MyState LIMITED
ABN 26 133 623 962

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18 August 2017

The Manager
Company Announcements
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

MyState Limited – Preliminary Final Report (Appendix 4E) for the year ended 30 June 2017

The Directors of MyState Limited (the "Company") are pleased to announce the audited results of the Company for the year ended 30 June 2017 as follows:

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Extracted from the Financial Statements for the year ended	$'000 30 June 2017	$'000 30 June 2016	% Change
Income from operations	124,616	123,422	0.97%
Profit after tax attributable to members	30,080	28,334	6.16%
Net profit after tax attributable to members	30,080	28,334	6.16%

Dividends for the current year are:	Amount per security	Franked amount per security
Interim Dividend 2017 fully franked at 30% Paid 10 March 2017	14.0 cents	14.0 cents
Final Dividend 2017 fully franked at 30% Payable 13 September 2017 Record Date for determining entitlements for final dividend – 24 August 2017	14.5 cents	14.5 cents
Dividends for the previous year are:	**Amount per security**	**Franked amount per security**
Final dividend – 2016 fully franked at 30% Paid 3 October 2016	14.5 cents	14.5 cents
Dividend Reinvestment Plan	**Last Date for Receipt of DRP Election**	
The MyState Limited Dividend Reinvestment Plan is operational for this Final Dividend 2017	25 August 2017	
Net Tangible Assets per share	**2017**	**2016**
	247 cents	248 cents

Details of entities over which control has been gained or lost during the period

During the financial period the holding company MyState Limited gained control of the following entity:

- Nil

Subsequent events

The remainder of the information requiring disclosure to comply with Listing Rule 4.3A is contained in the attached copy of the Financial Statements and comments on performance of the Company included in the Media and ASX Release dated 18 August 2017.

Further information regarding MyState Limited and its business activities can be obtained by visiting the company's website at www.mystatelimited.com.au.

Yours faithfully

Scott Lukianenko
Company Secretary

MyState Limited
Directors' Report

MyState Limited ABN 26 133 623 962

Directors' Report

Your Directors present their report on MyState Limited for the financial year ended 30 June 2017.

Directors

- **Miles L Hampton** BEc (Hons), FCIS, FCPA, FAICD
  Chairman and independent non-executive Director.
- **Melos A Sulicich** BBus, GAICD, SA FIN
  Managing Director – Executive Director.
- **Peter D Armstrong** BEc (Hons), DipED, Dip FP, CPA, FAICD, FAMI
  Independent non-executive Director.
- **Brian V Bissaker** BEc, FCA
  Independent non-executive Director. (Retired 18 May 2017).
- **Robert L Gordon** BSc, MIFA, MAICD, FAMI
  Independent non-executive Director.
- **Colin M Hollingsworth** CPA, MAICD, FAMI
  Independent non-executive Director.
- **Stephen Lonie** BCom, MBA, FCA, FFin, FAICD, FIMCA
  Independent non-executive Director.
- **Sarah Merridew** BEc, FCA, FAICD
  Independent non-executive Director. (Retired 18 May 2017).
- **Sibylle Krieger** LLB (Hons), LLM, FAICD, MBA

  Independent non-executive Director. (Appointed 1 December 2016).

Company Secretary

- **Scott A Lukianenko** Ad Dip BMgmt, Grad Cert BA, GIA (Cert).

Principal Activities

Banking Services	Trustee Services	Wealth Management
▪ Personal, residential and business banking ▪ Transactional internet & mobile banking ▪ Savings and investments ▪ Insurance and other alliances	▪ Estate planning ▪ Estate and trust administration ▪ Power of attorney ▪ Corporate trustee	▪ Managed fund investments ▪ Financial planning ▪ Portfolio administration services ▪ Portfolio advisory services ▪ Private client services

MyState Limited provides banking, trustee and wealth management products and services through its wholly-owned subsidiaries MyState Bank Limited and Tasmanian Perpetual Trustees Limited.

There have been no significant changes in the nature of the principal activities of the Group during the financial year.

Operating and Financial Review

The Group posted a statutory profit after income tax for the year ended 30 June 2017 of $30.080 million (2016: $28.334 million).

Dividends

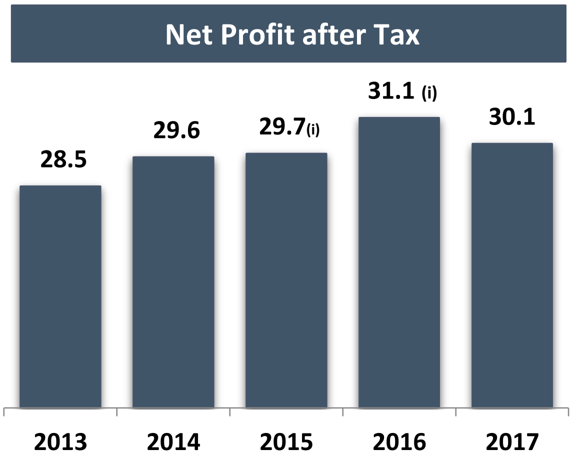
The Directors have declared a fully franked (at 30%) final dividend of 14.5 cents per share. The dividend will be payable on 13 September 2017 to shareholders on the register at 5pm EST on 24 August 2017.

Dividends paid in the year ended 30 June 2017 were as follows:

- In respect of the year ended 30 June 2016, a fully franked dividend of 14.5 cents per share, amounting to $12.740 million, was paid on 3 October 2016.
- In respect of the half year ended 31 December 2016, a fully franked dividend of 14 cents per share, amounting to $12.302 million, was paid on 10 March 2017.

Review and Results of Operations

Financial Performance



(i) Underlying results exclude on a post-tax basis:
FY16 - $1.8m M&A related costs, $1.0m write down of intangible software
FY15 - $3.9m profit on sale of Cuscal shares , $1.1m restructuring costs

MyState Limited recorded a statutory net profit after income tax for the year ended 30 June 2017 of $30.080 million, an increase of 6.2% on the prior year of $28.334 million (or a 3.2% reduction on the FY16 underlying result[1]).

Earnings per share, on an underlying basis, decreased by 4.2% to 34.0 cents per share on the prior year and return on equity decreased 63bps to 10.0%.

Whilst the FY17 result has declined slightly on the prior year, MyState has grown its business and delivered a program of investment in digital technology platforms and capability to create a simpler, more customer-centric business, notwithstanding strong competition in the market and sectoral headwinds.

Executing on business transformation

FY17 was a year in which MyState made significant progress delivering a technology program to position MyState as a highly scalable, modern banking and wealth management business.

The main components of this program are now in place. MyState recently consolidated its core banking systems, which has simplified its business, reduced risk, and enables the business to deliver better customer outcomes in a more efficient manner.

MyState also launched a new internet and mobile banking platform during the year and completed its 'Apply' project, which enables online origination for deposit accounts and personal loans.

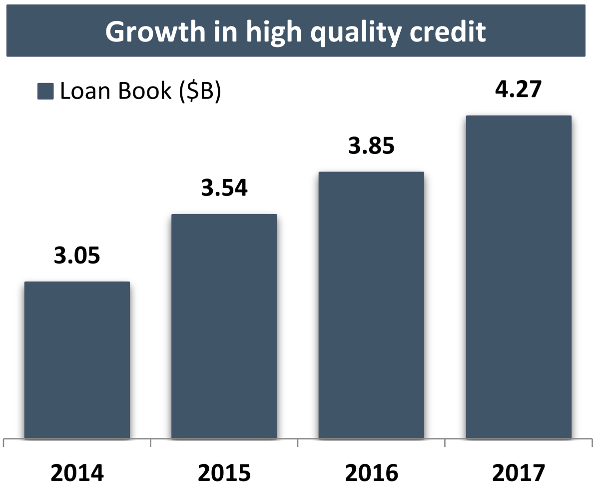
MyState also became a leader in mobile payment offerings, successfully launching Apple Pay, Samsung Pay and Android Pay during the year.

These initiatives are fundamentally important to MyState's strategy to provide contemporary banking services to customers and to grow and simplify its business through digital offerings.

MyState also consolidated data centres and implemented and enhanced its customer relationship management platform to understand and react to customers needs more effectively. A new contact centre system has also significantly improved MyState's offering and enables improved customer service and operational productivity.

[1] Unless otherwise indicated, all comparisons are to the prior full year ended 30 June 2016 which was reported on an 'underlying basis'.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

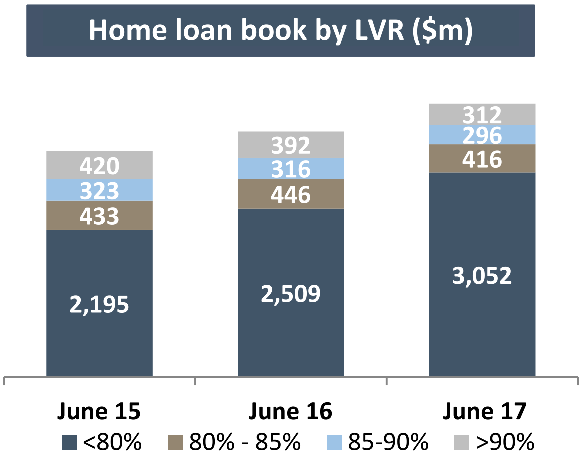
As the dynamics of the banking sector continue to shift at a rapid pace, MyState has rapidly transformed and modernised its technology platforms and digital offerings to keep pace with changing customer needs and to grow its business beyond traditional distribution channels and geographies.



High quality asset growth and credit performance

The Banking division continued to increase market share, with the loan book growing $416m or 10.8%. Whilst this growth was well above national system (at 1.6x system), asset quality was again a highlight.

Impairment charges remain at historic lows with 30 day arrears performance of 0.51% and 90 day arrears of 0.28%, well below benchmarks for both major and regional banks. Impairment expense decreased by $1.0m or 82.5% on the prior year, reflecting a quality loan portfolio growing in lower risk, lower loan to valuation ratio (LVR) home loans.



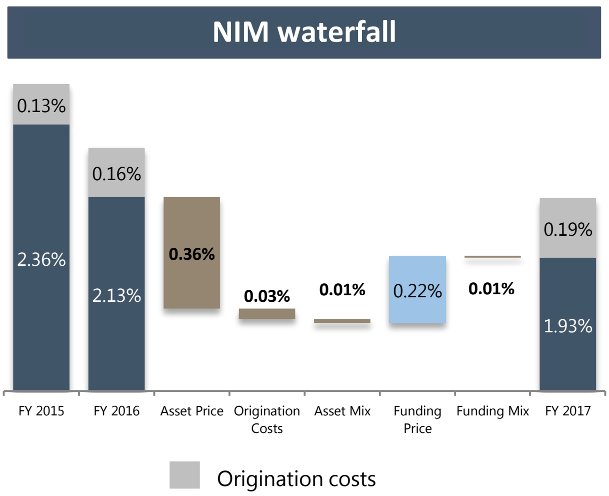
With a strong focus on growing in lower LVR home loans, MyState grew its less than 80% LVR portfolio by 22% and reduced its portfolio of loans with greater than 80% LVR by 11%. Whilst this strategy has come at some expense to margin, MyState has grown prudently and has built in resilience to any potential changes in the economic and housing cycle.

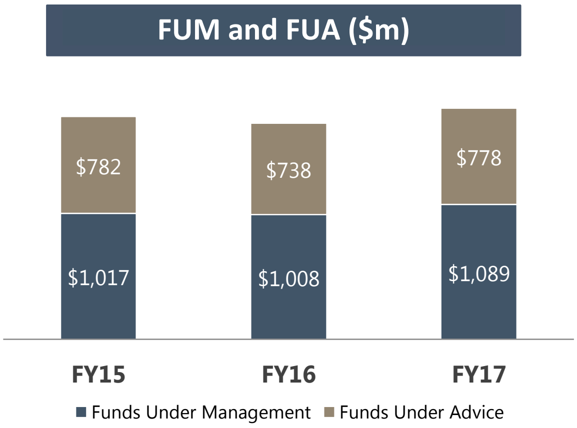
Modest income growth amidst strong competition and sectoral headwinds

MyState's total income increased by $1.2m or 1% during the year. Net interest income decreased by 0.9% as a result of heavy competition for home loans in MyState's key market focus of lower risk, lower LVR, owner occupier home loans. Non-interest income grew by $1.97m or 5.7%.

Net interest margin decreased to 1.93%, 20bps below the prior year, reflecting increased competition for owner-occupied home loan business and deposit funding. A focus on margin management enabled a flat NIM profile across the two halves of the year.

MyState's NIM remains above its regional peer group and margin management continues to be a key focus for the business. Deposits grew strongly through all channels, including for MyState's 'eSaver' product, launched earlier in 2017. Customer deposits grew to nearly $3 billion, up 10% from $2.7 billion a year ago.





The Wealth management business benefited from record growth in funds under management and growth in financial planning.

Returns to investors in the income funds outperformed their benchmarks and strong demand from retail and wholesale clients grew funds under management to $1.089 billion, an increase of 8% on the prior year.

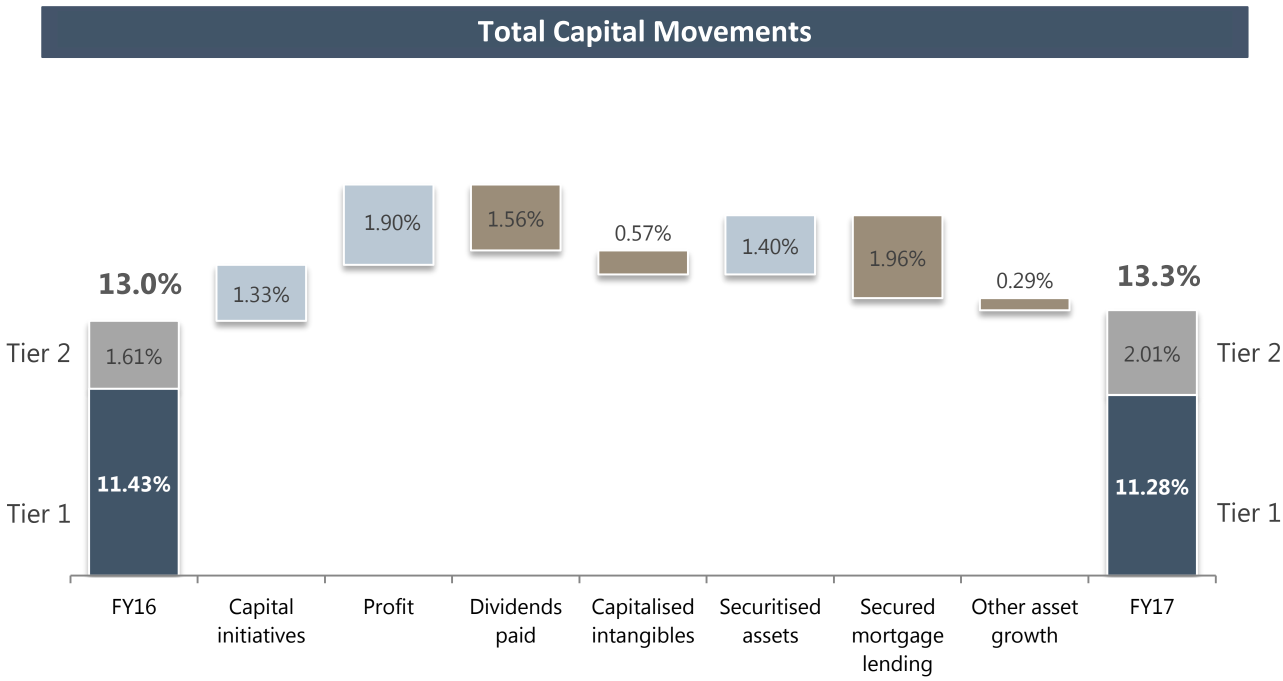
A strengthened financial planning team also supported an increase in funds under advice, which grew by 6% to $778 million.

