

Incorporating the requirements of Australian Prudential Standard 330

Year ended

30 June 2018

Remuneration Disclosures



Glossary of key terms

To assist readers, key terms and abbreviations used in this report as they apply to the Group are set out below.

Term	Definition
Board	The Board of Directors at MyState Limited.
Executive Long Term Incentive Plan (ELTIP)	A remuneration arrangement which grants shares to participants that may vest in accordance with the plans rules.
Executive Management Team (EMT)	The Managing Director and Executives directly reporting to the Managing Director
The Group	The MyState Limited Group
Group People and Remuneration Committee (GPC)	The MyState Ltd Group People and Remuneration Committee
Key Management Personnel (KMP)	Persons having authority and responsibilities for planning, direction and controlling activities of the entity.
Key Performance Indicators (KPIs)	Quantitative and qualitative measures, agreed to at the start of the performance year to drive performance to both short term and long term outcomes.
Retail Incentive Programs	Variable remuneration paid to identified retail roles with direct reference to the individual's performance over a period of three months to one year.
Senior Managers	Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including Directors (whether executive or otherwise) of that entity. For the MyState Limited Group, this includes the CEO and all Group Executives, as well as other Senior Managers identified as having the responsibilities identified above. (non-executive directors are not subject to the prudential disclosures)
Short Term Incentive (STI)	Remuneration paid with direct reference to the Group and the individual's performance over one financial year.
Total Employee Reward	The total combination of TFR and variable remuneration (STI) that an employee has potential to receive if they achieve target performance objectives.
Total Fixed Reward (TFR)	Consists of base remuneration plus employer contributions to superannuation.
Total Target Reward	The total combination of TFR and variable remuneration (STI and ELTIP) that an employee has potential to receive if they achieve target performance objectives.
Variable Remuneration	Performance-based remuneration, which includes short term incentives that reward performance over the financial year, and long term incentives that reward performance over a longer term.

Annual Remuneration Disclosure

As at 30 June 2018

The following remuneration disclosures have been prepared by MyState Limited Group (the Group) in accordance with the Australian Prudential Regulatory Authority's (APRA) requirements. Under prudential standard APS 330 Public Disclosure (APS330) and board approved policy.

The APS330 prudential standard requires locally incorporated authorised deposit-taking institutions (ADIs) to meet minimum requirements for the public disclosure of information on their risk profile, risk management, capital adequacy, capital instruments and remuneration practices so as to contribute to the transparency of financial markets and to enhance market discipline.

This prudential disclosure is separate to the existing Remuneration Report requirements applicable to all listed companies under the *Corporations Act 2001*, which covers only Key Management Personnel (KMP).

The quantitative information relates to the 11 Senior Managers of the Group for the financial year ending 30 June 2018.

It is deemed that the Group does not have any employees that fit the definition of Material Risk Takers. The information contained within this disclosure is based on information that is consistent with information provided to the Group's external auditor. However, the information reported is provided for regulatory disclosure purpose and is not comparable to accounting reporting or any other information disclosed elsewhere by the Group.

Group People and Remuneration Committee (GPC)

Scope

The Group People and Remuneration Committee assists the Directors in discharging the Board’s responsibilities in relation to remuneration governance and to provide oversight to support the Company in achieving its human resource goals. This outcome is achieved by reviewing and making recommendations to the Board on:

- Remuneration arrangements for Directors, the Managing Director and other senior Executives, having regard to comparative remuneration data in the financial services industry, independent advice and compliance with the requirements of APRA Prudential Standards;
- Human Resource policies and practices, ratification of industrial instruments and oversight of compliance with legal and regulatory requirements; and

- Oversight to ensure that the Group builds capability for strategic execution and to support the Group’s business operations and culture, including succession planning and matters such as the Company’s Employee Share Scheme and other incentive schemes for Executives and staff.

The Group People and Remuneration Committee aims to ensure that there is no conflict of interest, actual or perceived, regarding Executive Director involvement in Board decisions on remuneration packages and also in monitoring the involvement of Management generally in Committee discussions and deliberations regarding remuneration policy. No Executive is directly involved in deciding their own remuneration, and as such, no conflict is deemed to exist.

