

# Investor Presentation

## February 2018



**MyState**  
LIMITED



# Agenda

1H FY18 INVESTOR PRESENTATION

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



# Highlights & strategy

MELOS SULICICH

Key highlights

Results

Strategic priorities

# Key highlights

- Strong shareholder returns with growth in NPAT, EPS and dividend
- Wealth business growing with solid revenue performance and gains in FUM and FUA
- Growing a quality loan book
- Technology investment driving digital customer acquisition, operating leverage and a falling cost to income ratio

**Disciplined strategy execution is transforming MyState into a national, scalable modern banking and wealth management business**

# Solid growth across key metrics

- Margin management delivered NII improvement on pcp
- Operating leverage improving cost to income ratio
- Growth in bank assets and deposits
- FUM at highest level in nearly a decade
- Fully franked, increased dividend for shareholders

Change on 1H 17 results except where otherwise stated

Total income: <b>\$64.0m</b>		<b>3.6%</b>	Net interest income: <b>\$46.4m</b>		<b>6.8%</b>
Net profit after tax: <b>\$15.8m</b>		<b>4.0%</b>	Earnings per share: <b>17.6 cps</b>		<b>1.6%</b>
Cost to income: <b>64.6%</b>		<b>182bps</b>	Capital ratio: <b>13.4%</b>		<b>43bps</b>
Home loan book: <b>\$4.1b</b> <small>0.7x system</small>		<b>4.7%</b>	Customer deposits: <b>\$3.1b</b> <small>1.0x system</small>		<b>4.9%</b>
Funds under management: <b>\$1.2b</b>		<b>10.7%</b>	Return on equity: <b>10.2% *</b>		<b>-1bps</b>
Fully franked dividend: <b>14.25 cps</b>		<b>0.25cps</b>	Net interest margin: <b>1.94%</b>		<b>Steady</b>



\* annualised FYTD



# Delivering on our strategic priorities



MyState's strategy is underpinned by 5 strategic goals


 <p><b>GROW</b> To improve scale economies</p>	<ul style="list-style-type: none"> <li>• Bank balance sheet</li> <li>• FUM</li> <li>• Digital customer acquisition</li> </ul>
 <p><b>SIMPLIFY</b> To improve productivity</p>	<ul style="list-style-type: none"> <li>• Digital banking services</li> <li>• MyExcellence program</li> <li>• Faster speed to decision</li> </ul>
 <p><b>STRENGTH</b> To invest and grow</p>	<ul style="list-style-type: none"> <li>• Strong capital position</li> <li>• Cost to income ratio</li> </ul>
 <p><b>RELATIONSHIPS</b> To improve customer outcomes</p>	<ul style="list-style-type: none"> <li>• Brand presence and community engagement</li> <li>• Improving customer outcomes</li> </ul>
 <p><b>TRANSFORM</b> To embrace new world</p>	<ul style="list-style-type: none"> <li>• Increased operating leverage</li> <li>• Improvements in digital systems and capability</li> <li>• New Payments Platform</li> <li>• Investment in Wealth business</li> </ul>



MyState's technology successes



*Lendfast and Apply*    
COMPLETED: APRIL 2017

*CRM*    
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 Payments Platform*    
COMPLETED: FEBRUARY 2018

**'Imagining better'  
by using digital  
technology and  
analytics to  
acquire more  
customers in  
non-traditional  
areas**



# Financial results

DAVID HARRADINE

Results summary

Performance

Credit profile

Loan book

Funding

Wealth

# Solid growth in key financial metrics

- Sound underlying **revenue growth** with Net Interest Income up 6.8% and banking and wealth non-interest income<sup>1</sup> up 3.8%.
- **Margin maintained**
- Revenue growth and cost containment delivered **positive jaws** and a lower cost to income ratio
- Continuing **improvement in credit quality** with 30 day arrears well below peers
- **Soundly capitalised**, with capital strengthening 43bps on pcp

	1H FY17	2H FY17	1H FY18	Change (v 1H FY17)		Change (v 2H FY17)	
Total operating income (\$m)	61.8	62.8	64.0	▲	+3.6%	▲	+2.0%
Operating expenses (excl. BDD) (\$m)	41.1	41.1	41.4	▲	+0.7%	▲	+0.8%
Net Profit after tax (\$m)	15.2	14.9	15.8	▲	+4.0%	▲	+6.1%
Earnings per share (cps)	17.3	16.8	17.6	▲	+1.6%	▲	+4.8%
Net interest margin (%)	1.94	1.92	1.94	-	-	▲	+2bps
Cost-to-income ratio (%) <sup>2</sup>	66.4	65.4	64.6	▼	-182bps	▼	-80bps
Capital adequacy ratio (%)	13.0	13.3	13.4	▲	+43bps	▲	+10bps
Common Equity Tier 1 ratio (%)	10.9	11.3	11.4	▲	+55bps	▲	+13bps
Return on equity (%) <sup>3</sup>	10.2	9.9	10.2	▼	-1bps	▲	+27bps
Return on tangible equity (%) <sup>3</sup>	13.5	13.3	13.7	▲	+23bps	▲	+34bps
Dividend – fully franked (cps)	14.0	14.5	14.25	▲	+0.25cps	▼	-0.25cps
Dividend payout ratio (%)	81.1	87.1	81.2	▲	+0.3%	▼	-6.8%
Credit performance – 30 day arrears (%)	0.54	0.51	0.58	▲	+4bps	▲	+7bps
Total loan book (\$b)	4.1	4.3	4.3	▲	+4.5%	▲	+1.1%
Funds under management (\$b)	1.0	1.1	1.2	▲	+10.7%	▲	+6.5%

