

ASX Code: MYS

August 2014 Investor Presentation



Nate Austen from the Westbury Community Health Centre – a MyState Community Foundation grant recipient. The centre empowers disadvantaged youth through the craft of woodwork.



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Agenda

- 1 Overview**
Melos Sulicich,
Managing Director and
Chief Executive Officer
- 2 Financial Results
Tom Taylor,
Chief Financial Officer
- 3 Outlook
Melos Sulicich,
Managing Director and
Chief Executive Officer



MyState Student Film Festival.

This year's highlights...

A sound result providing a platform for growth

1. 3.9 % increase in NPAT. Final dividend increased by 3.6% to 14.5 cps, bringing full year dividend to 28.5 cps, up 1.8%.
2. Loan portfolio growth soft at 0.4%, but improving – especially 2nd half.
3. Further reduction in cost-to-income ratio to 64.5% due to tight cost management.
4. Successfully completed MyState Financial's core banking platform transition.
5. Increased contribution from the wealth management business.

"2014 proved to be a difficult year, with modest growth in both profit and EPS, overshadowed by an absence of revenue and portfolio growth. Momentum building from the broker channel is encouraging; however more is required"

Earnings lift
to \$29.6m
through
strong cost
and margin
management

	FY2014	FY2013	Change (%)	
Revenue (\$m)	119.3	122.3	▼	-2.5%
Net profit after tax (\$m)	29.6	28.5	▲	3.9%
Earnings per share (cps)	33.91	32.68	▲	3.8%
Final dividend – fully franked (cents)	14.5	14.0	▲	3.6%
Total dividends for the year – fully franked (cents)	28.5	28.0	▲	1.8%
Payout ratio	84%	86%	▼	-2%
Cost-to-income ratio %	64.5	65.7	▼	-120bps
Capital ratio	13.8	14.0	▼	-1.4%
Net interest margin –				
MyState Financial	2.74	2.79	▼	-5bps
The Rock	1.71	1.58	▲	+13bps
Group	2.43	2.40	▲	+3bps
Return on average equity	10.5	10.4	▲	+8bps
Credit performance –				
30 day arrears %	0.75	0.54	▼	+21bps
90 day arrears %	0.35	0.26	▼	+9bps
BDD cost / portfolio (bps)	2.8	5.4	▲	-2.6 bps

Economic improvement

Following a period of prolonged weakness, the Tasmanian economy shows promising signs of improvement:

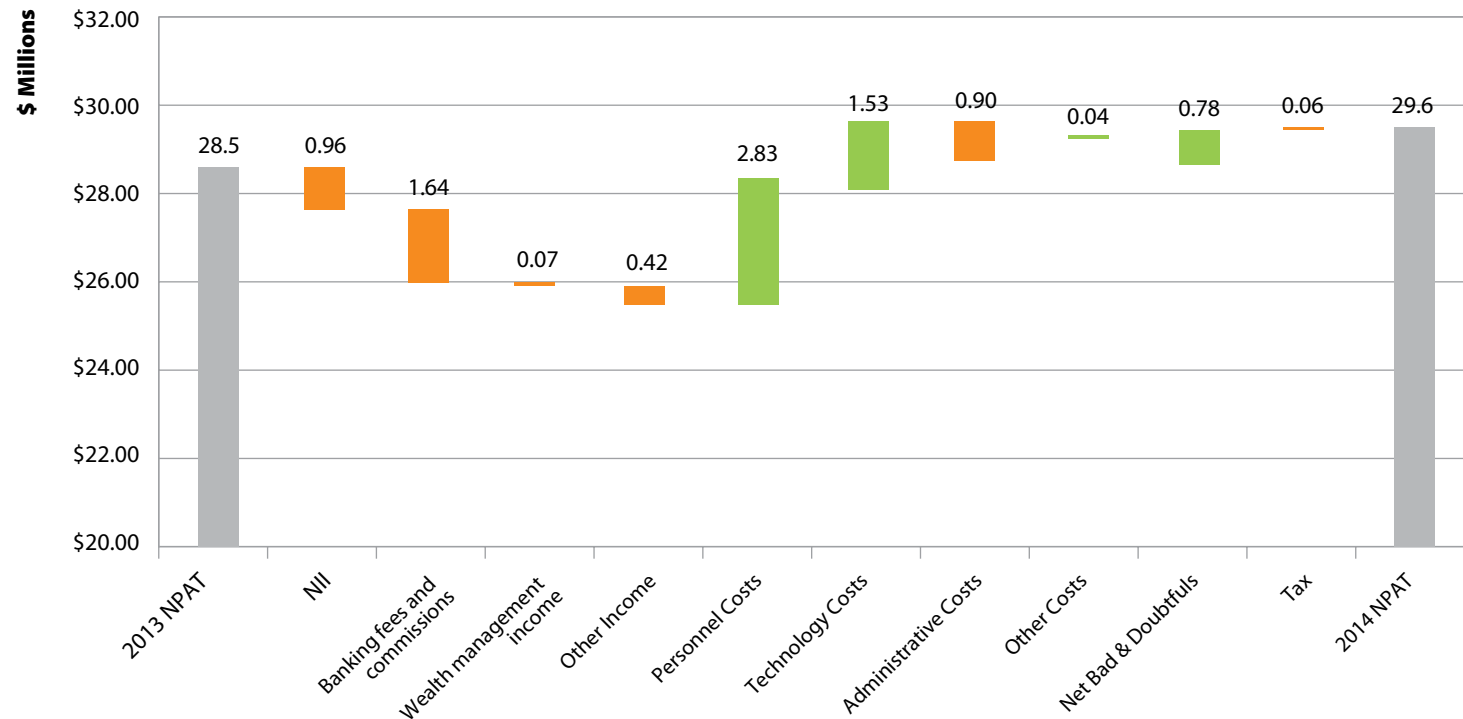
- Dwelling approvals moved higher over the 2014 year, supported by record low interest rates and state government incentives.
- Tasmanian population growth has turned the corner, but remains relatively soft, running at an annual increase of 0.3%.
- Retail trade increased 9.4% over the year; the strongest annual result of any state.
- These results, which are encouragingly positive (albeit coming off a low base) include an element of catch-up, and thus looking forward improvements are expected to moderate.

Performance of the Queensland economy was mixed during the period:

- The housing market has picked up, with turnover and dwelling approvals showing meaningful growth. House prices too have risen, although this appears to have been more restrained in Queensland than in other major States.

