank accounts online. Our eSaver and Everyday transaction accounts helped customer deposits increase by over 9% to \$3.2 million during the year.

Our customer deposits provide a strong and stable funding base, and new digital channels provide an important source of funds and access to customers at a time when wholesale funding costs have been increasing.

MyState Bank has a Moody's investment grade credit rating of Baa1/P2 with a stable outlook which demonstrates the strength of our funding programs and our risk management systems.

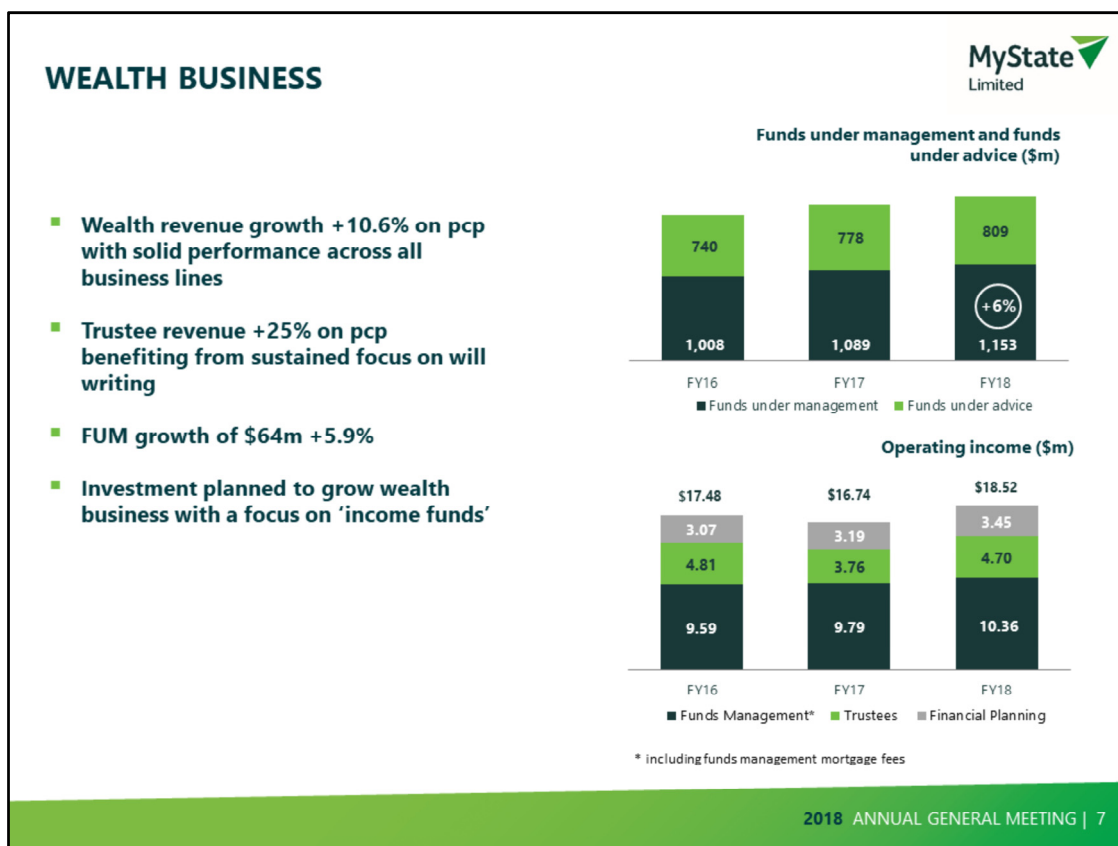


We maintain a prudent approach to credit risk management and this supports our lending strategy. Our strong risk management practices are based on the three lines of defence model and help ensure the group maintains a conservative and balanced risk profile.

Impairment charges remain at historic lows and we are still in a very benign credit environment which we expect will continue. Arrears are well below the relevant benchmarks for both major and regional banks.

Many customers have made additional mortgage repayments and the proportion of our home loan book with a loan-to-valuation ratio of less than 80% has been increasing, and now comprises more than 80% of our home loan book.

This positions the bank well for APRA's proposed revisions to the capital framework.