1: Excluding gain on sale of investments of \$1.4m in pcp

2: 1H FY17 CTI includes significant M&A project costs

3: Annualised YTD figures shown for ROE and ROTE

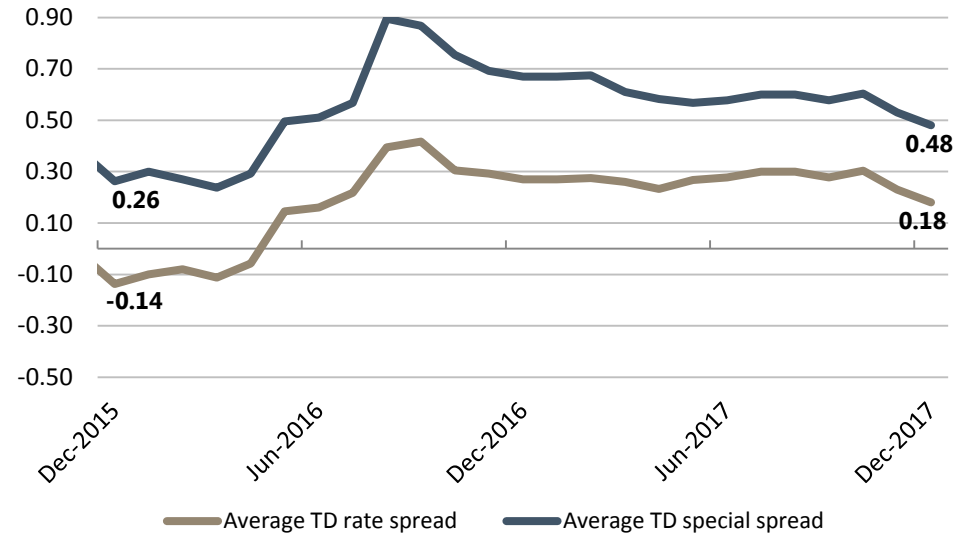


# Disciplined margin management

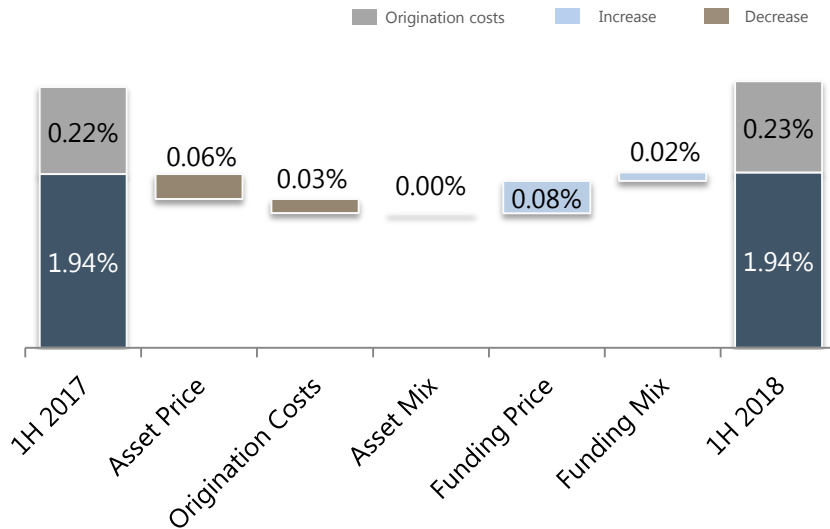
- Margin improvement over 2H17
- Lending market remains highly competitive
- Funding conditions improved, although BBSW trended upward late in 1H18

\* Spread above 3 month bank accepted bill rate  
Source: RBA – January 2018

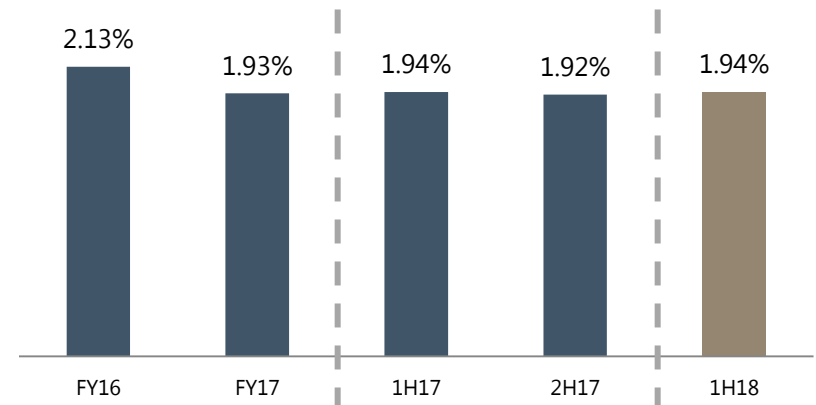
## Industry Term Deposit Spreads (%)