Increased
NPAT
generated from
strong cost
and margin
management

NPAT Generation: 2013 vs 2014

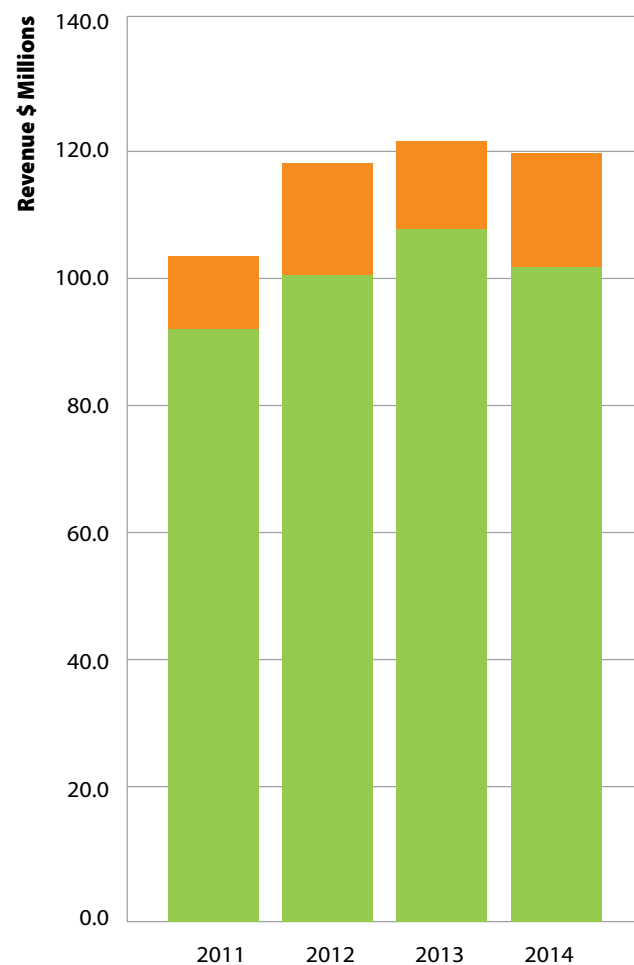


- Net interest income (NII) contracted due to lower portfolio balances until growth returned late in the year.
- Softer loan activity and greater mix of broker originated loans have also adversely impacted banking fee and commission income, with fewer cross-sale opportunities.
- Revenues from the wealth management business remain flat.
- Tight management of operating expenses has alleviated the effects of soft revenue growth.

Segment contributions

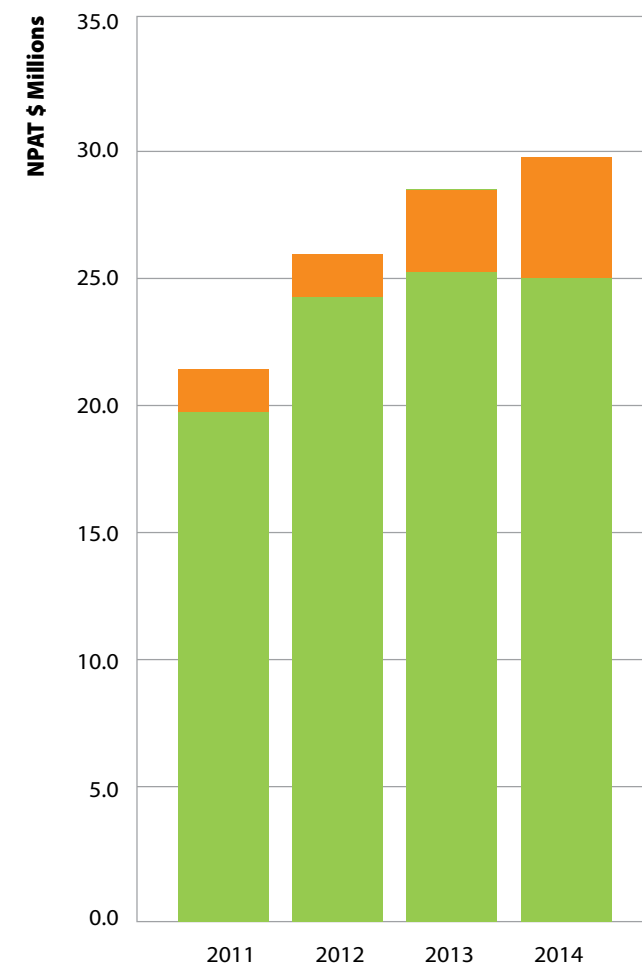
Revenue falls slightly due to lower average portfolio

Wealth Banking



Increased profit contribution from the Wealth Management business

Wealth Banking



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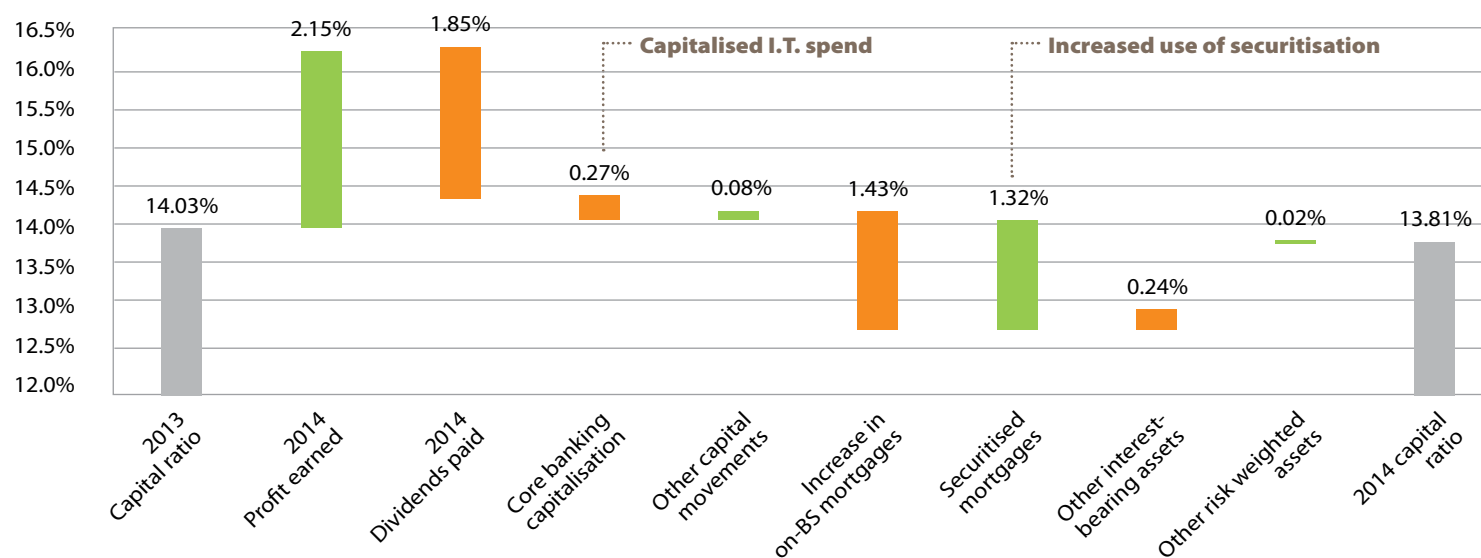


The Rock proudly supporting the CQ NRL bid.

