

**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 2019 Chairman's Address. My opening remarks in the 2019 Annual Report sum up my view of the results for the year under review.

"Slightly disappointing but in the context of our digital journey and the overall circumstances of the banking sector, it was a solid performance."

Statutory NPAT fell 1.5% to \$31million, but when the discontinued operations are excluded NPAT fell from \$31.3m to \$29.8m.

The result was materially impacted by a decline in net interest margin. This was caused by a combination of increased competition for loans and deposits, but also impacted by adverse movements in the Bank Bill Swap Rate that impacted the cost of securitisation funding in the first half.

The result was also materially impacted by increased depreciation expense relating to the significant increase in technology investment over the past five years.

In 2019 we recorded a 10.7% increase in our loan book, well above industry peers. But we have maintained a disciplined focus on high quality lending and our impairment charge remains well below that of peers.

The group capital position fell slightly from 13.5% to 12.90% but nonetheless remains very strong.

In terms of our strategic progress, we are not quite yet a digital bank but we are making great strides.

The Board has maintained the full year dividend at 28.75 cents per share.

Sale of Financial Planning Business

In June 2019 we made a decision to sell our small financial planning business.

Whilst generating an acceptable return we had come to the view that the growth potential was limited vis a vis other opportunities for the group.

At the same time, whilst confident that we have been appropriately managing any conflicts of interest, the sale of the business removes that risk.

We realized a small gain on the sale of the business and the funds released will be deployed in growing our banking and funds management businesses.

Investment in our Funds Management Business

We have recently finalised plans to significantly invest and streamline the TPT funds management business.

The non-bank lending sector has experienced significant growth over the recent period and our funds management business enables us to be a serious competitor in that sector.

We expect that an enhanced technology platform and initiatives targeting improved returns to investors will deliver significant growth to that part of our business.

The decision to change the name of the business to TPT Wealth reflects our wish for the business to develop a national profile.

The Hayne Royal Commission

I spoke last year of the egregious behaviours of some of our peers that had been revealed in the interim report of the Hayne Royal Commission.

MyState were not called upon to attend the Royal Commission and I am pleased to report that we have not had to make multi-million or billion dollar provisions for remediation in respect of poor customer outcomes.

The Royal Commission made a particular emphasis on conduct risk, detailing and identifying six fundamental precepts.

At MyState conduct risk has always been an important focus and is embedded in our risk framework.

The Interest Rate Debate

In recent times we have seen much commentary criticising banks for failing to pass on in full Reserve Bank of Australia interest rate reductions.

Such criticism fails to recognise that banks have to balance a range of competing interests.

Not only do our borrowers want the lowest possible interest rates on loans, but our depositors want the highest possible interest rate on their deposits and our shareholders have a right to expect a reasonable return for their willingness to provide capital that facilitates the whole banking process.

At MyState we seek to achieve a fair balance of the competing interests and at the end of the day it is up to our borrowers, depositors and shareholders to decide if we have got it right.

If our loan rates are not competitive borrowers will look elsewhere and we will see a decline in our loan book. As reported in earlier comments we continue to see strong growth in our loan book.

If our depositor rates are not competitive we will see an outflow of an important source of funding. As Melos will detail in his address, we continue to see strong growth in retail deposits.

Finally if we do not pay our shareholders a reasonable return, our access to capital will be reduced and our capacity to facilitate the important intermediary role we play in the economy will be diminished.

Our returns to shareholders when measured in terms of earnings per share have been relatively static over the past few years, but our shareholders have endorsed our balancing of the competing interests with a relatively stable share price and strong participation in our dividend reinvestment plan.

Obviously we closely monitor the balancing of the competing interests, and if the market tells us we have got it wrong then we make appropriate adjustments.

Directors

In February this year we farewelled long term director Peter Armstrong.

Peter's contribution to MyState and to its antecedent credit unions was invaluable. We acknowledge and thank him for his contribution and wish him well in retirement.