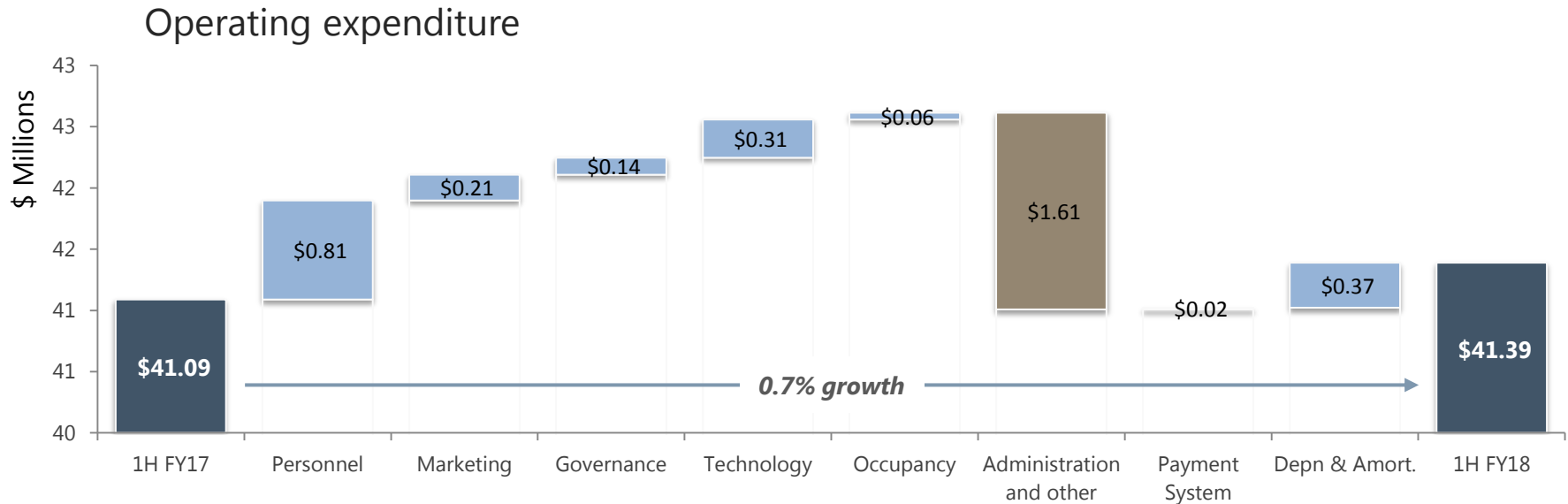
## NIM waterfall



## NIM trend

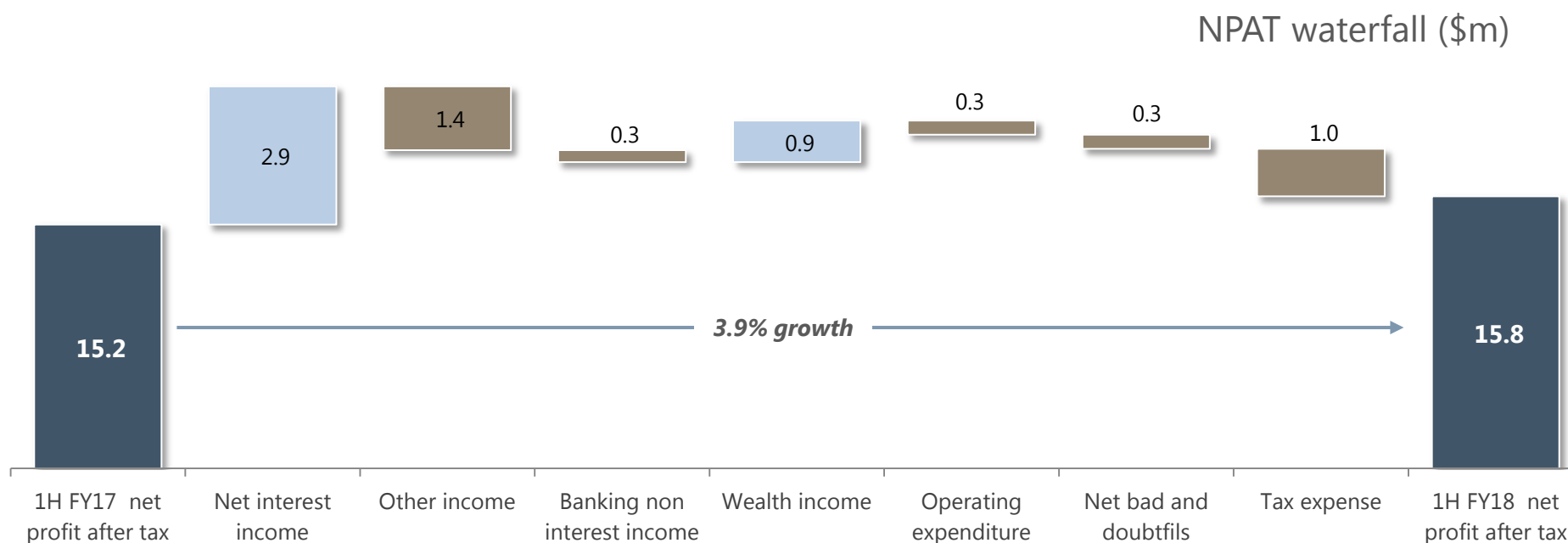


# Operating costs well managed



- Personnel costs grew 4.3% on pcp (1.3% excluding one-off branch closure and restructuring costs)
- Technology and marketing costs continue to be key areas of investment
- Administration, consulting and back office costs managed below pcp

# NPAT growth driven by NII and Wealth

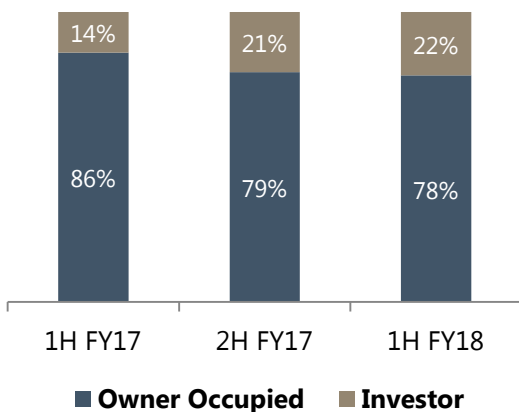


- NII growth 6.8%
- Core banking and wealth non-interest income up 3.8%
- Operating expenditure contained to 0.7% growth
- Net profit before tax growth of 7.7% and NPAT growth of 4.0%

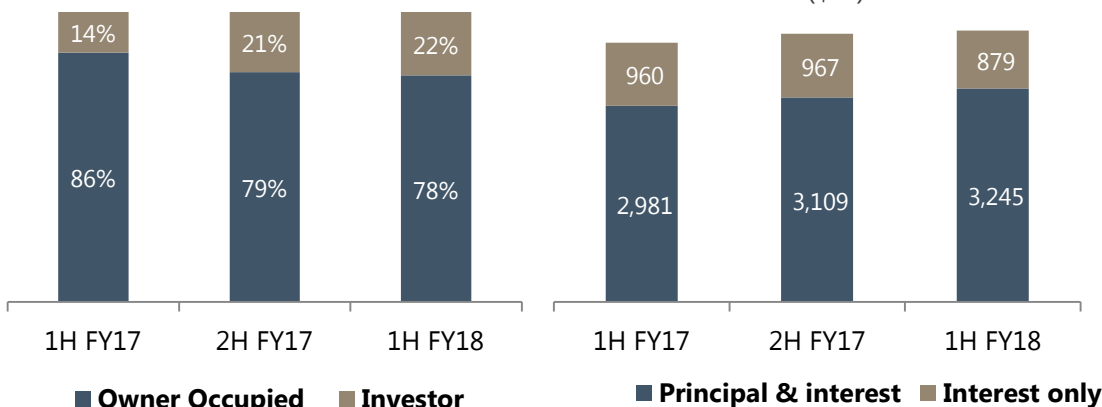
# Strong growth in high quality mortgages