Strong balance sheet, sound capital base, and capacity to grow

	FY2014	FY2013	Change (%)	
Total assets (\$m)	3,558.8	3,629.7	▼	(2.0)
Total liabilities (\$m)	3,270.1	3,350.0	▲	(2.4)
Net assets (\$m)	285.6	279.7	▲	2.1
Capital base	187.3	185.6	▲	0.9
Risk weighted assets (\$m)	1,356.0	1,322.6	▼	2.5
Capital ratio (%)	13.8	14.0	▼	(1.4)

2014 capital ratio change

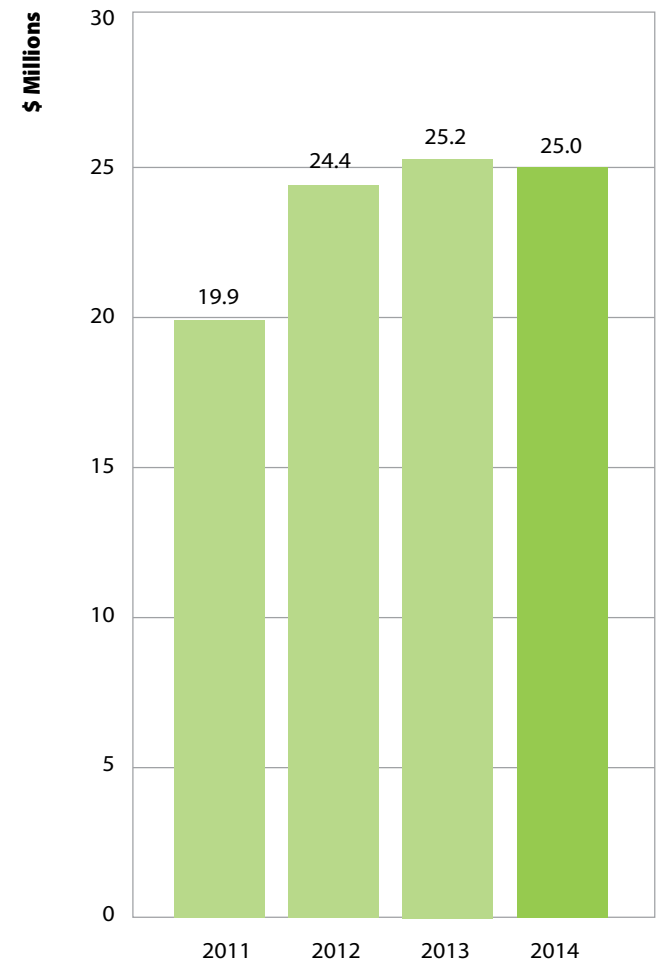


Banking business hampered by poor first half loan growth...

...benefits from the second half recovery in the portfolio will flow into FY15

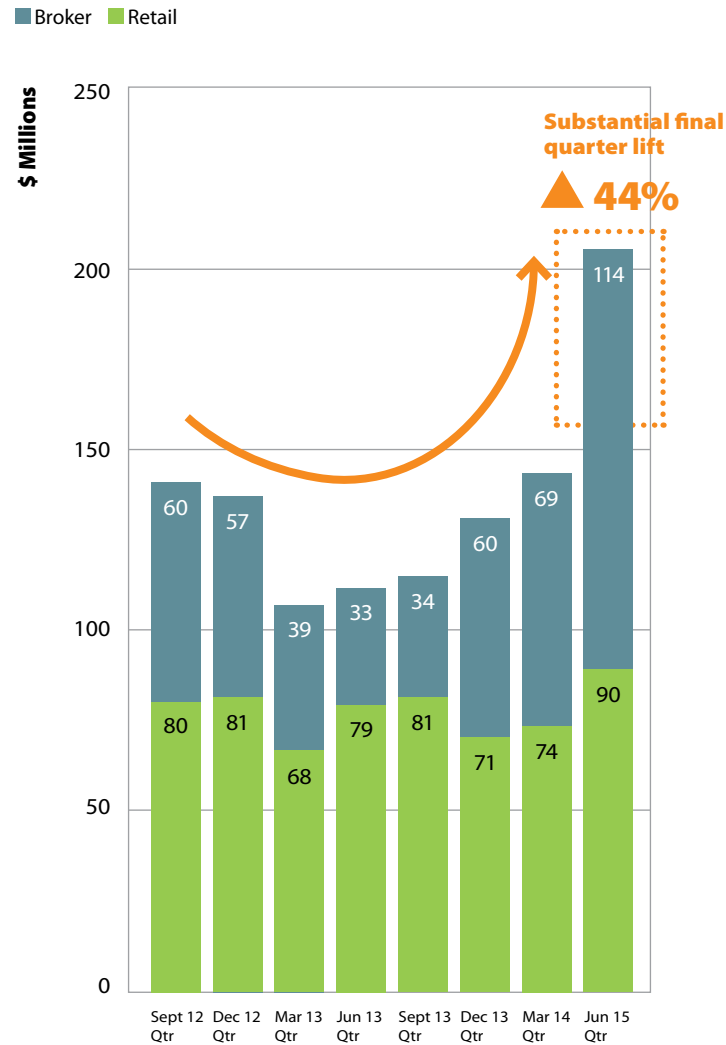
- Portfolio ground lost during the first half has impeded the second half earnings.
- Significant improvement in fourth quarter settlements has recovered the lost ground, and resulted in positive portfolio growth for the year.
- Margins holding, but remain under pressure from competition, with discounting prevalent to win new business and retain existing customers.
- Year-on-year reduction in bad and doubtful debts. Credit quality remains sound with arrears ratios well below industry benchmarks.

