# ASX/media release

17 February 2017

# MyState reports sound result

- **First half NPAT $15.2m**
- **Strong home loan book growth at 2.4x system**
- **High-quality asset growth and credit performance**
- **Interim dividend steady at 14 cps fully franked**
- **Significant milestones in technology and digital transformation**
- **DRP reactivated**

MyState Limited, the banking and wealth management group, today announced a statutory after-tax profit of $15.2 million for the half year to 31 December 2016, up 0.7% from $15.1 million on the previous corresponding half. Earnings per share were steady at 17.3 cents.

The Directors have declared an interim dividend of 14 cents per share, fully franked, payable on 10 March 2017 to shareholders on the register at the record date of 23 February 2017. MyState's Board has decided to reactivate the Dividend Reinvestment Plan which will allow shareholders to invest further in MyState shares. The DRP price is set at a discount of 2.5% of the volume weighted average price of MYS shares during the pricing period.

MyState Managing Director and Chief Executive Officer, Melos Sulicich, said: "Our program of technology transformation is well under way. During the half year, we introduced new digital services to benefit customers, including Android Pay, Apple Pay, and new MyState Bank internet banking and mobile banking apps. We also began the transition of our Group's banking platforms to a single core banking platform which will underpin our transition to an omni-channel, analytical data-driven business. New customer services commenced with the launch of online origination for personal loans and implementation of the first phase of a customer relationship management system."

| **Results summary for six months to** | **31 Dec 16** | **31 Dec 15** | **Change** |
|---|---|---|---|
| Group total operating income ($m) | 61.8 | 61.3 | 0.8% |
| **Net profit after tax ($m)** | **15.2** | **15.1** | **0.7%** |
| Earnings per share (cents) | 17.3 | 17.3 | 0.0cps |
| Return on average equity (%) | 10.2 | 10.4 | -20bps |
| Interim dividend per share – fully franked (cents) | 14.0 | 14.0 | 0.0cps |
| Dividend payout ratio (%) | 81 | 81 | 0% |
| Net interest margin (%) | 1.94 | 2.12 | -18bps |

| As at the end of the reporting period: | 31 Dec 16 ($ million) | 30 Jun 16 ($ million) | Change (%) |
|---|---|---|---|
| Total assets | 4,738.8 | 4,415.9 | 7.3% |
| Net assets | 301.4 | 299.6 | 0.6% |
| Funds under management | 1,046 | 1,008 | 3.8% |

The Group's loan book grew at a rate of 2.4 times national system growth, surpassing $4 billion for the first time in October 2016. MyState Bank's loan book grew at an annualised growth rate of 14.3%.

MyState's capital adequacy ratio at the end of the first half remained sound at 13.0%, unchanged compared to the previous corresponding half. The Group's cost-to-income ratio increased 240 basis points to 66.4% from 64.0% in the previous corresponding half (excluding significant M&A project costs, the cost-to-income ratio was 64.4%).

Mr Sulicich continued: "Income and net profit increased marginally despite the challenging banking environment. We were successful in driving high quality loan book growth, and achieved a new record for housing loan settlements, which increased to $671 million for the half, up 26% compared with the previous corresponding period, reflecting our strong broker and retail customer relationships. We are focused on building a highly scalable business and the increase in our loan book demonstrates our focus on the organic growth opportunity."

"We are focused on our approach to low risk growth, and we continued to improve credit performance with low arrears and loan impairment. Impairment charges decreased to 2 basis points of gross loans."

In December 2016, S&P Global Ratings (formerly Standard & Poor's) raised its long term credit issuer rating of MyState Bank to 'BBB+' with a negative outlook from 'BBB', noting that continuing evolution of the bank's risk management practices had resulted in an improved risk profile.

## Banking Division

| Net profit after tax for six months | 31 Dec 16 ($ million) | 31 Dec 15 ($ million) | Change % |
|---|---|---|---|
| Banking Contribution | 12.7 | 12.9 | (1.2)% |

The banking division's net profit decreased 1.2% to $12.7 million from $12.9 million in the previous corresponding period. This result reflected the challenging banking environment, which remained highly competitive in the low-risk owner-occupier, low loan-to-valuation (LVR) lending market targeted by MyState Bank.

The Group has focused on maintaining low risk growth and, during the first half, loan book growth came entirely from lending below an 80% loan-to-valuation ratio.