- Growth in <80% LVR with strong asset quality focus
- Growth rate slowed with emphasis on managing investor lending and IO portfolios to regulatory requirements
- Sound credit quality of portfolio has continued through re-weighting to lower LVR, owner-occupier loans

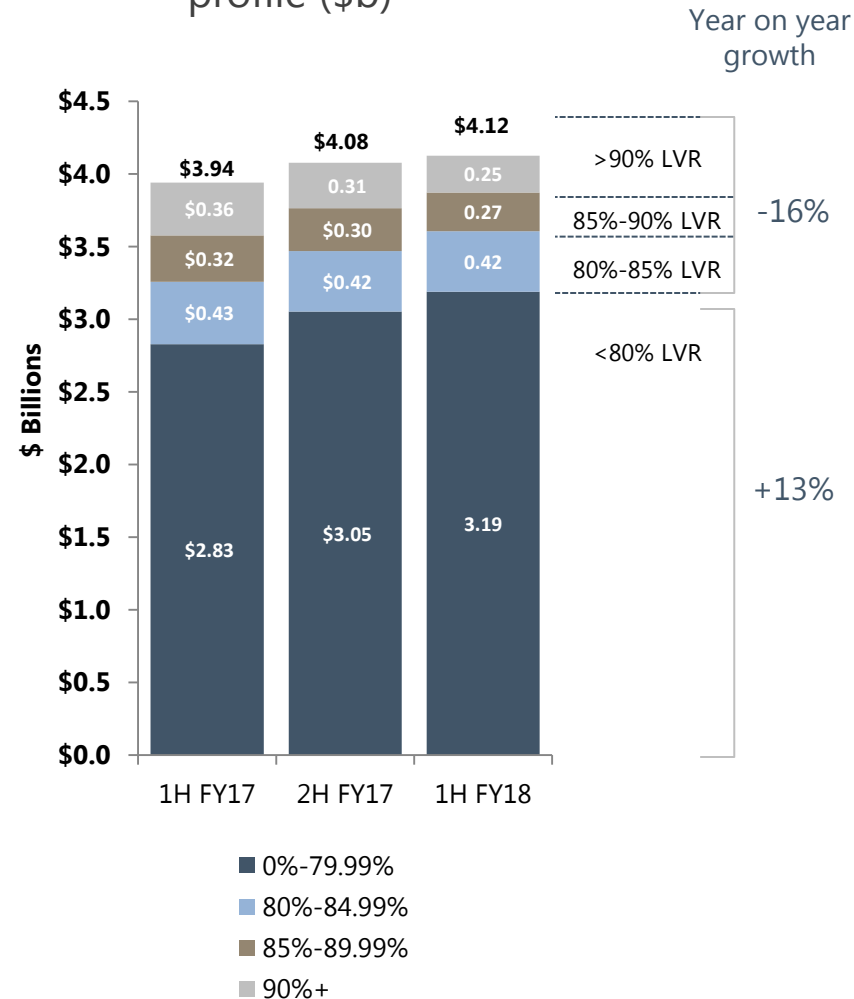
Investor vs owner occupied (% of home loan book)



Principal & interest vs interest only home loans (\$m)



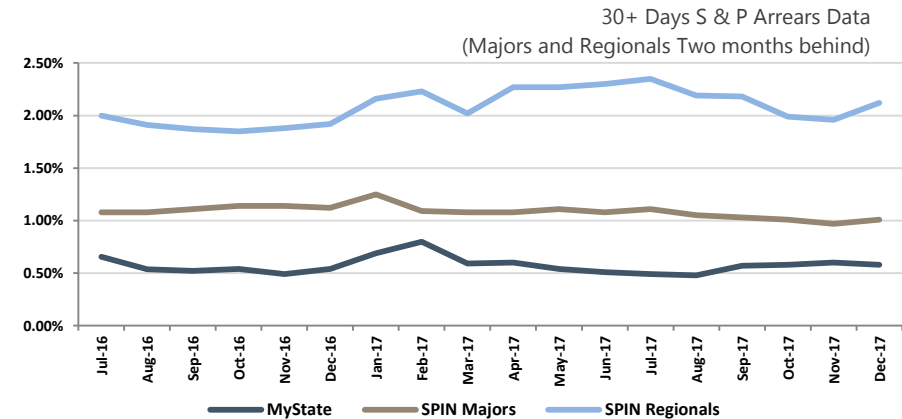
Home loan book LVR profile (\$b)



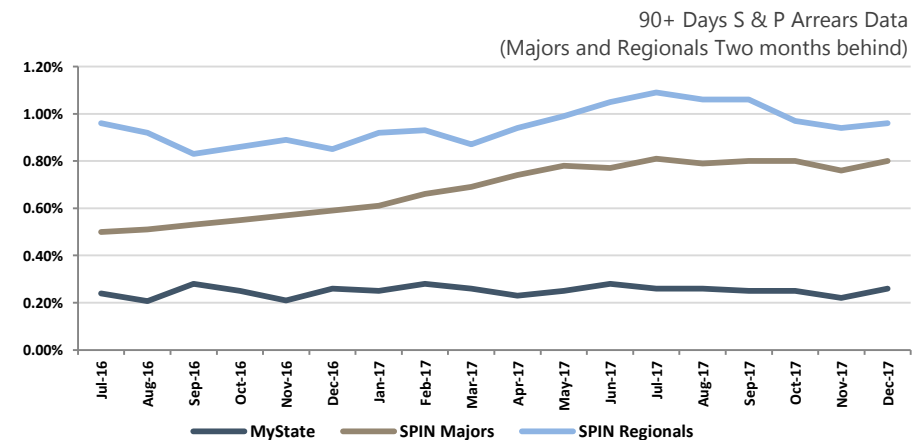
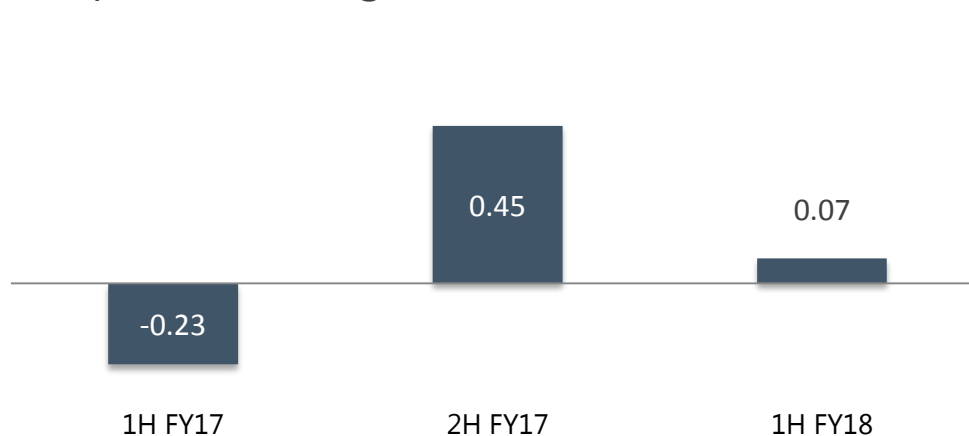
\*includes reclassifications of back book in FY17