FY17 was a challenging year for the trustee business. The value of estates under administration were well below that of FY16 and revenue declined as a result. Trustee business income improved in the second half of FY17, with the business having stabilised on account of the prioritisation of generating new wills and revising existing wills over the past three years.

Investments to deliver cost and productivity improvement over time

The Group continues to manage its cost base prudently. Expense growth was contained to 1.3% on a statutory reporting basis and 3.7% on an underlying basis. The cost to income ratio increased from 64.3% to 65.9%. Whilst costs increased over the previous year, the increases reflect the investments in technology platforms and digital capability, which position MyState as a highly scalable modern banking business, able to deliver better customer outcomes in a more efficient manner. With most of the larger scale technology investments either complete or nearing completion, the business is now in a position to increase efficiency and reduce the cost to income ratio in the coming period.

Strong capital position



The Group has maintained its balance sheet strength, with a capital ratio at 13.3%, a 25bps improvement on the prior year. MyState's capital strategy was supported by multiple RMBS issuances in FY17, along with further issuance of subordinated notes. The more recent $400 million RMBS was our largest such transaction to date and was well supported by an increasingly broad investor base.

MyState's strong and efficient capital strategy also includes the use of the dividend reinvestment plan to support continued lending growth and digital banking platform investments. MyState is also well positioned to meet APRA's unquestionably strong CET1 ratio requirements by 1 January 2020.

Risk Management

MyState has also invested in strengthening its risk management capability and has made significant progress in imbuing risk awareness into organisational culture. MyState's approach to risk management is overseen by the Board and its Group Risk Committee and is supported by a well defined risk appetite statement, contemporary processes and systems and an industry standard three lines of defence model which supports the identification, assessment, evaluation and management of risk. Conduct risk is an area of risk that has attracted much attention within the sector and MyState's long-standing commitment to delivering great customer outcomes has been re-affirmed by the appointment of a Customer Advocate during the year, a role independent from the bank's existing complaints resolution process.

The Board looks across the full risk profile of the business and currently has identified the following key risks including:

- Market risk arising from intense competition for quality lending opportunities.
- Compliance risk in a highly regulated sector.
- Regulatory capital requirements that impact our capacity to grow.
- Cyber/digital security risk.

We have established key actions to mitigate these risks.

Outlook

Economic conditions within Tasmania continue to trend positively, with the broader Australian economy also maintaining a healthy level of economic growth. Credit growth in the sector appears to be moderating, and coupled with regulator restrictions on investor and interest only lending, it is expected that intense competition for owner occupied lending will continue.

Notwithstanding this outlook, MyState expects to continue to be able to achieve above-system lending growth and maintain a quality of loan book that performs favourably in comparison to the major banks and regional peers.

MyState remains focused on the management of margins and as MyState's net interest margin remains above that of regional peers and it continues to grow above system, it is expected that some margin decline will continue.

The performance of the Trustee business has stabilised and more recent upward trends in key income drivers such as funds under management, funds under advice and estates under administration which indicate an improved outlook for the Wealth business.

With the main elements of the technology transformation program nearing completion, MyState is poised for further growth and productivity improvement across the business. More customers are using MyState's internet and mobile digital channels in preference to branches and the business will continue to leverage its technology platform, to ensure channels and points of presence are aligned with customer needs and products and services also keep pace with the changing landscape.

MyState is participating in the launch of the New Payments Platform, which is intended to bring real time payment to customers in November 2017. As the dynamics of the banking landscape change, MyState remains focused on helping customers with simpler, more relevant and more accessible products.

MyState also expects these investments to facilitate further revenue growth, deliver productivity and efficiency benefits and therefore, improved shareholder returns.

MyState has a clear strategy of organic growth, responding to the changing needs of customers, whilst remaining true to its purpose of helping people achieve their dreams. MyState is well capitalised with sound credit and risk management processes and remains confident of future growth prospects.

State of Affairs

During the financial year, there was no significant change in the state of affairs of the Company other than referred to in the review and results of operation.

Events Subsequent To Balance Date

In the opinion of the Directors, there has not arisen, in the period between the end of the financial year and the date of this report, any material item, transactions or event that is likely to significantly affect the operations of the consolidated entity.

Likely Developments and Expected Results

Directors do not foresee any material changes in the likely developments in the operations or the expected results of those operations in future financial years.

Directors consider that the disclosure of additional information in respect of likely developments in the operations or the expected results of those operations may unreasonably prejudice the Company. Accordingly, this information has not been disclosed in this report.

Environmental Regulation

The Company is not subject to significant environmental regulation.

Directors' Meetings

The number of meetings of Directors (including meetings of the Committees of Directors) held during the year and the number of meetings attended by each director are as indicated in the following table:

MyState Limited Directors' Meetings 2016/2017

	Board Meetings		Group Audit Committee		Group Remuneration Committee		Group Risk Committee		Group Nominations & Corporate Governance Committee		Group Technology Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
P Armstrong	15	18	n/a	n/a	6	6	n/a	n/a	4	4	n/a	n/a
B Bissaker (resigned 18/5/17)	15	17	4	5	n/a	n/a	5	5	n/a	n/a	n/a	n/a
R Gordon	17	18	n/a	n/a	n/a	n/a	5	5	4	4	5	5
M Hampton	18	18	6	6	6	6	n/a	n/a	4	4	n/a	n/a
C Hollingsworth	18	18	6	6	n/a	n/a	5	5	n/a	n/a	n/a	n/a
S Krieger (appt 1/12/17)	7	7	n/a	n/a	2	2	1	1	n/a	n/a	2	2
S Lonie	18	18	6	6	6	6	n/a	n/a	n/a	n/a	5	5
S Merridew (resigned 18/5/17)	16	17	n/a	n/a	n/a	n/a	5	5	n/a	n/a	5	5
M Sulicich	18	18	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

A - Number of meetings attended

B - Number of meetings eligible to attend

Indemnification and Insurance of Directors and Officers

The Company has paid, or agreed to pay, a premium in relation to a contract insuring the Directors and Officers listed in this report against those liabilities for which insurance is permitted under Section 199B of the Corporations Act 2001.

The Company has not otherwise, during or since the relevant period, indemnified or agreed to indemnify an Officer or Auditor of the Company or of any related body corporate against a liability incurred as such an Officer or Auditor.

Non-Audit Services

During the year, Wise Lord & Ferguson, the Company's auditor has performed certain other services in addition to their statutory duties. Further details are set out in note 8.2 to the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by the Group Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001, for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Group Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to the auditor independence as they related to technical disclosure issues.

Auditor's Independence Declaration to the Directors

The Directors received the following declaration from the auditor of the Company:

"In relation to our audit of the financial report for the consolidated group for the financial year ended 30 June 2017, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

This declaration is in respect of MyState Limited and the entities it controlled during the period.

J Doyle
Partner
Wise Lord & Ferguson
Hobart "

Dated 18 August 2017

MyState Limited Remuneration Report

This Remuneration Report forms part of the Directors' Report and outlines the Director and Executive remuneration arrangements of MyState Limited (the Company or MYS) for the year ended 30 June 2017, in accordance with the requirements of the *Corporations Act 2001* and its regulations.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

Contents

1. Group Remuneration Committee

The Board has established a Group Remuneration Committee that assists the Directors in discharging the Board's responsibilities in relation to remuneration and human resources by reviewing and making recommendations to the Board on:

- Remuneration policy and arrangements for Directors, the Managing Director and other Executives, having regard to comparative remuneration in the financial services industry and independent advice, including assessment of the Remuneration Policy's effectiveness and compliance with the requirements of APRA Prudential Standards;
- Applicable Human Resource Policies, Practices and ratification of industrial instruments to ensure compliance with all legal and regulatory requirements;
- Matters such as the Company's Employee Share Scheme or other incentive schemes for Executives and staff; and
- Succession planning, to ensure the Company has sufficiently skilled staff to competently perform their roles.

The Group Remuneration Committee monitors to ensure 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 to ensure conflict of interest does not occur.

2. Remuneration Philosophy

The objective of the Company's Remuneration Policy is to encourage behaviours that support the sustained financial performance and security of the Group and to reward Executive and Management efforts which increase shareholder and customer value.

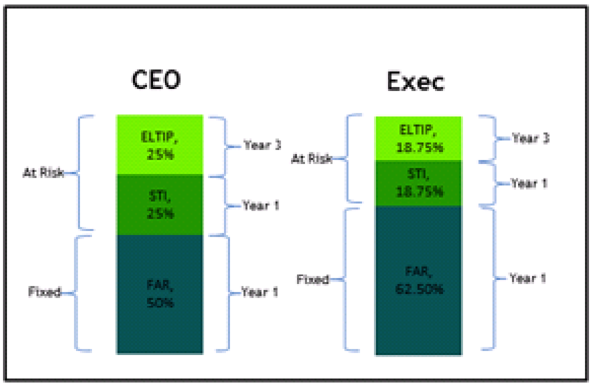
The Remuneration Policy is premised on:

- Appropriately balanced measures of performance;
- Variable performance based pay for Executives involving short and long-term incentive plans;
- Recognition and reward for strong performance;
- A considered balance between the capacity to pay and the need to pay to attract and retain capable staff at all levels;
- The exercise of Board discretion as an ultimate means to mitigate unintended consequences of variable pay and to preserve the interests of the shareholders; and
- Short-term and long-term incentive performance criteria being structured within the overall risk management framework of the Company.

In accordance with best practice corporate governance, the structure of Non-Executive Director remuneration is separate and distinct from Executive remuneration.

The Company links the nature and amount 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 (TTR) which from time to time may comprise one or more of the following:

Composition of CEO and EMT Remuneration



- Total Fixed Reward (inclusive of superannuation and salary sacrifice) (TFR);
- Cash based short term incentives (STI); and
- Equity based long term incentives (LTI).

3. Consequences of Performance on Shareholder Wealth

In considering the Company's performance and benefits for Shareholder wealth, the Group Remuneration Committee has regard to the following indices:

Indicator	2013	2014	2015	2016	2017
Underlying Profit after income tax ($'000)	28,457	29,571	29,719	31,062	30,080
Underlying Earnings per share (cents)	32.68	33.91	34.04	35.52	34.04
Dividends paid ($'000)	24,378	24,417	24,880	24,886	25,042
Share price (dollars)	4.24	4.64	4.83	4.13	4.85
Underlying Return on equity	10.2%	10.5%	10.4%	10.6%	10.0%

The performance measures for triggering both the Company's cash based Short Term Incentive Plan (STI) and Executive Long Term Incentive Plan (ELTIP) have been tailored to align "at-risk" remuneration and performance hurdle thresholds to the delivery of financial and operational objectives and sustained shareholder value growth.

STI, from time to time, includes financial and non-financial metrics.

ELTIP performance measures are based on total shareholder return (TSR) for the "2013" offer. For the "2014" and "2015" offers, the measures are weighted equally between relative TSR performance and absolute return on equity (ROE). For the "2016" offer, the measures are weighted equally between relative TSR performance and absolute post tax underlying ROE. The relative TSR is a measure which incorporates both dividends paid and movements in share prices, whilst absolute ROE and absolute post tax underlying ROE are measures of corporate profitability.

4. Key Management Personnel

The Key Management Personnel (KMP) of the Company in office during the year and up to the date of this report was as follows:

NAME	POSITION	MOVEMENTS IN 2017 FINANCIAL YEAR
Non Executive Directors		
Miles Hampton	Non Executive Chairman	
Peter Armstrong	Non Executive Director	
Brian Bissaker	Non Executive Director	Retired 18 May 2017
Robert Gordon	Non Executive Director	
Colin Hollingsworth	Non Executive Director	
Sibylle Krieger	Non Executive Director	Appointed 1 December 2016
Stephen Lonie	Non Executive Director	
Sarah Merridew	Non Executive Director	Retired 18 May 2017
Executive Directors		
Melos Sulicich	Managing Director and Chief Executive Officer	
Executives		
Huw Bough	General Manager Mortgage Broker Distribution	New role 20 February 2017
	General Manager Sales and Distribution	Outgoing role 19 February 2017
Katherine Dean	General Manager Retail Banking Sales and Service	Appointed 20 February 2017
David Harradine	Chief Financial Officer	
Colleen Harris	General Manager, People	Appointed 25 July 2017
Mandakini Khanna	Chief Risk Officer	
Jessica Kingston	Acting General Manager Human Resources & Property	Appointed 22 February 2017 Ceased 24 July 2017
Paul Moss	General Manager Technology and Operations	
Aaron Pidgeon	General Manager Human Resources & Property	Ceased 22 February 2017
Andrew Polson	General Manager Wealth Management	
Chris Thornton	General Manager Product and Marketing	

5. Non-Executive Director Remuneration

The Company's Non-Executive Directors (NEDs) receive only fees, including statutory superannuation, for their services and the reimbursement of reasonable expenses. These fees may be taken as shares subject to prior shareholder approval. They do not receive any retirement benefits other than statutory superannuation.

The Board reviews its fees to ensure the Company's NEDs are fairly remunerated for their services, recognising the level of skill and experience required to conduct the role and that the fee scale will enable the Company to attract and retain talented NEDs.

The advice of independent remuneration consultants is taken to ensure that the Directors' fees are in line with market standards.

The aggregate remuneration paid to all the NEDs, inclusive of statutory superannuation, may not exceed the $950,000 amount fixed by Shareholders at the October 2012 Annual General Meeting of Shareholders. This "fee pool" is only available to NEDs.

Each NED currently receives $85,000 per annum inclusive of statutory superannuation and the Chairman receives $212,500 per annum inclusive of statutory superannuation.

The Chair of the Group Audit Committee receives an additional $15,000 per annum inclusive of statutory superannuation and all other Board Committee Chairs receive an additional $12,500 per annum inclusive of statutory superannuation.

Additionally, Members of Board Committees who are not Chairs are paid $5,000 per annum per committee, inclusive of statutory superannuation.

6. Managing Director and Executive Remuneration

6.1 Fixed Annual Remuneration

The Total Fixed Reward (TFR) is paid by way of cash salary, superannuation and salary sacrificed fringe benefits and is reviewed annually by the Group Remuneration Committee. The Board appoints external consultants on a regular basis to provide analysis and advice to the Committee to ensure that Executive remuneration is competitive and appropriately structured.

The individual executive remuneration arrangements reflect the complexity of the role, individual responsibilities, individual performance, experience and skills.

6.2 Short Term Incentive

The STI is an annual "at risk" incentive payment. It rewards EMT members for their contribution towards the achievement of the Company's strategic 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 Company and its overall long term performance. There is no fixed minimum payment amount. The KPI's are measures relating to Company and personal performance accountabilities and include financial, strategic, operational, cultural, risk management and customer/stakeholder engagement measures.

Each year, the Group 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 Remuneration Committee. The Group Remuneration Committee selects performance objectives which provide a robust link between Executive reward and the key drivers of long term shareholder 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 Remuneration Committee as to the STI payment.

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

The Group 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.

Current STI Offers

Details of the STI's that affects the calculation of KMP remuneration for the 2016/17 financial year are set out in the following tables. During the financial year, KMP were paid their STI entitlement, as assessed, in respect of the 2015/16 financial year. Assessment and payment of STI bonuses in respect of the 2016/17 financial year was completed in August 2017.

