

Full year underlying NPAT up 4.5% to \$31.1 million

- **Final dividend 14.5 cps fully franked**
- **Above System loan book growth underpins strong income growth**
- **Underlying Cost-to-income ratio improves to 63.2%**

Hobart, Monday, 22 August 2016: MyState Limited, the banking, trustee and wealth management group, today announced that underlying after-tax profit increased 4.5% to \$31.1 million for the year to 30 June 2016, up from \$29.7 million in FY15. The underlying result excludes one-off costs of \$2.8 million in FY2016 associated with a decision to consolidate separate core banking systems and M&A related expenditure. The prior year included one off adjustments of positive net \$2.8 million, comprising an after-tax contribution of \$3.9 million from the sale of Cuscal shares and one-off restructuring costs of \$1.1 million.

On an underlying basis, earnings per share rose 4.4% to 35.5 cents from 34.0 cents.

Directors have declared an unchanged final dividend of 14.5 cents per share, fully franked, payable on 3 October 2016 to shareholders on the register at the record date of 2 September 2016. Dividends for the full year were 28.5 cents, consistent with the prior year. The Board has suspended the Dividend Reinvestment Plan for this dividend.

MyState Limited's Managing Director and Chief Executive Officer, Melos Sulicich said: "This solid underlying result demonstrates the progress we have made with building a platform that will facilitate continued profitable growth. Our focus on building our loan book, combined with effective margin management, has led to the increased revenue and improved profit.

"MyState's loan book grew by 8.7% to \$3.9 billion, more than 1.4 times national system growth*.

Results summary for year	FY2016	FY2015	Change
Group revenue (underlying) (\$m)	\$123.4	\$119.5	3.3%
Group revenue (statutory) (\$m)	\$123.4	\$125.1	(1.4%)
Net interest income (\$m)	\$88.9	\$83.4	6.6%
Net profit after tax (underlying) (\$m)	\$31.1	\$29.7	4.5%
Net profit after tax (statutory) (\$m)	\$28.3	\$32.5	(12.9%)
Earnings per share (underlying) (cents)	35.5	34.0	4.4%
Earnings per share (statutory) (cents)	32.4	37.3	(13.0%)
Final dividend per share – fully franked (cents)	14.5	14.5	-
Full year dividends – fully franked (cents)	28.5	28.5	-

*represents the growth rate of total Australian system credit.

	30 June 2016	30 June 2015	Change %
Total assets \$m	4,415.9	4,080.0	8.2
Net assets \$m	299.6	293.1	2.2
Funds under management \$m	1,008	1,017	(0.9)

Mr Sulicich said: "During the year MyState continued to improve services to mortgage brokers by introducing a new automated loan origination system, replicating the high service standards of our retail business. Our strategy of simplifying services and products and supporting them with more efficient technology is transforming our business and ensuring that we are easy to do business with.

"Growing sales through these channels has increased the geographic diversification of MyState's home loan book and with strong growth in New South Wales and Victoria, nearly a quarter of MyState's loan book is provided to customers in these States.

"MyState has invested in strengthening its management team and our initiatives to build a performance culture are gaining traction.

"Importantly, we have begun the task of modernising our systems, including:

- The consolidation of core systems and data centre;
- New internet and mobile banking platforms and applications;
- New payment system innovations, including Android Pay;
- Replacing our contact centre systems;
- Investment in new customer relationship management technology; and
- Investment in a new data warehouse technology to better serve our customers.

"We will launch our new mobile and internet banking system in the coming weeks, which is an important milestone in our business transformation program.

"Wealth management provided a stable contribution in a low interest rate environment, and MyState maintained a sound position in funds management, financial planning and estate planning and administration. This division represents a further growth opportunity with the appointment of a General Manager Wealth and Senior Management team.

"Underlying return on equity was strong by industry standards, increasing 22 basis points to 10.6%, and the underlying cost-to-income ratio improved 112 basis points to 63.2%. Underlying revenue grew by 3.3%, compared with a 1.5% increase in underlying operating costs, allowing increased investment in talent, new technology and marketing programs.

"During the year MyState explored a number of additional M&A opportunities in line with the ongoing ambition to grow through industry consolidation."