# Continued high credit quality

- Growing and maintaining very high credit quality
- Impairments at historic lows
- 30 and 90 day arrears below peers and stable
- AASB9 to be implemented July 2018 with likely increases in provisioning across the sector

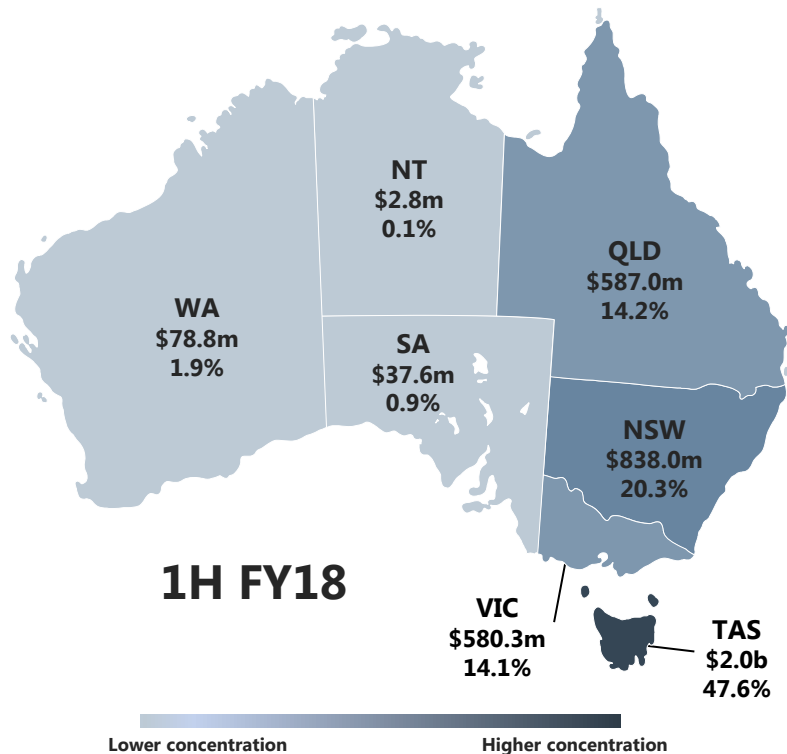


## Impairment Charge (\$m)



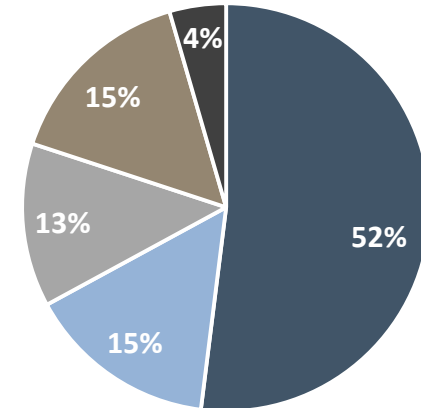
# Enhanced geographic footprint

- Continued broadening geographic base of loan book
- Tasmanian concentration below 50%
- Growth targeted to Australian eastern seaboard

