



16 October 2014 MyState Limited Annual General Meeting

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Managing Director's Address Melos Sulicich



FY2014 results

A sound result providing a platform for growth

	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 (cents)	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%
Cost-to-income ratio (%)	64.5	65.7	▼	-120bps
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

- FY2014 a difficult year.
- Modest growth in profit and EPS overshadowed by an absence of revenue and portfolio growth.
- Momentum building in broker channel; however more is required.

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 (\$m)	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)

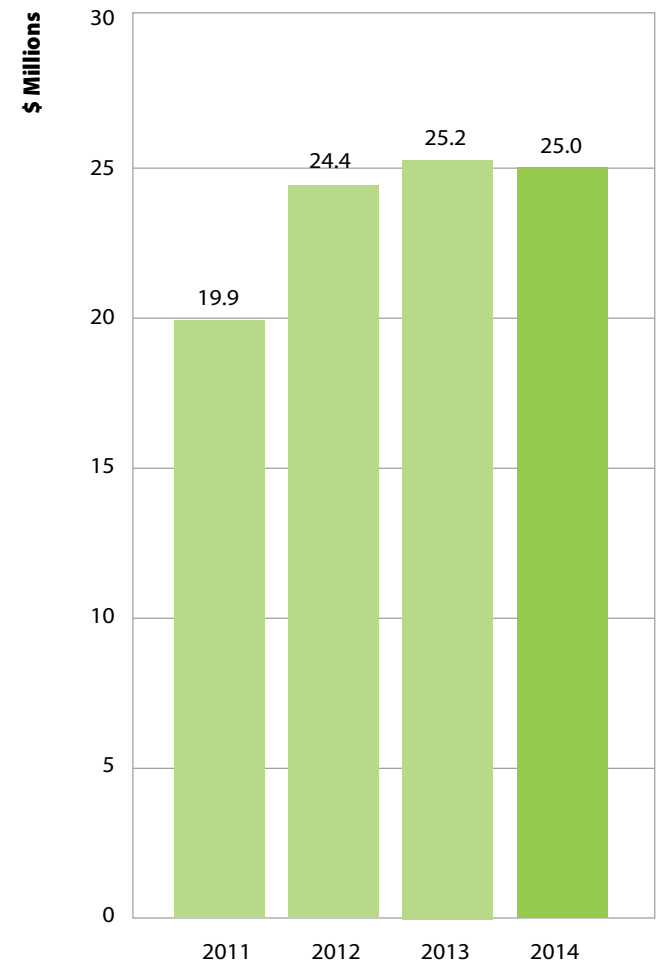
- High level of capital adequacy.
- Tier 1 capital 13.5%, well above regulatory requirements.
- Well placed to meet capital and liquidity requirements under Basell 111 accords.
- Strong risk management procedures.

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

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

- Profit constrained by 1.3% contraction of loan portfolio during the first half.
- Significant improvement in fourth quarter settlements recovered the lost ground, and resulted in positive portfolio growth for the year.
- Margins slightly higher despite competitive environment due to improvement in The Rock's net interest margin as a result of securitisation program.