Banking Business NPAT

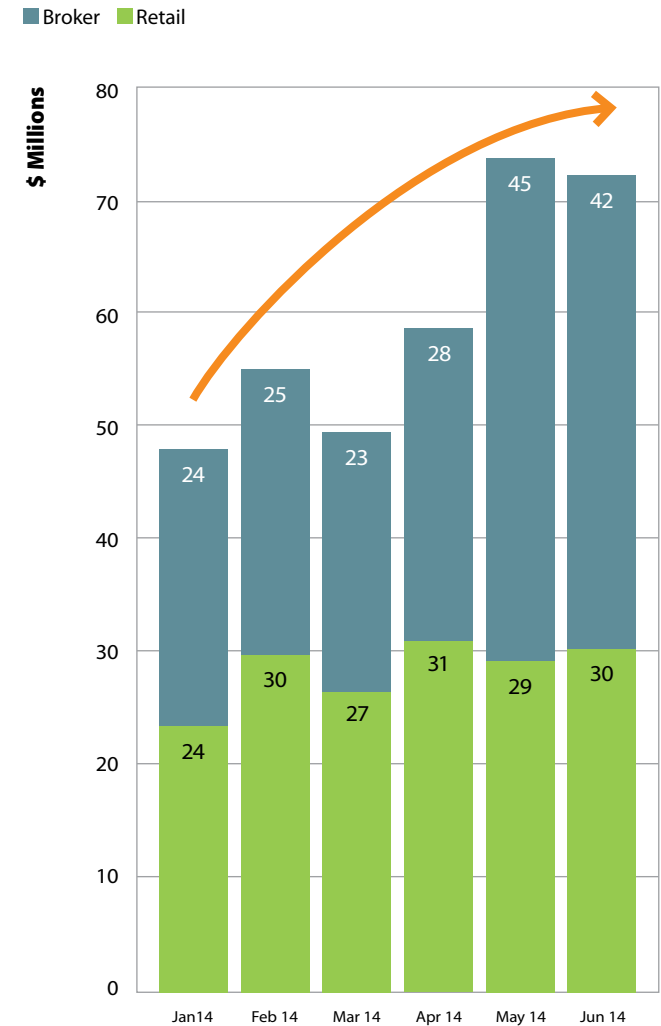


Re-engagement with broker channel driving uplift in new settlements

44% growth in fourth quarter settlements Total settlements by quarter – actual



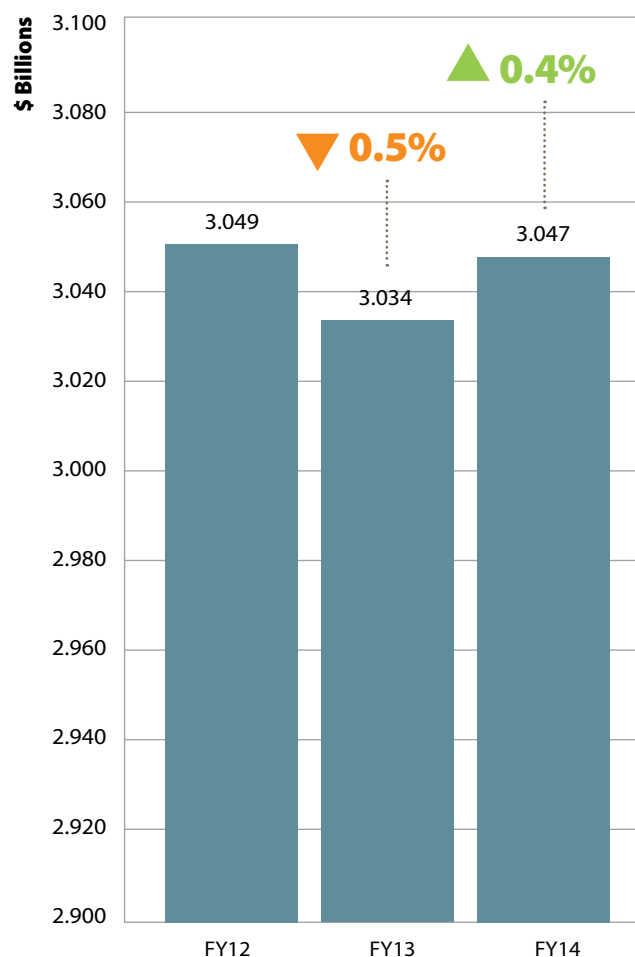
Upward trajectory in monthly settlements



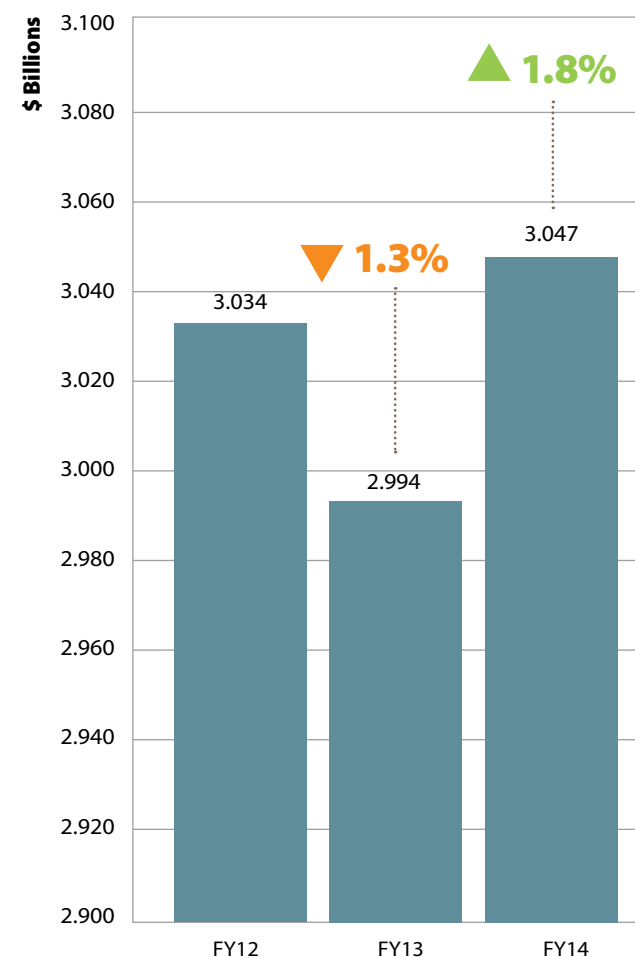
Portfolio growth remains challenging...

... although 1.8% improvement in second half is very encouraging, suggesting that turnaround is underway

Loan portfolio remains flat



Portfolio losses of first half regained in second half

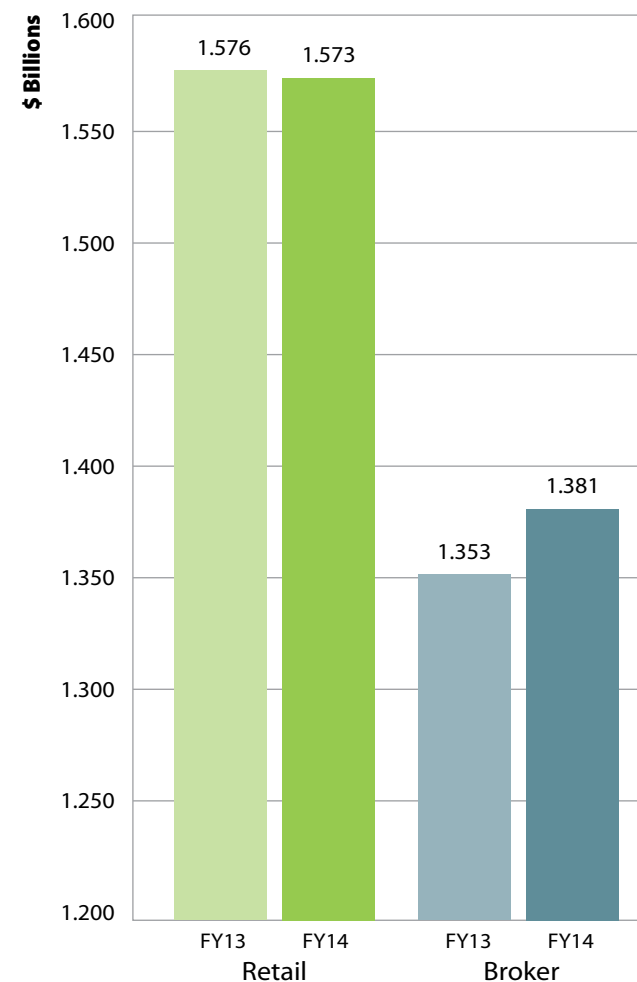


Broker channel delivers the FY14 portfolio improvement

Investment in broker channel

- BDMs deployed in both Sydney and Melbourne markets.
- Implemented NextGen front end technology.
- New loan origination platform planned for FY15 to provide speedier application response and deliver greater level of service to all channels.