Committee Members and Remuneration

	Annual Fee Payable for Position	Incumbent	2018 FY Meetings Attended	2018 FY Meetings Held
Chairman	\$12,500	Mr P Armstrong	4	4
Committee members	\$5,000	Mr M Hampton	4	4
	\$5,000	Mr S Lonie	4	4
	\$5,000	Mrs S Krieger	4	4

External Advisors to the Committee 2018 FY

Advisor	Scope of Advice
Value Adviser Associates	Advice regarding ELTIP Plan
KPMG	Advice regarding Remuneration
AON Hewitt	Advice regarding Remuneration

Objectives

The role of the GPC is to assist the Board in fulfilling its responsibilities with respect to remuneration governance and provide oversight to support the company in achieving its human resource goals.

This includes the development of people management practices which assist MyState to sustain a workforce with strong cultural attributes, the capability to achieve strategic priorities and meet its legal and regulatory requirements.

The GPC full charter is available at mystatelimited.com.au

Remuneration Philosophy

The objective of MyState Limited's remuneration policy is to maintain personal and collective behaviour that supports the sustained financial performance, good reputation of the Group and good customer outcomes.

The MYS Remuneration Policy is designed to achieve this objective by having:

- Appropriately balanced measures of employee performance that inform variable performance based pay for Executives, including short and long term incentive plans;
- Recognition and reward linked to favourable customer and shareholder outcomes;
- A considered balance between the capacity to pay and the need to attract and retain capable staff at all levels;
- Ensuring that the structure of the remuneration of risk and financial control personnel, including performance based components, does not compromise the independence of these personnel in carrying out their functions;
- Short term and long term incentive performance criteria being structured within the overall risk management of the Company; and
- The exercise of Board discretion in the assessment and clawback of incentives as an ultimate means to mitigate unintended consequences of variable pay and to preserve interests of shareholders and customers.

Executives

The Company links the nature and quantum of the remuneration of the Executive Management Team (EMT), comprising the Managing Director and Executives directly reporting to the Managing Director, to its financial and operational performance. The remuneration packages for the EMT are based on a notional Total Target Reward which from time to time may comprise one or more of the following:

- Total fixed reward (inclusive of superannuation and other benefits) (TFR);
- Cash based short term incentives (STI); and
- Equity based long term incentives (LTI).

Non-Executive Senior Managers

The remuneration packages of the Senior Managers are recommended by the relevant Executive within a framework and guidelines approved by the Managing Director and co-ordinated by the General Manager People and Culture. The General Manager People and Culture may seek external advice on the appropriate level and structure of Senior Manager remuneration. Any change to remuneration for any employee, or any remuneration package for a new employee, is to be approved by a manager at least one level above the reporting manager.

Remuneration packages at this level are based on Total Employee Reward (TER) comprising:

- Total fixed reward (inclusive of superannuation and salary sacrifice) (TFR); and
- Cash based short term incentives (STI)

Total Fixed Reward (TFR)

The TFR is paid by way of cash salary, superannuation and salary sacrificed fringe benefits and is reviewed annually by the GPC. In addition, external consultants provide analysis and advice to the Committee to ensure that Executives' remuneration is competitive in the marketplace. It reflects the complexity of the role, individual responsibilities, individual performance, experience and skills. The total employment cost of the remuneration package, including fringe benefits tax, is taken into account in determining an employee's TFR.

Short Term Incentive (STI)

The STI is an annual “at risk” incentive payment. It rewards EMT members for their contribution towards the achievement of the Group’s goals. The maximum potential payment is calculated as a percentage of the TFR of each EMT member and is payable in cash and/or superannuation contributions.

Payment is conditional upon the achievement, during the financial year under review, of financial and non-financial performance objectives. The measures are chosen and weighted to best align the individual’s reward to the Key Performance Indicators (KPI’s) of the Group and its overall long term performance. There is no fixed minimum payment amount. The KPI’s are measures relating to Group and personal performance accountabilities and include financial, operational, cultural, risk, compliance, customer and stakeholder measures.

Each year, the Group People and Remuneration Committee, in consultation with the Board, sets the KPI’s for the Managing Director who, in turn sets KPI’s for Executives, subject to approval of the Board following a recommendation from the Group People and Remuneration Committee. The Group People and Remuneration Committee selects performance objectives which provide a robust link between Executive reward and the key drivers of long term shareholder and customer value.