Banking Business NPAT

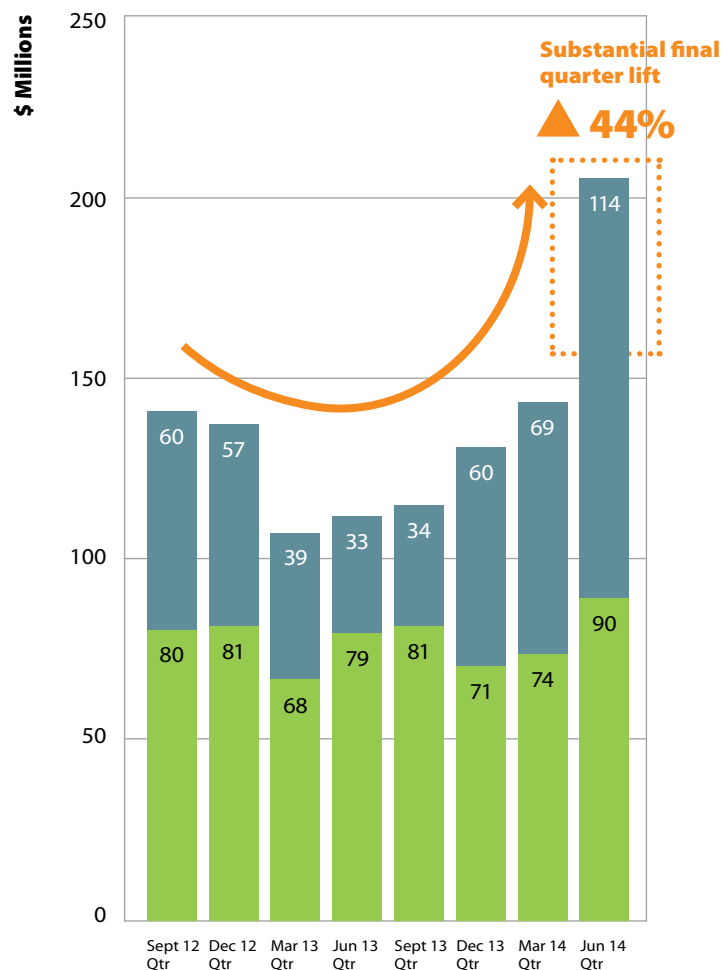


Re-engagement with broker channel driving uplift in new settlements

44% growth in fourth quarter settlements

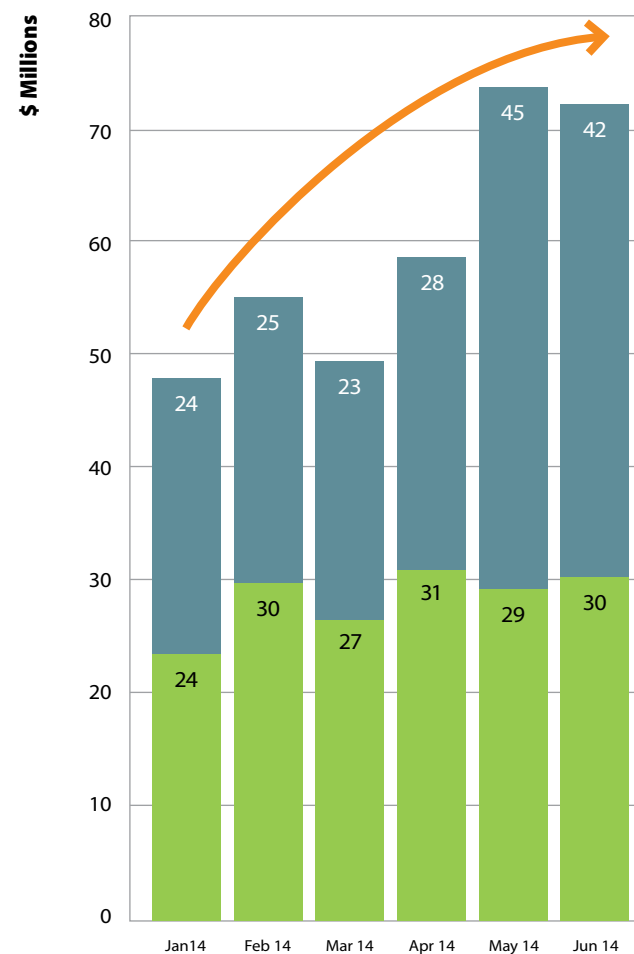
Total settlements by quarter – actual

■ Broker ■ Retail



Upward trajectory in monthly settlements

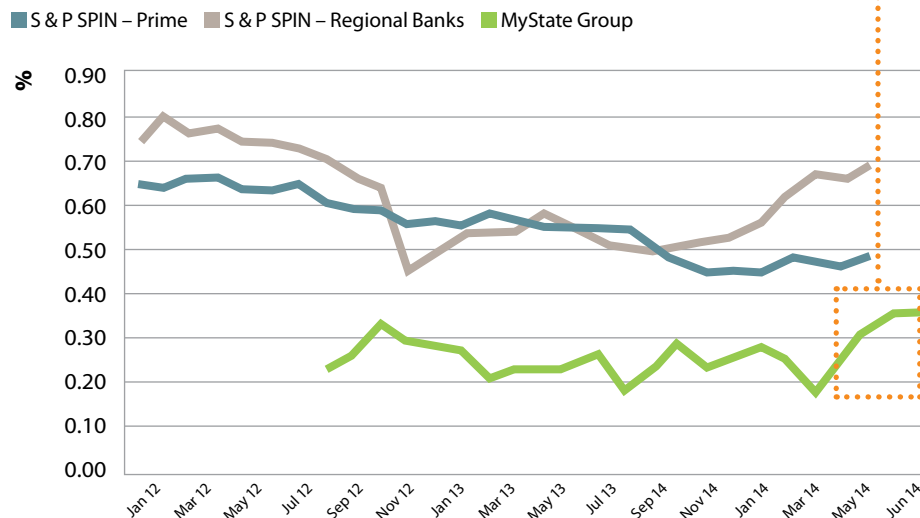
■ Broker ■ Retail



Arrears bottomed out in 2013...