Details of the amounts paid and forfeited are set-out in the accompanying table.

	2015/2016 STI					
KEY MANAGEMENT PERSONNEL	Max. % (of TFR)	Max Payable	% Awarded	% Forfeited	Amount Paid $	% Which is not yet assessed for payment
Melos Sulicich	50%	$275,000	36.36%	63.64%	$100,000	0%
Huw Bough	30%	$96,000	52.08%	47.92%	$50,000	0%
David Harradine	30%	$106,500	56.34%	43.66%	$60,000	0%
Mandakini Khanna(1)	30%	$57,750	60.61%	39.39%	$35,000	0%
Paul Moss	30%	$87,000	33.60%	66.40%	$29,232	0%
Aaron Pidgeon	15%	$41,250	23.10%	76.90%	$9,529	0%
Andrew Polson(1)	30%	$41,250	32.60%	67.40%	$13,448	0%
Chris Thornton	30%	$96,000	41.67%	58.33%	$40,000	0%

1) Pro-rata Max Payable based on commencement date.

KEY MANAGEMENT PERSONNEL	2016/2017 STI					
	Max. % (of TFR)	Max Payable	% Awarded	% Forfeited	Amount Paid $	% Which is not yet assessed for payment
Melos Sulicich	50%	$287,500	19.50%	80.50%	$56,063	0%
Huw Bough	30%	$99,000	19.63%	80.37%	$19,438	0%
Katherine Dean(1)	30%	$34,192	19.39%	51.83%	$6,680	0%
David Harradine	30%	$111,000	17.69%	82.31%	$19,635	0%
Mandakini Khanna	30%	$99,000	21.60%	78.40%	$21,384	0%
Jessica Kingston(1)	10%	$7,956	35.92%	64.08%	$5,298	0%
Paul Moss	30%	$99,000	21.60%	78.40%	$21,384	0%
Aaron Pidgeon(1)	15%	$27,142	31.32%	68.68%	$8,500	0%
Andrew Polson	30%	$99,000	18.10%	81.90%	$17,919	0%
Chris Thornton	30%	$96,000	18.23%	81.77%	$17,497	0%

1) Pro-rata Max Payable based on commencement and cessation dates as applicable.

6.3 Executive Long Term Incentive Plan

The ELTIP provides a long term "at risk" incentive, assessed over a three year performance period. It was established by the Board to reward 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.

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;
- Where an ELTIP participant ceases employment with MyState during a performance period due to expiration of a fixed term contract, 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 "2014" and "2015" offers or relative TSR and absolute post tax underlying ROE for the "2016" offer as the performance criteria.

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 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 Reason or is at the initiation of the Company without cause. Effective as of the 2014 ELTIP Offer, 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.

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.

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 are required not to 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.

Current ELTIP Offers

Details of offers made under the ELTIP to KMP that affect the calculation of their remuneration in this financial year are set out in the following table.

Offer	"2014"	"2015"	"2016"
Performance period	1 July 2014 to 30 June 2017	1 July 2015 to 30 June 2018	1 July 2016 to 30 June 2019
Performance criteria			
Measure	50% TSR 50% Absolute Post tax ROE		50% TSR 50% Absolute Post tax underlying ROE
The comparator group	Members of the S&P/ASX300		
Calculation of the reward	Shares will vest in accordance with the following schedule		
Share price baseline for TSR calculation	$4.67	$4.71	$4.00
Offer date - Managing Director	3 November 2014	27 November 2015	29 November 2016
- Other eligible Executives	Huw Bough[(2)] 20 April 2016 David Harradine[(2)] 20 April 2016 Natasha Whish-Wilson 3 November 2014	Huw Bough 27 November 2015 David Harradine 27 November 2015 Mandakini Khanna[(2)] 29 April 2016 Paul Moss 27 November 2015 Andrew Polson[(2)] 29 April 2016 Chris Thornton 27 November 2015	Huw Bough 5 September 2016 Katherine Dean[(2)] 15 May 2017 David Harradine 5 September 2016 Mandakini Khanna 5 September 2016 Paul Moss 5 September 2016 Andrew Polson 5 September 2016 Chris Thornton 5 September 2016
Share price used in Calculations	$4.72	$4.71	$4.11
Value of offer [(1)] - Managing Director	$275,000	$274,998	$287,500
- Other eligible Executives	$209,100	$478,272	$691,455

1) The value of the offer is the maximum value calculated as at the date of offer to the KMP(s) at that time. As such, it may include the value of offers made to individuals who are no longer KMP's of the Company.
2) Pro-rata offer.

Calculation of the Reward

TSR Component

For the 2014, 2015, 2016 and 2017 Offers, the ELTIP TSR component will vest on the following basis:

MYS TSR relative to the ASX 300:	Percentage of the applicable reward that will vest:
▪ Below the mid-point percentage:	0%
▪ At the Median ASX300	50%
▪ Between the median and 75%percentile	Opportunity vests pro rata on a straight line basis between 50% and 100%
▪ Above the 75th percentile	100%

No reward will be payable if performance is negative irrespective of the benchmark group performance.

ROE Component

The performance period for the ROE component for the ELTIP reward will be based upon on the Company's absolute post tax ROE ("2014" and "2015" offers) and on the company's absolute post tax underlying ROE (for the "2016" and "2017" offers) and will be payable on the following basis:

MYS aggregate absolute post tax ROE for the three periods:	Percentage of the applicable reward that will vest:
For the 2014 and 2015 Offers:	
▪ Below 32.22%	0%
▪ 32.22%	25%
▪ 32.22% to 33.25%	increases on a straight line basis from 25% to 100%
▪ 33.25% or above	100%

MYS aggregate absolute post tax underlying ROE for the three periods:	Percentage of the applicable reward that will vest:
For the 2016 and 2017 Offers:	
▪ Below 31.80%	0%
▪ 31.80%	25%
▪ 31.80% to 33.50%	increases on a straight line basis from 25% to 100%
▪ 33.50% or above	100%

Actual and Potential ELTIP Share Allocations

The following tables detail, for current and former KMP, the status of offers made under the ELTIP. The "2013" offer performance period was completed on 30 June 2016 and the "2014" offer performance period was completed on 30 June 2017.

	Name	Component	Maximum Offer	Forfeited	Vested in the 2016/17 Financial Year	Not yet assessed for Vesting
			Number of Shares			
"2013" Offer	Tim Rutherford	TSR	24,951	24,951	-	-
	Natasha Whish-Wilson	TSR	20,707	20,707	-	-
"2014" Offer	Melos Sulicich (1)	TSR	29,132	13,634	15,498	-
		ROE	29,131	29,131	-	-
	Huw Bough	TSR	8,411	3,936	4,475	-
		ROE	8,410	8,410	-	-
	David Harradine	TSR	3,168	1,483	1,685	-
		ROE	3,167	3,167	-	-
	Natasha Whish-Wilson	TSR	10,574	10,574	-	-
		ROE	10,572	10,572	-	-

1) 2017 share allocation for the Managing Director and Chief Executive Officer is subject to shareholder approval.

The "2015", "2016" and "2017" offers have not been assessed for vesting and no shares have been forfeited. The following table shows the maximum number of shares available under each of these offers:

Name	Component	"2015" Offer	"2016" Offer	"2017" Offer
		Number of Shares		
Melos Sulicich (1)	TSR	29,193	34,976	29,307
	ROE	29,193	34,975	29,307
Huw Bough	TSR	10,191	12,044	10,092
	ROE	10,191	12,044	10,092
Katherine Dean	TSR	-	4,192	9,786
	ROE	-	4,191	9,786
David Harradine	TSR	11,306	13,504	11,315
	ROE	11,305	13,503	11,315
Mandakini Khanna	TSR	6,116	12,044	10,551
	ROE	6,116	12,044	10,551
Paul Moss	TSR	9,235	12,044	10,092
	ROE	9,235	12,044	10,092
Andrew Polson	TSR	3,733	12,044	10,092
	ROE	3,733	12,044	10,092
Chris Thornton	TSR	10,191	11,679	10,245
	ROE	10,191	11,679	10,245
Colleen Harris	TSR	-	-	9,714
	ROE	-	-	9,714

1) 2017 offer for the Managing Director and Chief Executive Officer is subject to shareholder approval.

7. Remuneration of Key Management Personnel

		Salary & Fees $	Cash Bonus $	Non-Monetary Benefits(14) $	Post Employment Superannuation $	Termination Benefits $	Share Based Payment (3) $	Total (1), (2) $
Non-Executive Directors								
Miles Hampton	**2017**	**193,532**	**-**	**-**	**18,386**	**-**	**-**	**211,918**
	2016	194,192	-	-	18,386	-	-	212,578
Peter Armstrong	**2017**	**75,151**	**-**	**-**	**27,068**	**-**	**-**	**102,219**
	2016	74,958	-	-	27,050	-	-	102,008
Brian Bissaker(4)	**2017**	**76,870**	**-**	**-**	**7,303**	**-**	**-**	**84,173**
	2016	14,309	-	-	948	-	-	15,257
Robert Gordon	**2017**	**72,705**	**-**	**-**	**34,501**	**-**	**-**	**107,206**
	2016	71,423	-	-	35,255	-	-	106,678
Colin Hollingsworth	**2017**	**69,888**	**-**	**-**	**34,825**	**-**	**-**	**104,713**
	2016	69,474	-	-	35,028	-	-	104,502
Sibylle Krieger(5)	**2017**	**51,387**	**-**	**-**	**4,882**	**-**	**-**	**56,269**
	2016	-	-	-	-	-	-	-
Stephen Lonie	**2017**	**91,836**	**-**	**-**	**8,724**	**-**	**-**	**100,560**
	2016	90,881	-	-	8,634	-	-	99,515
Ian Mansbridge(6)	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2016	73,209	-	-	6,955	-	-	80,164
Sarah Merridew(7)	**2017**	**72,939**	**-**	**-**	**17,879**	**-**	**-**	**90,818**
	2016	85,958	-	-	18,850	-	-	104,808
Sub Total	**2017**	**704,308**	**-**	**-**	**153,568**	**-**	**-**	**857,876**
	2016	674,404	-	-	151,106	-	-	825,510

		Salary & Fees $	Cash Bonus $	Non-Monetary Benefits(14) $	Post Employment Superannuation $	Termination Benefits $	Share Based Payment (3) $	Total (1), (2) $
Executives								
Melos Sulicich	**2017**	**540,288**	**56,063**	**-**	**34,600**	**-**	**101,992**	**732,943**
	2016	515,000	100,000	3,849	34,999	-	47,297	701,145
Huw Bough	**2017**	**300,246**	**19,438**	**24,663**	**32,861**	**-**	**33,427**	**410,635**
	2016	290,250	50,000	31,226	27,508	-	13,604	412,588
Katherine Dean(8)	**2017**	**104,531**	**6,680**	**101**	**9,930**	**-**	**9,453**	**130,695**
	2016	-	-	-	-	-	-	-
Miles Farrow(9)	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2016	112,839	-	-	18,296	-	-	131,135
David Harradine	**2017**	**336,214**	**19,635**	**1,194**	**37,146**	**-**	**31,112**	**425,301**
	2016	323,042	60,000	-	30,689	-	4,705	418,436
Mandakini Khanna(10)	**2017**	**301,370**	**21,384**	**-**	**34,992**	**-**	**19,168**	**376,914**
	2016	171,784	53,307	-	18,058	-	3,982	247,131
Jessica Kingston(11)	**2017**	**79,566**	**5,298**	**-**	**6,903**	**-**	**-**	**91,767**
	2016	-	-	-	-	-	-	-
Paul Moss	**2017**	**296,874**	**21,384**	**1,194**	**28,203**	**-**	**30,741**	**378,396**
	2016	265,632	29,232	-	25,160	-	6,988	327,012
Aaron Pidgeon(12)	**2017**	**185,195**	**8,500**	**965**	**17,593**	**269,175**	**-**	**481,428**
	2016	253,825	9,529	-	24,709	-	-	288,063
Andrew Polson(13)	**2017**	**301,370**	**17,919**	**-**	**29,797**	**-**	**16,000**	**365,086**
	2016	95,047	13,448	-	9,029	-	2,216	119,740
Chris Thornton	**2017**	**289,281**	**17,497**	**52,052**	**30,952**	**-**	**32,514**	**422,296**
	2016	292,237	40,000	20,533	27,762	-	7,711	388,243
Sub Total	**2017**	**2,734,935**	**193,798**	**80,169**	**262,977**	**269,175**	**274,407**	**3,815,461**
	2016	2,319,656	355,516	55,608	216,210	-	86,503	3,033,493
Total	**2017**	**3,439,241**	**193,798**	**80,169**	**416,545**	**269,175**	**274,407**	**4,673,337**
	2016	2,994,060	355,516	55,608	367,316	-	86,503	3,859,003

1) The amounts disclosed for the remuneration of KMP are the cost to the Company for these components, as recorded by it in the financial year. These amounts have been calculated in accordance with relevant accounting policies and Accounting Standards. As these figures are based on accrual accounting and not a reflection of actual cash paid or shares vested, negative figures can result in the event of accrual reversals being recorded. Amounts stated are in respect of the period that the individual held a role of a KMP.
2) Approximately 40% of the maximum amount, in respect of the 2016/17 financial year STI offers, has been accrued on the basis that it is probable that the KMP will partially meet this proportion of their respective KPI's for the period. Any adjustments between the actual amounts to be paid, as determined by the Group Remuneration Committee and Board, and the amounts accrued will be disclosed in the Company's Remuneration Report and financial statements for the 2018 financial year. In addition, the disclosed amounts include satisfaction of prior year STI obligations.
3) Share based payment amounts have been calculated in accordance with the relevant accounting policy and Accounting Standard. The fair value of the share grant is calculated at the date of grant and is allocated to each reporting period evenly over the period from grant date to vesting date. This fair value will generally be different to the value of shares at the time they vest. The value disclosed is the portion of the fair value of the share grant allocated to this reporting period. These amounts represent share grants which will only vest to the KMP when certain performance and service criteria are met. In some circumstances all, or a portion, of the shares may never vest to the KMP.
4) Brian Bissaker commenced as a KMP on 1 May 2016 and ceased as KMP on 18 May 2017.
5) Sibylle Krieger commenced as a KMP on 1 December 2016.
6) Ian Mansbridge ceased as a KMP on 30 April 2016.
7) Sarah Merridew ceased as a KMP on 18 May 2017
8) Katherine Dean commenced as a KMP on 20 February 2017
9) Miles Farrow ceased as a KMP on 30 November 2015.
10) Mandakini Khanna commenced as a KMP on 1 December 2015.
11) Jessica Kingston commenced as a KMP on 22 February 2017.
12) Aaron Pidgeon ceased as a KMP on 22 February 2017. The termination benefit amount shown Includes annual and long service leave entitlements paid on cessation.
13) Mr Polson commenced as KMP on 22 February 2016.
14) Non-Monetary Benefits consist of car parking expense, travel & accommodation and entertainment.

8. Shareholdings of Key Management Personnel

Non Executive Director Minimum Shareholding Requirement

From 1 January 2015, a Minimum Shareholding Requirement (MSR) has been implemented for all Non Executive Directors.

Non Executive Directors, in the absence of approval from the Board to the contrary, are required to acquire and maintain, directly or indirectly, shares in MyState Limited to the equivalent of one year's pre-tax base Director's fee. The MSR must be achieved within four years of their appointment or the date of implementation of this policy, whichever is the latter.