At the end of the financial year, the Managing Director assesses the performance of the Executives against their KPIs set at the beginning of the financial year. Based upon that assessment, a recommendation for each Executive is made to the Group People and Remuneration Committee as to the STI payment.

At the end of the financial year, the Group People and Remuneration Committee assesses the performance of the Managing Director against the KPIs set at the beginning of the financial year.

The Group People and Remuneration Committee recommends the STI payments to be made to the Managing Director and Executives for approval by the Board. Approval and payment of a STI to the Managing Director or Executives is at the complete discretion of the Board. If the results on which any STI reward was based are subsequently found by the Board to have been the subject of deliberate management misstatement, the Board may require repayment of the relevant STI, in addition to any other disciplinary actions.

Executive Long Term Incentive Plan (ELTIP)

The ELTIP provides a long term “at risk” incentive, assessed over a three year performance period. It was established by the Board to encourage the EMT, comprising the Managing Director and participating Executives, to have a greater involvement in the achievement of the Company’s objectives. To achieve this aim, the ELTIP provides for the issue to the participating Executives of fully paid ordinary shares in the Company if performance criteria specified by the Board are satisfied in a set performance period.

Under the ELTIP, an offer may be made to individual members of the EMT every year as determined by the Board. The maximum value of the offer is determined as a percentage of the TFR of each member of the EMT. As a general guide, noting that the Board has absolute discretion to vary, the maximum percentages used are 50% for the Managing Director and between 15% and 50% for participating Executives. The value of the offer is converted into fully paid ordinary shares based upon the weighted average price of the Company’s shares over a twenty trading day period from the 1st of July in the financial year in which the offer is made.

Where an Executive commences employment with the Company post 1 July in a given year, the following conditions will apply in respect of ELTIP:

- Upon recommendation by the Managing Director, and, if deemed eligible by the Board, the Executive shall receive a pro rata offer for that year, unless that person commences employment between 1 April and 30 June, in which case, they shall not be entitled to receive an offer for that financial year;
- Calculations for ELTIP entitlements in terms of the 20 day VWAP, must be consistent with the offers for that year, irrespective of the date that an employee commences or to whom an offer to participate is made; and
- Where an ELTIP participant ceases employment with MyState during a performance period, the offer shall be assessed at the end of the performance period, along with all other participants, subject to meeting the 12 month employment hurdle that applies to any ELTIP offer.

In order for the shares to vest, certain performance criteria must be satisfied within the predetermined performance period. Both the performance criteria and the performance period are set by the Board, at its absolute discretion. The Board has, for the time being, set the three financial years, commencing with the year in which an offer is made under the plan, as the performance period, with relative TSR and absolute ROE for the "2015" offer or relative TSR and absolute post tax underlying ROE for the "2016" and "2017" offers as the performance criteria.

Current Offers (Up to and including the "2017" Offer)

The ELTIP provides for an independent Trustee to acquire and hold shares on behalf of the participating Executives.

The Trustee is funded by the Company to acquire shares, as directed by the Board, either by way of purchase from other shareholders on market, or issue by the Company. Vesting of shares, up to and including the "2017" Offer, occurs once an assessment has been made after the performance period (currently 3 years) and once the Board resolves to notify the Trustee to issue entitlements under the relevant ELTIP Offer.

Where shares have vested, the Trustee will allocate those shares to each eligible member of the EMT in accordance with their entitlement. The Trustee will hold the shares which have been allocated on behalf of the eligible EMT member. During the period that allocated shares are held by the Trustee, the eligible EMT member is entitled to receive the income arising from dividend payments on those shares and to have the Trustee exercise the voting rights on those shares in accordance with their instructions.

The participating EMT member cannot transfer or dispose of shares which have been allocated to them until the earlier of:

- The seventh anniversary of the original offer date of the grant;
- Upon leaving the employment of the Company;
- Upon the Board giving permission for a transfer or sale to occur; or
- Upon a specified event occurring, such as a change in control of the Company.

Upon request, the Board may exercise discretion to release vested shares to an Executive to the extent

required to meet a taxation assessment directly related to the award of those shares.