Banking

Underlying NPAT for year	FY2016 (\$ million)	FY2015 (\$ million)	Change %
Total Banking Business	27.0	25.5	6.1

MyState operates its banking business through the MyState Bank and The Rock branches and offers home loans nationally through mortgage brokers and aggregators.

The underlying net profit of the banking business increased by 6.1% to \$27.0 million from \$25.5 million. Operations benefited from loan book growth, repricing of the loan book in the second half, and disciplined margin management. The Group reported settlements of \$929 million compared to \$1 billion in the prior year, reflecting a moderate second half as the Group aligned and standardised its processes and focussed on margin management.

The low interest rate environment and high levels of competition for owner-occupied lending and deposits continued to drive margin compression. Although net interest margin declined from 2.28% to 2.13% during the year, this NIM outcome remained higher than peers.

The Group maintained prudent lending practices and high credit quality while increasing the home loan book from \$3.3 billion to \$3.7 billion during the year. Approximately 86% of MyState's home loan book at 30 June 2016 was to owner-occupied borrowers and more than two-thirds represent a loan-to-valuation (LVR) of less than 80%. Credit quality remained robust with 30-day arrears of 0.70%, substantially less than regional peers and below the major banks.

During the year, the Group's banking operations were consolidated under a single ADI licence, and The Rock now operates as a trading division of MyState Bank. This restructure has simplified balance sheet management, helping to reduce risk and improve back-office efficiency. Separately, ratings agency S&P Global (formerly Standard and Poor's) affirmed MyState Bank's BBB rating, improving its outlook from stable to positive.

Wealth Management

Underlying NPAT for year	FY2016 (\$ million)	FY2015 (\$ million)	Change %
Tasmanian Perpetual Trustees	\$4.0	\$4.2	(3.5)

Tasmanian Perpetual Trustees (TPT), which provides wealth management and trustee services, reported a slight decrease in revenue for FY2016. Following a soft second half, funds under management (FUM) decreased slightly to \$1,008 million, and funds under advice were \$738 million at 30 June 2016.

Revenue from funds management, trustee services, financial planning and other services was \$17.5 million, compared to \$18.1 million in the prior year. Underlying net profit was \$4.0 million compared to \$4.2 million in the prior year.

While estate administration revenues were lower, the estate planning business wrote the highest number of wills since 2001, reflecting increased reviews and higher engagement with existing will clients.

Capital position and funding

MyState's capital adequacy ratio increased 36 basis points during the year to 13.0%, which followed optimisation of the Group's capital structure through the issue of \$25 million Tier 2 subordinated notes in August 2015. The Group's common equity Tier 1 (CET1) ratio was 11.4% at 30 June 2016.

Customer deposits increased by 8.9% to \$2.7 billion at 30 June 2016 and whilst funding costs were impacted by wholesale market volatility, this volatility abated somewhat in 2H16.

Funding was further diversified through the establishment of the Conquest 2016-1 Warehouse in May 2016, which delivered an improvement in securitisation funding costs and funding capacity.

Customer deposits provide 67% of the Group's funding, with approximately 14% of funding being wholesale, and 19% of funding through securitisation.

Outlook

Competition for owner-occupied lending will remain strong, however MyState is confident that its improved products, services and customer engagement strategies together with its focus on third party channels means that the business is well positioned to continue strong above-system growth.

Whilst MyState expects to benefit from a continuing levelling of the competitive landscape through regulatory changes to capital requirements, competition for customer deposits will continue to put pressure on margins in the near term.

Wealth management operations are expected to benefit from increased management focus and promotion of its services, as well as improvements to products and services.

The Group expects to achieve productivity and customer service benefits from the significant technology investment that is being made across the business. New internet and mobile platforms will be introduced later in the year and longer term, the transition to a single core banking platform with a single data centre location will also improve performance and risk management.

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About MyState Limited

MyState Limited is the ASX-listed non-operating holding company of the diversified financial services group consisting of MyState Bank (including The Rock – A division of MyState Bank) and Tasmanian Perpetual Trustees, a trustee and wealth management company. MyState Bank is regulated by the Australian Prudential Regulatory Authority. MyState Bank and Tasmanian Perpetual Trustees hold Australian Financial Services Licences issued by the Australian Securities and Investments Commission.

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