Executive Minimum Shareholding Requirement

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

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

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

The shares in MyState Limited (ASX code: MYS) may be held directly or indirectly, and may include shares obtained prior to 1 January 2015 and/or shares acquired through ELTIP or any other scheme, where this includes shares vested and allocated but still held in trust, but excludes any allocated shares which have not yet vested.

Details regarding the holdings by KMP and their related parties of ordinary shares in the Company are set out in the following table. Related parties include close members of the family of the KMP. It also includes entities under joint or several control or significant influence of the KMP and their close family members. No equity transactions with KMP, other than those arising as payment for compensation, have been entered into with the Company.

	Balance at commencement of financial year	Granted as compensation	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee
Non-Executive Directors					
Miles Hampton	612,568	-	37,432	650,000	-
Peter Armstrong	8,028	-	2,685	10,713	-
Robert Gordon	14,387	-	6,000	20,387	-
Colin Hollingsworth	20,274	-	5,000	25,274	-
Sibylle Krieger(1)	-	-	5,000	5,000	-
Stephen Lonie	51,795	-	1,704	53,499	-
Sub Total	707,052	-	57,821	764,873	-

1) Appointed as KMP on 1 December 2016

	Balance at commencement of financial year	Granted as compensation	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee
Executives					
Melos Sulicich	35,000	-	7,100	42,100	-
Huw Bough	-	-	-	-	-
Katherine Dean(1)	-	-	-	-	-
David Harradine	2,000	-	-	2,000	-
Mandakini Khanna	-	-	-	-	-
Paul Moss	-	-	-	-	-
Andrew Polson	-	-	-	-	-
Chris Thornton	-	-	-	-	-
Sub Total	37,000	-	7,100	44,100	-
Total	744,052	-	64,921	808,973	-

1) Appointed as KMP on 20 February 2017.

9. Loans to Key Management Personnel

There are no loans guaranteed or secured by the Company to KMP and their related parties in 2017.

Related parties include close members of the family of the KMP. It also includes entities under joint or several control or significant influence of the KMP and their close family members.

10. Contract Terms and Conditions

The Managing Director and Executives are employed under individual employment agreements.

Incumbent	Commenced in role	Contract term	Total Fixed Reward (TFR) (per year and subject to market based review mechanisms)	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions **In the event of termination by the Company** (subject to shareholder approval in the event that they exceed the equivalent of 1 year TFR in total)
Melos Sulicich	1 July 2014 Share Ownership	4 Year term from 1 July 2014. Required to purchase and maintain shares to the value of 50% of TFR by 30th June 2018.	$575,000	50% of TFR	50% of TFR	Notice The contract may be terminated by the Company with 6 months notice or payment in lieu of notice. Entitlement • Pro-rata STI payment applied, at the full discretion of the Board, as at the date of termination. • Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Huw Bough	13 August 2014	Ongoing	$330,000	30% of TFR	Between 15% and 30% of TFR upon invitation to participate	Notice The contract can be terminated by the Company upon provision of 3 months notice. Entitlement • Payment of the equivalent of 6 months TFR. • Pro-rata STI payment applied as at the date of termination. • Payment of STI if the performance period is complete but not yet paid • Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Katherine Dean	22 February 2017	Ongoing	$320,000			
David Harradine	16 March 2015	Ongoing	$370,000			
Colleen Harris	25 July 2017	Ongoing	$340,000			
Paul Moss	13 May 2015	Ongoing	$330,000			
Mandakini Khanna	1 December 2015	Ongoing	$345,000			
Chris Thornton	20 April 2015	Ongoing	$335,000			
Andrew Polson	22 February 2016	Ongoing	$330,000			
Jessica Kingston(1)	22 February 2017	Temporary / Acting	$226,887 (includes Higher Duties Allowance)	10%	N/A	The contract can be terminated by the Company, under the provisions of the MyState Limited Enterprise Agreement 2014-2017, upon provision of 4 weeks notice plus redundancy entitlements (currently 18 weeks).

Signed in accordance with a resolution of the Directors.

M L Hampton
Chairman

M A Sulicich
Managing Director

Hobart
Dated this 18 August 2017

MyState LIMITED
ABN 26 133 623 962

Consolidated Financial Statements

For the year ended 30 June 2017

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MyState Limited
Consolidated Income Statement
for the year ended 30 June 2017

	Notes	30 Jun 17 $ '000	30 Jun 16 $ '000
Interest income	2.1	**182,220**	183,351
Less: Interest expense	2.1	**(94,088)**	(94,441)
Net interest income		**88,132**	**88,910**
Non-interest income from banking activities	2.1	**18,360**	16,879
Net banking operating income		**106,492**	**105,789**
Income from wealth management activities	2.2	**16,738**	17,462
Profit from sale of other investments	2.3	**1,362**	-
Income from other activities	2.3	**24**	171
Total operating income		**124,616**	**123,422**
Less: Expenses			
Personnel costs		**38,069**	36,995
Administration costs	2.4	**18,874**	17,887
Significant due dilligence project costs		**1,279**	1,752
Impairment - software		**-**	1,350
Technology costs	2.4	**10,838**	9,513
Occupancy costs	2.4	**6,930**	6,748
Marketing costs		**3,542**	4,056
Governance costs		**2,633**	2,810
Total operating expenses		**82,165**	**81,111**
Profit before bad and doubtful debts and income tax expense		**42,451**	**42,311**
Less: Impairment expense on loans and advances	4.3	**213**	1,221
Profit before income tax		**42,238**	**41,090**
Income tax expense	6.1	**12,158**	12,756
Profit for the year		**30,080**	**28,334**
Profit attributable to the:			
Equity holders of MyState Limited		**30,080**	**28,334**
Basic earnings per share (cents per share)	2.5	**34.04**	**32.40**
Diluted earnings per share (cents per share)	2.5	**34.04**	**32.40**

The accompanying notes form part of these financial statements.

MyState Limited
Consolidated Statement of Comprehensive Income
for the year ended 30 June 2017

	Notes	30 Jun 17 $ '000	30 Jun 16 $ '000
Profit for the year		**30,080**	28,334
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Net gains / (losses) taken to equity		**(289)**	587
Change in fair value of financial assets at fair value through other comprehensive income		**(619)**	619
Income tax effect		**272**	(363)
Total other comprehensive income for the year		**(636)**	**843**
Total comprehensive income for the year		**29,444**	**29,177**
Total comprehensive income for the year is attributable to:			
Equity holders of MyState Limited		**29,444**	**29,177**

MyState Limited
Consolidated Statement of Financial Position
as at 30 June 2017

	Notes	30 Jun 17 $ '000	30 Jun 16 $ '000
Assets			
Cash and liquid assets	4.1	**64,226**	80,126
Due from other financial institutions		**35,161**	17,875
Other assets		**6,577**	5,819
Financial instruments	4.2	**420,769**	355,992
Loans and advances	4.3	**4,282,525**	3,863,133
Property, plant and equipment	5.1	**8,296**	9,812
Deferred tax assets	6.1	**4,718**	3,664
Intangible assets and goodwill	5.2	**88,179**	78,982
Total assets		**4,910,451**	**4,415,403**
Liabilities			
Due to other financial institutions		**34,319**	30,710
Other liabilities		**6,801**	6,961
Deposits and other borrowings including subordinated notes	4.5	**4,548,966**	4,068,182
Employee benefit provisions	5.3	**5,370**	5,515
Tax liabilities	6.1	**4,091**	4,407
Total liabilities		**4,599,547**	**4,115,775**
Net assets		**310,904**	**299,628**
Equity			
Share capital	5.4	**141,349**	134,756
Retained earnings		**164,358**	159,320
Reserves		**5,197**	5,552
Total equity		**310,904**	**299,628**

The accompanying notes form part of these financial statements.

MyState Limited
Consolidated Statement of Changes in Equity
for the financial year ended 30 June 2017

	Note	Share capital $ '000	Retained earnings $ '000	General reserve for credit losses $ '000	Employee equity benefits reserve $ '000	Hedging reserve $ '000	Net unrealised gains reserve $ '000	Total $ '000
At 1 July 2015		**132,670**	**155,872**	**4,428**	**564**	**(394)**	**-**	**293,140**
Profit for the year		-	28,334	-	-	-	-	**28,334**
Other comprehensive income		-	-	-	-	410	433	**843**
Total comprehensive income for the year		**-**	**28,334**	**-**	**-**	**410**	**433**	**29,177**
Equity issued under employee share scheme	5.4	99	-	-	-	-	-	**99**
Equity issued under executive long term incentive plan	5.4	46	-	-	(46)	-	-	**-**
Equity issued under dividend reinvestment plan	5.4	1,941	-	-	-	-	-	**1,941**
Share based payment expense recognised		-	-	-	157	-	-	**157**
Dividends paid	2.6	-	(24,886)	-	-	-	-	**(24,886)**
At 30 June 2016		**134,756**	**159,320**	**4,428**	**675**	**16**	**433**	**299,628**
At 1 July 2016		**134,756**	**159,320**	**4,428**	**675**	**16**	**433**	**299,628**
Profit for the year		-	30,080	-	-	-	-	**30,080**
Other comprehensive income		-	-	-	-	(203)	(433)	**(636)**
Total comprehensive income for the year		**-**	**30,080**	**-**	**-**	**(203)**	**(433)**	**29,444**
Equity issued under employee share scheme	5.4	80	-	-	-	-	-	**80**
Equity issued under executive long term incentive plan	5.4	-	-	-	-	-	-	**-**
Equity issued under dividend reinvestment plan	5.4	6,513	-	-	-	-	-	**6,513**
Share based payment expense recognised		-	-	-	281	-	-	**281**
Dividends paid	2.6	-	(25,042)	-	-	-	-	**(25,042)**
At 30 June 2017		**141,349**	**164,358**	**4,428**	**956**	**(187)**	**-**	**310,904**

Consolidated Statement of Cash Flows
for the financial year ended 30 June 2017

	Notes	30 Jun 17 $ '000	30 Jun 16 $ '000
Cash flows from operating activities			
Interest received		**190,677**	189,242
Interest paid		**(94,283)**	(95,396)
Fees and commissions received		**33,457**	33,613
Dividends received		**15**	78
Other non-interest income received		**774**	2,066
Payments to suppliers and employees		**(76,855)**	(71,011)
Income tax paid		**(13,157)**	(16,429)
Net cash flows from / (used in) operating activities	4.1	**40,628**	**42,163**
Cash flows from investing activities			
Purchase of intangible assets		**(12,166)**	(4,116)
Proceeds from sale of property, plant and equipment		**15**	37
Purchase of property, plant and equipment		**(714)**	(499)
Net decrease / (increase) in loans to customers		**(428,054)**	(319,794)
Net increase / (decrease) in amounts due from other financial institutions		**(86,066)**	(3,514)
Proceeds from sale of other investments		**3,857**	-
Payments for other investments		**168**	(3,470)
Net cash flows from / (used in) investing activities		**(522,960)**	**(331,356)**
Cash flows from financing activities			
Employee share issue		**80**	99
Dividends paid net of dividend reinvestment plan	2.6	**(18,629)**	(22,945)
Net increase in subordinated notes		**10,032**	24,663
Net (decrease) / increase in deposits and other borrowings		**289,769**	225,979
Net increase / (decrease) in due to other financial institutions		**185,180**	75,338
Net cash flows used in financing activities		**466,432**	**303,134**
Net (decrease) / increase in cash held		**(15,900)**	13,941
Cash at beginning of financial year		**80,126**	66,185
Closing cash carried forward	4.1	**64,226**	**80,126**

The accompanying notes form part of these financial statements.

1.1 Reporting entity

MyState Limited (the Company) is incorporated and domiciled in Australia and is a company limited by shares that are publicly traded on the Australian Securities Exchange. The consolidated financial statements of MyState Limited and its subsidiaries (the Group) were authorised for issue by the Directors on 18 August 2017.

1.2 Basis of accounting

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and other requirements of the law. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

Where necessary, comparatives figures have been re-classified and re-positioned for consistency with current period disclosures.

Early Adoption of AASB 9 *Financial Instruments (2010)*

Under s. 334(5) of the Corporations Act 2001, the Directors have elected to apply Accounting Standard AASB 9 'Financial Instruments' for the financial year beginning 1 July 2014, even though the standard is not required to be applied until annual reporting periods beginning on or after 1 January 2017. In accordance with the transition requirements of these provisions, comparatives were restated in the 2015 financial statements.

- The Held to Maturity (HTM) and Available for Sale (AFS) asset categories have been removed.
- Financial assets previously classified as "Available for sale" are contained within "Financial instruments" and detailed in the note as each instrument type. These instruments, when classified as "available for sale", were initially measured at cost and subsequently measured at fair value through other comprehensive income. They are now carried at amortised cost. This change has resulted in the reversal of the fair value gains related to these instruments that had been previously recognised in the Unrealised Gains Reserve in the Consolidated Statement of Comprehensive Income.

The classification and measurement of other financial assets and liabilities is unchanged.

The consolidated financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies.

The following transactions are exceptions to these described methods of determining fair values:

- Share-based payment transactions that are within the scope of AASB 2; and
- Leasing transactions that are within the scope of AASB 117.

Rounding of amounts

The company is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 2016/191, and, in accordance with that Class Order, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated. All amounts are presented in Australian dollars.

1.3 Use of estimates and judgement

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial report such as:

- Recoverability of deferred tax assets, refer note 6.1;
- Impairment losses on loans and advances, refer note 4.3;
- Fair value of financial instruments, refer note 4.6; and
- Impairment assessment of intangibles and goodwill, refer note 5.2.

1.4 Provisions (other than for impairment of financial assets)

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

	30 Jun 17 $ '000	30 Jun 16 $ '000
2.1 Income from banking activities		
Interest income		
Loans and advances	**172,163**	172,278
Investment securities	**10,057**	11,073
Total interest income	**182,220**	**183,351**
Interest expense		
At call deposits	**11,161**	12,405
Fixed term deposits	**82,927**	82,036
Total interest expense	**94,088**	**94,441**
Non-interest income from banking activities		
Transaction fees	**7,776**	7,985
Loan fee income	**5,100**	4,552
Banking commissions	**3,797**	3,315
Other banking operations income	**1,687**	1,027
Total non-interest income from banking activities	**18,360**	**16,879**

Income accounting policy

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised.

Interest, fees and commissions
Control of a right to receive consideration for the provision of, or investment in, assets has been attained. Interest, fees and commission revenue is brought to account on an accrual basis.

Interest income is accrued using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Loan origination fees
Loan origination fees are recognised as components of the calculation of the effective interest rate method in relation to originated loans. They, therefore, affect the interest recognised in relation to this portfolio of loans. The average life of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination fees is appropriate.

	30 Jun 17 $ '000	30 Jun 16 $ '000
2.2 Income from wealth management activities		
Funds management income	**9,456**	9,272
Other fees and commissions	**7,282**	8,190
Total Income from wealth management activities	**16,738**	**17,462**

Funds management income and fiduciary activities

Tasmanian Perpetual Trustees Limited, a controlled entity of the Group, acts as Responsible Entity, Trustee and Funds Manager for ten managed investment schemes. The investment schemes place monies with external wholesale fund managers, direct mortgages and mortgaged backed securities, term deposits and other investments. The clients include individual, superannuation and corporate investors.