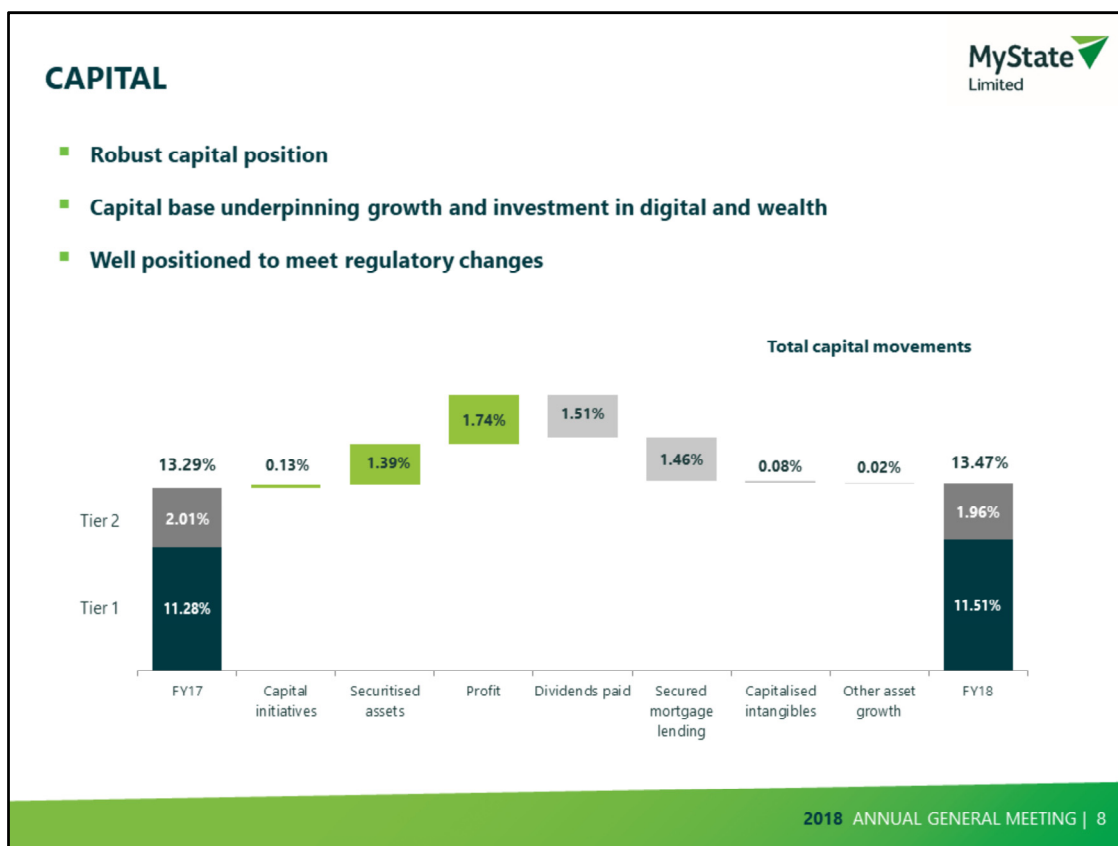
Our wealth management business had a good year, achieving more than 10% revenue growth compared to the previous year.

Net profit after tax from this business grew 21% to \$4.6 million.

Funds under management increased \$64 million to \$1.15 billion. Our funds under management have grown approximately 15% over the past two years, supported by new retail and wholesale investors.

Trustee services has benefited from a focus on will writing.

We plan to invest in technology and people capability in this business in the coming year, with further improvement of our systems, products and distribution capabilities.



MyState maintains a robust capital position, with a capital adequacy ratio of 13.5% at 30 June 2018.

MyState's Common Equity Tier 1 capital at 30 June 2018 was 11.51%, well above APRA's 'unquestionably strong' Common Equity Tier 1 capital requirements which all banks are required to meet by 1 January 2020.

We have a strong balance sheet which positions the company well for further lending growth.

