

## MyState reports NPAT of \$30.1 million

### *Financial summary and overview for the full year ended 30 June 2017*

- Fully franked final dividend maintained at 14.5 cents per share
- Dividend reinvestment plan at 2% discount
- Statutory net profit after tax of \$30.1 million, up 6% on prior year statutory NPAT and down 3% on prior year underlying NPAT<sup>1</sup>
- Loan book growth of 10.8% to \$4.3 billion, 1.8x system growth
- Consolidation of core banking platforms complete
- Digital transformation continues with launch of internet and mobile apps, mobile payments solutions and digital origination
- Expecting efficiency impacts to flow through

MyState Limited, the banking and wealth management group, today announced a net profit of \$30.1 million for the year to 30 June 2017, slightly below the underlying net profit of \$31.1 million reported in FY16. Earnings per share were 34.0 cents, compared with 35.5 cents in FY16.

The Directors have declared an unchanged final dividend of 14.5 cents per share, fully franked, payable on 13 September 2017 to shareholders on the register at the record date of 24 August 2017. A 2.0% discount for shares issued under the Dividend Reinvestment Plan will apply.

| Results summary for the year to                                     | 30 Jun 17   | 30 Jun 16 <sup>2</sup> | Change        |
|---------------------------------------------------------------------|-------------|------------------------|---------------|
| Group total operating income (\$m)                                  | 124.6       | 123.4                  | 1.0%          |
| <b>Net profit after tax (\$m)</b>                                   | <b>30.1</b> | <b>31.1</b>            | <b>(3.2)%</b> |
| Earnings per share (cents)                                          | 34.0        | 35.5                   | (4.2)%        |
| Return on average equity (%)                                        | 10.0        | 10.6                   | -62bps        |
| Final dividend per share – fully franked (cents)                    | 14.5        | 14.5                   | -             |
| Total dividends per share – interim and final fully franked (cents) | 28.5        | 28.5                   | -             |
| Dividend payout ratio (%)                                           | 84          | 80                     | 4%            |
| Net interest margin (%)                                             | 1.93        | 2.13                   | -20bps        |

MyState Managing Director and Chief Executive Officer, Melos Sulicich, said: “The slight reduction in earnings reflected a competitive environment and a period in which we delivered a number of very

<sup>1</sup> FY2017 results are presented on a statutory reporting basis as no adjustments were made to report on an ‘underlying basis’. FY2016 underlying basis excludes \$1.8m after tax M&A related costs and \$1.0m after tax accelerated write down of intangible software assets.

<sup>2</sup> Unless otherwise indicated, all comparisons are to the prior full year ended 30 June 2016 which was reported on an ‘underlying basis’.

significant transformational technology projects targeted at enhancing future performance. We expect to see operating cost reductions and revenue gains over the ensuing period, as efficiency gains are delivered and we derive benefits from enhanced market opportunities. It is particularly pleasing to note that we continued to grow our deposit and loan book ahead of system whilst maintaining strong credit quality.

“We have made significant progress with delivering a transformational technology program which is positioning MyState as a highly scalable, modern banking business. Consolidation of our core banking system has simplified our business, reduced business risk, and allows us to deliver better customer outcomes in a more efficient manner. Delivery of this outcome demonstrates the disciplined execution of our transformation strategy as we create a simpler, more customer-centric business.

“Our recently launched contact centre system allows us to co-ordinate phone, email and webchat services, and store information in a single customer contact history. Improved customer service and operational productivity have strengthened our brands, and staff are equipped to build relationships more effectively with customers’ banking history at their fingertips.

“We have consolidated data centres and implemented a new customer relationship management (CRM) platform. This shows the products that customers are using across our brands, improves marketing campaign management, and enables us to advise customers more effectively about our products and services when they can benefit most.

“Further improvements include completion of our ‘Apply’ project, which enables online origination for deposit accounts and personal loans with further product enhancements planned for the near future. This will become an increasingly important component of our strategy to grow through our digital offerings. We were among the first to launch mobile payments through Apple Pay, Samsung Pay, and Android Pay.

“We continued to increase our market share and at 30 June 2017 our loan book was \$4.3 billion, up 10.8% from \$3.9 billion at 30 June 2016. This is well above national system growth, and we have maintained very high credit quality.”

MyState’s capital adequacy ratio at 30 June 2017 was 13.3%, 25bps above FY16 and the CET1 ratio was 11.3%, which is well positioned to meet APRA’s ‘unquestionably strong’ CET1 ratio requirements by 1 January 2020. The cost-to-income ratio (excluding significant M&A project costs) increased 60 basis points compared to 63.2% at 30 June 2016, however was lower in the second half of FY17 than the first half.

In Wealth Management, funds under management grew at the fastest rate for many years, increasing 8% to \$1,089 million.

| <b>As at the end of the reporting period:</b> | <b>30 Jun 17</b> | <b>30 Jun 16</b> | <b>Change (%)</b> |
|-----------------------------------------------|------------------|------------------|-------------------|
| Total assets (\$m)                            | 4,910.5          | 4,415.4          | 11.2%             |
| Net assets (\$m)                              | 310.9            | 299.6            | 3.8%              |
| Funds under management (\$m)                  | 1,089            | 1,008            | 8.0%              |

## Banking Division

| Net profit after tax for the year | 30 Jun 17 | 30 Jun 16 | Change (%) |
|-----------------------------------|-----------|-----------|------------|
| Banking contribution (\$m)        | 26.3      | 27.1      | (3.0)%     |

Mr Sulicich said: "The banking division's performance was sound in a very competitive environment. We continued with our strategy of growing the loan book and broadening our geographic coverage, and increased market share in order to improve the scale economies of the business.