Channel portfolio balances: this year vs last year

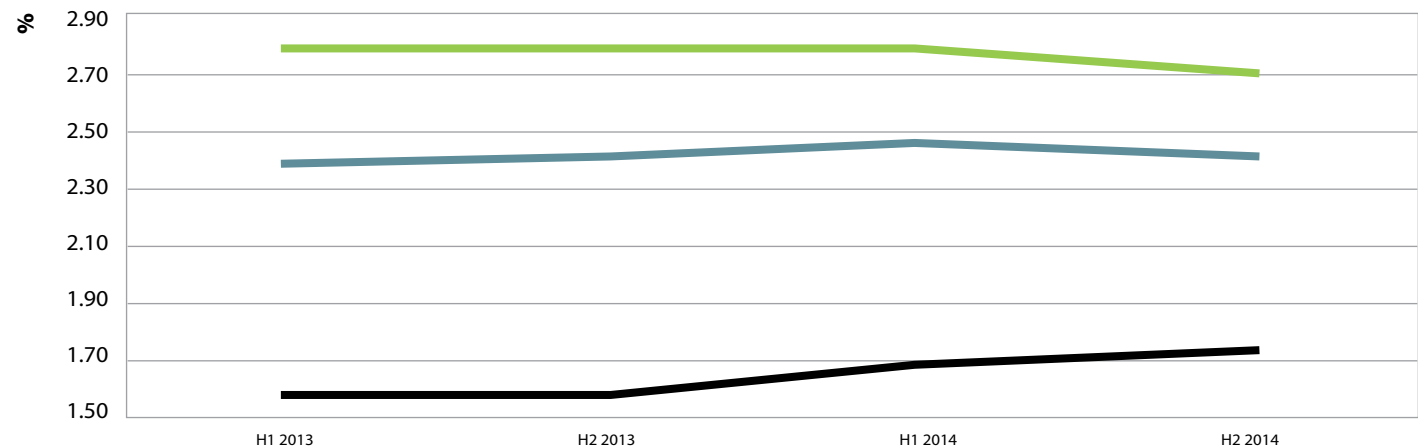


Improvements to funding costs help net interest margin, despite intense price competition in the market

- Significant improvement in funding costs at The Rock has lifted the net interest margin for the banking business, despite a RBA rate reduction in August.

Small improvement in NIM%

■ Banking Business ■ MyState Financial ■ The Rock

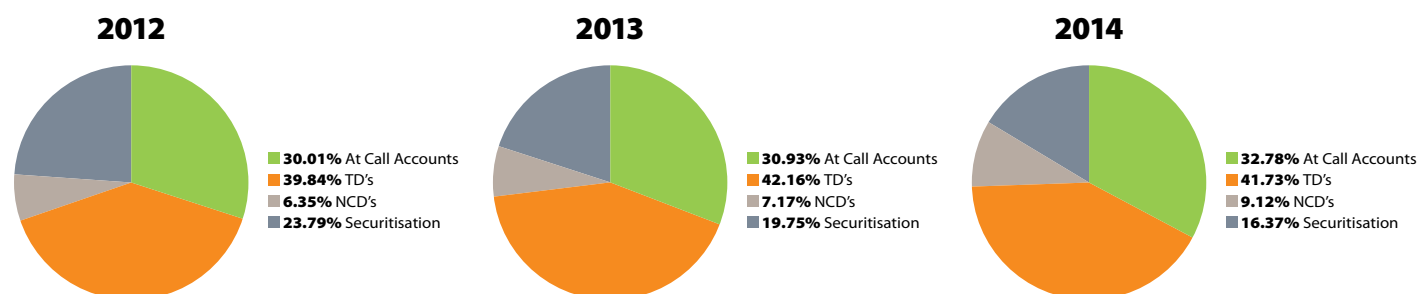


NIM%	H1 2013	H2 2013	FULL YEAR 2013	H1 2014	H2 2014	FULL YEAR 2014
MyState Financial	2.79%	2.79%	2.79%	2.78%	2.70%	2.74%
The Rock	1.58%	1.59%	1.58%	1.67%	1.74%	1.71%
Banking Business	2.39%	2.41%	2.40%	2.45%	2.42%	2.43%

Comparatives amended to exclude loan offset values to enable better industry comparison

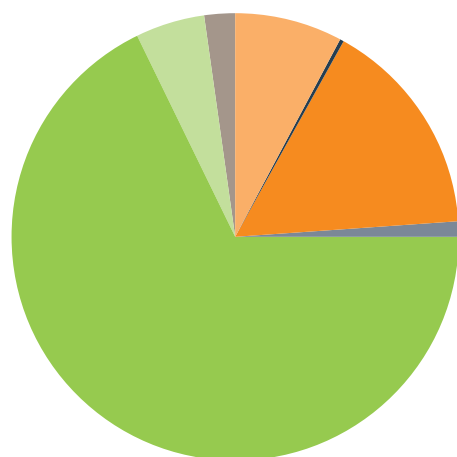
Funding costs have improved via disciplined balance sheet management

- Funding costs have been reduced through replacement of higher priced wholesale funding with cheaper funds from the RMBS issue in November 2013.
- Downward repricing in term deposits, contraction in customer offset balances, and reduction in liquidity holding costs have all contributed to the improved cost of funds.
- MyState continues to benefit from a strong and stable retail funding base.