The assets and liabilities of these funds are not included in the Consolidated Financial Statements. Income earned by the Group in respect of these activities are included in the Consolidated Income Statement of the Group as "Funds management income".

The following table shows the balance of the unconsolidated funds under management and funds under advice that gives rise to funds management and other fees and commissions income respectively:

	30 Jun 17 $ 'M	30 Jun 16 $ 'M
Funds under management	1,089	1,008
Funds under advice	778	733

Other fees and commissions

Tasmanian Perpetual Trustees Pty Ltd provides financial planning, private client tax accounting services and acts as trustee and executor of estates. "Other fees and commissions income" is the income earned from these activities.

Income accounting policy

Funds management income and other fees and commissions income is brought to account on an accrual basis to the extent that:

- It is probable that the economic benefits will flow to the entity;
- The revenue can be reliably measured; and
- Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

	30 Jun 17 $ '000	30 Jun 16 $ '000
2.3 Income from other activities		
Profit from sale of other investments	**1,362**	-

In 2017, Tasmanian Perpetual Trustees Limited disposed of its investment in listed shares. The carrying value of these shares at the date of disposal was $3.84M.

Dividends from other corporations	**15**	148
Profit on sale of property plant and equipment assets	**9**	23
Total income from other activities	**24**	**171**

Dividend accounting policy

Dividends are recorded as income when the right to receive the dividend is established.

2.4 Expenses

The following items are included within each item of specified expenses:

Occupancy costs include:		
Operating lease payments	**4,117**	3,925
Depreciation - leasehold improvements	**1,548**	1,591
Technology costs include:		
Amortisation - computer software	**2,167**	1,964
Administration costs		
Amortisation - other intangibles	**803**	497
Depreciation - furniture and equipment	**675**	737

Expense accounting policy

Operating lease expense
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement, to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis in the Consolidated Income Statement over the life of the lease.

Depreciation and amortisation expense
The Group adopts the straight line method of depreciating property, plant and equipment and amortising intangible assets over the estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired expected term of the lease or the estimated useful life of the improvements. Estimated useful lives are:

Buildings	40	years.
Office furniture, fittings & equipment	4-7	years.
Building fit-out (owned buildings)	4-15	years.
Computer hardware	3	years.
Software	3-10	years.

	30 Jun 17 cents	30 Jun 16 cents
2.5 Earnings per share		
Basic earnings per share	**34.04**	32.40
Diluted earnings per share	**34.04**	32.40

Earnings per share accounting policy

Basic earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

The following table details the income and weighted average number of shares used in the calculation of basic and diluted earnings per share:

	30 Jun 17 $' 000	30 Jun 16 $' 000
Profit for the year	**30,080**	28,334
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**88,355,988**	87,463,245

2.6 Dividends

	Date of payment	30 Jun 17 $ '000	30 Jun 16 $ '000
Dividends paid			
2015 Final dividend paid - 14.5 cents per share	2 Oct 2015	**-**	12,659
2016 Interim dividend paid - 14.0 cents per share	24 Mar 2016	**-**	12,227
2016 Final dividend paid - 14.5 cents per share	3 Oct 2016	**12,740**	-
2017 Interim dividend paid - 14.0 cents per share	10 Mar 2017	**12,302**	**-**
		25,042	**24,886**

The dividends paid during the year were fully franked at the 30 per cent corporate tax rate.

2.6 Dividends (continued)

	30 Jun 17 $ '000	30 Jun 16 $ '000
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the period at 30% (2016: 30%)	**61,797**	59,370
Franking credits that will arise from the payment of income tax payable at the end of the period	**837**	1,839

Dividends not recognised at the end of the financial year

On 18 August 2017, the Directors resolved to pay a final dividend for the 2017 financial year of 14.5 cents per share or $12.97m total to be paid on the 13th of September 2017, fully franked at the 30 per cent corporate tax rate. This dividend has not been brought to account as the amount had not been determined at the reporting date. This dividend will reduce the balance of the franking account by $5.56m.

2.7 Segment financial information

Operations of reportable segments

The Group has identified two operating divisions and a corporate division which are its reportable segments. These divisions offer different products and services and are managed separately. The Group's management committee review internal management reports for each of these divisions at least monthly.

Banking division

The banking division's product offerings include lending; encompassing home loans, personal, overdraft, line of credit and commercial products, transactional savings accounts and fixed term deposits and insurance products. It delivers these products and services through its branch network, digital channels and third party channels. The banking division is conducted by the MyState Bank Group. Prior to 30 September 2015, the Rock Building Society Group formed part of this group and was a second ADI. On the 30th of September 2015, the rights and obligations of the Rock Building Society Group were transferred to MyState Bank Limited and, as a result, the banking group is now comprised of one ADI and its subsidiaries.

Wealth management division

The wealth management division is a provider of funds management, financial planning and trustee services. It operates predominantly within Tasmania. It holds $1 billion in funds under management on behalf of personal, business and wholesale investors as the responsible entity for 10 managed investment schemes. The wealth management division is conducted by Tasmanian Perpetual Trustees Limited. Tasmanian Perpetual Trustees Limited is a trustee company licensed within the meaning of Chapter 5D of the Corporations Act 2001 and is the only private trustee company with significant operations in Tasmania.

Corporate and consolidation division

The corporate cost centre is responsible for the governance of the Group. The corporate cost centre charges the operating divisions on a cost recovery basis for costs it has incurred. This division is also where eliminations are shown between the banking division and the wealth management division.

2.7 Segment financial information (continued)

	Banking Business $' 000	Wealth Management $' 000	Corporate and Consolidation $' 000	Total $' 000
Year ended 30 June 2017				
Interest income	181,875	159	186	182,220
Interest expense	(94,088)	-	-	(94,088)
Other income				
Transaction fees	7,776	-	-	7,776
Loan fee income	5,100	-	-	5,100
Banking commissions	3,797	-	-	3,797
Other banking operations income	1,821	-	(134)	1,687
Funds management income	-	9,456	-	9,456
Other wealth management fees and commissions	-	7,282	-	7,282
Profit from sale of other investments	-	1,387	-	1,387
Income from other activities	24	-	(25)	(1)
Total operating income	**106,305**	**18,284**	**27**	**124,616**
Expenses				
Personnel costs	25,565	7,336	5,168	38,069
Administration costs	23,158	4,022	(7,027)	20,153
Technology costs	10,325	430	83	10,838
Occupancy costs	5,990	805	135	6,930
Marketing costs	3,255	182	105	3,542
Governance costs	492	70	2,071	2,633
Impairment expense on loans and advances	213	-	-	213
Income tax expense	11,038	1,624	(504)	12,158
Segment profit for the year	26,269	3,815	(4)	30,080
Segment balance sheet information				
Segment assets	4,834,688	25,385	50,378	4,910,451
Segment liabilities	4,596,089	2,652	806	4,599,547

	Banking $' 000	Wealth Management $' 000	Corporate and Consolidation $' 000	Total $' 000
Year ended 30 June 2016				
Interest income	182,914	204	233	183,351
Interest expense	(94,441)	-	-	(94,441)
Other income				
Transaction fees	7,985	-	-	7,985
Loan fee income	4,552	-	-	4,552
Banking commissions	3,315	-	-	3,315
Other banking operations income	1,159	17	(149)	1,027
Funds management income	-	9,272	-	9,272
Other Wealth Management fees and commissions	-	8,190	-	8,190
Income from other activities	173	-	(2)	171
Total operating income	**105,657**	**17,683**	**82**	**123,422**
Expenses				
Personnel costs	25,990	6,925	4,080	36,995
Administration costs	23,403	3,926	(6,340)	20,989
Technology costs	8,875	548	90	9,513
Occupancy costs	5,897	797	54	6,748
Marketing costs	3,763	240	53	4,056
Governance costs	582	80	2,148	2,810
Impairment expense on loans and advances	1,221	-	-	1,221
Income tax expense	10,644	1,390	722	12,756
Segment profit for the year	**25,282**	**3,777**	**(725)**	**28,334**
Segment balance sheet information				
Segment assets	4,335,161	28,036	52,206	4,415,403
Segment liabilities	4,110,774	2,378	2,623	4,115,775

3.1 Capital management strategy

The Group's capital management strategy is to adhere to regulatory requirements and maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Group's capital management objectives are to:

Continue to support MyState Bank Limited's credit ratings;
- Ensure sufficient capital resource to support the Group's business and operational requirements;
- Maintain sufficient capital to exceed prudential capital requirements; and
- Safeguard the Group's ability to continue as a going concern.

The Group's capital management policy covers both internal and external capital threshold requirements.

Regulatory capital requirements are measured at two levels:

Level 1	The authorised deposit taking institution (ADI's), MyState Bank Limited.
Level 2	The wider MyState Limited prudential group which comprises MyState Limited (non-operating holding company), MyState Bank and Connect Asset Management (the Securitisation program Manager).

These two regulatory levels exclude certain securitisation vehicles and also exclude Tasmanian Perpetual Trustees Limited.

The Australian Prudential Regulatory Authority (APRA) requires ADI's to have a minimum ratio of capital to risk weighted assets of 8 percent at both level 1 and level 2, with at least 4.5 percent of this capital in the form of tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Group has complied with the regulatory minimum capital requirements at all times during the year. The Group's capital management policy, set by the Board, requires capital floors above this regulatory required level.

The Group has developed a detailed Internal Capital Adequacy Assessment Plan (ICAAP). This plan covers the capital requirements of the Regulated Groups (level 1 and level 2 as described previously) and Tasmanian Perpetual Trustees.

The ICAAP aims to ensure that adequate planning activities take place so that the Group is efficiently capitalised to a level also satisfactory to regulators. The ICAAP caters for all known financial events, dividend policy, capital raisings and securitisation.

3.1 Capital management strategy (continued)

The Board has currently set a minimum total capital adequacy ratio of 12.5%. Capital adequacy, at year end, of the level 2 regulatory group, which includes MyState Limited, MyState Bank Limited and Connect Asset Management Pty Ltd is detailed in the following table:

	30 Jun 17 $ '000	30 Jun 16 $ '000
Qualifying capital		
Common equity tier 1 capital		
Paid-up ordinary share capital	**141,349**	134,756
Retained earnings	**177,819**	172,298
Reserves excluding general reserve for credit losses	**956**	675
Total common equity tier 1 capital	**320,124**	**307,729**
Regulatory adjustments		
Deferred expenditure including deferred tax assets	**24,270**	26,622
Goodwill and intangibles	**49,760**	49,760
Other deductions	**53,141**	47,730
Total regulatory adjustments	**127,171**	**124,112**
Net common equity tier 1 capital	**192,953**	**183,617**
Tier 2 capital		
Subordinated notes (1)	**29,944**	21,467
General reserve for credit losses	**4,428**	4,428
Total capital	**227,325**	**209,512**
Risk weighted assets	**1,710,329**	**1,606,911**
Capital adequacy ratio	**13.29%**	**13.04%**

(1) On the 14 August 2015, the Group issued $25 million of floating rate subordinated notes (“notes”). The issuer was MyState Bank Limited. The notes have a term of 10 years, maturing 14 August 2025, and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 5% per annum. The issuer has the option to redeem all or some of the notes on 14 August 2020 and each quarterly interest payment date thereafter, and for certain regulatory events (in each case subject to APRA’s prior written approval).

On the 28th September 2016, the Group issued $10 million of floating rate subordinated notes (“notes”). The issuer was MyState Bank Limited. The notes have a term of 10 years, maturing 26 September 2026, and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 4.25% per annum. The issuer has the option to redeem all or some of the notes on 28 September 2021 and each quarterly interest payment date thereafter, and for certain regulatory events (in each case subject to APRA’s prior written approval).

If APRA notifies the issuer that a non-viability trigger event has occurred, the notes will be converted into ordinary shares of MyState Limited, or written-off. The amount included in the Level 2 Group’s regulatory capital is a percentage equal to that of external interest in the Group's regulatory capital. MyState Bank Limited includes 100% at level 1 in its Tier 2 Capital.

3.2 Financial risk management

Risk management is an integral part of the Group's business processes. The Board sets policy to mitigate risks and ensure the risk management framework is appropriate, to direct the way in which the Group conducts business. Promulgated Board approved policies ensure compliance throughout the business, which are monitored by way of a dedicated compliance system. Risk management plans exist for all documented risks within the Group and these plans are reviewed regularly by the Executive Management Team, the Group Risk Committee and the Board. Business units are accountable for risks in their area and are responsible for ensuring the appropriate assessment and management of these risks.

Risk exposure profile
The Group actively monitors a range of risks, which are not limited to, but include the following:
- Credit risk,
- Market risk; and
- Liquidity risk.

3.2.1 Credit risk

Approach to credit risk management

Credit risk arises within the Group's lending and treasury investment activities and is the risk that a counterparty may fail to complete its contractual obligations when they fall due.

The Group's approach to managing this risk is to separate prudential control from operational management by assigning responsibility for approval of credit exposures to specific individuals and management committees. The Group Risk Committee has oversight of credit risk exposures and the Risk and Credit Committee monitors credit related activities through regular reporting processes, including monitoring large exposure to single groups and counterparties. The roles of funding and oversight of credit are separate.

Board approved lending policies guide the processes for all loan approvals by subsidiary operations. All loans over a designated amount, whether within delegated limits or not, are reported to the Group Risk Committee on a regular basis. Any loan outside of delegated limits must be approved by the Board prior to funding.

Maximum exposure to credit risk
The amounts disclosed in the following table are the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the Balance Sheet, the exposure to credit risk equals their carrying amount. For customer commitments, the maximum exposure to credit risk is the full amount of the committed facility as at the reporting date.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Cash and liquid assets	**64,226**	80,126
Due from other financial institutions	**35,161**	17,875
Other assets	**6,577**	5,819
Financial instruments	**420,769**	355,992
	526,733	**459,812**
Loans and advances	**4,282,525**	3,863,133
Customer commitments (1)	**117,472**	127,651
Maximum exposure to credit risk	**4,926,730**	**4,450,596**

(1) For further information regarding these commitments, refer to note 8.1.

3.2 Financial risk management (continued)

The credit quality of financial assets has been determined based on Standard and Poor's credit ratings for financial assets other than loans and advances at amortised cost. For loans and advances at amortised cost, the assets identified as being "closely monitored" are those assets that are greater than 30 days past due.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Credit quality of financial assets		
Financial assets other than loans and advances at amortised cost		
Equivalent S&P rating A+ and above	**263,302**	246,394
Equivalent S&P rating A- and below	**263,431**	213,935
Loans and advances at amortised cost		
New Facilities - not closely monitored	**1,271,704**	993,586
New Facilities - closely monitored	**730**	2,416
Continuing facilities - not closely monitored	**2,990,147**	2,845,401
Continuing facilities - closely monitored	**19,944**	21,730
Total on balance sheet exposure to credit risk	**4,809,258**	**4,323,462**

New facilities are loans that have been funded within the financial year.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Neither past due or impaired	**4,260,413**	**3,839,166**
Past due but not impaired - loans and advances at amortised cost		
31 to 60 days	**5,402**	10,438
61 to 90 days	**4,560**	2,526
More than 90 days	**10,577**	7,912
Total past due but not impaired	**20,539**	**20,876**
Impaired - loans and advances at amortised cost	**1,573**	3,091
Maximum exposure to credit risk	**4,282,525**	**3,863,133**
Estimate of collateral held against past due but not impaired assets	**35,119**	38,260
Estimate of collateral held against impaired assets	**2,360**	2,294

Estimate of collateral held

The Group holds collateral against loans and advances to customers in the form of a mortgage charge over property. To mitigate credit risk, the bank (ADI) can take possession of the security held against the loans and advances as a result of customer default. The collateral shown above is an estimate of the value of collateral held, it is not practicable to determine the fair value.