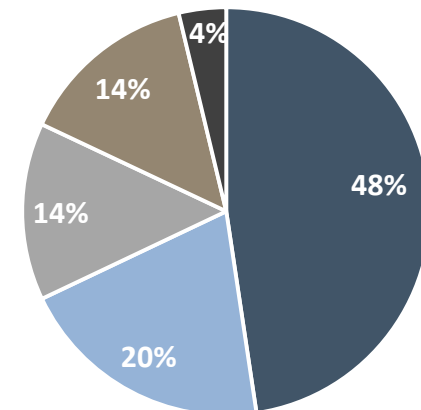


## Geographic spread

**1H FY17**



**1H FY18**

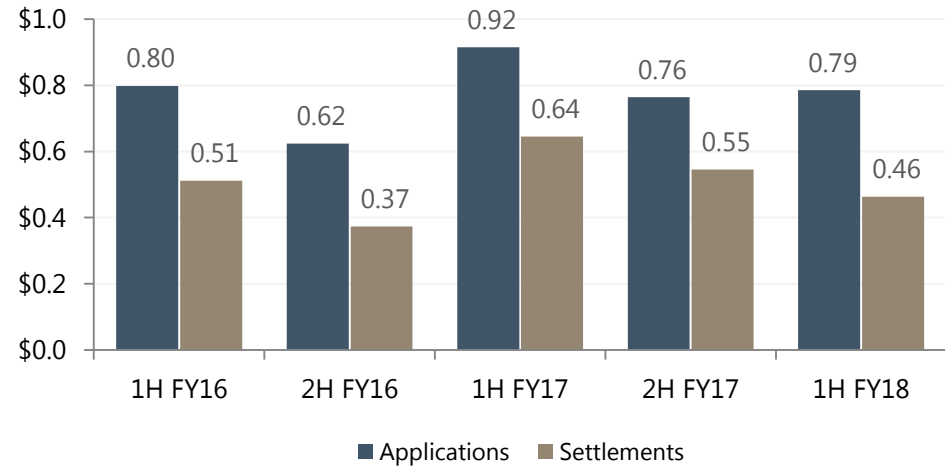


■ TAS ■ NSW ■ Vic ■ Qld ■ Rest of Australia

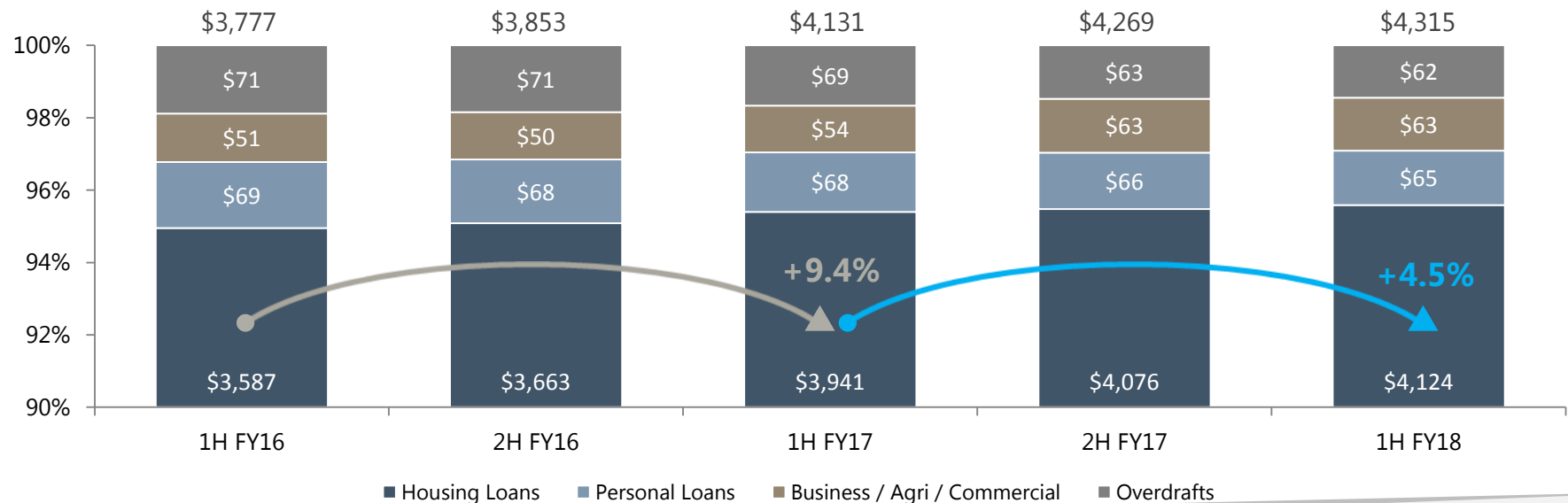
# Quality, low risk loan book

- Emphasis on maintaining quality lending growth amidst strong competition
- Loan book growth has eased; margin being maintained and enhanced focus on managing to macro prudential requirements
- Loan book growth in 2H18 is expected to be higher than 1H, with the first months already showing strong application and settlement figures

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

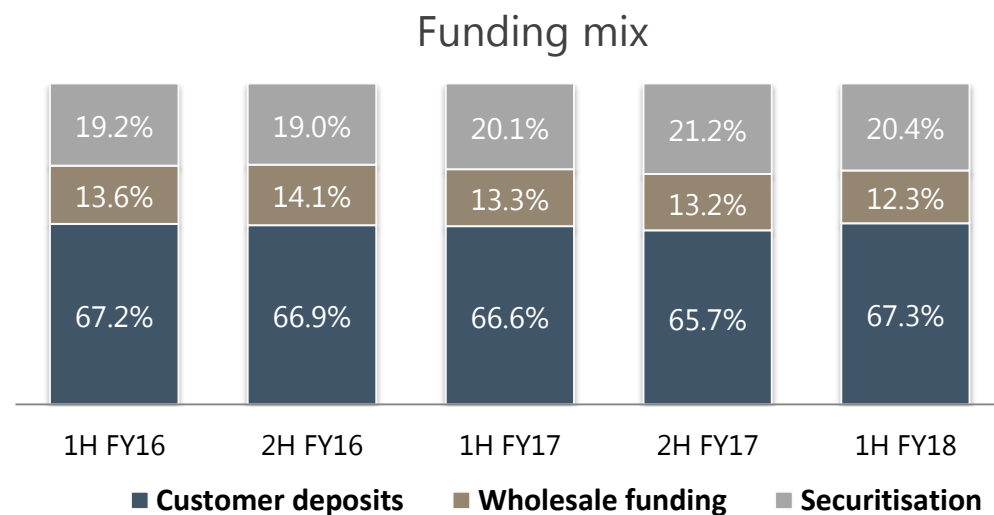
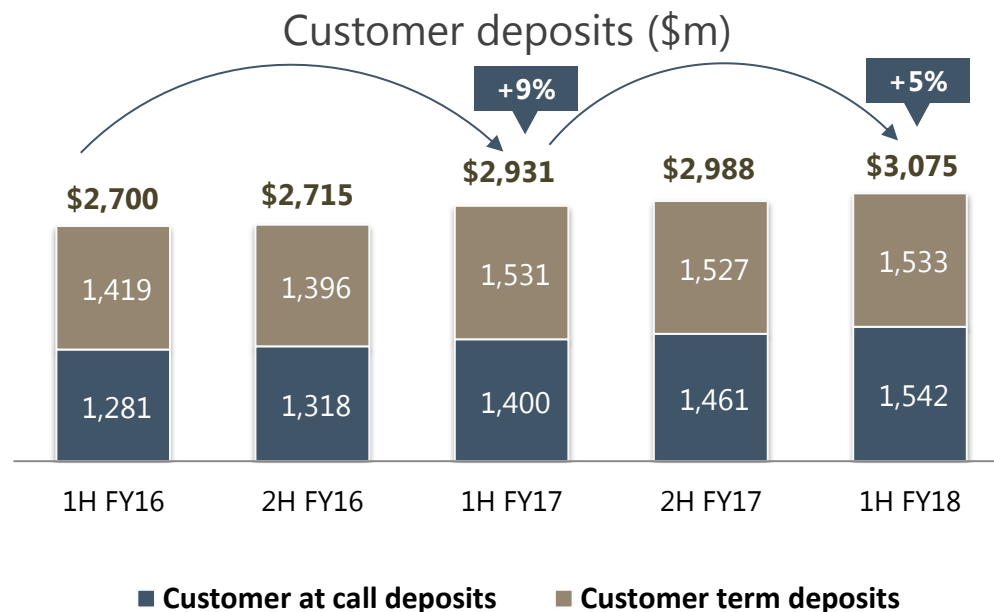