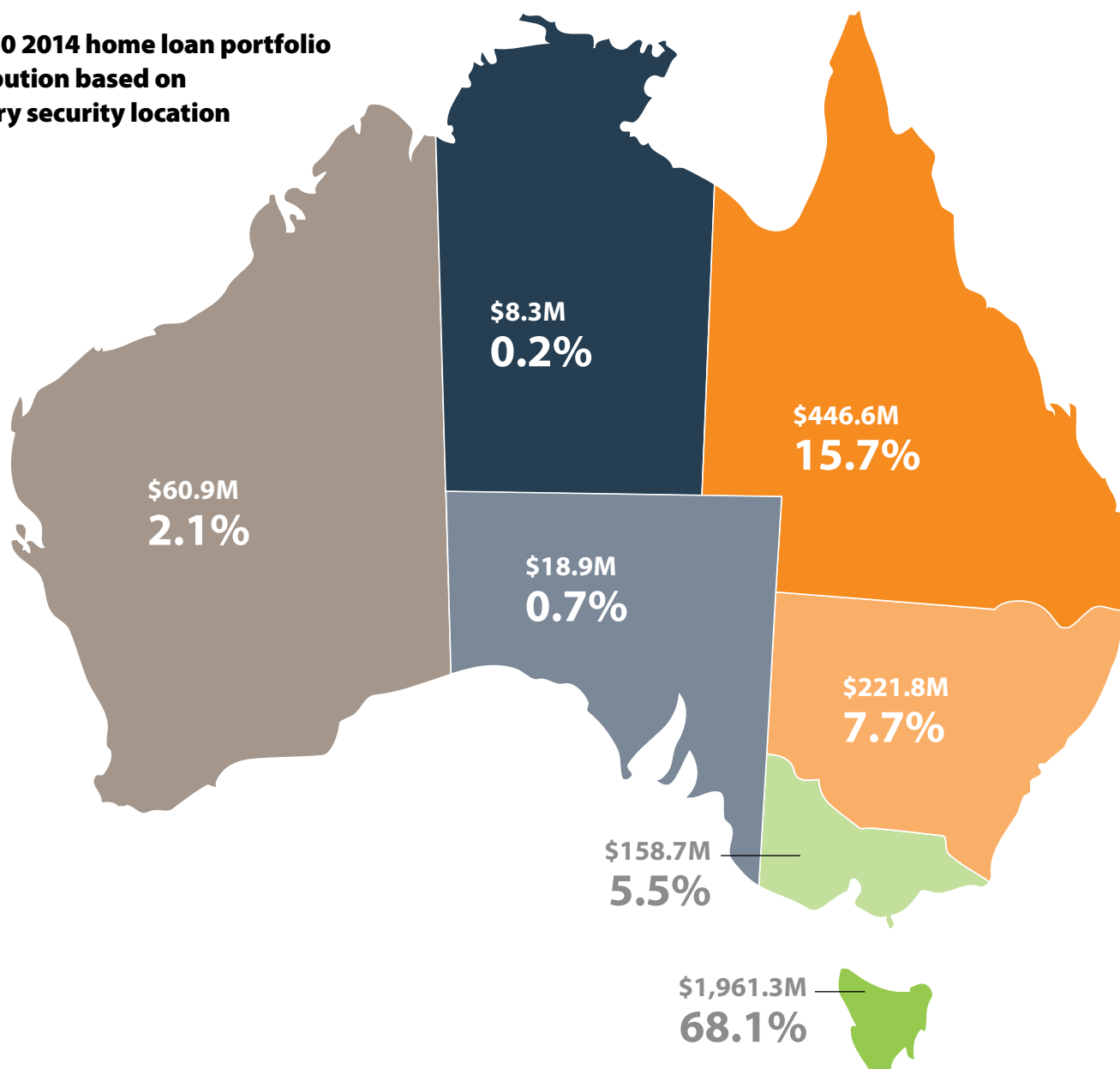
	FY12 \$B	FY13 \$B	FY14 \$B
At Call Accounts	0.993	1.017	1.054
TDs	1.319	1.386	1.342
NCDs	0.210	0.236	0.293
Securitisation	0.787	0.649	0.526

Increasing loans sourced via broker network will help portfolio diversification



7.7% NSW
0.2% NT
15.7% QLD
0.7% SA
68.1% TAS
5.5% VIC
2.1% WA

June 30 2014 home loan portfolio distribution based on primary security location

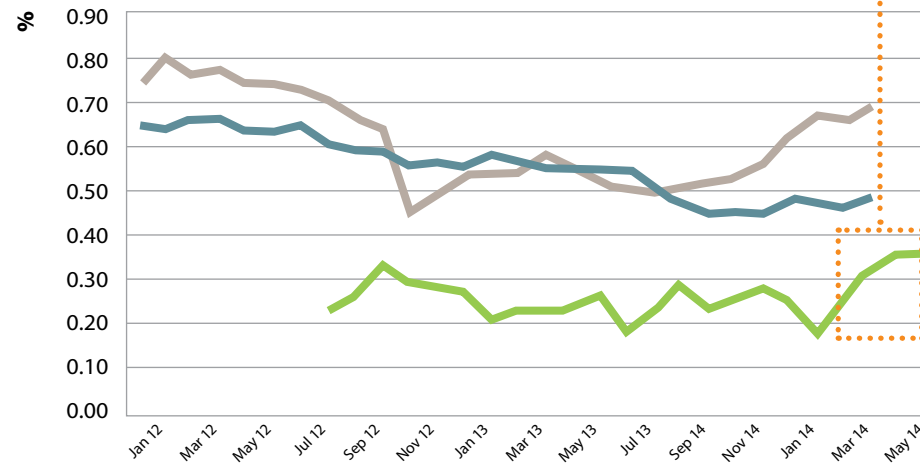


Arrears
bottomed out
in 2013...

... although
still below
majors and
well below
regional banks

90+ day arrears

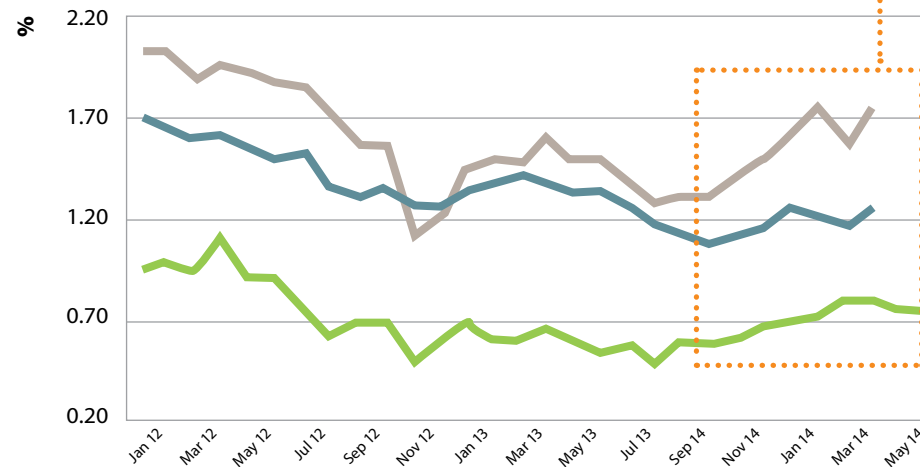
■ S & P SPIN – Prime ■ S & P SPIN – Regional Banks ■ MyState Group



Number of 90+ day loans has increased from average 44 in H1 to 67 in H2. Remains very small percentage of 25,000 total loans, and well below peers.

30+ day arrears

■ S & P SPIN – Prime ■ S & P SPIN – Regional Banks ■ MyState Group



Lift is in line with regional banks' trend, although MyState still remains at half the level of the regional ADIs.