Late in the year we announced the appointment of Mr Vaughn Richtor as Non-Executive Director. Vaughn was formerly the Managing Director of ING in Australia and is credited with the enormous growth of that company as Australia's pre-eminent digital bank.

Concluding Remarks

The significant progress that we continue to make in modernising our banking and wealth businesses reflects the hard work of the team at MyState and to that team I say thank you.

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

MyState Limited

**Managing Director's
2019 AGM Address**

Melos Sulicich



Good morning everyone. It is a great pleasure to welcome everyone to Hobart.

I'd like to begin with highlighting our achievements which demonstrate the progress we have made in providing competitive, high-quality services to our customers.

The first relates to the results of a brand survey which was focused on customer trust in which 95% of participants said MyState was trustworthy, well ahead of the score for major and regional banks which averaged 77%.

The second is MyState's customer net promoter score, which measures the likelihood that one of our customers will recommend us to someone else.

Our net promoter score at the end of June of +42 tells us that our customers like our services and our business. That score is among the highest in the banking industry and was a big improvement on +27 the year before.

FY19 results

**STRONG 2H PROFIT IN
LINE WITH 2H18**
as forecast at 1H19 result

**Unlocking the investment we
have made in digital
and disciplined strategy
execution are underpinning
MyState's performance and
building our future**

Change on FY18 results

Total loan book: \$5.038b	▲	+10.7%
Customer deposits: \$3.662b	▲	+12.1%
Total capital ratio: 12.90%	▼	-57bps
Net profit after tax: \$31.0m	▼	-1.5%
Earnings per share: 34.17cps	▼	-0.80cps
Fully franked dividend: ¹ 28.75cps	■	Stable

1. Final dividend of 14.5cps payable to shareholders on the register at the record date of 30 August 2019

Although the first half was very challenging, MyState had a strong finish to the financial year which highlighted the benefits of our investment in digital services.

Our technology platform is robust, simple and modern and allows us to make productivity improvements faster and continually find more efficient ways of doing business.

While we are focused on building scale, disciplined cost management ensures that our operations are sustainable and have a positive future. The interest rate environment that we are currently experiencing is unprecedented in this country and has caused a significant reduction in our Net Interest Margin – a situation that we see continuing – and so scale is increasingly important to us. Our view is that we will remain in a low rate and therefore lower margin environment for a very long time.

We have consistently delivered above system loan book growth for several years. Our total loan book increased 10.7% over the year, surpassing \$5 billion for the first time.

Strong service and online innovation helped us increase customer deposits 12.1% to \$3.7 billion. We are focused on improving our deposit proposition in order to grow low cost customer deposits, particularly outside Tasmania.

We manage capital prudently and MyState is comfortably capitalised above regulatory requirements.

In order to ensure our business continues to remain strong and is sustainable, we have had to make a decision to close some branches in both Central Queensland and Tasmania. We don't take these decisions lightly, but ultimately we have had to take them to ensure the best outcome for the long term success of the business. We have other options for customers to continue to do business with us by the internet, telephone or at every Australia Post outlet in Australia.

Whilst we understand some customers strong preference for using a branch, we have taken every step possible to ensure that they can easily continue their banking relationship with us.

Our strategic priorities



Our strategic priorities are guided by the MyState Way which helps us align our resources and focus on growth that benefits our customers, staff, communities and shareholders.

Our mission is to make financial services simple and trustworthy. We want to be relevant and accessible to make it easy for customers to bank with us. Most of our customers now regularly use internet and mobile banking to do their everyday banking – we only expect that this usage will continue to increase.

Some years ago we began a program to modernise our banking platform, using lean thinking and reorganising our business to improve customer services. We are now automating our back office processes using robotics technology and have released our first robot into production and over coming months we will be automating more processes.

We are today a modern, scalable, digital bank with streamlined processes created from the outset to serve the needs of our customers. Data analytics now help us anticipate what customers want, allowing us to tailor products and marketing effectively.