On separation from the Company, ELTIP shares will be released only if the separation is due to a Qualifying Reason¹ or is at the initiation of the Company without cause. If this separation occurs within the three year performance period, shares will be allocated on a pro-rata basis, following the completion of each applicable performance period and applicable performance assessment.

Vesting of shares to the Managing Director and eligible Executive is at the complete discretion of the Board. Any shares to be allocated to the Managing Director under this Plan require shareholder prior approval, in accordance with ASX Listing Rules.

On accepting an ELTIP offer made by the Company, participating Executives cannot hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and may result in forfeiture of the offer and/or dismissal.

Future Offers (2018 offers onwards)

In respect of offers made on or after 1 July 2018, the ELTIP will give effect to new requirements imposed under the Banking Executive Accountability Regime (BEAR) as it applies to prudentially regulated Authorised Deposit-taking Institutions (ADIs) and their related bodies corporate. The BEAR commences on 1 July 2018 and imposes a heightened accountability regime on ADIs and people with significant influence over conduct and behaviour in the ADI (referred to as an 'accountable person'). Subject to new accountability obligations, those persons are required to conduct themselves with honesty and integrity, as well as effectively carry out the business activities for which they are responsible.

In accordance with the BEAR, with respect to the 2018 Offer and future offers, the Company must ensure that the payment of a portion of the variable remuneration (that is, remuneration conditional on the achievement of pre-determined objectives) of accountable persons is deferred for the minimum period prescribed by the BEAR. In the event an accountable person fails to comply with his or her accountability obligations, his or her variable remuneration must be reduced by an amount that is proportionate to the failure and not paid to the person.

¹ A Qualifying Reason, as defined by the ELTIP Plan Rules, is death, total and permanent disability, retirement at normal retirement age, redundancy or other such reason as the Board, in its absolute discretion, may determine.

Total remuneration for the 2018 financial year:

Total value of remuneration awards for the current financial year Remuneration type	Number	Unrestricted \$	Deferred \$
Fixed remuneration			
Cash-based	11	\$2,773,403	
Shares and share-linked instruments			
Other			
Variable remuneration			
Cash-based	7	\$517,390	
Shares and share-linked instruments			
Other			
Guaranteed bonuses	N/A	N/A	
Sign-on awards	N/A	N/A	
Terminations	1	\$194,670	

Executive Minimum Shareholding Requirement

From 1 January 2015, in the absence of approval from the Board to the contrary, a Minimum Shareholding Requirement (Executive MSR) will apply to Executives whom:

1. Receive a Total Fixed Remuneration (TFR) greater or equal to \$250,000; and
2. Participate in ELTIP and STI programs.

The Executive MSR will be 25% of TFR and must be achieved within 4 years of the date that the policy becomes applicable to the Executive.

Any shares issued into deferral, from the 2018 ELTIP Offer onwards, will be recognised for the purposes of Executive MSR.

The shares in MYS (ASX code: MYS) may be held directly or indirectly, and may include shares obtained prior to commencement of employment and/or shares acquired through ELTIP or any other scheme. This includes shares vested and allocated but still held in trust, but excludes any allocated shares which have not yet vested.

Basis of employment

The policy of the Company is to:

- Engage the Managing Director on terms approved by the Board;
- Employ Executives on terms recommended by the CEO and approved by the Board;

- Provide a termination payment, as detailed in relevant employment agreements, with a maximum termination payment of 6 months TFR; and
- Where the termination is initiated by the Company, STI and LTI entitlements, are assessed in accordance with the Remuneration Policy, and may be paid for any pro-rata period of a year up to the termination date.

Retail Incentive Programs

Retail incentive programs are designed to reward designated retail roles for the achievement of short term performance criteria. Retail incentive programs are set in line with the Remuneration Philosophy to maintain personal and collective behaviour that supports the sustained financial performance, good reputation of the Group and good customer outcomes.

Retail incentive programs will, in general, be paid once performance criteria has been met in line with;

- The achievement of gateways that reflect the Remuneration Philosophy and appropriate risk measures;
- A balance of financial and non-financial measures; and
- The application of governance measures that support the one up approval of the retail incentive programs.

MyStateLimited 

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