Bad debts
expense
reflects
conservative
credit risk and
methodical
collections
management

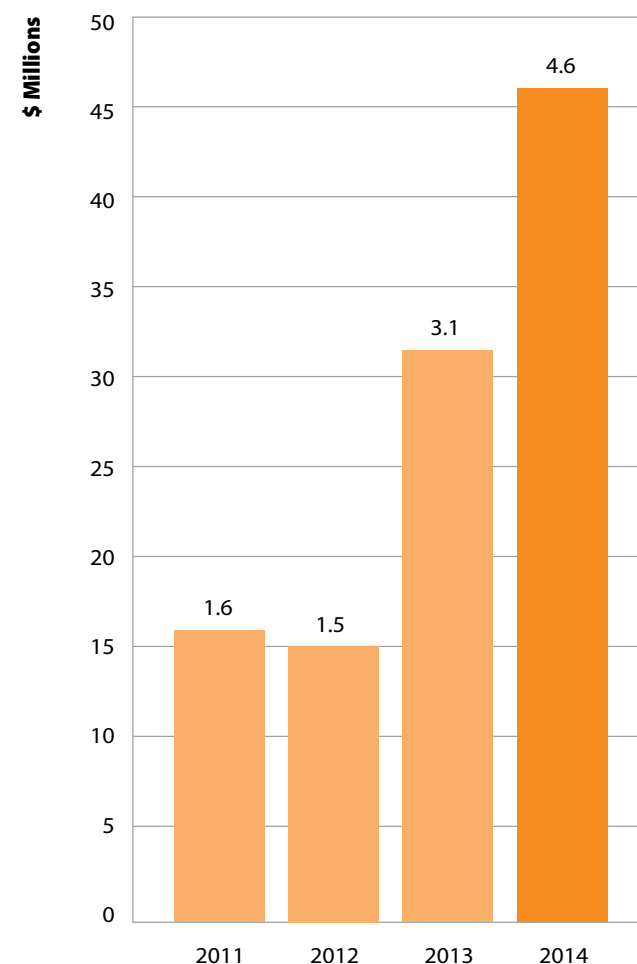
- Lower write-offs are the product of 3 years' of focus on risk.
- 2014 write-offs are at historical lows.

	2012	2013	2014
Bad debts written off (\$M)	4.834	4.079	2.206
Less bad debts recovered	(1.143)	(1.537)	(1.609)
Less increase (decrease) in provisioning	(1.407)	(0.914)	0.255
Net charge to P&L	2.284	1.628	0.852
BDD Bps cost	7.5	5.4	2.8

Wealth management provides increased contribution through cost reductions and back-office integration

- Solid full year NPAT of \$4.6M up \$1.5M / 46.4 % on previous year.
- Wealth management revenue remains flat overall, with increased management fees from FUM negated by a decline in estate planning revenues.
- FUM growth of 5.8% to \$1.007b the healthiest improvement since 2004 – FUM greater than \$1b for the first time since 2010.
- Sound 4.4% growth in FUA to \$0.766b.

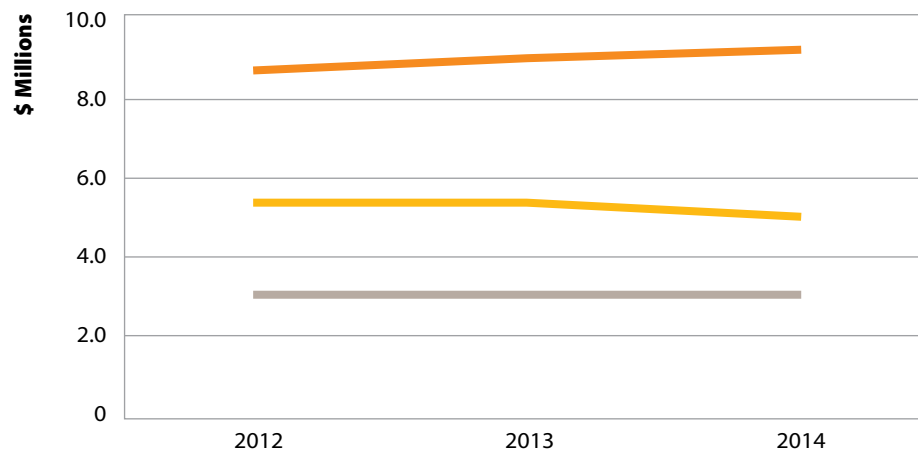
Wealth Management NPAT



Wealth management revenues remain flat overall

Wealth management revenues

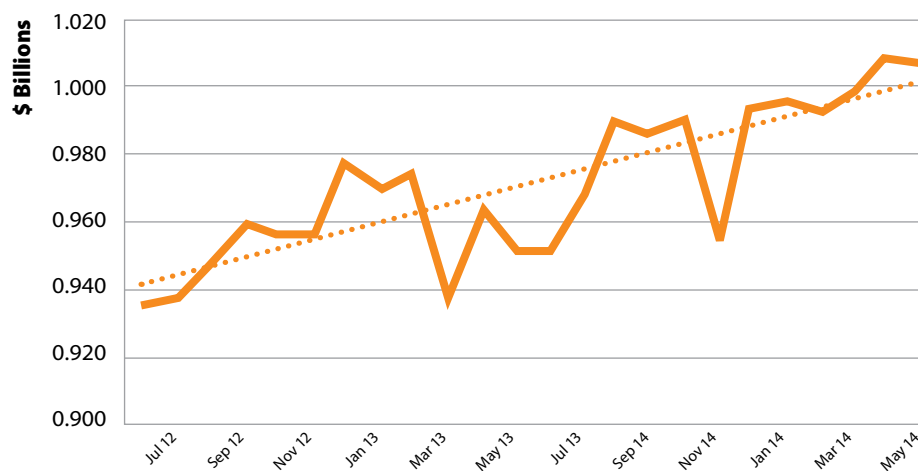
Funds management income Trustee services income Financial planning income



- Revenue growth continues to be challenging. Opportunity for increased penetration of existing customer base remains.

Sound growth in FUM continues

Funds under management (\$Billions)

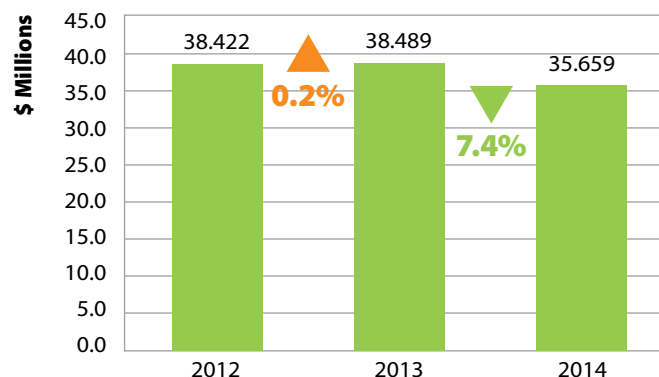


- Current product development and rationalisation activities aim to improve the attractiveness of the funds.

Tight cost control in 2014 mitigated the effects of the slow growth environment...