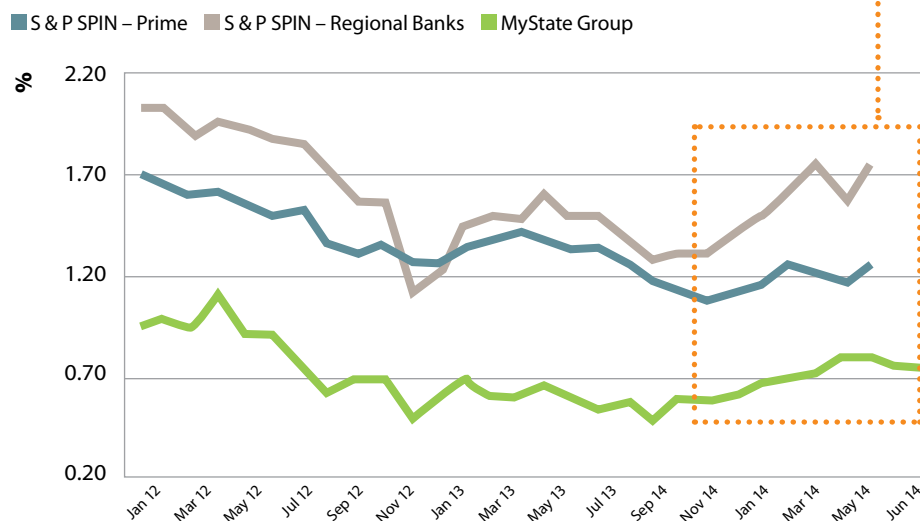
... although still below majors and well below regional banks

90+ day arrears



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

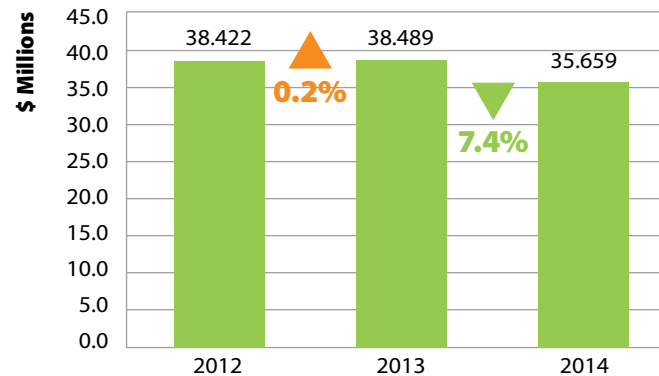


Lift is in line with regional banks' trend, although MyState still remains at half the level of the regional ADIs.

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

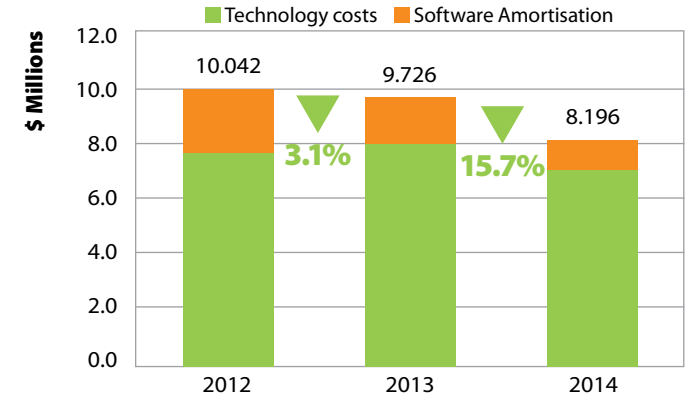
...4.3% cost deflation achieved

Personnel costs



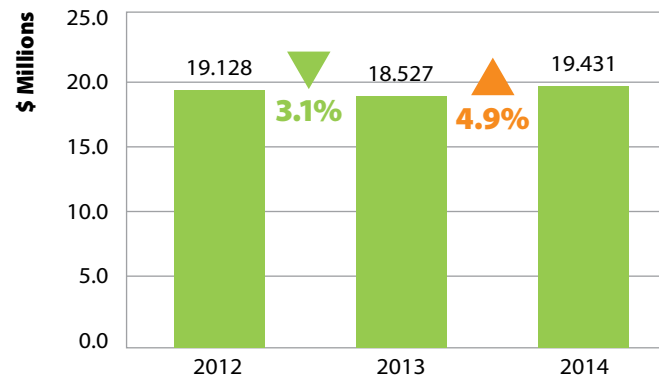
- Right-sizing the business delivered a 7.4% cost reduction in 2014, in spite of a 4% EBA rise.