3.2 Financial risk management (continued)

Credit quality is impacted by concentration risk created by the ensuing vulnerability of assets to similar conditions such as economic or political factors. The Group monitors the geographical diversification of its loans and advances. An analysis of this concentration of credit risk at the reporting date is shown in the following table:

	30 Jun 17 $ '000	30 Jun 16 $ '000
Tasmania	**2,181,829**	2,215,395
Victoria	**556,010**	443,442
New South Wales	**762,536**	426,812
Queensland	**614,823**	603,366
Western Australia	**84,366**	93,839
Australian Capital Territory	**39,869**	34,958
Northern Territory	**2,434**	3,064
South Australia	**41,615**	43,315
Gross loans and advances at amortised cost	**4,283,482**	**3,864,191**

There are no loans that individually represent 10% or more of shareholders' equity.

3.2.2 Market risk

Managing market risk

Market risk is the exposure to adverse changes in the value of the Group's portfolio as a result of changes in market prices or volatility. The Group is exposed primarily to interest rate risk.

Interest rate risk exposure

The operations of the ADI is subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rate on their assets and liabilities.

Value at Risk (VaR)

The following table indicates the VaR based on historical data. The Group estimates VaR as the potential loss in earnings from adverse market movements over a 20 day holding period to a 99% confidence level. VaR takes account of all material market variables that may cause a change in the value of the loan portfolio. Although an important tool for the measurement of market risk, the assumptions underlying the model are limited to reliance on historical data.

	Net profit after tax higher/(lower)	
	30 Jun 17 $ '000	30 Jun 16 $ '000
Value at risk based on historic data		
Average	**2,326**	2,120
Minimum	**1,455**	1,370
Maximum	**3,444**	3,110

Derivatives

The Group is exposed to changes in interest rates. The only derivative instruments currently entered into by the Group are interest rate swaps. The Group protects its portfolio of fixed rate loans, and exposure to variable rate debt obligations, by paying fixed rates to swap providers and receiving variable rates in return. The variable receipts mitigate the exposure to interest rate changes that will impact on the Group's variable rate payment obligations.

3.2 Financial risk management (continued)

Derivatives accounting policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets. Movements in the carrying amounts of derivatives are recognised in the Consolidated Income Statement, unless the derivative meets the requirements for hedge accounting.

The Group documents the relationship between the hedging instruments and hedged items at inception of the transaction, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of whether the derivatives used in hedging transactions have been or will continue to be, highly effective in offsetting changes in the fair values or cash flows of hedged items. This assessment is carried out both at inception and on a monthly basis.

Cash flow hedges

The Group has cash flow hedges that are used to hedge the variability of interest rates in relation to certain liabilities. These derivative instruments are established with terms that exactly match the terms of the liability designated as the hedged item and therefore form highly effective relationships. The portion of the liability designated in the hedging relationship is determined by reference to specific fixed rate assets within the loan portfolio. Sources of ineffectiveness are limited to credit risk of parties to the relationship. The Group tests for ineffectiveness each month. The variability in fair values attributable to an item designated as a cash flow hedge is recognised in Other Comprehensive Income to the extent of the hedges effectiveness. Any ineffective portion of the change in the fair value of a derivative is recognised immediately in the Consolidated Income Statement.

Derivatives that do not qualify for hedge accounting

If a derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in Other Comprehensive Income remains in Other Comprehensive Income until the forecast transaction affects the Consolidated Income Statement. If the forecast transaction is no longer expected to occur, it is reclassified to the Consolidated Income Statement as a reclassification adjustment.

When a derivative is not designated in a qualifying relationship, all changes in its fair value are recognised immediately in the Consolidated Income Statement, as a component of net income from other financial instruments carried at fair value.

3.2 Financial risk management (continued)

3.2.3 Liquidity risk

Managing liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial and statutory obligations as they fall due, which could arise due to mismatches in cash flows.

The Group's objective is to manage its funds in a way that will facilitate growth in core business under a wide range of market conditions. The Group maintains, and adheres to, an Internal Liquidity Adequacy Assessment Plan (ILAAP). This process includes acknowledgements of liquidity risks within the Group and justification of the amount of liquidity that is being held based on the liquidity risk profile of the organisation.

Group Treasury is responsible for implementing liquidity risk management strategies in accordance with the ILAAP. The Group's Assets and Liabilities Committee (ALCO) assists the Board with oversight of asset and liability management including liquidity risk management. The Group's liquidity policies are approved by the Board after endorsement by the Group Risk Committee and the Banking Group's ALCO.

The Group maintains a portfolio of highly marketable assets that can be liquidated in the event of an unforeseen interruption of cash flows. The Group also has committed lines of credit that it can access to meet its liquidity needs. Liquidity scenarios are calculated under stressed and normal operating conditions, to assist in anticipating cash requirements providing adequate reserves.

Liquidity risk exposure

The Group is exposed to liquidity risk primarily through its banking activities.

The Group's contractual cash flows associated with its financial liabilities and hedging derivatives, within relevant maturity groupings is as follows. These are presented on an undiscounted basis and, therefore, will not agree to amounts presented on the Consolidated Statement of Financial Position as they incorporate principal and associated future interest payments.

	On demand $ '000	< 3 months $ '000	3 months to 1 year $ '000	1 year to 5 years $ '000	> 5 years $ '000	Total $ '000
2017						
At call deposits	1,460,758	-	-	-	-	1,460,758
Due to other financial institutions	-	34,319	-	-	-	34,319
Term deposits	-	825,776	819,453	34,743	-	1,679,972
Negotiable certificates of deposit	-	376,200	69,500	-	-	445,700
Subordinated notes	-	570	1,710	9,120	40,318	51,718
Securitisation liabilities	-	49,997	149,991	799,950	111,104	1,111,042
Contractual amounts payable	1,460,758	1,286,862	1,040,654	843,813	151,422	4,783,509
Derivative liability	-	209	1,308	9,734	-	11,251

3.2 Financial risk management (continued)

3.2.3 Liquidity risk (continued)

	On demand $ '000	< 3 months $ '000	3 months to 1 year $ '000	1 year to 5 years $ '000	> 5 years $ '000	Total $ '000
2016						
At call deposits	1,318,370	-	-	-	-	1,318,370
Due to other financial institutions	-	30,710	-	-	-	30,710
Term deposits	-	861,467	514,322	32,903	-	1,408,692
Negotiable certificates of deposit	-	311,472	66,504	-	-	377,976
Subordinated notes		445	1,335	7,120	33,900	42,800
Securitisation liabilities	-	34,707	104,120	555,308	231,378	925,513
Contractual amounts payable	**1,318,370**	**1,238,801**	**686,281**	**595,331**	**265,278**	**4,104,061**
Derivative liability	**5**	**83**	**1,780**	**4,971**	**-**	**6,839**

Contractual maturity of assets and liabilities

The contractual maturities of the Group's financial assets and liabilities as at the reporting date are contained in the following table. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities.

	30 Jun 17			30 Jun 16		
	Less than 12 months $ '000	More than 12 Months $ '000	Total $ '000	Less than 12 months $ '000	More than 12 Months $ '000	Total $ '000
Financial assets						
Cash and liquid assets	**64,226**	**-**	**64,226**	80,126	-	**80,126**
Due from other financial institutions	**35,161**	**-**	**35,161**	17,875	-	**17,875**
Other assets	**6,577**	**-**	**6,577**	5,819	-	**5,819**
Financial instruments	**257,322**	**163,447**	**420,769**	187,833	168,159	**355,992**
Loans and advances	**105,727**	**4,176,798**	**4,282,525**	290,305	3,572,828	**3,863,133**
Total financial assets	**469,013**	**4,340,245**	**4,809,258**	581,958	3,740,987	**4,322,945**
Financial liabilities						
Due to other financial institutions	**(34,319)**	**-**	**(34,319)**	(30,710)	-	**(30,710)**
Other liabilities	**(6,801)**	**-**	**(6,801)**	(6,961)	-	**(6,961)**
Deposits	**(3,519,810)**	**(32,336)**	**(3,552,146)**	(3,231,740)	(30,637)	**(3,262,377)**
Subordinated notes	**-**	**(34,695)**	**(34,695)**	-	(24,663)	**(24,663)**
Securitisation liabilities	**(173,183)**	**(788,942)**	**(962,125)**	(117,171)	(663,971)	**(781,142)**
Total financial liabilities	**(3,734,113)**	**(855,973)**	**(4,590,086)**	(3,386,582)	(719,271)	**(4,105,853)**
Net contractual amounts receivable / (payable)	**(3,265,100)**	**3,484,272**	**219,172**	**(2,804,624)**	**3,021,716**	**217,092**

3.3 Average balance sheet and sources of net interest income

The following table shows the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest earned or paid by the Group and the average interest rates. Averages are calculated based on the balance at each month end.

	30 Jun 17			30 Jun 16		
	Average balance $ '000	Interest $ '000	Average rate %	Average balance $ '000	Interest $ '000	Average rate %
Average interest earning assets and interest income						
Interest-earning assets						
Cash and liquid assets	**78,636**	**567**	**0.72%**	76,351	809	1.06%
Financial instruments	**380,293**	**9,490**	**2.50%**	357,276	10,264	2.87%
Loans and advances	**4,100,642**	**172,163**	**4.20%**	3,756,712	172,278	4.59%
Total average interest-earning assets	**4,559,571**	**182,220**	**4.00%**	**4,190,339**	**183,351**	**4.38%**
Non-interest earning assets	**126,301**	**-**	**-**	124,711	-	-
Total average assets	**4,685,872**	**182,220**	**3.89%**	**4,315,050**	**183,351**	**4.25%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits and derivatives	**3,442,306**	**65,742**	**1.91%**	3,199,496	68,513	2.14%
Notes and bonds on issue	**903,172**	**28,346**	**3.14%**	776,070	25,928	3.34%
Total average interest-bearing liabilities	**4,345,478**	**94,088**	**2.17%**	**3,975,566**	**94,441**	**2.38%**
Non-interest bearing liabilities	**34,923**	**-**	**-**	45,959	-	-
Total average liabilities	**4,380,401**	**94,088**	**2.15%**	**4,021,525**	**94,441**	**2.35%**
Reserves	**285,200**	**-**	**-**	277,665	-	-
Total average liabilities and reserves	**4,665,601**	**94,088**	**2.02%**	**4,299,190**	**94,441**	**2.20%**

	30 Jun 17 $ '000	30 Jun 16 $ '000
4.1 Cash and liquid assets		
Notes, coins and cash at bank	**62,125**	64,429
Other short term liquid assets	**2,101**	15,697
Total cash and liquid assets	**64,226**	**80,126**

Notes to the statements of cash flows

Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	**30,080**	28,334
Add / (less) items classified as investing / financing activities or non-cash items:		
Depreciation of property, plant and equipment	**2,223**	2,328
Amortisation of intangible assets	**2,970**	2,461
Impairment of property, plant and equipment	**-**	1,350
Net (gain)/ loss on sale of investments	**(1,362)**	(23)
Net (gain)/ loss on sale of equipment	**(9)**	
Bad and doubtful debts expense net of recoveries	**213**	1,221
Deferred upfront lending costs	**8,476**	6,373
Employee equity benefits reserve	**281**	157
Tax movement within reserves	**272**	(363)
Changes in assets and liabilities		
Decrease / (increase) in due from other financial institutions	**215**	6,372
Decrease / (increase) in other assets	**(758)**	1,296
Decrease / (increase) in deferred tax assets	**(1,054)**	659
Increase / (decrease) in due to other financial institutions	**(298)**	(4,690)
Increase / (decrease) in other liabilities	**(160)**	561
Increase / (decrease) in employee benefit provisions	**(145)**	97
Increase / (decrease) in tax liabilities	**(316)**	(3,970)
Net cash flows used in operating activities	**40,628**	**42,163**

Accounting policies

Cash and liquid assets

Cash and liquid assets in the Consolidated Statement of Financial Position and for the purposes of the Consolidated Statement of Cash Flows comprise cash at bank and in hand and short-term deposits with an original maturity of less then three months, net of outstanding bank overdrafts. Cash flows arising from deposits, share capital, investments, loans to subsidiaries and investments in associates are presented on a net basis in the Statement of Cash Flows.

Cash Flow statement

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- Customer deposits and withdrawals from savings and fixed-term deposit accounts;
- Movements in investments;
- Amounts due to and from other financial institutions;
- Customer loans and advances; and
- Dividends paid.

	30 Jun 17 $ '000	30 Jun 16 $ '000
4.2 Financial instruments		
Financial instruments at amortised cost		
Negotiable certificates of deposits	**221,703**	183,420
Floating rate notes	**196,181**	165,970
Other deposits	**1,504**	1,819
Total financial instruments at amortised cost	**419,388**	**351,209**
Financial instruments at fair value		
Derivatives	**(267)**	23
Other financial instruments at fair value	**1,648**	4,760
Total financial instruments	**420,769**	**355,992**

Accounting policies

Financial instruments at amortised cost
Financial instruments at amortised cost are those non-derivative financial assets that the Company has acquired with the objective of holding in order to collect contractual cash flows. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial instruments at fair value
Financial instruments other than those carried at amortised cost, are carried at their fair value at the reporting date. Note 4.6 contains information on how the group determines fair values. Fair value gains and losses are recognised in comprehensive income until the derecognition date, at which point the net gains and losses are transferred to profit or loss for that instrument.

Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired, or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

	30 Jun 17 $ '000	30 Jun 16 $ '000
4.3 Loans and advances		
Classification of loans and advances at amortised cost		
Residential loans secured by mortgage	**4,090,546**	3,674,988
Personal loans and unsecured overdrafts	**77,249**	79,565
Overdrafts secured by mortgage	**52,261**	59,308
Commercial loans	**63,426**	50,330
Total loans and advances at amortised cost	**4,283,482**	**3,864,191**
Specific provision for impairment	**620**	567
Collective provision for impairment	**337**	491
Total loans and advances at amortised cost net of provision for impairment	**4,282,525**	**3,863,133**

Loans and advances at amortised cost accounting policy

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and advances". Loans and advances are recognised on trade date and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Provision for impairment

	30 Jun 17	30 Jun 16
Specific provision for impairment		
Opening balance	**567**	115
Charge / (credit) against profit	**94**	452
Write-off of previously provisioned facilities	**(41)**	-
Closing balance of specific provision for impairment	**620**	**567**
Collective provision for impairment		
Opening balance	**491**	547
Charge / (credit) against profit	**322**	396
Write-off of previously provisioned facilities	**(476)**	(452)
Closing balance of collective provision for impairment	**337**	**491**

	30 Jun 17 $ '000	30 Jun 16 $ '000

4.3 Loans and advances (continued)

Charge to profit for impairment on loans and advances

	30 Jun 17 $ '000	30 Jun 16 $ '000
Increase / (decrease) in specific provision for impairment	**53**	452
Increase / (decrease) in collective provision for impairment	**(154)**	(56)
Bad debts recovered	**(1,131)**	(1,221)
Bad debts written off directly	**1,445**	2,046
Total impairment expense on loans and advances	**213**	**1,221**

Impairment of financial assets accounting policy

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The primary source of credit risk for the Group arises on its loan portfolio. In relation to this portfolio, the Group maintains an individually assessed provision and a collective provision.