# MYSTATE IN THE COMMUNITY





**Over \$2m**  
distributed through the  
MyState Community  
Foundation since 2001



**\$225,000**  
three-year commitment to  
The Smith Family



**MyState Bank  
principal partner**  
of the women's Hobart  
Hurricanes team and a  
sponsor of the men's team



**Over 1,000**  
students participated in the  
MyState Student Film Festival



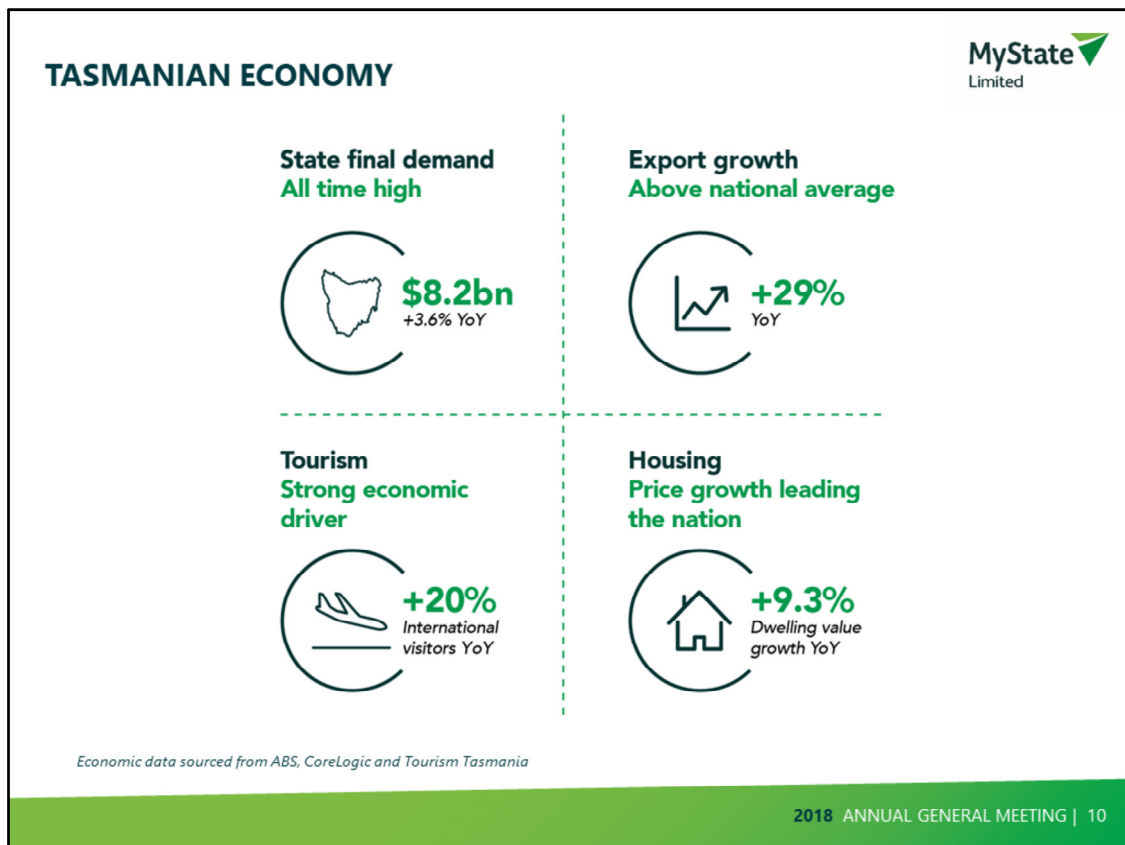
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We believe that our success should be reflected in the communities that we serve.

In Tasmania we particularly focus on supporting young people through the MyState Foundation which has to date awarded more than \$2 million in grants and helped more than 90 organisations.

MyState also supports 135 student scholarships through The Smith Family in Tasmania and central Queensland.

This year, the MyState Student Film Festival opened to national entries for the first time, attracting a record 257 entries.



The Tasmanian economy has experienced solid growth in state final demand, which is a key indicator of the health of the local economy, and grew at a rate of 3.6% for the year to June 2018.

Tasmania has experienced a boom for housing, tourism and exports.


The number of housing finance commitments for Tasmania was up 3.4% for the year to July 2018, the only positive change in number of housing finance commitments by state from the previous year across all states of Australia.


In particular, Hobart and the south east region of Tasmania have experienced steady rates of employment growth. Hobart has seen steady population growth and increasing house prices. Residential property prices in Hobart increased 9.3% for the year to September 2018, the strongest growth in any capital city market in the country.

Tourism was strong around the state, with Tasmania receiving 1.3 million visitors for the year to March 2018. While that was up 2% compared to the previous year, it comprised a 20% increase in the number of international visitors. Total visitor expenditure increased 7% to \$2.4 billion.

Exports increased 29% in the year to July 2018, with China being the single largest importer of Tasmanian goods with 27.8% of the State's total.

## SECTOR OVERVIEW






Industry dynamics

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

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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

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I'd like to touch on some important industry trends, first covering the impacts on the banking industry.