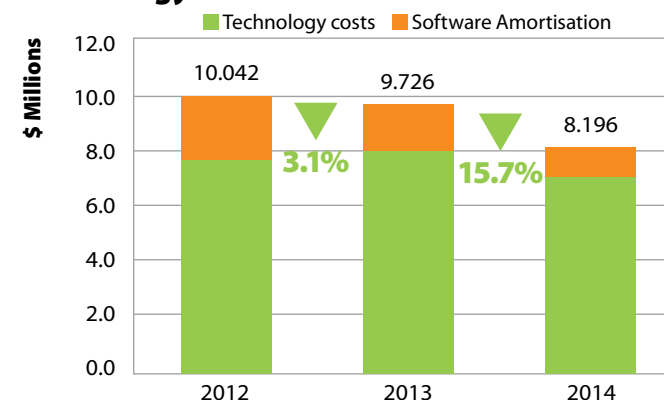
...4.3% cost deflation achieved.

Personnel costs



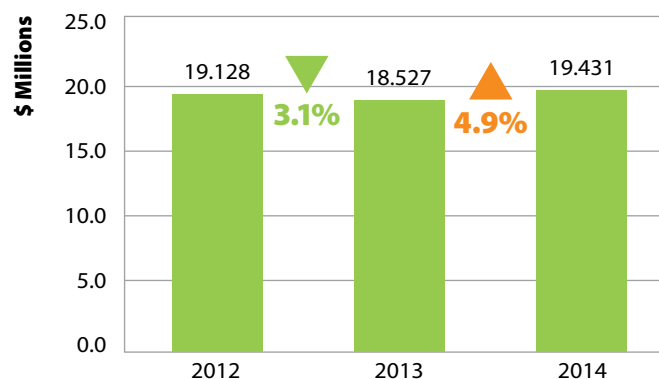
- Right-sizing the business delivered a 7.4% cost reduction in 2014, in spite of a 4% EBA rise.

Technology costs



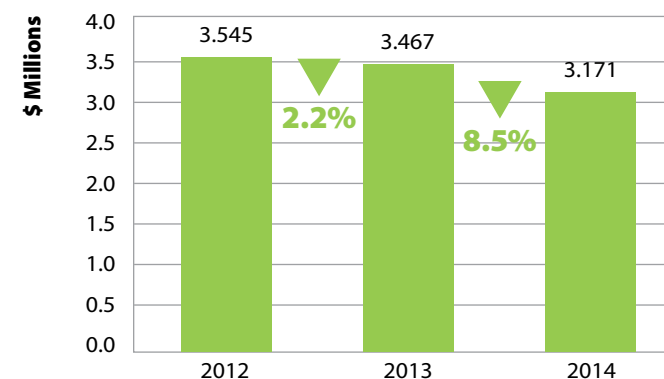
- Savings in software maintenance, hardware and network costs; 7 months core banking system amortisation.

Admin costs



- Increase relates to new securitisation and additional customer communications from system and fee changes.

Marketing costs



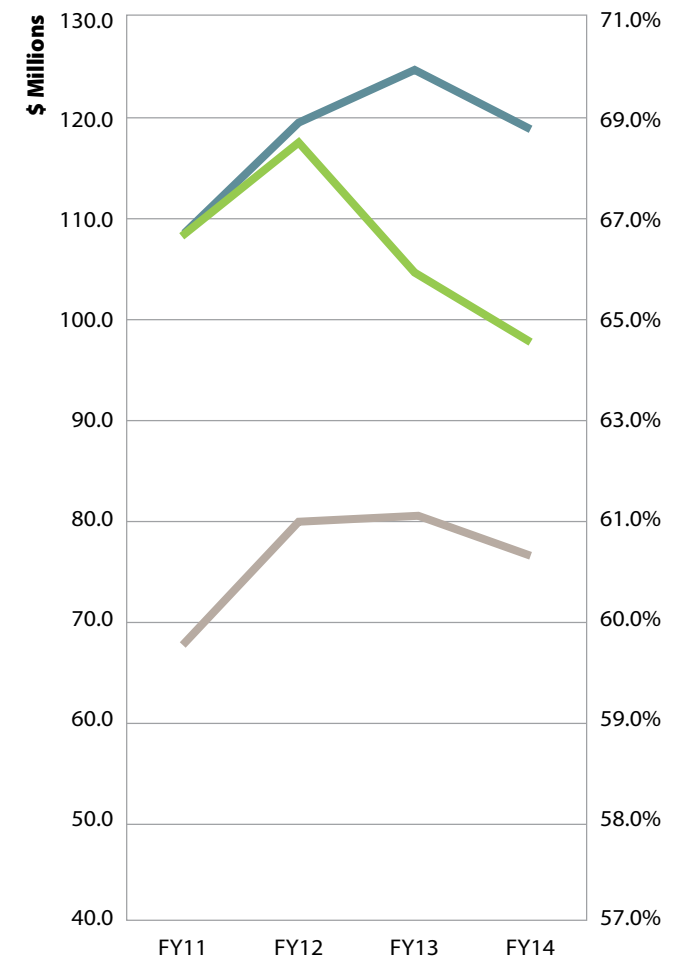
- Marketing costs reduced by limiting support to targeted sales activities.

Cost-to-income ratio benefits from reductions in cost base

- Cost-to-income ratio improved to 64.5% in 2014 (2013: 65.7%).
- Ratio improvement driven by \$3.5m / 4.3% reduction in operating costs.
- Cost base has been reduced in past 5 consecutive half years.
- Improvement in the cost-to-income ratio to come from revenue growth in future.

Cost to income ratio

■ Costs (LHS) ■ Income (LHS) ■ Cost to income % (RHS)



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MyState Australian Wooden Boat Festival.

Summary

1. A sound financial result

- Increased NPAT + dividend
 - Return on average equity +8 basis points
-

2. Tight cost control

- Cost-to-income continues to fall to 64.5%
 - Future improvements through revenue growth
-

3. Firmer platform

- Core banking system implemented in MyState Financial
 - Bank license likely 1H 15
 - Improvement evident in Wealth business
-

4. Fit for growth

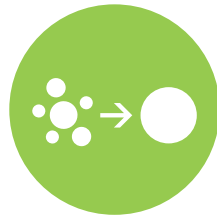
- New organisation structure provides focus on sales + process improvement
 - A new loan origination system to improve service + efficiency
-

Key immediate focus areas



Grow

- core business through sales and channel management
- be prepared to participate in industry rationalisation



Simplify

processes by investing in technology and process improvement



Strength

in cost control, balance sheet, and credit risk management



Relationships

enhancing staff, customer and community engagement

Outlook

Low growth environment to continue.

Need to continue to get better at what we do.

1. New organisational structure to provide improved sales management with most growth to come from the broker channel.
2. Recovery in Tasmanian economic fundamentals provides a strong platform for continued improvement in the direct channel.
3. Investment in new loan originations system to provide a platform for greater service and processing efficiency.
4. Fierce competition resulting in margin pressure and need to be nimble.
5. Focus on above system growth supported by disciplined cost and process management.