Specific provisions for impairment are made against individual risk rated credit facilities where a loss is expected. The provisions are measured as the difference between a financial asset's carrying amount and the expected future cash flows. All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. The evaluation process is undertaken by categorising all loans in to a credit risk hierarchy based on a series of estimates and judgements based on APRA Prudential Standard APS 220 - Credit Quality.

4.4 Transfer of financial assets (securitisation program)

Loans and advances to customers are sold by the Group to securitisation vehicles. The transfer takes the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes. The Group utilises its securitisation program to provide regulatory capital relief and funding diversification.

The following table sets out the values at the transaction date of financial assets transferred during the financial year in this manner to vehicles that provide regulatory capital relief during the year and the value of the associated liabilities issued from the vehicles. This table does not include transfer of assets to the securitisation vehicle in which the Group is the bond holder.

	Carrying value at transaction date	
	30 Jun 17 $ '000	30 Jun 16 $ '000
Transferred financial assets:		
Loans and advances	**420,232**	195,819
Associated financial liabilities		
Securitisation liabilities to external investors	**400,692**	150,000

4.4 Transfer of financial assets (securitisation program) (continued)

Transfer of financial assets accounting policy
Once assets are transferred to a securitisation vehicle, the Group does not have the ability to use the transferred assets during the term of the arrangement. The Group does not have any loans transferred to unconsolidated securitisation vehicles.

The consolidated securitisation vehicles generally transfer all the risks and rewards of ownership of the assets to the investors in the notes. However, derecognition of the transferred assets from the Group is prohibited because the cash flows that the securitisation vehicles collect from the transferred assets on behalf of the investors are not passed to them without material delay. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

Interest in Joint Operations accounting policy
Securitised positions are held through a number of Special Purpose Entities (SPE's). These entities are classified as joint operations, as the parties that have joint control of the arrangement, have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities requires unanimous consent of the parties sharing control.

The Group recognises its interest in a joint operation:
- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation. When a Group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it re-sells those assets to a third party.

	30 Jun 17 $ '000	30 Jun 16 $ '000
4.5 Deposits and other borrowings including subordinated notes		
Deposits		
At call deposits	**1,460,758**	1,318,371
Term deposits	**1,648,766**	1,569,299
Negotiable certificates of deposit	**442,622**	374,707
Total deposits	**3,552,146**	**3,262,377**
Other borrowings		
Subordinated notes (1)	**34,695**	24,663
Securitisation liabilities	**962,125**	781,142
Total deposits and other borrowings including subordinated notes	**4,548,966**	**4,068,182**
Concentration of deposits:		
Customer deposits	**2,988,057**	2,714,858
Wholesale deposits	**564,089**	547,519
Subordinated notes (1)	**34,695**	24,663
Securitisation liabilities	**962,125**	781,142
Total deposits	**4,548,966**	**4,068,182**

There are no customers who individually have deposits which represent 10% or more of total liabilities.

(1) Refer to note 3.1 (1) for details regarding the Subordinated Note issue.

Deposits and other borrowings accounting policy

Deposits and other borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Group does not currently hold any financial liabilities at fair value.

4.6 Fair value of financial instruments

Classification of financial instruments

Cash and liquid assets, amounts due to financial institutions and amounts due from financial institutions are carried at cost. As these assets are short term assets, their cost is considered to approximate their fair value.

The following financial assets and liabilities are also carried at amortised cost:

- Financial instruments;
- Loans and advances;
- Deposits; and
- Other borrowings.

4.6 Fair value of financial instruments (continued)

The aggregate net fair values of financial assets and financial liabilities which are carried at amortised cost is:

	30 Jun 17		30 Jun 16	
	Carrying value $ '000	Net fair value $ '000	Carrying value $ '000	Net fair value $ '000
Financial assets				
Financial instruments	**419,388**	**419,023**	351,174	351,007
Loans and advances	**4,282,525**	**4,275,447**	3,863,133	3,862,014
Total financial assets	**4,701,913**	**4,694,470**	**4,214,307**	**4,213,021**
Financial liabilities				
Deposits	**3,552,146**	**3,544,954**	3,262,377	3,262,826
Other borrowings including subordinated notes	**996,820**	**996,820**	805,805	805,805
Total financial liabilities	**4,548,966**	**4,541,774**	**4,068,182**	**4,068,631**

Fair value hierarchy

The level in the fair value hierarchy of the inputs used in determining the fair values is shown below. The fair value of these assets is:

Level 1 - inputs that are prices quoted for identical instruments in active markets;
Level 2 - inputs based on observable market data other than those in level 1; and
Level 3 - inputs for which there is no observable market data.

Where the expected maturity is in excess of 12 months, the fair value is discounted to its present value. During the year, there have been no material transfers between levels of the fair value hierarchy.

	Level 1 value $ '000	Level 2 value $ '000	Level 3 value $ '000	Total value $ '000
2017				
Financial assets				
Financial instruments	**-**	**419,023**	**-**	**419,023**
Loans and advances	**-**	**-**	**4,275,447**	**4,275,447**
Financial liabilities				
Deposits	**-**	**3,544,954**	**-**	**3,544,954**
Other borrowings including subordinated notes	**-**	**996,820**	**-**	**996,820**
2016				
Financial assets				
Financial instruments	-	351,007	-	351,007
Loans and advances	-	-	3,862,014	3,862,014
Financial liabilities				
Deposits	-	3,262,826	-	3,262,826
Other borrowings including subordinated notes	-	805,805	-	805,805

The Group has performed a VaR analysis at section 3.2, Market risk. VaR takes account of all material market variables that may cause a change in the value of the loan portfolio, being 100% of Level 3 inputs.

	30 Jun 17 $ '000	30 Jun 16 $ '000
5.1 Property, plant and equipment		
Land and buildings		
At revalued amount	**13,648**	13,212
Accumulated depreciation	**(6,711)**	(5,163)
	6,937	**8,049**
Plant and equipment		
At cost	**4,171**	3,943
Accumulated depreciation	**(2,812)**	(2,180)
	1,359	**1,763**
Total property, plant and equipment	**8,296**	**9,812**

Property, plant and equipment accounting policy

Plant and equipment

Plant and equipment, including leasehold improvements, are measured at cost less accumulated depreciation and any impairment in value.

Land and buildings

Following initial recognition at cost, land and buildings are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Independent valuations are performed with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value at the Consolidated Statement of Financial Position date. Fair value, is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at valuation date.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Consolidated Statement of Financial Position, unless it reverses a revaluation decrease of the same asset previously recognised in the Consolidated Income Statement. Any revaluation deficit is recognised in the Consolidated Income Statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve. Accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Derecognition of property, plant and equipment

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Income Statement in the year the item is derecognised.

5.2 Intangible assets and goodwill

	Goodwill $ '000	Software $ '000	Other $ '000	Total $ '000
Year ended 30 June 2017:				
At 1 July 2016, net of accumulated amortisation	**65,978**	**11,016**	**1,988**	**78,982**
Additions	**-**	**9,189**	**2,978**	**12,167**
Disposals	**-**	**-**	**-**	**-**
Impairment	**-**	**-**	**-**	**-**
Amortisation	**-**	**(2,167)**	**(803)**	**(2,970)**
At 30 June 2017, net of accumulated amortisation	**65,978**	**18,038**	**4,163**	**88,179**
At 30 June 2017				
Cost (gross carrying amount less impairment)	**65,978**	**27,766**	**5,556**	**99,300**
Accumulated amortisation	**-**	**(9,728)**	**(1,393)**	**(11,121)**
Net carrying amount	**65,978**	**18,038**	**4,163**	**88,179**
Year ended 30 June 2016:				
At 1 July 2015, net of accumulated amortisation	65,978	10,806	1,893	78,677
Additions	-	3,524	592	4,116
Disposal	-	-	-	-
Impairment	-	(1,350)	-	(1,350)
Amortisation	-	(1,964)	(497)	(2,461)
At 30 June 2016, net of accumulated amortisation	**65,978**	**11,016**	**1,988**	**78,982**
At 30 June 2016				
Cost (gross carrying amount less impairment)	65,978	22,596	2,578	91,152
Accumulated amortisation	-	(11,580)	(590)	(12,170)
Net carrying amount	**65,978**	**11,016**	**1,988**	**78,982**

Intangibles accounting policy

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or infinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Consolidated Income Statement. Certain costs directly incurred in acquiring and developing software are capitalised and amortised over the estimated useful life.

Intangible assets are tested for impairment where an indicator of impairment exists and, in the case of indefinite life intangibles, annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill is treated as an indefinite life intangible, software and other intangibles are finite life intangibles. Refer to note 2.4 Expenses for the useful life of tangible and intangible assets.

5.2 Intangible assets and goodwill (continued)

Impairment testing of Goodwill

For the purpose of impairment testing, goodwill has been allocated to the Group's two cash-generating units (CGU's) the Banking Business and the Wealth Management Business. These CGU's represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each CGU for the purpose of impairment testing is as follows:

	30 Jun 17 $ '000	30 Jun 16 $ '000
Banking Business	**40,189**	40,189
Wealth Management Business	**25,789**	25,789
Total goodwill	**65,978**	**65,978**

The recoverable amounts for the relevant CGU's have been assessed based on value-in-use calculations using cash flow projections. The Company’s assessment of goodwill value-in-use exceeds the carrying value allocated to the CGU's and included in the financial statements.

Each CGU's value-in-use was determined using cash flow projections from Board approved financial budgets for the year ending 30 June 2018. Growth rates have been applied from year two through to year twenty. Cash flows are projected by undertaking detailed calculations for each income and expense category over the twenty year period. Certain income categories are modelled by projecting growth in relevant portfolio balances and the resulting income derived there-from. Other non-portfolio related income streams and expense categories are modelled by projecting real rates of growth (above inflation) for each category. Terminal value is determined at year twenty using the assumption that the CGU achieves no real growth above inflation into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business which the CGU operates. The discount rate used of 10% reflects the Group's post-tax nominal weighted average cost of capital, in which has been reviewed by externally engaged advisers and approved by the Board. Average inflation is projected to be 2.5%. The method for determining value-in-use is consistent with that adopted in the comparative period.

The key assumptions adopted in assessing Banking's value-in-use are the rate of growth in the balance of the housing loan portfolio and the outlook for net interest margin (NIM). Taking into account management's past experiences and external evidence, the assumptions that have been adopted for both of these components are considered to be conservative. NIM is projected to be consistent with the budget outlook, which reflects the current low interest rate environment, this depresses this figure. Management expects that, over time, these assumptions will be positively exceeded and that any reasonably possible change to assumptions used in Management’s assessment will not result in impairment.

The key assumption adopted in assessing Wealth Management's value-in-use is the rate of growth in income derived from management fee (MF) income . MF income is derived from its activities as the responsible entity for various Managed Investment Schemes (MIS). MF income derived is directly related to the portfolio balances of the MIS. Other sources of income for the Wealth Management Business is its Financial Planning and Trustee Services divisions. Taking into account Management's past experiences and external evidence, the assumption adopted is considered reasonable and conservative. Management’s assessment of Wealth Management's value-in-use exceeds its carrying value. Any reasonably possible change to assumptions used in Management’s assessment will not result in impairment.

5.2 Intangible assets and goodwill (continued)

Impairment testing of Goodwill (continued)

Goodwill accounting policy

Goodwill on the acquisition of businesses is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of CGU's) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of subsidiaries accounting policy

Investments in subsidiaries are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the investments carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each balance sheet date, the investments in subsidiaries that have been impaired are reviewed for possible reversal of the impairment.

	30 Jun 17 $ '000	30 Jun 16 $ '000
5.3 Employee benefits provisions		
Balances		
Provision for annual leave	**2,015**	2,156
Provision for long service leave	**3,355**	3,359
Total employee benefits provisions	**5,370**	**5,515**
Due to be settled within 12 months	**4,230**	4,219
Due to be settled more than 12 months	**1,140**	1,296
Total employee benefits provisions	**5,370**	**5,515**

Employee benefits accounting policy

Liabilities for salaries, wages and annual leave are recognised in respect of the employees service up to the reporting date. Where settlement is expected to occur within twelve months of the reporting date, the liabilities are measured at their nominal amounts based on the remuneration rates which are expected to be paid when the liability is settled. Where settlement is expected to occur later than twelve months from reporting date, the liabilities are measured at the present value of payments which are expected to be paid when the liability is settled.

A liability for long service leave is recognised and measured at the present value of expected future payments to be made in respect of services provided up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

	30 Jun 17 $ '000	30 Jun 16 $ '000
5.4 Share capital		
Issued and paid up ordinary shares	**141,349**	134,756

Movements in ordinary share capital

	30 Jun 17		30 Jun 16	
	Number of shares	**Amount $ '000**	Number of shares	Amount $ '000
Opening balance	**87,854,255**	**134,756**	87,283,417	132,670
Shares issued pursuant to the				
- employee share scheme of the Group	**18,729**	**80**	21,054	99
- executive long term incentive plan	**-**	**-**	27,901	46
- dividend reinvestment plan	**1,572,411**	**6,513**	521,883	1,941
Closing balance	**89,445,395**	**141,349**	**87,854,255**	**134,756**

Terms and conditions

Ordinary shares have the right to receive dividends as declared from time to time and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares and amounts paid up on the shares held. Ordinary shares entitle their holder to one vote per share, either in person or by proxy at meetings of the Company.

The Company does not have authorised capital or par value in respect of its issued shares.

The Group offers share based remuneration, refer to note 7.3 and the Remuneration Report for further information regarding these arrangements.

	30 Jun 17 $ '000	30 Jun 16 $ '000
6.1 Income tax expense, current and deferred tax balances		
The major components of income tax expense /(benefit) are:		
Income tax expense		
Current income tax charge	**12,037**	12,298
Adjustment in respect of current income tax of previous years	**62**	(220)
Adjustments in respect of deferred income tax of previous years	**(563)**	221
Relating to origination and reversal of temporary differences	**622**	457
Total income tax expense	**12,158**	**12,756**
A reconciliation between tax expense and accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Income tax expense attributable to:		
Accounting profit before income tax	**42,238**	41,090
The income tax expense comprises amounts set aside as:		
Provision attributable to the current year at the statutory rate of 30%, being:		
- Prima facie tax on accounting profit before tax	**12,671**	12,327
- Under / (over) provision in prior year	**(500)**	-
Expenditure not allowable for income tax purposes	**42**	536
Tax effect of tax credits and adjustments	**(55)**	(107)
Other	**-**	-
Income tax expense reported in the consolidated income statement	**12,158**	**12,756**
Weighted average effective tax rates	28.8%	31.0%

	30 Jun 17 $ '000	30 Jun 16 $ '000

6.1 Income tax expense, current and deferred tax balances (continued)

Deferred income tax relates to the following:

	30 Jun 17 $ '000	30 Jun 16 $ '000
Deferred tax assets		
Employee entitlements	**1,611**	1,655
Provisions	**158**	123
Doubtful debts	**101**	299
Other	**2,848**	1,587
Carried forward losses	**-**	-
Total deferred tax assets	**4,718**	**3,664**
Deferred tax liabilities		
Available for sale financial assets	**70**	87
Property, plant and equipment	**1,460**	1,112
Other	**1,776**	1,363
Total deferred tax liabilities	**3,306**	**2,562**
Current tax payable	**785**	1,845
Total tax liabilities	**4,091**	**4,407**

Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 Jun 17 $' 000	30 Jun 16 $' 000	30 Jun 17 $' 000	30 Jun 16 $' 000
Opening balance	**3,664**	4,323	**2,562**	2,195
(Charged) / credited to income statement	**550**	(158)	**1,172**	299
Credited/(charged) to equity	**99**	(348)	**(270)**	-
Adjustments for deferred tax of prior years	**405**	(153)	**(158)**	68
Closing balance	**4,718**	**3,664**	**3,306**	**2,562**

6.1 Income tax expense, current and deferred tax (continued)

Taxation accounting policy

Income tax expense is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the Consolidated Statement of Comprehensive Income. Income tax expense on the profit or loss of the period comprises current tax and deferred tax.