Total book – composition (\$m)



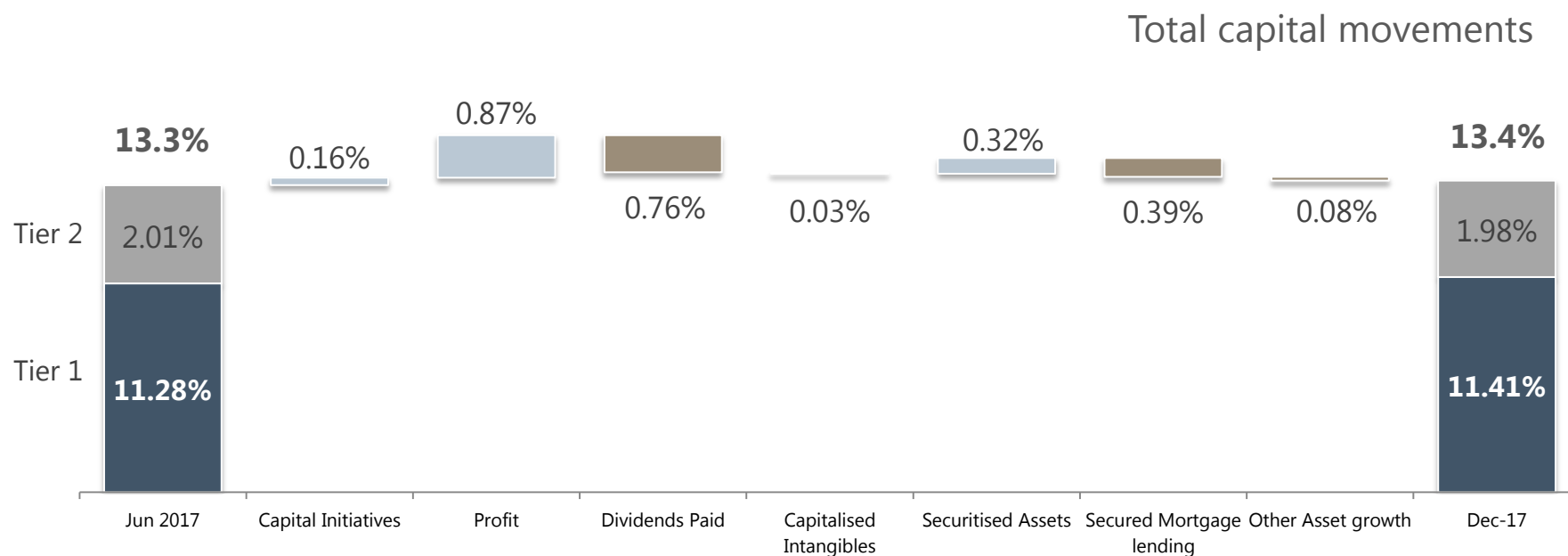
# Diverse funding sources to fund growth

- Stable funding mix underpinned by core customer deposits
- Customer deposit growth supported by online eSaver and TD product initiatives
- Programmatic RMBS issuance continues to be well supported by broad investor-base
- Moody's Baa1/P2 stable investment grade rating provides further opportunity to build on very strong and broad investor support for wholesale funding programs





# Robust capital structure

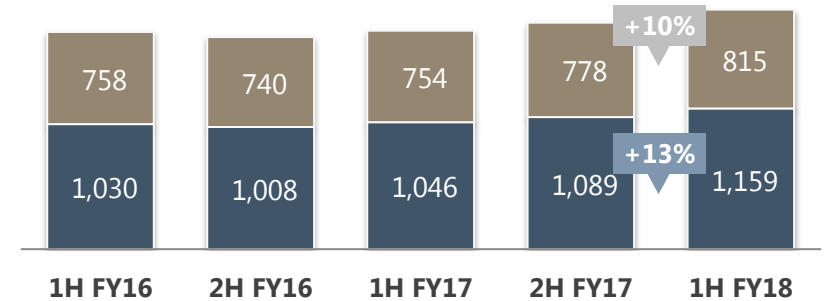


- Strong capital position supported by organic capital generation
- Continued optimisation of capital base
- Well positioned to meet regulatory changes and 'unquestionably strong' requirements

# Wealth growth adds to diversity

- Wealth revenue growth at 10.5% on pcp with solid revenue growth across all business lines
- Highest FUM growth in almost a decade
- Strong FUA growth at 13% YTD annualised
- Will writing underpinning Trustee revenue growth
- Income fund strategy and investment to support growing income needs of burgeoning retiree segment
- Investment planned to modernise this part of the business

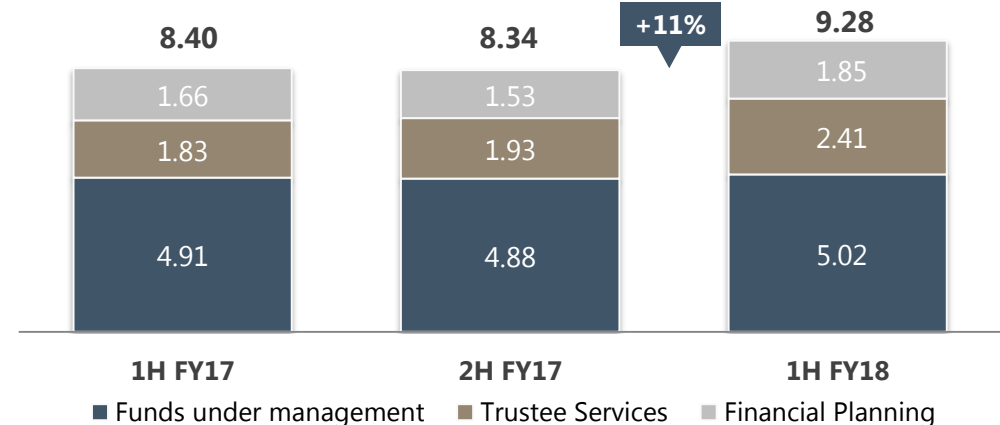
Funds under management and funds under advice (\$m)