Technology costs



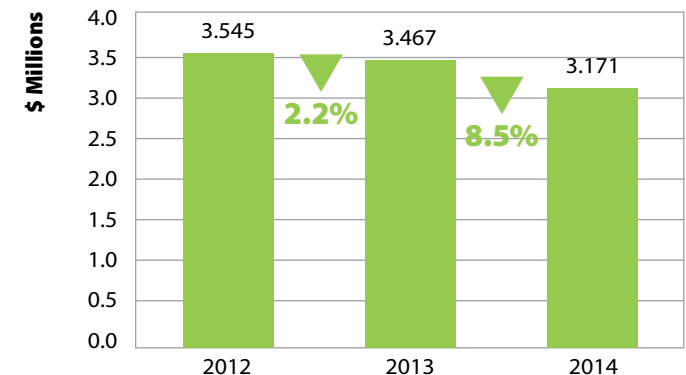
- Savings in software maintenance, hardware and network costs; 7 months core banking system amortisation.

Admin costs



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

Marketing costs

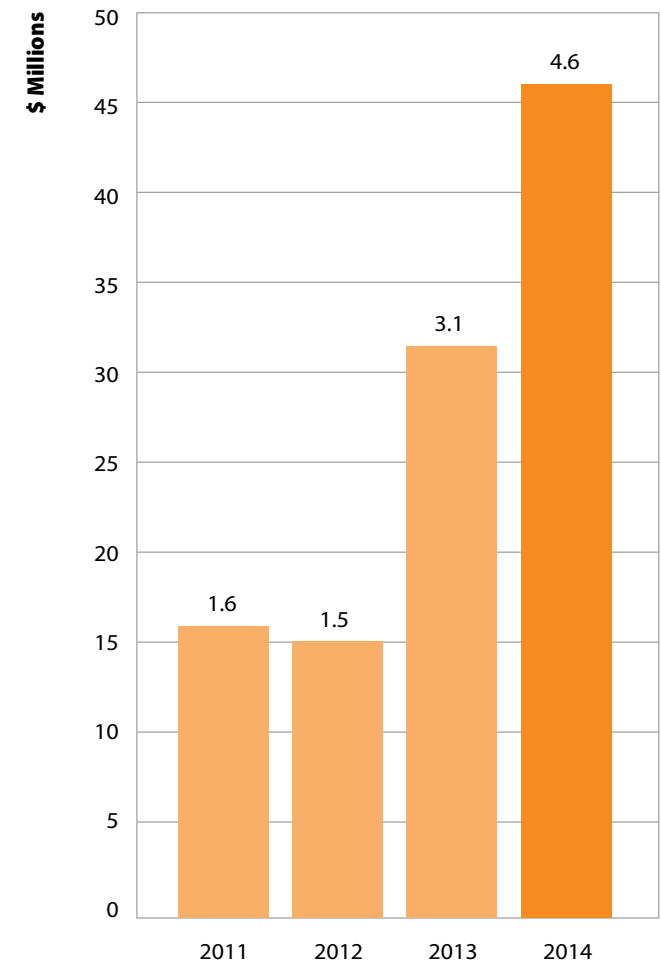


- Marketing costs reduced by limiting support to targeted sales activities.

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

- Revenue flat due to lower income from estate planning and commission.
- 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.
- MyState Wealth Management platform FUM up 29%.

Wealth Management NPAT





Summary

1. A sound financial result

- Increased NPAT + dividend
 - Return on average equity +8 basis points
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2. Tight cost control

- Cost-to-income continues to fall to 64.5%
 - Future improvements through revenue growth
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3. Firmer platform

- Core banking system implemented in MyState Financial
 - MyState Financial acquires banking licence
 - Improvement evident in Wealth business
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4. Fit for growth

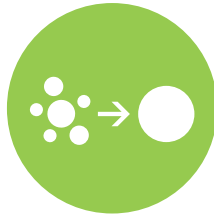
- New organisation structure provides focus on sales + process improvement
 - A new loan origination system to improve service + efficiency
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Key immediate focus areas



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



Transform

through continuous improvement and innovation

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.