Rebranding The Rock as MyState Bank last November has simplified our brands. The MyState Bank brand is very well known in Tasmania and we are investing heavily to build awareness across the east coast of Australia with targeted campaigns that are helping to win new customers.

We intend to replicate our successful banking model in wealth management.

We're building a new wealth management platform. This multi-year project is about to start rolling out and will extend the market for our wealth management products from Tasmania to the broader national market.

Our strategy is underpinned by a robust risk culture that helps us manage both financial and non-financial risks and like everybody in our industry, we are working to more deeply embed our risk management culture throughout the organisation.

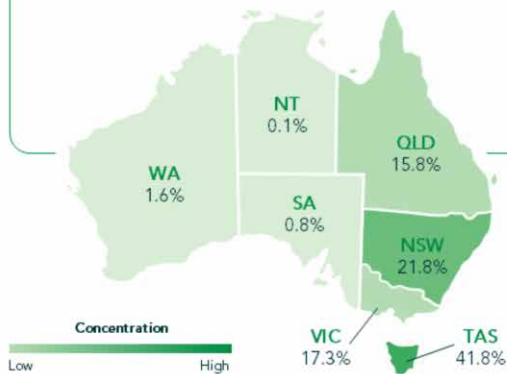
Importantly, we have had no significant risk issues and have had no customer remediation issues which have beset some of the other banks in this country. We believe that this is simply an outcome of 'doing the right thing' by our customers.

Loan book

Loan book grew well above system during FY19 with record applications and settlements (+14%; +23% on pcp)

Margin management remains a key focus

Growth targeted to Australian eastern seaboard



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



Total book composition (\$m)



We've increased scale through prudently building our loan book. Our platform allows us to compete successfully for high quality credit in the low-risk, owner occupied, low loan-to-valuation ratio home lending market.

As digital services and effective processes allow us to offer fast turnaround times, we have a competitive advantage which has been rewarded by record applications and settlements. Five years ago, our loan book was about \$3 billion. Today it is about two thirds larger, over \$5 billion.

Another advantage of our platform is that it allows us to serve customers online which has substantially increased our addressable market. We are now using this to grow across Australia's eastern seaboard.

While our Tasmanian book is growing, the proportion it represents has reduced from 68% to just over 40%. So now, nearly 60% of our loan book is to customers outside Tasmania, meaning we are a nationally operating bank.

Growth in customer funding

Stable funding mix enhanced by high growth in customer deposits

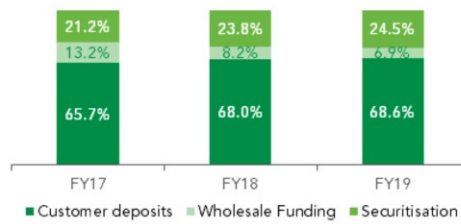
Customer deposit growth supported by introduction of Bonus Saver and Glide transaction account

Programmatic RMBS issuance continues to be well supported by broad investor-base

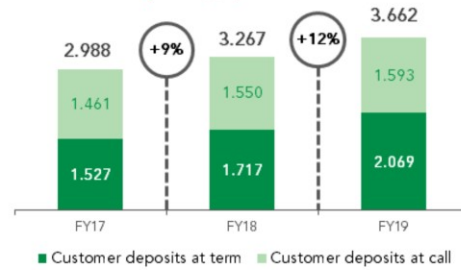
Moody's Baa1/P2 stable investment graderating



Funding mix (%)



Customer deposits (\$b)



Our funding has three main sources - customer deposits, wholesale funding and securitisation.

Digital innovation enables us to offer quality products such as the Bonus Saver account and Glide transaction accounts which have been very successful. The number of customers opening accounts online more than doubled during the year. Our bonus saver was just last week awarded 5 stars by Canstar, which means that this product is one of the very best of its class in the country. Our Glide account was given a 4 star rating meaning that it is an easy to use and great value product for our customers.