\*annualised YTD growth

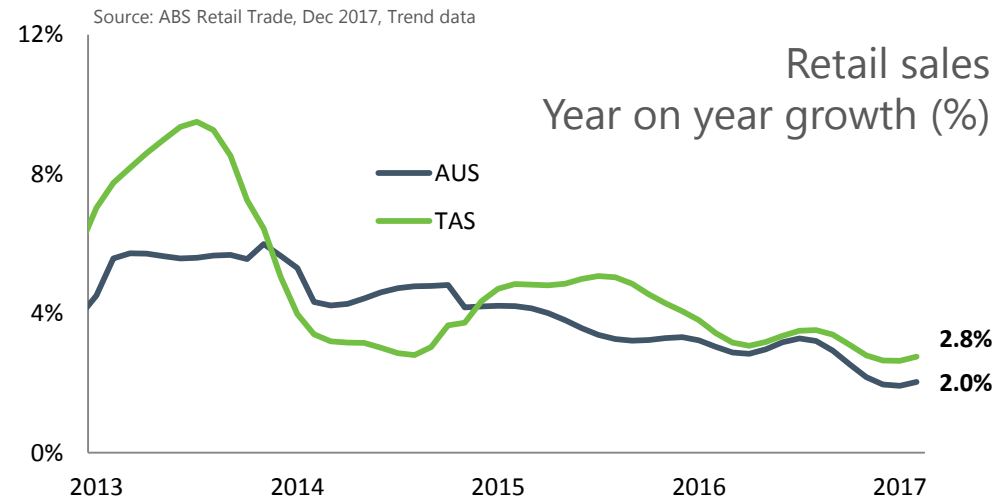
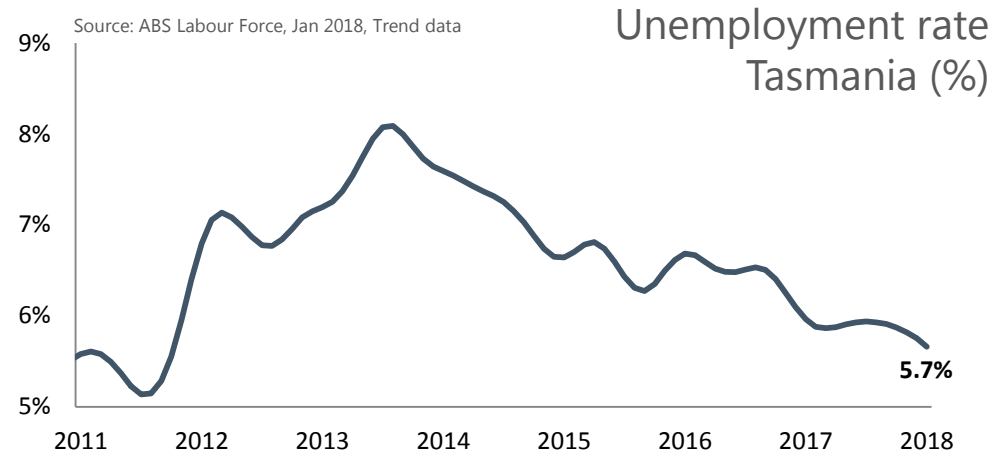
■ Funds under management ■ Funds under advice

Operating income (\$m)



# Momentum in the Tasmanian economy

- The Tasmanian economy has experienced strong economic growth and is well positioned for this to continue
- In January 2018 Tasmanian unemployment reached its lowest level since 2011 (5.7%)
- Total Tasmanian visitor numbers increased 8% in the year to September 2018, while tourism spending jumped 11% to \$2.3bn
- Hobart continues to lead the nation in housing price growth with average dwelling values increasing 12.3% in the year to December 2017
- Growth in retail sales has been a strong point for the Tasmanian economy, with year on year growth of 2.8% versus a national average of 2.0%



Economic data sourced from ABS, CoreLogic and Tourism Tasmania



# Strategy & outlook

MELOS SULICICH

Sector overview

Platform for continued growth

# Sector overview



## Industry dynamics

- System credit growth moderating
- Property price growth easing
- Lending market continues to be highly competitive



## Regulatory dynamics

- BEAR
- Royal Commission
- Productivity Commission Review
- Competitive landscape still unbalanced:
  1. Funding cost differentials
  2. Risk weighted asset and capital differentials
  3. Macprudential 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

# Platform for continued growth

## What we've achieved

### Deposit and loan book growth

- Solid **growth** but constrained due to regulatory requirements



### Costs

- Targeted **branch closures**
- Strong **cost disciplines**



### Digital transformation

- New Payments Platform
- **Online originations** for PL's, transaction accounts and TD's gaining pace



### Strong capital position

- Moody's Baa1/P2 stable **investment rating**
- Multiple **RMBS issuances**



## What we're working on

### Efficiencies

- **MyExcellence** program



### Digital origination

- **Faster customer onboarding**
- **Digital** mortgage origination



### Broadening digital

- Digital focus to **drive customer acquisition**



### Wealth

- Investment to **modernise Wealth** with a focus on systems and capability



### Deposits

- Focus on **digital acquisition**



### Marketing

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



### Simplification

- Continued focus on **efficiencies and speed**



### Growth

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



**Disciplined strategy execution is transforming MyState into a national, scalable modern banking and wealth management business**

# Glossary

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

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

LVR: Loan to valuation ratio

M&A: Merger and acquisition

MYS: MyState Ltd

MSB: MyState Bank Limited

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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