

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