Customer deposits provide a strong and stable funding source which is more than two thirds of our overall funding. The popularity of our digital products contributed to a 12.1% increase in customer deposits to \$3.7 billion.

The cost of wholesale funding and securitisation were elevated for much of last financial year and whilst we reduced our reliance on these funding sources, the cost was very high for much of the year. Fortunately, the cost of this funding has fallen dramatically over the past few months relative to other forms of funds.

High credit quality

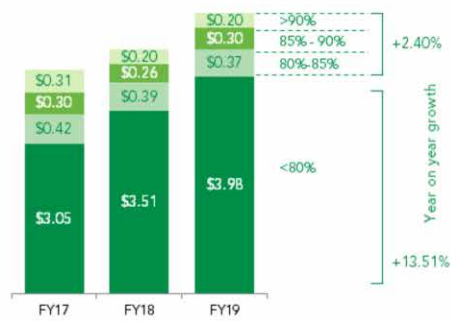
Focus on lower LVR loans with high asset quality

Impairments remain at historic lows

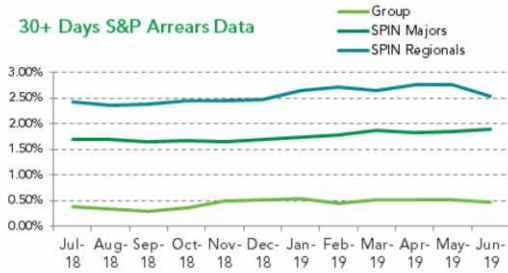
30 and 90 day arrears well below peers and stable

AASB 9 in place for entire year

Home loan book – LVR profile (\$b)



30+ Days S&P Arrears Data



90+ Days S&P Arrears Data



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.

We’re continually monitoring our systems and processes and have introduced new finance and risk management systems and skills to further strengthen our processes and risk management. Risk management is integral to our business and a robust risk and customer centric culture is at the heart of everything we do.

Although loan book growth is well above system growth, we maintain a very high quality book and the proportion of loans with a loan-to-valuation ratio of less than 80% has increased from 75% to 82% in the past two years. The trend of customers paying down their mortgages is continuing and on a dynamic modelling basis the average LVR across our loan book is continuing to fall.

Our commitment to credit quality and growing the loan book sustainably has ensured that impairment charges remain at historic lows. Both 30 day and 90 day arrears are trending well below the relevant benchmarks for both major and regional banks.

Wealth business

Net FUM growth to decade high of \$1.17b

Wealth revenue declined 3.7% on pcp due to lower trustee fees, partially offset by higher funds revenue

Costs increased by \$0.15m but included \$0.40m investment in product and system development to meet the income needs of retirees

Financial planning sold in 2H further simplifying the core business

Funds under management (\$m)



Operating income (\$m)

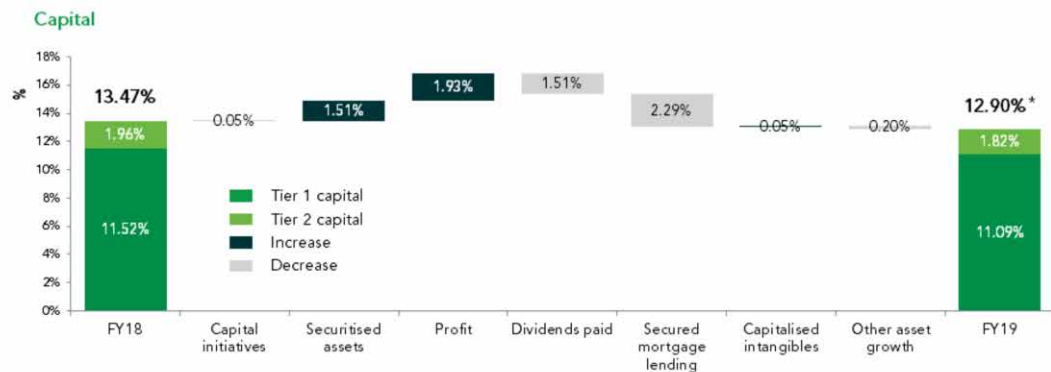


Our wealth management business is now more streamlined and we are preparing to transition to a new administrative platform for our funds management business. Over time, this will allow us to offer a broader range of products and services and support the expansion of our business across Australia’s eastern seaboard.