Current tax payable
Current tax payable is the expected tax payable on the taxable income for the financial year using tax rates that have been enacted, and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred income tax is provided on all temporary differences at the Consolidated Statement of Financial Position date. Temporary differences are calculated at each reporting date as the difference between the carrying amount of assets and liabilities for financial reporting purposes and their tax base.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the taxable temporary differences associated with the investments in subsidiaries and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilised except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor the taxable profit and loss; and
- When the deductible temporary differences are associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

The Group undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Group estimates its tax liability based on its understanding of the tax law.

6.1 Income tax expense, current and deferred tax (continued)

Taxation accounting policy (continued)

Tax consolidation

The Group has elected to be taxed as a single entity under the tax consolidation regime. The head company is MyState Limited. The members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities among the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The Company and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Company has applied the separate tax payer within group approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

7.1 Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 and policy notes within the financial statements for a summary of the significant accounting policies relating to the Group.

Statement of Financial Position	30 Jun 17 $ '000	30 Jun 16 $ '000
Assets		
Cash and liquid assets	**1,214**	3,026
Other receivables	**102**	100
Related party receivables	**1,810**	2,337
Investments in subsidiaries	**249,811**	243,364
Deferred tax assets	**1,236**	833
Total assets	**254,173**	**249,660**
Liabilities		
Other liabilities	**786**	2,181
Related party payables	**443**	518
Tax liabilities	**1,246**	1,840
Employee benefit provisions	**195**	392
Total liabilities	**2,670**	**4,931**
Net assets	**251,503**	**244,729**
Equity		
Share capital	**247,176**	240,684
Retained earnings	**3,370**	3,370
Reserves	**957**	675
Total equity	**251,503**	**244,729**
Financial performance		
Profit after income tax for the year	**25,041**	**24,155**
Other comprehensive income	**-**	-
Total comprehensive income	**25,041**	**24,155**

The parent entity has not entered in to any guarantees and does not have any contingent liabilities as at 30 June 2017 (30 June 2016: nil).

Transactions between the Company and the consolidated entities principally arise from the provision of management and governance services. All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with the consolidated entities are eliminated in the Consolidated Financial Statements. Amounts due from and due to entities are presented separately in the Statement of Financial Position of the Company except where offsetting reflects the substance of the transaction or event.

7.2 Controlled entities and principles of consolidation

Details of the Group's material subsidiaries at the end of the reporting period are as follows.

Significant subsidiaries	Principal activities	Country of Incorporation	Ownership Interest
MyState Bank Limited	Banking	**Australia**	100%
Tasmanian Perpetual Trustees Limited	Wealth Management	**Australia**	100%
Connect Asset Management Pty Ltd	Manager of Securitisation Vehicles	**Australia**	100%

On 30 September 2015, the Rock Building Society Limited ceased operating as an ADI and is no longer a significant subsidiary. The operations were transferred to MyState Bank Limited.

Basis of consolidation accounting policy

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patters at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Income Statement and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

7.3 Related party disclosures

The ultimate parent entity and controlling entity is MyState Limited. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed in the following paragraphs.

Managed Investment Schemes

Within the Group, Tasmanian Perpetual Trustees Limited (TPT) is a Responsible Entity for Managed Investment Schemes (Funds) and, accordingly, has significant influence over their activities. TPT receives management fees from these Funds. TPT also pays expenses of the Funds for which it is reimbursed. TPT and the Company have also invested in these Funds and receives distributions on these investments. These investments are made on the same terms and conditions that apply to all investors in these Funds. Details of these transactions and balances are as follows:

	Consolidated		TPT	
	30 Jun 17 $ '000	30 Jun 16 $ '000	30 Jun 17 $ '000	30 Jun 16 $ '000
Management fees received	**9,456**	9,272	**9,456**	9,272
Balance of investment held at year end	**7,216**	9,663	**3,863**	2,334
Distributions received from managed funds	**275**	357	**129**	168

The Funds have:

- Accepted money on deposit from Directors and Executives or entities associated with Directors and Executives at prevailing Fund rates and conditions;
- Loaned money to MSB , in the form of term deposits, totalling $30.75 million (2016: $29.75 million); and
- Loaned money to Trusts within the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling $38.07 million (2016: $56.35 million).

These deposits are made on the same terms and conditions that apply to all similar transactions.

Key Management Personnel

Individual Directors and Executive compensation disclosures

Information regarding individual Directors, Executive compensation, and equity instruments disclosures, as required by the Corporations Regulation 2M.2.03, is provided in the Remuneration Report section of the Directors' report. Disclosure of the compensation and other transactions with key management personnel (KMP) is required pursuant to the requirements of Australian Accounting Standard AASB 124 Related Party Disclosures. The KMP of the Group is comprised of the non Executive Directors, Managing Director and Chief Executive Officer and certain Executives.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Key management personnel compensation		
The key management personnel compensation comprised:		
Short-term employee benefits	**3,713**	3,405
Post employment benefits	**417**	367
Share-Based payment (i)	**274**	87
Termination benefits	**269**	-

(i) These amounts are estimates of compensation and include a portion that will only vest to the Managing Director or Executive when certain performance criteria are met or a 'Capital Event' occurs. The fair value of shares is calculated at the date of grant and is allocated to each reporting period over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the shares allocated to this reporting period.

	30 Jun 17 $ '000	30 Jun 16 $ '000
8.1 Contingent liabilities and expenditure commitments		
Operating lease expenditure commitments		
not later than 1 year	**3,726**	3,861
later than 1 and not later than 5 years	**9,498**	10,618
later than 5 years	**8,199**	10,475
Total lease expenditure contracted for at balance date	**21,423**	**24,954**

The Group occupies a number of properties which house its branch network. The leases for these properties are on normal commercial terms and conditions. The usual initial term for these leases is five years.

In the 2012 period, MyState Bank Limited (MSB) commenced leasing its Headquarters building located in Hobart. The term of the lease is fifteen years, with an option for a further ten year term. Rental increases over the term of the lease are determined by reference to movements in the consumer price index. The Group also entered into a lease of a property situated in Launceston, which is principally used to house elements of the Tasmanian Perpetual Trustees Limited (TPT) business. The term of the lease is five years, with an option for two further five year terms. Rental increases over the term of the lease are determined by reference to movements in the consumer price index. If the options for further terms are exercised, the rental is to be determined by market appraisal at that time.

Other operating leases have an average term of 3 to 5 years for property and are non-cancellable. Assets that are the subject of operating leases are computer equipment and property.

MSB has provided guarantees to third-parties in order to secure the obligations of customers. The range of situations in which guarantees are given include:

- Local Government Authorities, to secure the obligations of property and sub-divisional developers to complete infrastructure developments;
- Local Government Authorities, Schools and other building owners, to secure the obligations of building contractors to complete building works;
- Landlords, to secure the obligations of tenants to pay rent; and
- CUSCAL, to secure payroll and direct debit payments processed by CUSCAL on behalf of customers.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Customer commitments		
Loans approved but not advanced to borrowers	**42,520**	49,360
Undrawn continuing lines of credit	**72,952**	76,415
Performance guarantees	**2,000**	1,876
Total customer commitments	**117,472**	127,651

Guarantees are issued in accordance with approved Board policy. Those guarantees over $10,000 are required to be secured. In the event that a payment is made under a guarantee, the customer's obligation to MSB is crystallised in the form of an overdraft or loan.

	30 Jun 17 $ '000	30 Jun 16 $ '000
Bank Guarantee	**1,000**	1,000

The Group is a non-broker participant in the Clearing House Electronic Sub Register System operated by the Australian Securities Exchange and has provided a guarantee and indemnity for the settlement account from Bendigo and Adelaide Bank Limited (BABL). The Group maintains a deposit with BABL for $1,000,000 (2016: $1,000,000) as collateral for the guarantee.

	30 Jun 17 $ '000	30 Jun 16 $ '000
8.1 Contingent liabilities and expenditure commitments (continued)		
Loan Guarantees	**-**	**180**

TPT has given guarantees to Local Government Authorities to secure the obligations of property and sub-divisional developers to complete infrastructure developments required of them. The developers are borrowers from managed funds for which TPT is the Responsible Entity. The developers provide cash or real property as security for the Group providing the loan guarantee.

Estate Administration

The Group acts as executor and trustee for a significant number of trusts and estates. In this capacity, the Group has incurred liabilities for which it has a right of indemnity out of the assets of those trusts and estates. Accordingly, these liabilities are not reflected in the financial statements.

Other contracted commitments for expenditure on plant and equipment as at the reporting date are for only minimal amounts.

8.2 Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by the auditor or the Group, Wise Lord & Ferguson:

	30 Jun 17 $ '000	30 Jun 16 $ '000
Audit services		
Audit of the financial statements of the consolidated entities	**372**	373
Total remuneration for audit services	**372**	**373**
Audit related services		
Assurance related services	**89**	7
Audit of loans and other services to the securitisation program	**51**	59
Total remuneration for audit related services	**140**	**66**
Other non-external audit related services		
Other services	**32**	41
Total remuneration for non-audit related services	**32**	**41**
Total remuneration for services provided	**544**	**480**

8.3 Events subsequent to balance date

There were no matters or circumstances that have arisen since the end of the year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

8.4 Other significant accounting policies and new accounting standards

The principal accounting policies, which are consistent with those applied in the comparative period unless otherwise stated, that have been adopted in the preparation of the financial report are set out in this section and the preceding sections.

Other assets
Other assets comprise accounts receivable, accrued income and prepayments. Accounts receivable are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment loss.

Other liabilities
Other liabilities comprise accounts payable and accrued expenses and represent liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of the recognition of the liability.

New and revised accounting standards
The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application for reporting periods beginning on or after 1 July 2016. The adoption of these accounting standards have not resulted in any significant changes to the financial statements:

AASB 2014-3 *Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11].*
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (*Amendments to AASB 116 & 138).*
AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses.
AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107.*
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycles.

The following standards have been identified as accounting standards which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2017, but have not been applied in preparing this financial report. The Group will adopt these standards on their effective dates:

AASB 9 *Financial Instruments* is effective for periods beginning on 1 July 2018. This standard introduces changes in the classification and measurement of financial assets and liabilities, including a new expected loss model for impairment and simplifications to hedge accounting. The impairment requirements are based on an expected credit loss model (ECL) that replaces the incurred loss model under the current accounting standard. AASB 9 will change the Group's current methodology for calculating the provision for doubtful debts, in particular for collective provisioning.

The Group has not yet concluded the initial impact assessment, as the impact the new standard could have on the financial results will change as the circumstances of the Group change, up to the point of initial adoption. As such, it is not yet practical to reliably estimate the financial impact on the financial statements.

8.4 Other significant accounting policies and new accounting standards (continued)

AASB 15 *Revenue from contracts with customers* is effective for periods beginning on 1 July 2018. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group is currently undertaking an assessment of the potential impact of this standard. The potential impacts of this standard are yet to be determined.

AASB 16 *Leases* is effective for periods beginning on 1 July 2019. AASB 16 requires lessees to recognise most leases on balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. The Group is currently undertaking an assessment of the potential impact of this standard. The potential impacts of this standard are yet to be determined. Refer to note 8.1 for the Group's operating lease expenditure commitments.

MyState Limited

Directors' Declaration
for the financial year ended 30 June 2017

In accordance with a resolution of the Directors of MyState Limited, we state that:

1. In the opinion of the Directors:

(a) The financial statements and notes of the Group set out on pages 1 to 48 are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

(ii) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) There are reasonable grounds to believe that MyState Limited will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.

3. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.2.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Board

M L Hampton
Chairman

C M Hollingsworth
Director

Hobart
Dated this18 August 2017.

Independent Auditor's Report

To the Shareholders of MyState Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of MyState Limited (the Company) including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the company.

In our opinion:

the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

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1. Operation of IT systems and Controls

Key audit matter	How our audit addressed the matter
A significant part of the Group's financial reporting process is heavily reliant on IT systems with automated processes and controls for the capture, processing, storage and extraction of information. An essential part of IT system is ensuring appropriate user access and change management protocols exist and are being observed. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner. These key controls mitigate potential fraud or error because of change to an application or underlying data. MyState has outsourced arrangements for a number of key IT processes.	We focus our audit on those IT systems and controls that are significant to the Group's financial reporting process. We assessed and tested the design and operating effectiveness of the Group's IT controls, including those over user access and change management as well as data reliability. This involved assessing: • Technology control environment and governance; • Change management processes for software applications; • Access controls designed to enforce segregation of duties; • System development, reviewing the appropriateness of managements testing and implementation controls; • We carried out direct tests of the operation of key programs to establish the accuracy of calculations, the correct generation of reports, and to assess the correct operation of automated controls and technology-dependent manual controls; and • Third party reports on IT systems and controls. For outsourced providers, we obtain assurance from third party auditors on the design and operating effectiveness of controls.

2. Recognition and Measurement – Intangible Assets

Refer to Note 5.2 'Intangible assets and goodwill'

Key audit matter	How our audit addressed the matter
The Group is in the process of enhancing its IT systems. During the financial year, a number of strategic transformative projects were developed and implemented. New systems were researched, designed, projects commenced and completed. This increased the amount of costs capitalised as intangible assets in relation to significant projects. The recognition and measurement of these costs requires judgement, particularly for internally generated intangible assets as to when the costs incurred on projects transition from research to development. In addition, the useful lives of existing software was re-assessed.	To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over intangible assets: • We evaluated and tested the Group's processes for recognising intangible assets. • We reviewed amounts capitalised for significant projects currently being completed by the group. This included a retrospective assessment of amounts capitalised in early stages of significant projects. • We exchanged written advice with management in relation to the interpretation of AASB 138 – Intangibles for the specific projects being completed and going forward. • We ensured that at the completion of projects that amortisation of the capitalised costs commenced. • We ensured intangible assets made redundant through new projects were written off.

3. Provision for Doubtful Debts

Refer to Note 4.3 'Loans and advances'

Why significant	How our audit addressed the matter
We focus on this area because of the judgement involved in determining the provision for doubtful debts. Provision for impairment of loans that exceed specific thresholds are individually assessed by management with reference to future cash repayments and proceeds from the realisation of security. Other loans below the specific threshold are assessed on a portfolio basis with loans with similar risk characteristics.	To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over the provisions for doubtful debts: • Assessed the governance oversight; • Reviewed and tested the calculation of the specific provision and collective provision for impairment; • Ensured the calculation methodology is consistently applied between accounting periods, including the write off of debt and the calculation of the provision; • Tested the accuracy of the data used to calculate the provision; • Reviewed a sample of current arrears balances and reviewed follow up procedures, including whether specific financial assets in arrears had been appropriately provided; • Reviewed management assessments for provision for loans that exceed specific thresholds.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 27 of the Directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of MyState Limited, for the year ended 30 June 2017 complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

JOANNE DOYLE
Partner
Wise Lord & Ferguson
Chartered Accountants

Date: 18 August 2017