"More customers are using our internet and mobile digital channels in preference to branches, and this was a significant factor in our decision to announce the closure of our agency channel and two branches in Central Queensland. We will continue to leverage our technology platform and roll out new products and services, in line with customer demand.

Net interest income remained steady despite heavy competition for home loans in MyState's key market of lower risk, owner-occupied homes at a loan-to-valuation ratio of less than 80%. These loans comprise more than three-quarters of MyState's total home loan book.

Net interest margin decreased to 1.93% for the year, 20 basis points below the previous year, reflecting increased competition for owner-occupied home loans and deposits. A strong focus on margin management and some selective repricing of the loan book delivered a flat net interest margin profile across the two halves of the year.

The group passed an important milestone as loans outside Tasmania increased to more than 50% for the first time. This followed strong growth in the NSW home loan book from \$421 million to \$754 million over the year, demonstrating the success of MyState's growth strategy and improved home loan origination platform. This progressive geographic shift is positive for MyState as it helps to reduce the group's concentration risk.

Customer deposits grew strongly to nearly \$3 billion, up 10% from \$2.7 billion a year ago. Particularly pleasing was the very positive uptake of MyState's 'eSaver' product, which was launched in February this year. Combined with a simple and easy online account opening process, the flow of funds into this product has allowed us to start to build a lower cost deposit profile.

The group completed a \$400 million Residential Mortgage Backed Security (RMBS) capital raising in May 2017, the largest such transaction to date, with strong and broad investor support. This followed a \$300 million RMBS transaction in November 2016, supporting MyState's above-system lending growth.

Credit quality remained exceptional. Arrears performance was exemplary with 30 day arrears of 0.51% and 90 day arrears of 0.28%, well below the SPIN index for both major and regional banks.

## Wealth Management Division

| Net profit after tax for the year    | 30 Jun 17 | 30 Jun 16 | Change (%) |
|--------------------------------------|-----------|-----------|------------|
| Wealth Management Contribution (\$m) | 3.8       | 4.0       | (4.5)%     |

Mr Sulicich said, "Wealth Management performance benefited from record growth across our investment business and improvement in our financial planning business. Our income funds outperformed their benchmarks and higher demand from retail and wholesale clients helped increase funds under management by 8% to \$1.09 billion at 30 June 2017, up from \$1.01 billion a year earlier.

"Our strengthened financial planning team helped increase revenue from new statements of advice and risk advice, and funds under advice grew from \$738 million to \$778 million at the end of the year.

Disappointingly, trustee services' revenue reduced year-on-year as a result of a lower number of estates under administration. We consider that our trustee business has stabilised and, with renewed focus on writing new wills, anticipate a return to growth."

Revenue from funds management, trustee services, financial planning and other services was \$18.3 million, up 3.4% from \$17.7 million. Net profit was \$3.8 million, down by 4.5% from \$4.0 million in the prior year.

### **Dividend Reinvestment Plan (DRP)**

Directors have elected to maintain the DRP, with the price to be set at a 2.0% discount to the volume weighted average price of MyState shares calculated over the 5 trading days between 28 August 2017 and 1 September 2017. Shareholders will have until 25 August 2017 to elect whether they want to participate in the DRP. Prior elections by Shareholders to participate in the DRP will apply to the final dividend unless amended or terminated. Shareholders who wish to participate in the DRP who do not have a current election can record a new election. Elections can be made, amended or terminated online at [www.investorcentre.com](http://www.investorcentre.com) by 25 August 2017. Election forms may also be obtained from Computershare on 1300 850 505. A copy of the DRP rules may be viewed on the Investor Tools page of the Company's website at [www.mystatelimited.com.au](http://www.mystatelimited.com.au).

### **Outlook**

The Tasmanian economy recently reported 16 consecutive quarters of economic growth, and this positive trend is expected to continue, with the broader Australian economy also maintaining a healthy level of economic growth. While MyState's key target market of lower-risk, owner-occupied housing loans with loan to valuation ratios of less than 80% remains very competitive, MyState anticipates continued above-system loan book growth.

Mr Sulicich said: "We have completed the main elements of our technology transformation program and continue to introduce further efficiencies in our business. Our digital offering is contributing to a more positive experience for our customers and, with branch services now well supported by digital products, we can support a broader customer base. Our new internet and mobile banking platform is proving popular with customers and our online origination capability for deposit accounts and personal loans is extending our customer reach.

"Our technology platform ensures we provide great service and we expect that, over time, this will increase loyalty and market share. Additionally, we are expecting to see productivity improvements flow through the business as we continue to refine, digitise and improve processes.

"MyState is participating in the launch of the New Payments Platform, which is intended to bring real time payments to customers at the end of 2017. As the dynamics of the banking landscape change, we remain focused on helping customers with simpler, more relevant and more accessible products.

"We welcome the recent moves by the Federal government that partially address the uneven playing field in the banking industry. MyState has been actively growing its customer base across Australia and is focused on delivering competitive banking products and services for all Australians. As a smaller bank, we continue to believe that further action is needed to reduce the regulatory capital advantage enjoyed by large banks, and urge regulators to consider the disparities in funding costs that are caused by the 'too big to fail' implicit guarantee that the larger banks continue to enjoy.

"We have a clear strategy of organic growth, responding to the changing needs of our customers while remaining true to our purpose of helping people achieve their dreams. MyState is well capitalised with sound credit and risk management processes, and we remain confident and positive about our prospects of cost and profitability improvements."

ENDS

**About MyState Limited**

MyState Limited is the ASX-listed (MYS) 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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