We have a range of income funds that offer consistent returns and income for retail and wholesale clients and these continue to perform well. Funds under management completed the year at a decade high of \$1.17 billion and have continued to grow into the new financial year. We are very excited about the opportunity that this business presents us at this point of time.

Well capitalised to support growth

Capital position supported by organic capital generation
 Capital base underpinning growth and investment in digital



* On a pro forma basis, MyState's total capital ratio would increase to 13.0% if the proceeds of the financial planning sale were applied.

We maintain a healthy capital position with a capital adequacy ratio of 12.9%, which excludes the proceeds of the financial planning sale.

Our capital management strategy is designed to support continued loan book growth and ongoing investment in our digital platform.

We have undertaken two well supported securitisation trades during the course of the current financial year in order to further improve our capital position.

Our debt is supported by an investment grade rating from the international credit rating agency, Moody's.

Outlook



Continued above system deposit and loan growth with a heightened focus on margin management



Simplify, automate, re-engineer and digitise processes for further operating efficiencies.

Increased use of technology to reduce operating costs



Enhancing digital roadmap and marketing capability for continued customer growth



Investment in mortgage funds management capabilities, products and systems.

Looking to increase FUM via mainland distribution

Growth of a great bricks and clicks banking and funds management business

Looking ahead, we believe we are well-positioned both financially and strategically, with a strong balance sheet with a modern and evolving business model. We have a highly scalable, digital platform which allows us to launch innovative products and provide services across Australia without the encumbrance of an extensive branch network. We anticipate more moderate, but still above system, loan growth and are targeting much faster growth in customer numbers.

Digital transformation has allowed us to reengineer our cost base, allowing us to service a much larger loan book and process many more transactions without a significant increase in operating costs. Our market remains highly competitive, and we are managing margins carefully to ensure that we receive the benefits of our investment.

While the Reserve Bank is moving to reduce the cash rate, we are carefully balancing the needs of depositors and borrowers in this environment, the likes of which we have never seen before. These are challenging times and none of the decisions we make are easy – but we have to make them to ensure the sustainability of our business.

We're pleased to be a leader in the banking sector as measured by customer net promoter score and our ongoing digitisation strategy remains firmly focused on our customers needs.

Investment in our customer deposits platform and marketing to build awareness of our business continues, particularly on Australia's eastern seaboard where we have exciting expansion opportunities. We plan to launch further internet and mobile banking services to satisfy our customers' desire for products and services that simplify their lives.

MyState Bank has recently become a signatory to the Australian Banking Association's, Banking Code of Practice, which creates a new standard of customer service for the banking industry. We've invested heavily in preparing ourselves to be compliant with this Code over the course of last year and are

pleased with the protections that it provides our customers.

As I said earlier, we are excited about the opportunities for our wealth management business, where digital services will create the opportunity to offer our funds nationally.

It is worth noting, that, in our opinion the banking environment and competitive and regulatory landscape remain tilted away from smaller banks like MyState. We need to hold more capital than the larger banks for similar loans and the larger banks still get a funding cost advantage as a result of an implicit Government Guarantee. This all reduces smaller banks' ability to earn a return and compete for customers. We continue to talk to Government and regulators to find ways to address this imbalance.

In closing, I would like to take a moment to recognise the hard work and dedication of our team whose passion helps us stand out in the market. Their efforts make a significant difference for our customers and the communities which we serve.

Finally, I would like to thank you, our shareholders, for your support as we continue to build a strong and dynamic digital bank and wealth management business.

Thank you, and I will now return you to Miles.