Net interest margins continue to reduce, reflecting the 'lower for longer' interest rate environment and deposit rates being repriced less than lending rates. There is some evidence that market competition for new lending has eased in recent months, and higher margins are expected in the second half. At 31 December 2016, MyState Bank's loan book comprised 86% owner occupied lending and 14%

investor loans, with the population of investor loans well below industry average. MyState increased rates on its variable rate home loan book by 12 bps on 3 January 2017.

The banking portfolio's credit performance continued below industry averages and 30-day arrears were low at 0.54% at 31 December 2016, well below industry peers.

The geographic shift in the loan book continued, with the Group increasing its loan book size in New South Wales and Victoria. 52.0% of the overall loan book was Tasmania-based at 31 December 2016, down from 55.7% at 30 June 2016.

Customer deposits increased to $2.9 billion at 31 December 2016 from $2.7 billion at 30 June 2016, representing 16% annualised growth. An RMBS issuance in November 2016 further diversified the Group's wholesale funding and bond investor base.

## Wealth Management Division

| Net profit after tax for six months | 31 Dec 16 ($ million) | 31 Dec 15 ($ million) | Change % |
|---|---|---|---|
| Wealth Management Contribution | 2.5 | 2.2 | 11.6% |

The wealth management and trustee services division reported stable revenue and an increased contribution.

Funds under management increased to $1.05 billion at 31 December 2016 compared with $1.0 billion at 30 June 2016, following improved performance from the Group's income funds.

Wealth management division revenue from funds management, trustee services and financial planning remained steady at $8.4 million, in line with the previous half, but down on the prior corresponding period. While trustee services volumes were lower, the financial planning business strengthened its team and increased its complement of planners, resulting in higher revenue.

## DRP Reactivated

The Board announced the reactivation of the Dividend Reinvestment Plan (DRP) to enable shareholders to participate in further ownership of the Group. The DRP price will be set at 2.5% discount to the volume weighted average price of MYS shares calculated over the 5 trading days between 27 February 2017 and 3 March 2017.

Shareholders will have until 24 February 2017 to elect whether they want to participate in the DRP. Prior elections by Shareholders to participate in the DRP will apply to the interim 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 by 24 February 2017. Election forms may also be obtained from Computershare on 1300 583 803. A copy of the DRP rules may be viewed on the Investor Tools page of the Company's website (www.mystatelimited.com.au).

Shares issued under the DRP will, upon issue, rank equally with all other MyState shares on issue.

Key dates in respect of the DRP are as follows.

| | |
|---|---|
| Announcement of DRP activation | 17 February 2017 |
| Ex dividend date | 22 February 2017 |
| Dividend record date | 23 February 2017 |
| Deadline for shareholder participation in the DRP | 24 February 2017 |
| DRP pricing period | 27 February – 3 March 2017 |
| Dividend payment & DRP share issue date | 10 March 2017 |

*MyState reserves the right to amend the above dates or suspend the DRP in its discretion.*

## Outlook

The Tasmanian economy remains buoyant, while the Australian economy overall continues to experience low growth and inflation. The Australian housing credit market is expected to continue to grow around the current rate. While the lending market continues to be highly competitive, MyState remains confident that its loan growth will remain above system.

MyState's transformation program is continuing, with several initiatives under way to increase productivity and customer service including consolidation of the Group's core banking platforms, improvements to loan origination systems, and new investment in analytics, customer relationship management and payments platforms. The benefits of greater business efficiency, combined with loan book growth and improved margin management, are expected to flow through to improvements in earnings.

Mr Sulicich said the Group was focused on building a platform for continued organic growth. "We are focused on building a low risk, high-quality loan book. Our strategy to become a more customer-focused business, through technology investment and commitment to customer service, has helped us to exceed $4 billion in loans and our momentum is continuing.

"We continue to urge the Federal Government to implement the full recommendations of the Murray Report. Smaller banks are constrained from competing more vigorously with major banks by mortgage risk weight requirements, which require us to hold significantly more capital, yet our growth is evidence of the competition that we create. Reducing capital requirements will increase our ability to offer innovative products that benefit consumers whilst providing equitable returns for our shareholders.

"Our prudent lending approach is underpinned by sound credit, risk, and capital management processes. MyState's business is highly scalable and well positioned to take advantage of our many organic growth opportunities. We remain optimistic about the future."

ENDS

**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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