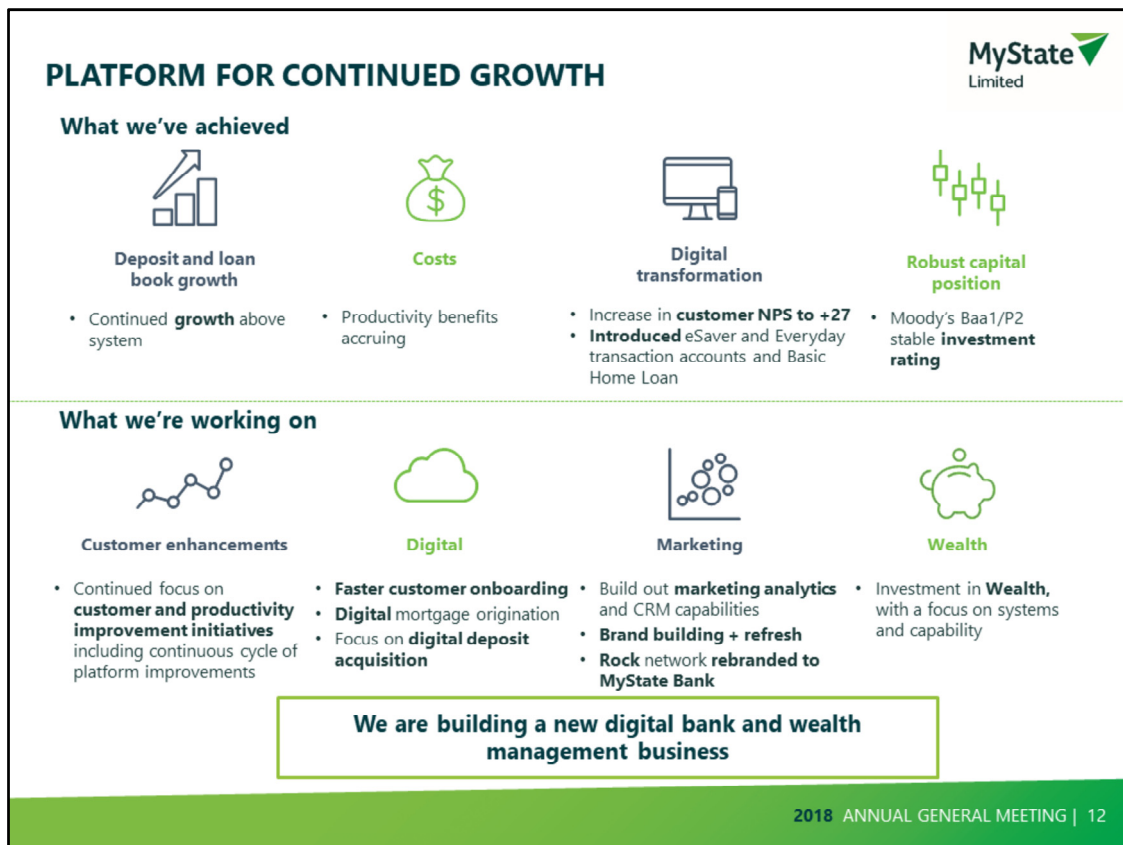
Notwithstanding the strong house price growth in Tasmania, nationally the property market is cooling and credit growth is slowing. We expect credit growth to continue to slow in the near term.

Our key target market of low-risk, owner-occupied, low loan-to-valuation ratio home loan lending remains very competitive. Although recent rate increases have reflected increased wholesale funding costs, special offers continue to place margins under pressure. Combined, we continue to see a low rate and competitive home loan market for at least the balance of the financial year.

However, the Australian economy continued to expand at the fastest rates since 2012. Second quarter growth to June 2018 was stronger than expected, with 0.9% growth during the quarter exceeding expectations of 0.7%. This will help underpin employment in the economy.

The Chairman has already commented on the regulatory dynamics in the industry, so I won't repeat his already critical remarks.





In summary, we have achieved significant successes in our program to become a scalable, digital bank and wealth management business.

We have achieved cost efficiencies and are continuing to make process changes that bring productivity improvement and take advantage of our digital platform. Our improving Net Promoter Score is encouraging, and we will continue to provide our customers with outstanding service and new digital propositions.

Moody's stable investment rating of MyState Bank is a testament to our strategy of growing in high-quality, low-risk lending markets, our modern risk management systems, and the strength of our capital management strategy.

We are continuing to benefit from more affordable technology and will further enhance our business model. In the near future, we will launch online origination of home loans, monthly account keeping fee-free online transaction accounts, and support for Fitbit Pay and Garmin Pay. We continue to leverage CRM and analytics to market more effectively.

During the next year we plan further investment in our wealth management business, which will improve efficiency and benefit customers.

We have a clear strategy of organic growth and continue to innovate to increase market share across Australia's eastern seaboard. Our platform provides competitive advantages, allowing us to compete at the forefront of the financial services industry.



Finally, I would like to thank all of our team. It is their passion for our customers and community that helps to differentiate us in the market, and I congratulate them on their hard work, commitment and great service.

We are building a new digital bank and wealth management business and I hope you, our shareholders, will continue with us on our journey.

Thank you and I will return you to our Chairman.